Government financing for innovative enterprises

Policy mix and changes over time – lessons learned

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Evolution of the policy mix over time

- Bringing continuity to the market with a fund of EUR 1 billion.
- Changing priority from subsidies to equity investments
- Moving from direct investments to fund investments.
- Streamlining the seed and early stage government financing.
- Starting to use asymmetric profit sharing to attract private investors.
- Alongside supply of capital to support demand.
- Alongside providing capital to use tax incentives.
- Withdrawing from regional venture capital.
- Privatising business angels' network.

Bringing continuity to the market with fund of 1 billion euro

- So far the government has only occasionally provided capital to venture market.
- The government has recently decided a ten year programme providing 50 million euro per year to the venture capital market, on the provision that the private sector brings at least the same amount.
- Long-term provision of capital brings continuity and attracts the best talents and venture teams to enter the market.
- 40 per cent of the capital will be directed to seed funding through Tekes – Technology and Innovation Development Center - and the rest to growth funding through Finnish Industry Investment.

Changing priority from subsidies to equity investments

- At the same time the government decided to cut subsidies for enterprises, it made a decision to establish a billion-euro fund programme for hi-growth ventures.
- Several studies have proved that subsidies for enterprises are inefficient.
- A recent study even proved that subsidies for R&D did not have any effect on productivity, compared to companies that did not receive any subsidies.
- Decision making on subsidies is the responsibility of government agencies, while the govenrment's equity investments are channelled through privately-owned and professionally-managed venture capital companies.

Moving from direct investments to fund investments.

- Based on the recommendation made by the evaluators of the Finnish innovation system, the Government is streamlining seed and early stage financing.
- Seed and early stage government financing will be in the hands of one organisation, Tekes, whether it be in a form of subsidy, loan or equity.
- The Governmet’s seed fund ”Start Fund of Vera” will be terminated.
- Instead of continuing direct seed investments Tekes will invest in small scale funds, which focus on seed investments.

Starting to use asymmetric profit sharing to attract private investors

- When investing in funds Tekes will take only a hurdle rate, while the rest of the profit goes to private investors.
- Asymmetry is restricted to only small-scale funds making seed investments.
- Pension funds and other big institutional investors are not able to invest in small funds whose targets are family offices, business angels, small foundation and associations and corporations.
- Besides asymmetry in profit sharing Tekes can consider in taking a part part of the down-side risk.

Alongside supply of capital start to support demand

- Simply providing capital does not create fast-growing companies. The best business experience is needed for growth in global markets.
- The Vigo business accelerator programme enable serial entrepreneurs to coach startups, which often lack the competence to grow global.
- Government financing is channelled to start-ups under the accelerator programme controlled by Vigo accelerator teams.
- Over a three year period the Vigo teams have succeeded in attracting EUR 200 million, two thirds of which has come from abroad, mostly from US venture capitalists and business angels.

Alongside providing capital to use tax incentives

- The government’s venture capital policy for the last two decades has been only to provide taxpayers money in the form of equity investments into the market.
- Now the government has decided to give tax incentives for business angels as well as for enterprises when they invest in R&D.
- Taxation is believed to be a much more powerful weapon than direct support for companies made by government agencies.
- Tax incentives are believed to have much wider coverage of companies and investors compared to that of government agencies.

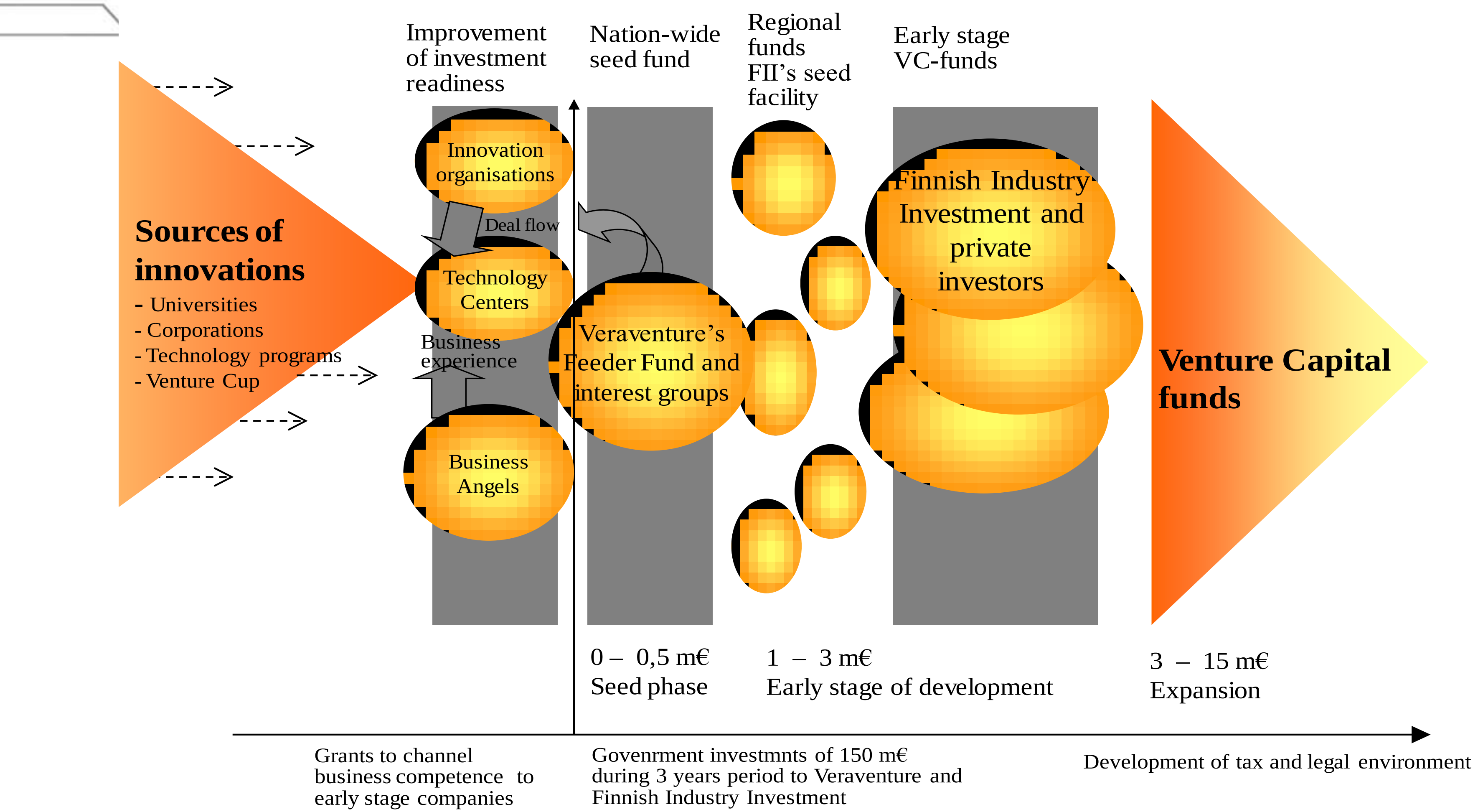
Withdrawing from regional venture capital

- The government will terminate its investments in regional venture capital companies because of:
  - Lack of big enough deal flow and, as a consequence, only a few investments made.
  - Withdrawal of institutional investors ten years ago.
  - Private investors restricted to local banks only.
  - Even municipalities want to leave regional funds.
  - Not a proper venture capital business: the best target companies can only pay dividends to inevestors, no good exits.
  - As a result, funds cannot attract professional management teams.

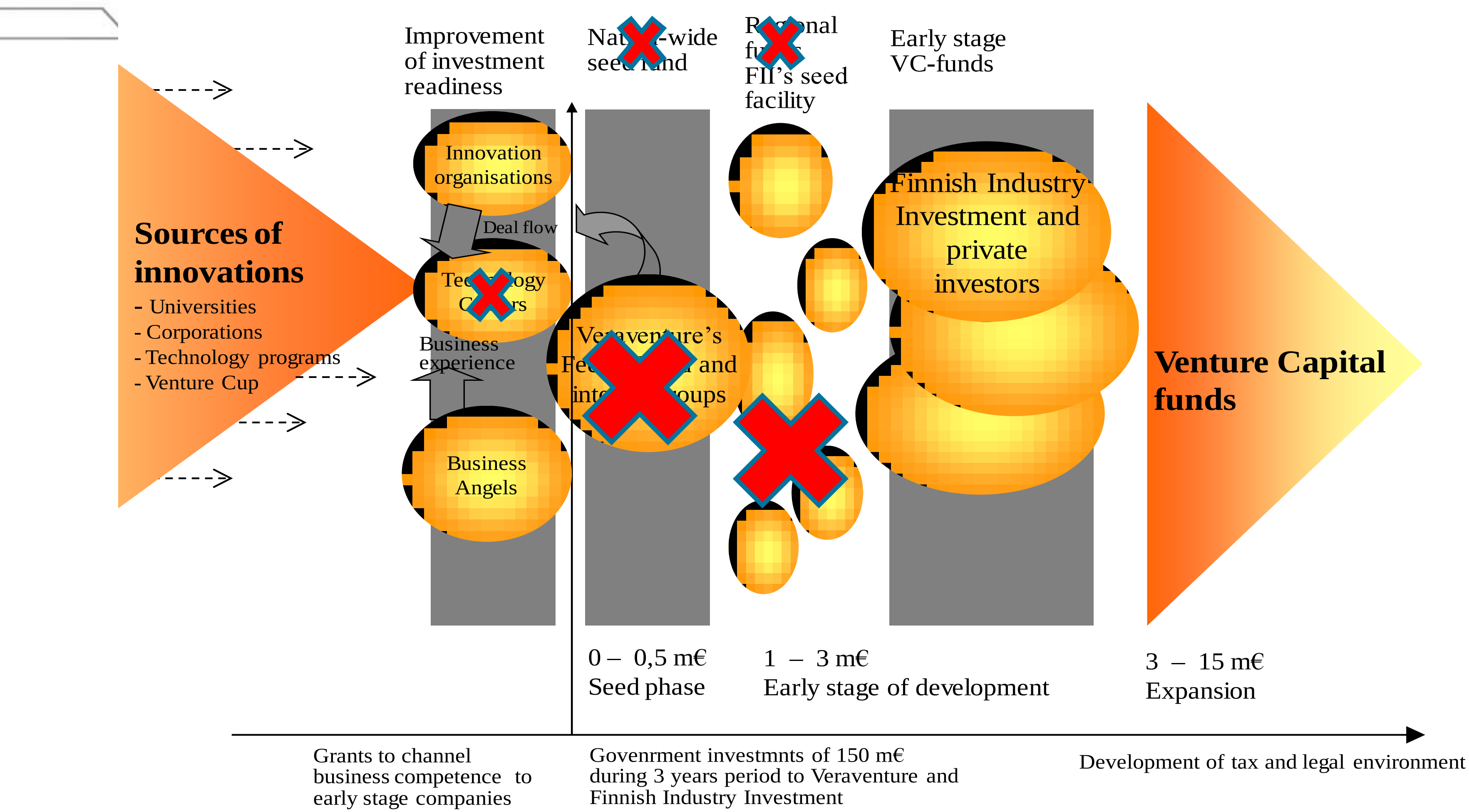
Privatising business angels' network

- Finnvera, a government financing agency has managed the business angels network providing co-financing for business angels' investments.
- This year the activity will be taken over by FIBAN – the Finnish Business Angels' Network - a private association.

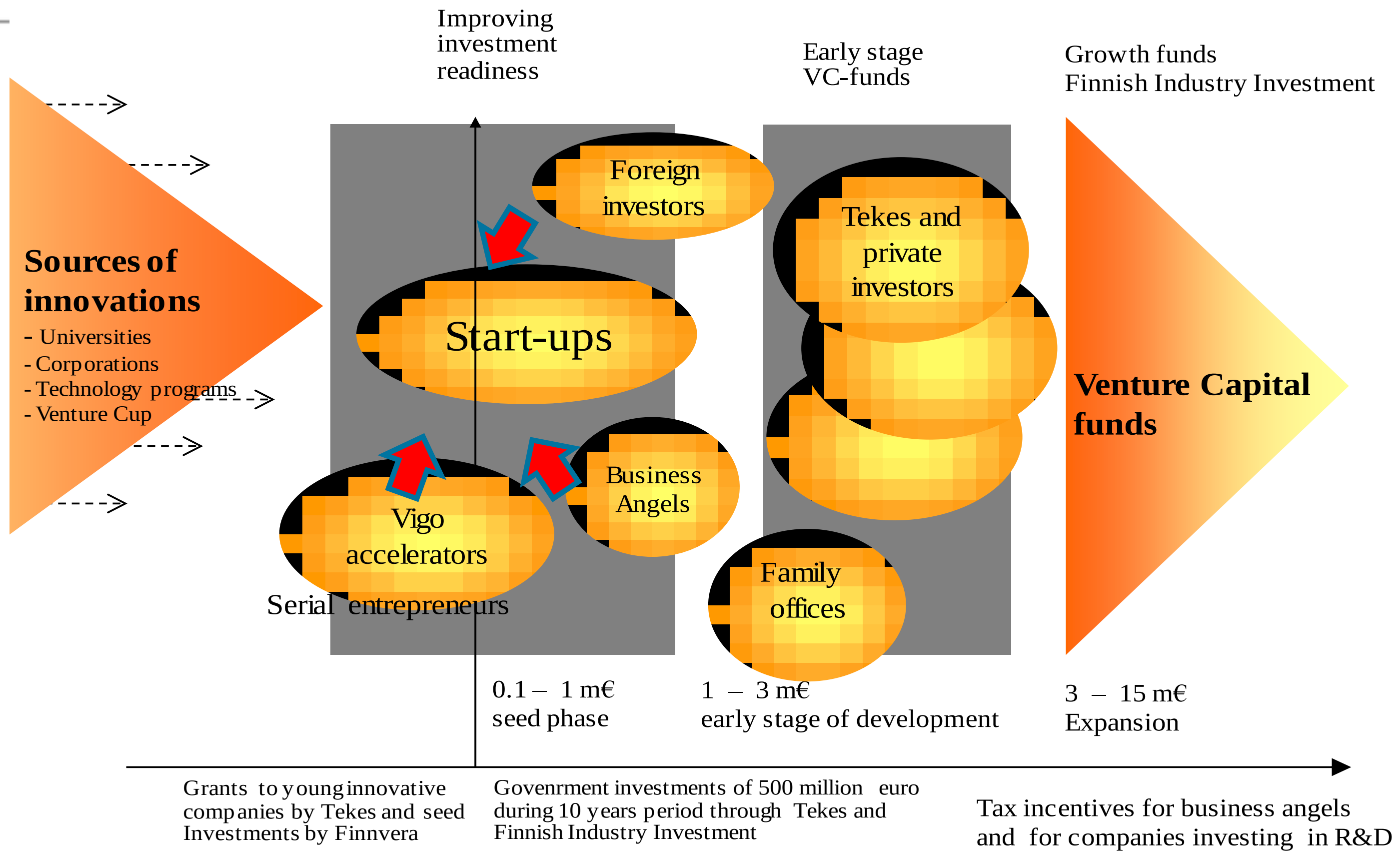
Strategy of financing innovative start-ups (AISP), 2005



Changes in strategy of financing innovative start-ups (AISP)



Evolution in the strategy of financing innovative start-ups, 2013



Thank you for your attention!

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