Government’s Venture Capital Policy in Finland

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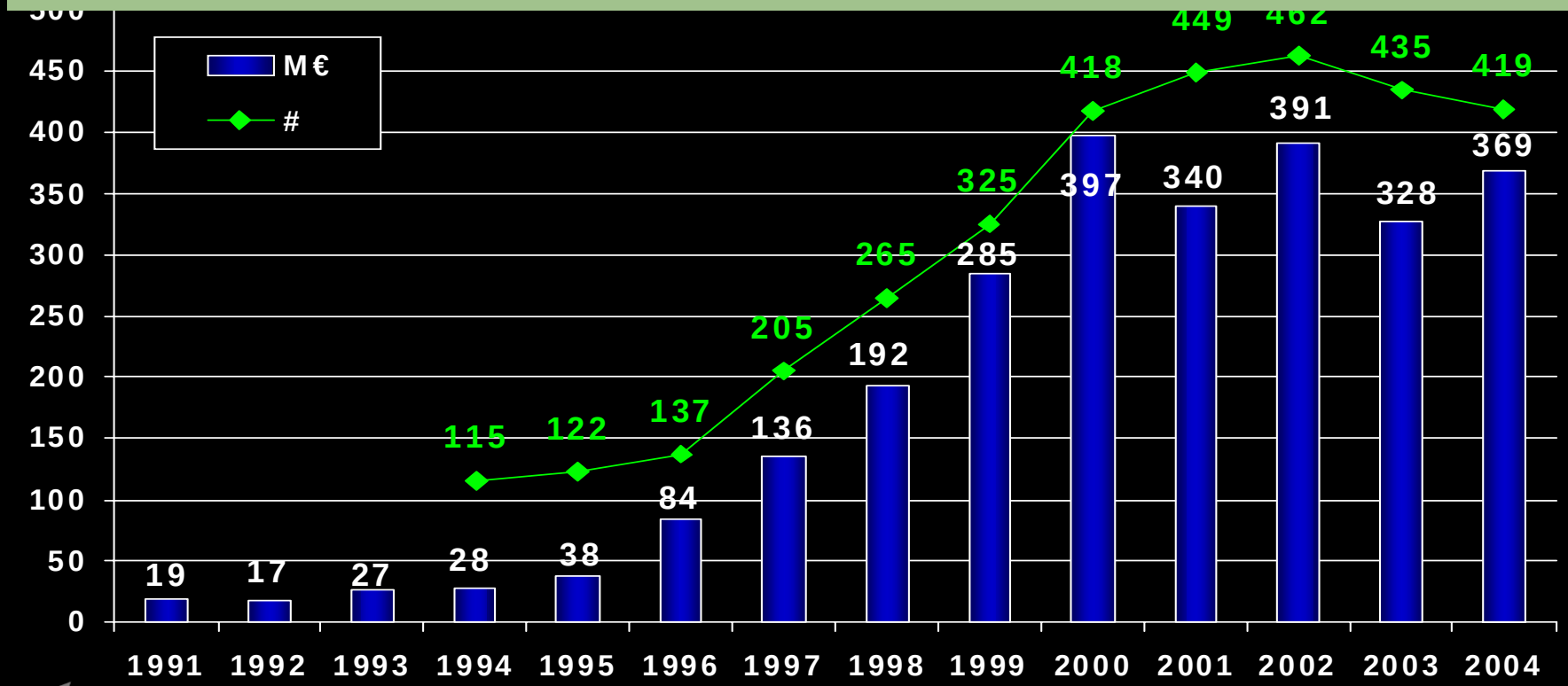
Brief pre-history of VC-policy in Finland

- 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 commercal 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 quidelines for VC-policy (broadening of investment rules of Pension Funds, Subsidizing managament fees of VC-funds, etc.).

The growth of venture capital and private equity in Finland



Source: Finnish Venture Capital Association

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

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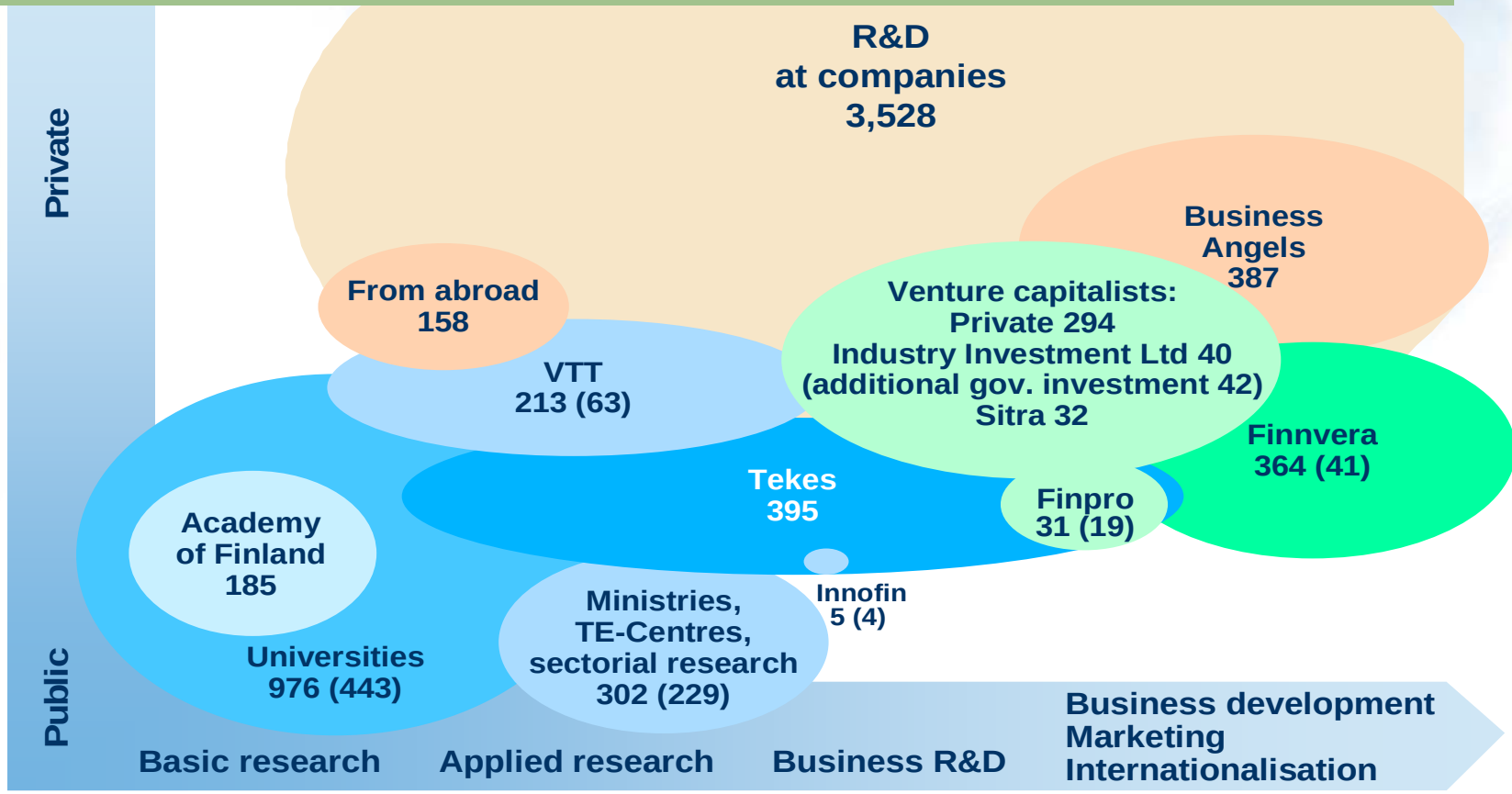
Innovation environment in Finland, resources and funding



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.

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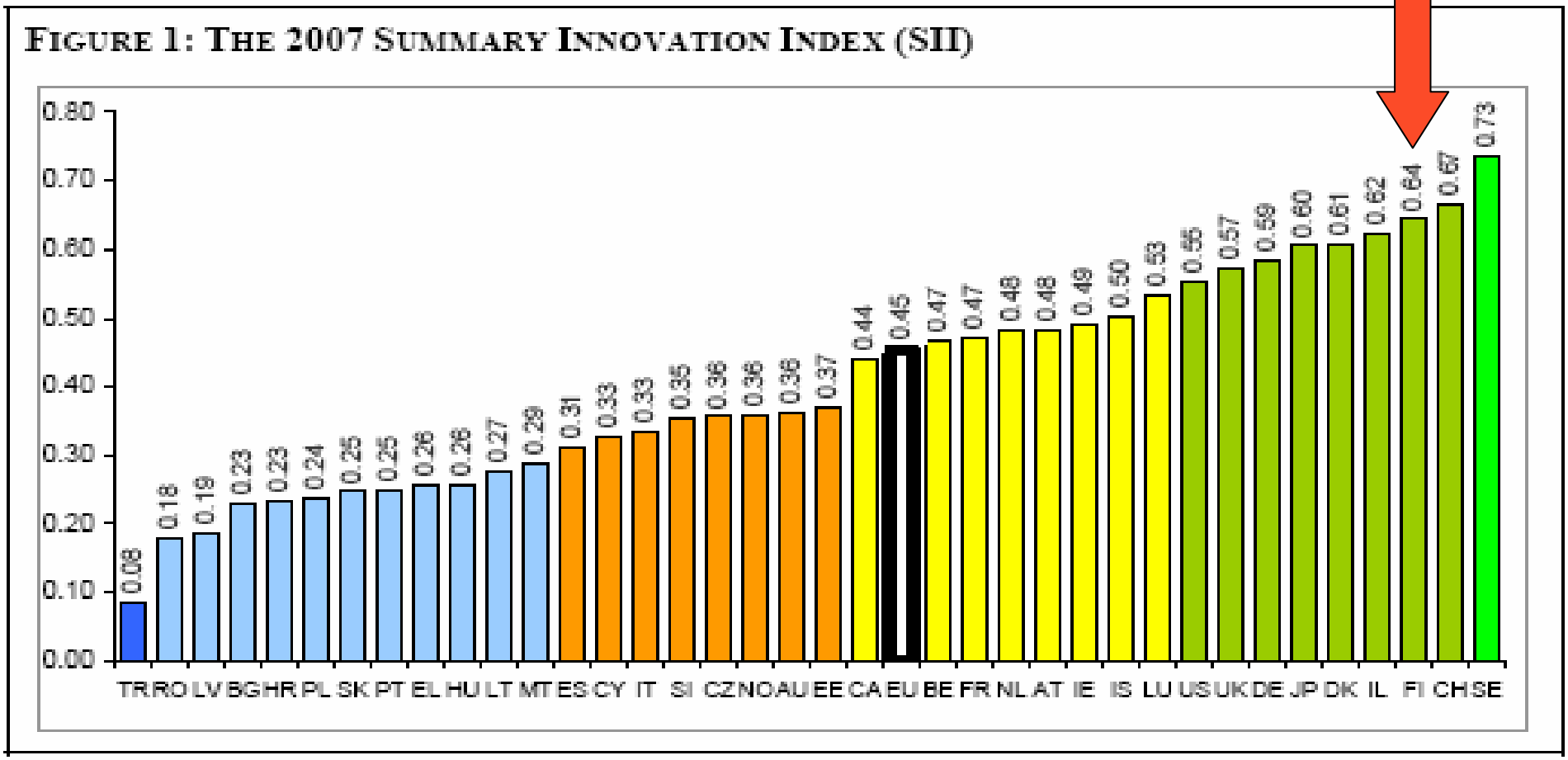
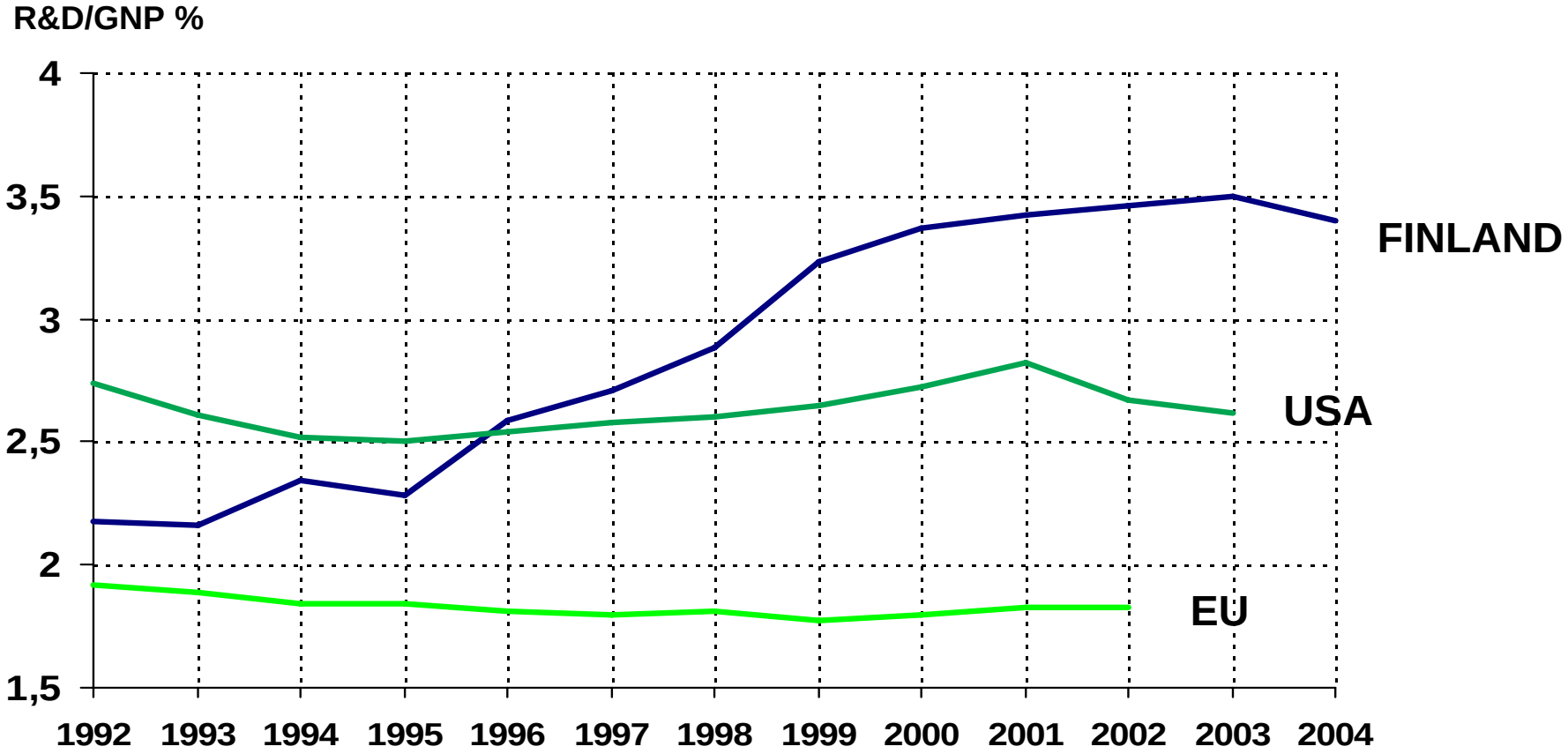
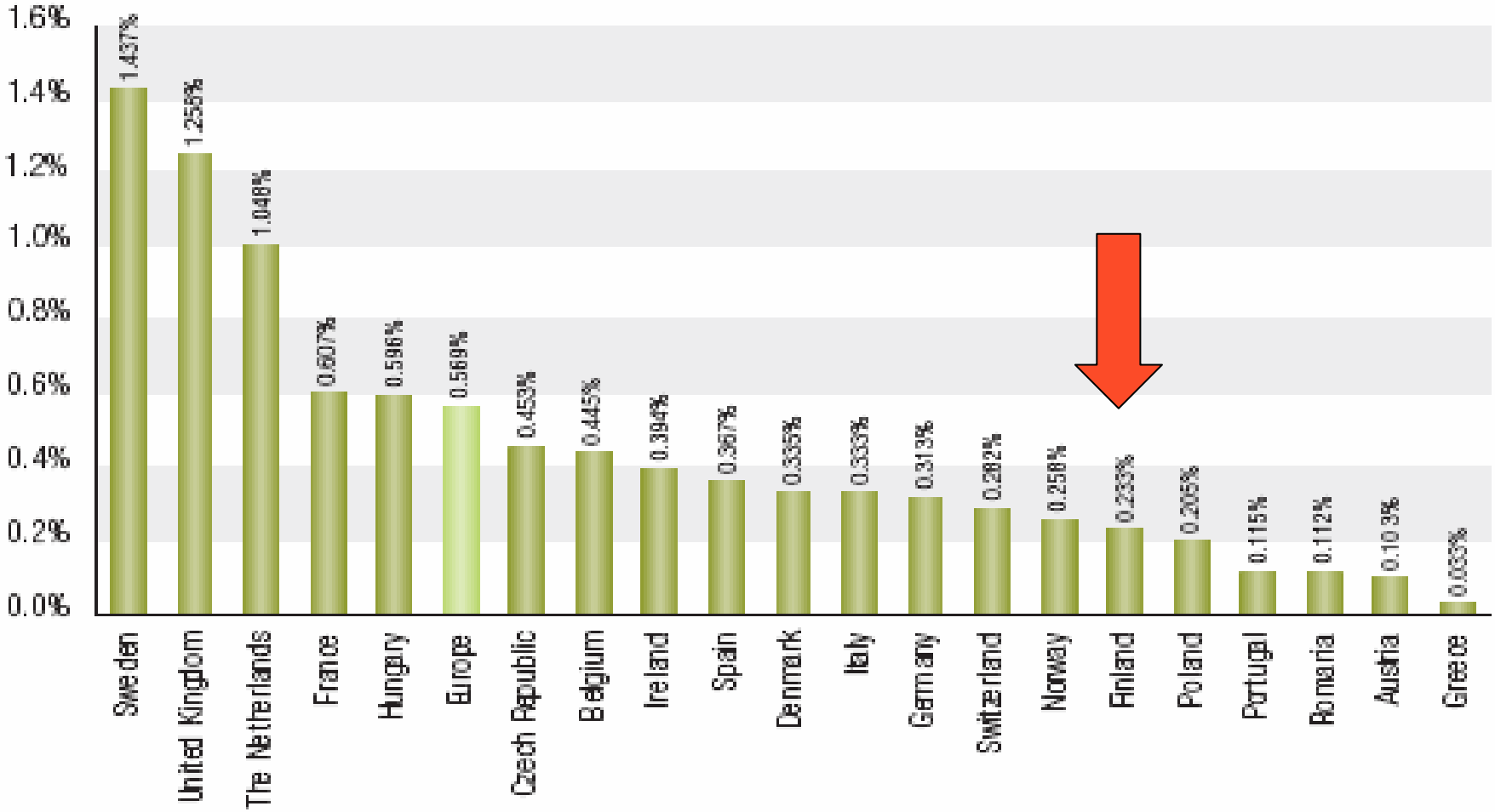
European Innovation Scoreboeard 2007by



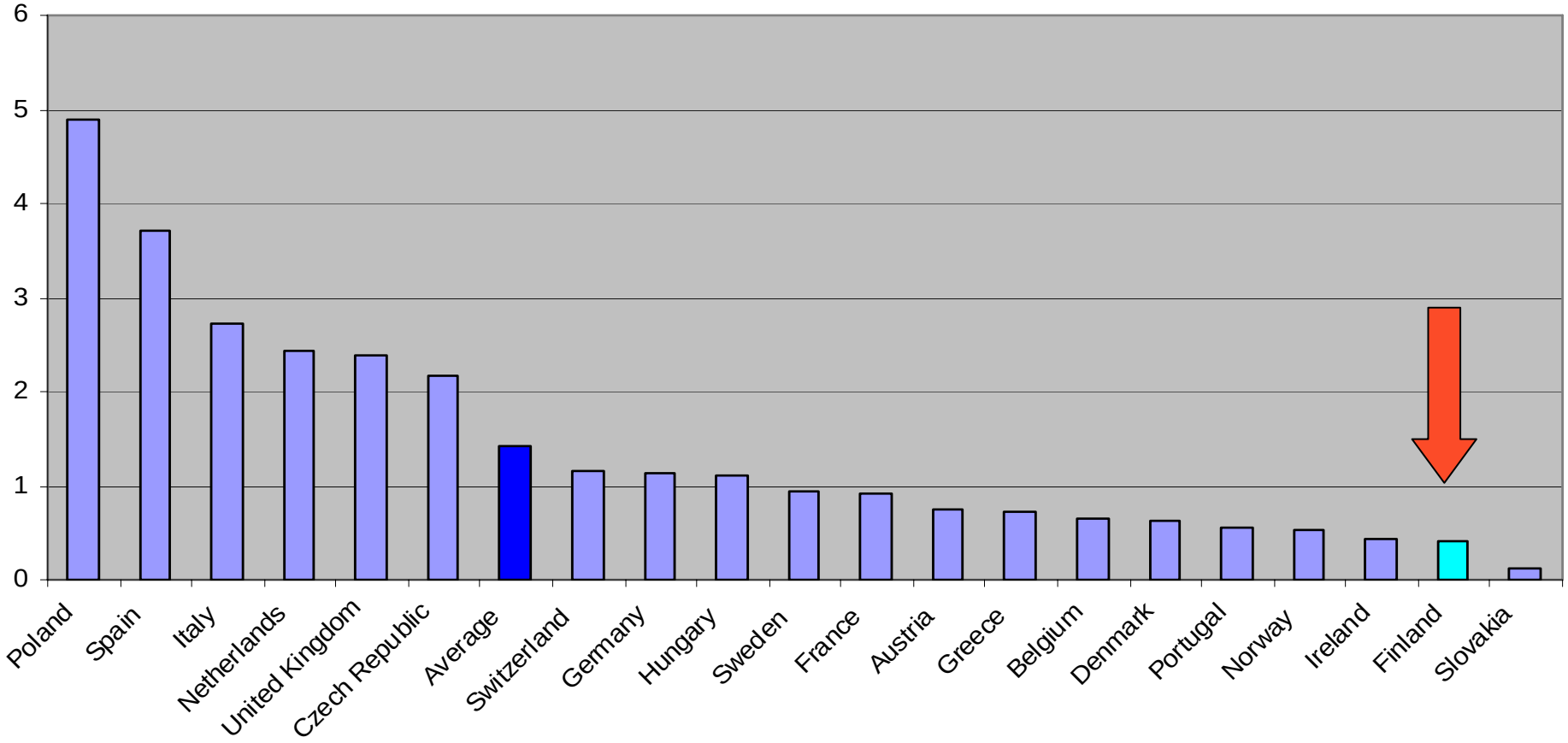
Finland is investing heavily in innovation…



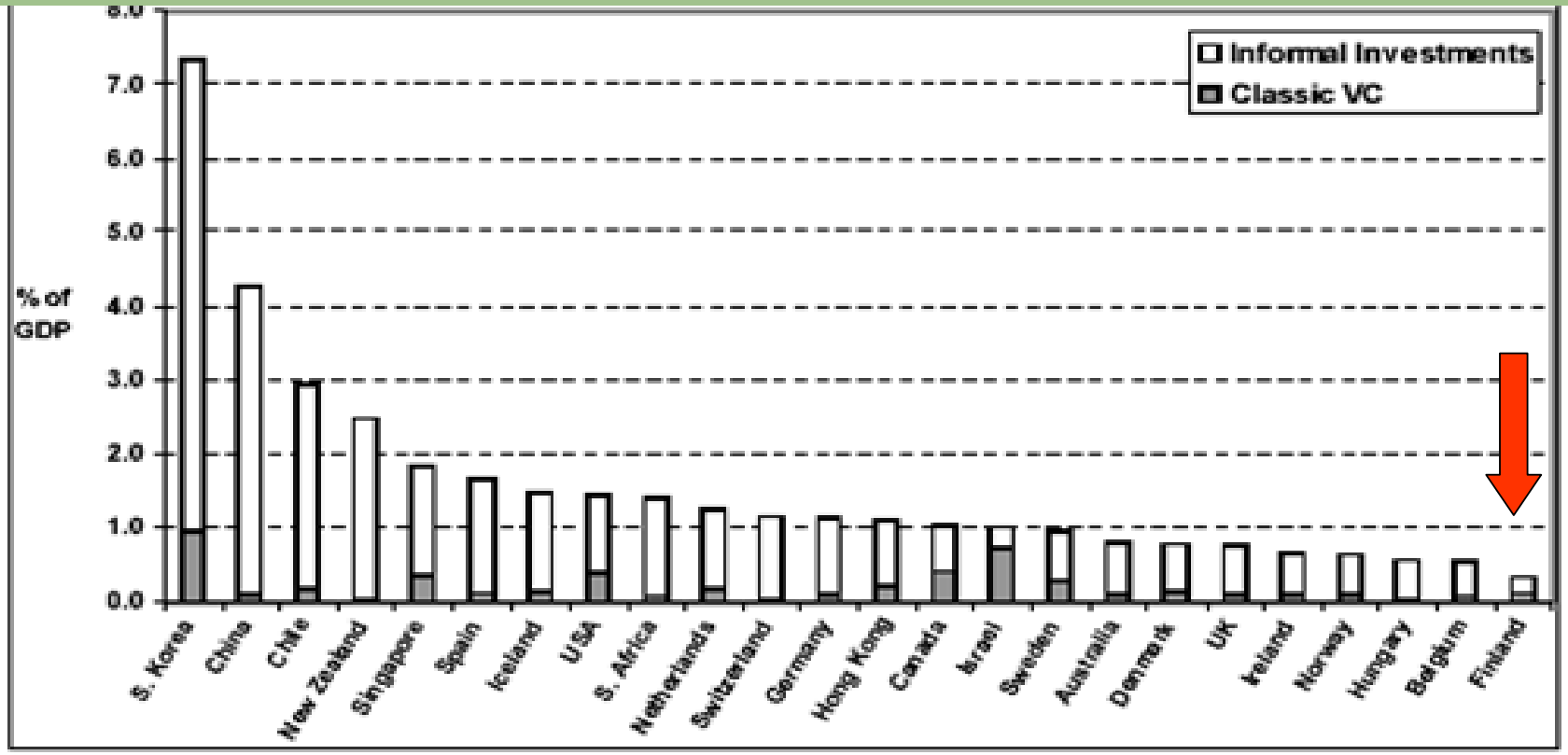
Private equity investment as % of GDP in 2006 by country of destination*



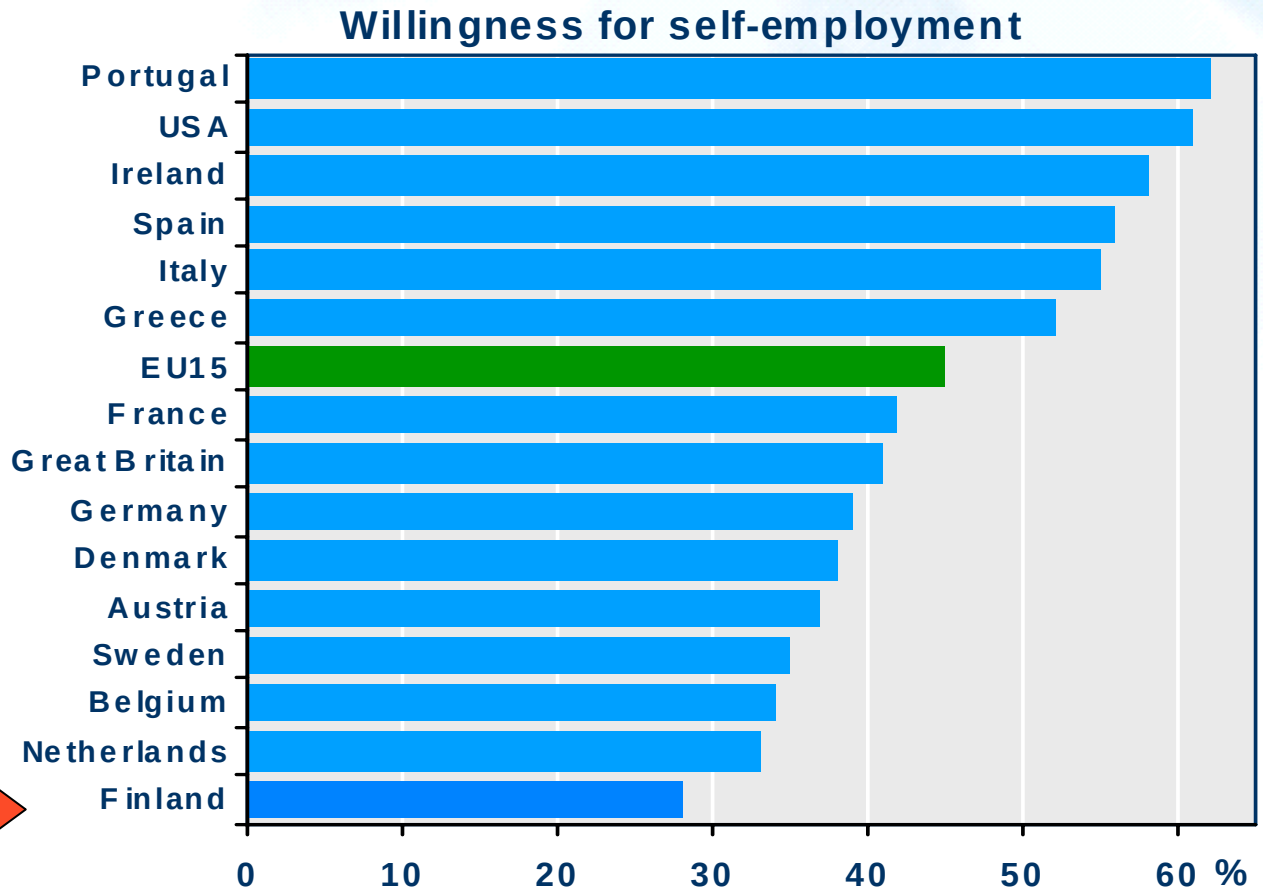
Average size of P/E investments – Year 2004 Europe (MEUR)



Classic VC and informal VC investments as % of GDP in 2001



Entrepreneurial activity



The survey is based on approx. 21 000 telephone interviews

Source: Flash Eurobarometer 160, 2004

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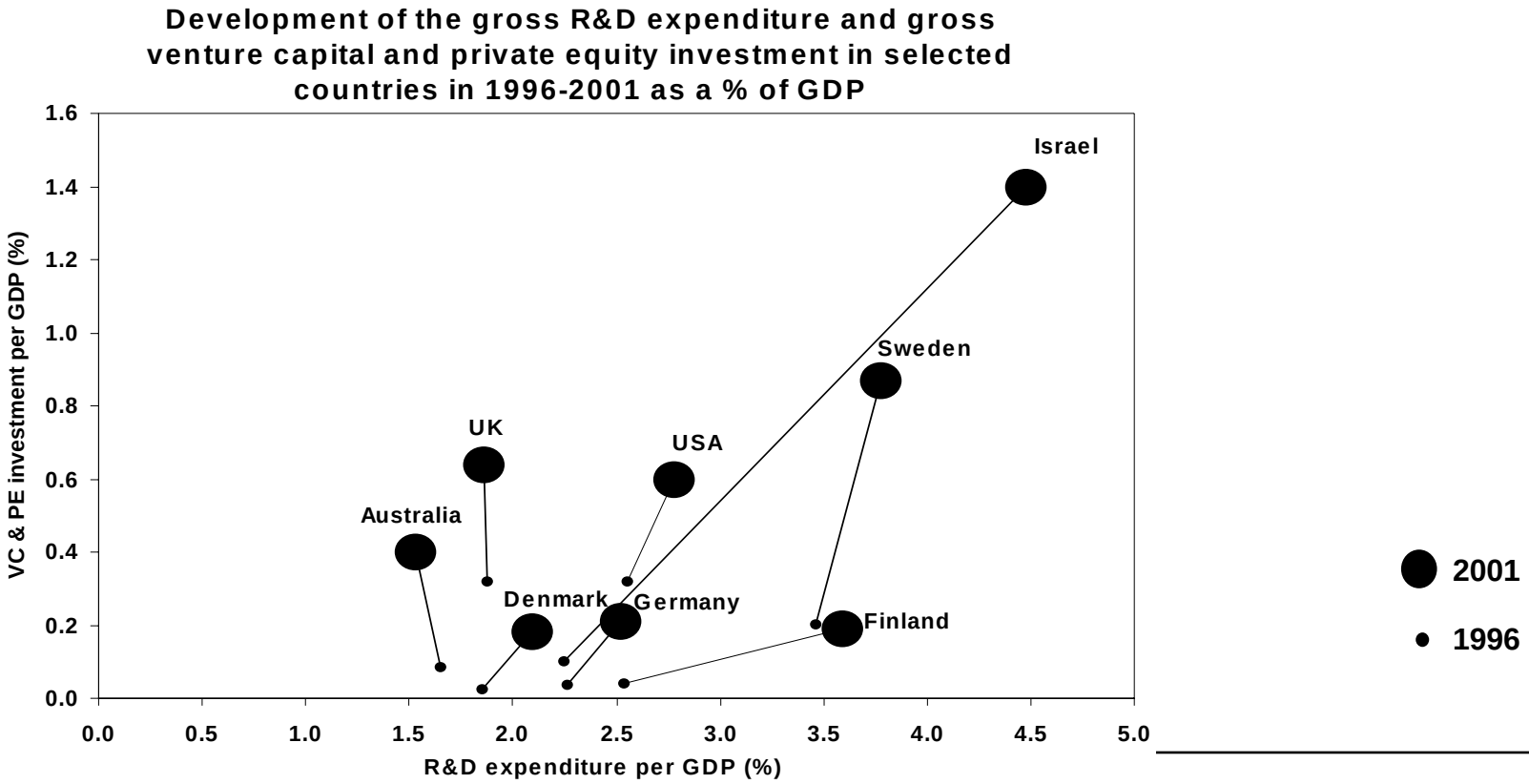
THE RELATION BETWEEN R&D AND VC SUGGESTS UNTAPPED POTENTIAL



The Nordic countries are high in R&D, but not so high in the financing of growth

Sources: OECD, EVCA, 3i/PwC, Worldbank, Tekes

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Benchmarking European tax & legal environments for venture capital

Tax and legal environment in the European Union Member States

Rank	Country	Total score
1	United Kingdom	1.26
2	Luxembourg	1.49
3	Ireland	1.53
4	Greece	1.75
5	Netherlands	1.76
6	Portugal	1.81
7	Belgium	1.82
8	Hungary	1.86
9	Italy	1.86
10	France	1.89
11	Switzerland	1.95
12	Spain	1.96
	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

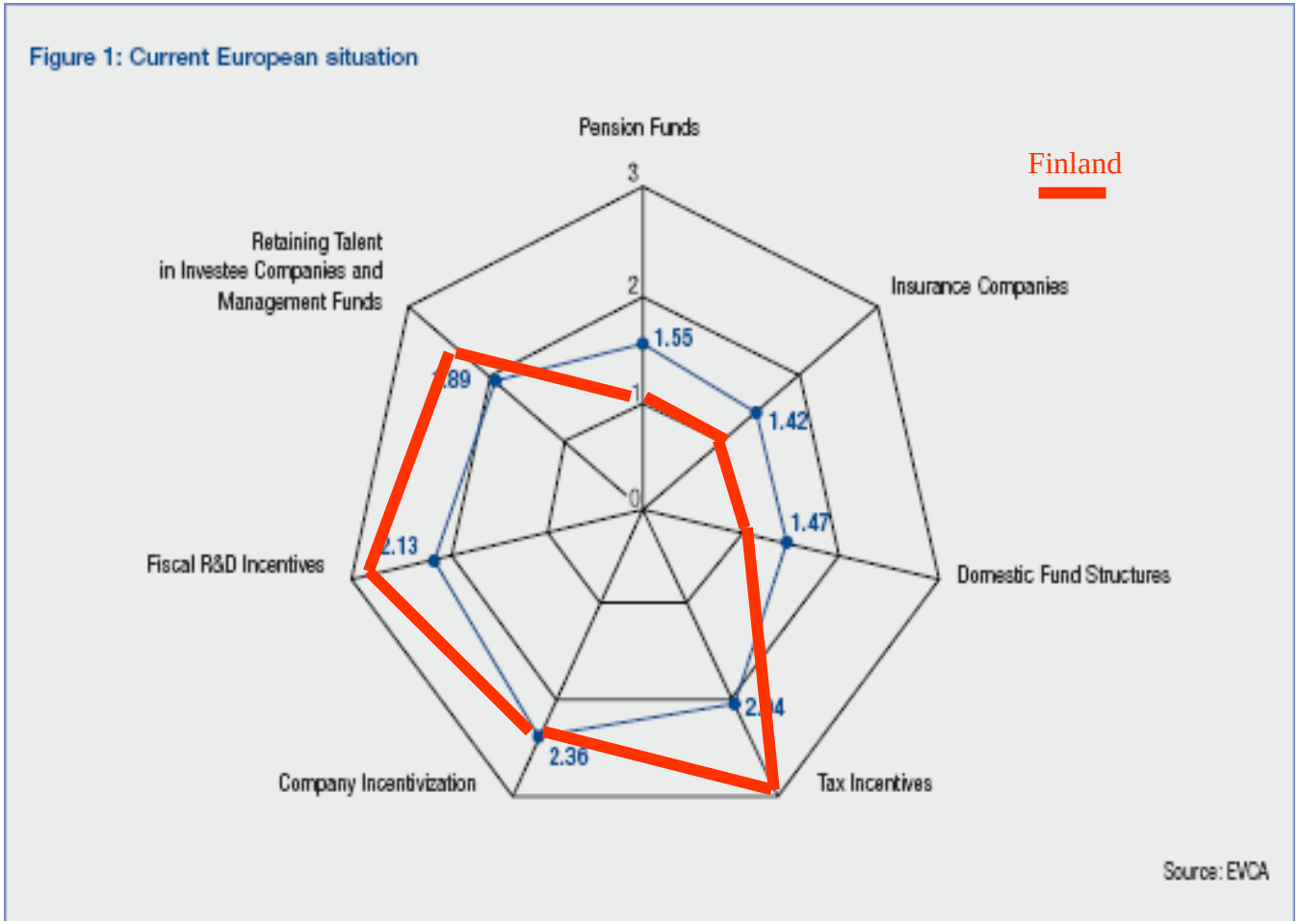
Source: EVCA 2004 Benchmarking European Tax & Legal Environments

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

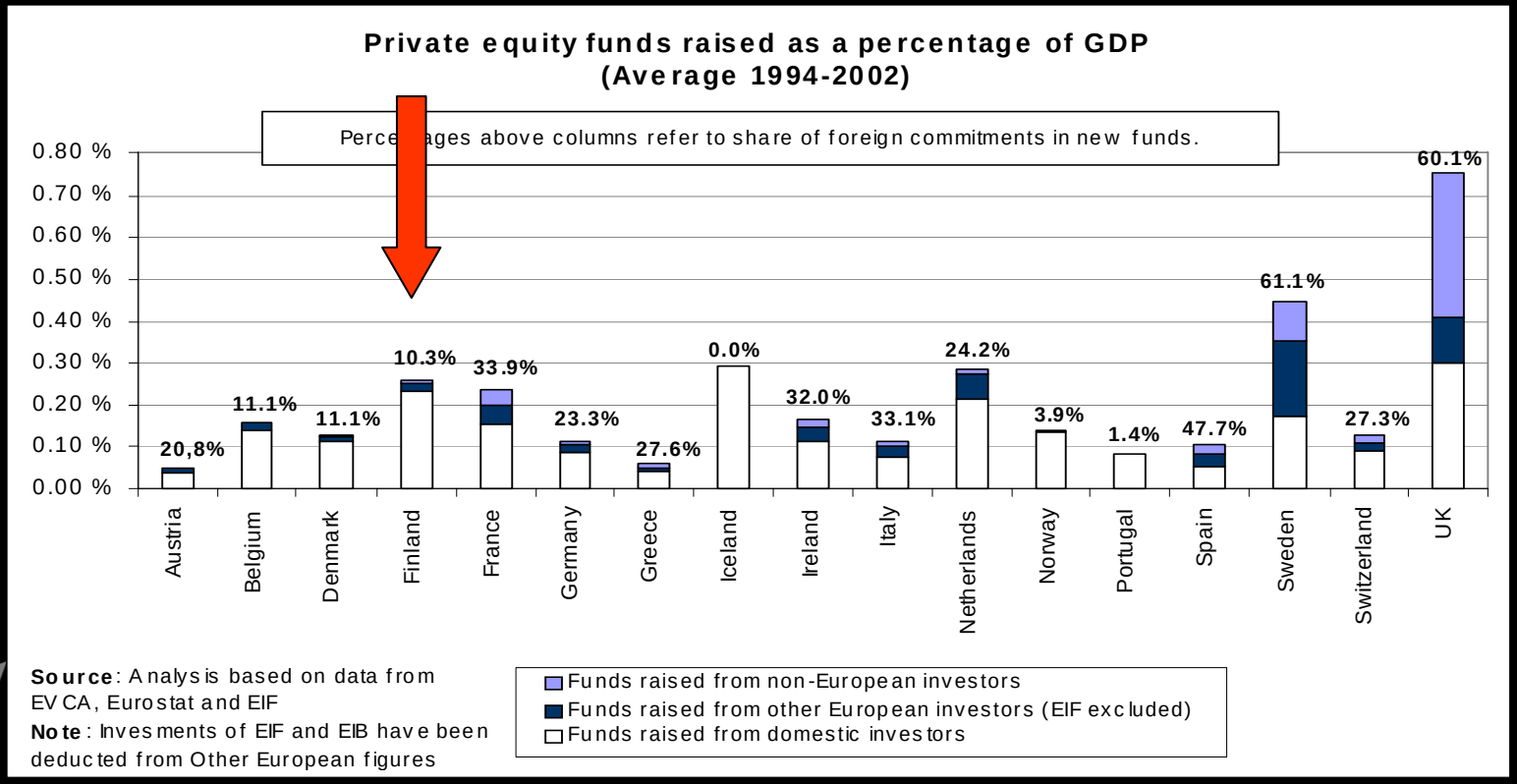
- **Permanent establishment for foreign investors in venture capital funds**
- **Limitations of pension funds and insurance companies to invest in venture capital funds**
- **High tax rates**
- **Lack of tax incentives for individuals to invest in new ventures**
- **Taxation of stock options**

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

Benchmarking European Legal and Tax Environment (EVCA)



The level of foreign commitments in private equity funds varies extremely



Source: Heikkilä (2004)

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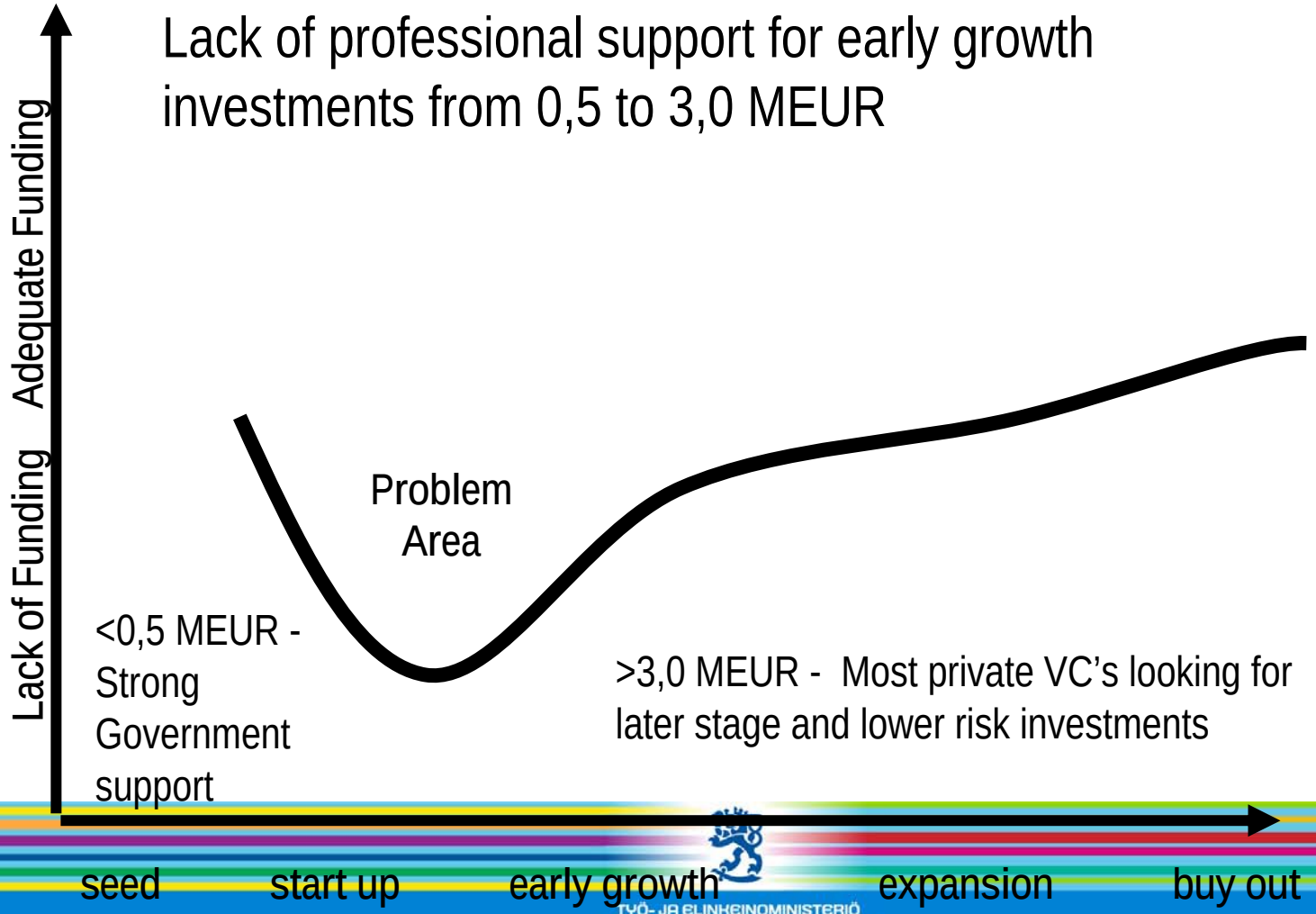
Lack of professional Venture Capital for post seed



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SUMMARY OF THE CHALLENCES

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

- The success is limited by

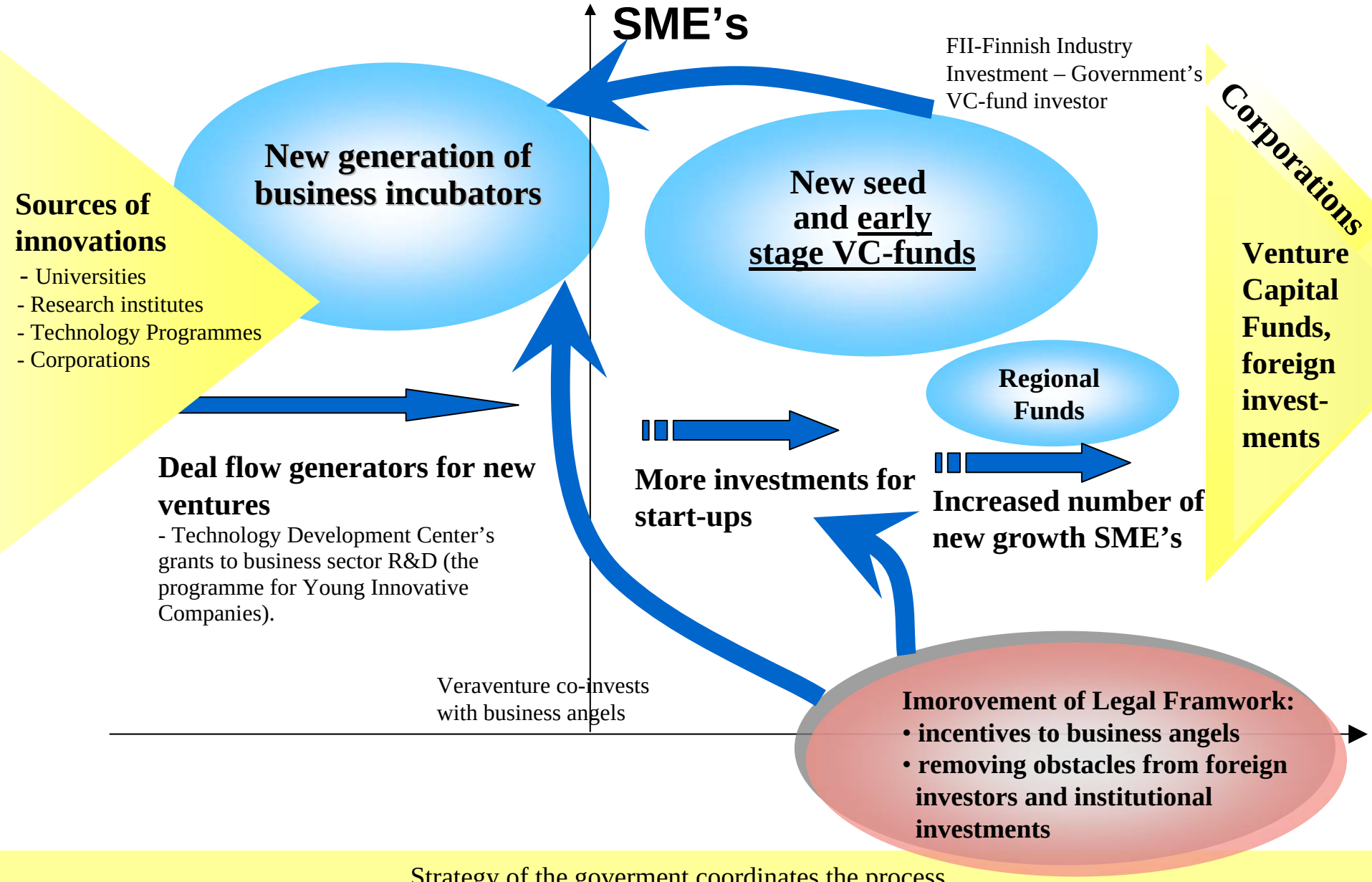
1) **Lack of entrepreneurship and especially experienced serial entrepreneurs**

- **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.
      - A joint Fund of Funds by the Government and pension funds to be build.
  - Increased the supply of seed-capital (a new state-owned seed fund - Start Fund of Finnvera co-invests with business angels).
- To improve the demand side (competence gap):
  - Competence building of start-ups (an investment readiness programme) by Technology and Innovation Development Center (Tekes) for Young Innovative Companies (YIC).
  - Tax incentive for business angels' investments to be designed.

Government's policy to turn innovations into high growth SME's



Strategy of the goverment coordinates the process

Why business angels are needed?

- Industry structure is based on big corporations and tiny family enterprises in Finland.
- Innovation infrasructure is excellent, but, does not generate new hi-growth companies to the global market.
- Innovative start-ups lack business experience to go global – and risk capital for their early growth.
- Institutional investors and professional Venture Capital companies are risk avoidant and do not invest in innovative start-ups.
- Proper incentives can attract experienced business people to invest their time and money to start-ups.
- Business angels can create value for start-ups and improve their investment readiness for professional VC's.
- Business Angels are key players in increasing the number of new hi-growth firms.

How to design an incentive to Business Angels

- Incentive for value creation (tax relief on capital gains after 3 years hold time) not for investment as itself (upfront).
  - Fiscal argument: incentive brings tax incomes before tax relief.
- Eligible enterprise shall fullfil certain criterias, outside independent statement is obligatory.
- Eligible investor is a natural person or an investment company established by natural persons for this purpose.
- Size of the investment is regulated by the investor's share of the ownership of the target company (min. 10 %, max. 49 %).
- The Government will decide exact limits for the variables above within in a few months' time.
- The incentive is assumed to multiply the number of active business angels, to double the size of the investment as well as to contribute the intensity of business angel's work for the value creation of the target company.

Thank you for your attention!

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