Government’s Venture Capital Policy in Finland

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Brief pre-history of VC-policy in Finland

• 1986
  • Fact-finding mission to Silicon Valley,
  • Sitra (Finnish Foundation of Technology and Innovations) starts direct VC-investments.

• 1988
  • EVCA Business Seminar organised in Finland,
  • Capital Management Ltd, the first private VC-fund was established (KOP - the biggest commercial bank in Finland).

• 1990
  • Finnish Venturing Association was established,
  • Start Fund of Kera was established (Regional Development Fund in Finland).

• 1993
  • Government’s Committee recommended guidelines for VC-policy (broadening of investment rules of Pension Funds, Subsidizing management fees of VC-funds, etc.).
THE GROWTH OF VENTURE CAPITAL AND PRIVATE EQUITY IN FINLAND

Investments in 1991 - 2004

Early stage investments down from 50% to 20% in 2001-2004

Source: Finnish Venture Capital Association

HELPSINKI UNIVERSITY OF TECHNOLOGY
Institute of Strategy and International Business
Innovation environment in Finland
Resources and funding

R&D at companies
3,528

Venture capitalists:
Private 294
Industry Investment Ltd 40
(additional gov. investment 42)
Sitra 32

Business Angels
387

Finnvera
364 (41)

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From abroad
158

VTT
213 (63)

Tekes
395

Innofin
5 (4)

Finpro
31 (19)

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The figures represent the total extent of each organisation in million euros in 2004. In parenthesis the share that is funded from the State budget. The funds of Tekes, the Academy of Finland and Innofin are funded entirely from the State budget.
European Innovation Scoreboard 2007
Finland is investing heavily in innovation…

![Graph showing R&D/GNP % from 1992 to 2004 for Finland, USA, and EU. The graph indicates an increase in R&D/GNP % over the years, with Finland consistently higher than the EU and USA.](image-url)
Private equity investment as % of GDP in 2006 by country of destination

- Sweden: 1.437%
- United Kingdom: 1.256%
- The Netherlands: 1.048%
- France: 0.607%
- Hungary: 0.596%
- Europe: 0.569%
- Czech Republic: 0.453%
- Belgium: 0.445%
- Ireland: 0.444%
- Spain: 0.394%
- Denmark: 0.335%
- Germany: 0.333%
- Switzerland: 0.282%
- Norway: 0.258%
- Finland: 0.233%
- Poland: 0.205%
- Portugal: 0.115%
- Romania: 0.112%
- Austria: 0.103%
- Greece: 0.033%
Inclination for entrepreneurship

The survey is based on approx. 21,000 telephone interviews

Source: Flash Eurobarometer 160, 2004
The Nordic countries are high in R&D, but not so high in the financing of growth.

Sources: OECD, EVCA, 3i/PwC, Worldbank, Tekes
BENCHMARKING EUROPEAN TAX & LEGAL ENVIRONMENTS FOR VENTURE CAPITAL

Tax and legal environment in the European Union Member States

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Total score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United Kingdom</td>
<td>1.26</td>
</tr>
<tr>
<td>2</td>
<td>Luxembourg</td>
<td>1.49</td>
</tr>
<tr>
<td>3</td>
<td>Ireland</td>
<td>1.53</td>
</tr>
<tr>
<td>4</td>
<td>Greece</td>
<td>1.75</td>
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<td>8</td>
<td>Hungary</td>
<td>1.86</td>
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<tr>
<td>10</td>
<td>France</td>
<td>1.89</td>
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<tr>
<td>11</td>
<td>Switzerland</td>
<td>1.95</td>
</tr>
<tr>
<td>12</td>
<td>Spain</td>
<td>1.96</td>
</tr>
</tbody>
</table>

Total average: 1.97

13 Norway 2.04
14 Sweden 2.05
15 Czech Republic 2.12
16 Poland 2.13
17 Finland 2.30
18 Germany 2.37
19 Austria 2.42
20 Denmark 2.46
21 Slovak Republic 2.49

Scale: 1=more favorable, 3=less favorable

Several widely shared problems in the Nordic countries, e.g.

- Permanent establishment for foreign investors in venture capital funds
- Limitations of pension funds and insurance companies to invest in venture capital funds
- High tax rates
- Lack of tax incentives for individuals to invest in new ventures
- Taxation of stock options

There is still a lot to do in improving the conditions for growth-oriented entrepreneurship and venture capital in Nordic countries

Source: EVCA 2004 Benchmarking European Tax & Legal Environments
Benchmarking European Legal and Tax Environment (EVCA)
THE LEVEL OF FOREIGN COMMITMENTS IN PRIVATE EQUITY FUNDS VARIES EXTREMELY ACROSS EUROPE

Private equity funds raised as a percentage of GDP (Average 1994-2002)

Percentages above columns refer to share of foreign commitments in new funds.

Source: Analysis based on data from EVCA, Eurostat and EIF
Note: Investments of EIF and EIB have been deducted from other European figures

Lack of professional Venture Capital for post seed

Lack of professional support for early growth investments from 0,5 to 3,0 MEUR

<0,5 MEUR - Strong Government support

>3,0 MEUR - Most private VC’s looking for later stage and lower risk investments
SUMMARY OF THE CHALLENGES

• =>Finland is investing strongly in innovation and education producing great technology but limited amount of commercial success.

• The success is limited by
  1) Lack of entrepreneurship and especially experienced serial entrepreneurs
  2) Very limited pool of internationally operating, professional start-up and early growth VC activity
  3) The poor local exit market (M&A and IPO)
What has the Government done?

• To improve the supply of capital:
  • Opened the VC-market for foreign fund-investors (taxation)
    • Needs still some corrections.
  • Incentivized the corporate venture investments (taxation).
  • Permitted pension funds to invest more in stocks, in non-listed companies and in VC-markets.
    • A problem still exists that pension funds do not want to invest in Venture Capital, only in buy out markets.
  • Increased the supply of seed-capital (a new state-owned seed fund).

• To improve the demand side (competence gap):
  • Supported the competence building of start-ups (an investment readiness programme).
  • Promised to design tax incentive for business angels’ investments.
Government’s policy to turn innovations into high growth SME’s

Sources of innovations
- Universities
- Research institutes
- Technology Programmes
- Corporations

Deal flow generators for new ventures
- Technology Development Center’s grants to business sector R&D (the programme for Young Innovative Companies).

New generation of business incubators

New seed and early stage VC-funds

Regional Funds

Increased number of new growth SME’s

More investments for start-ups

Improvement of Legal Framework:
- incentives to business angels
- removing obstacles from foreign investors and institutional investments

Veraventure co-invests with business angels

Strategy of the government coordinates the process

FII-Finnish Industry Investment – Government’s VC-fund investor

Corporations

Venture Capital Funds, foreign investments
Thank you for your attention!

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