

# Government's Venture Capital Policy in Finland

Pertti Valtonen, Counsellor  
Ministry of Employment and the Economy  
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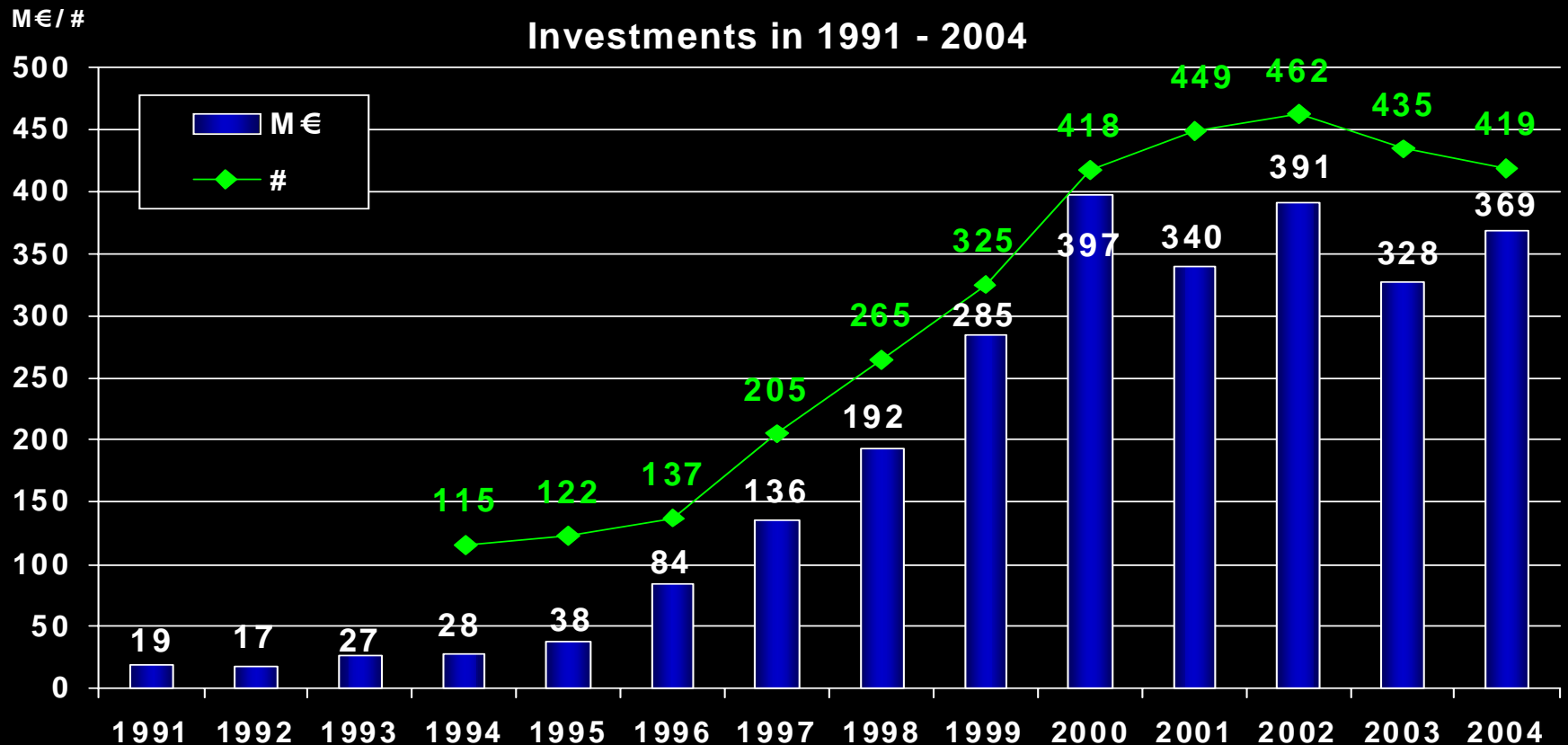


# Brief pre-history of VC-policy in Finland

- 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



Source: Finnish Venture Capital Association

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

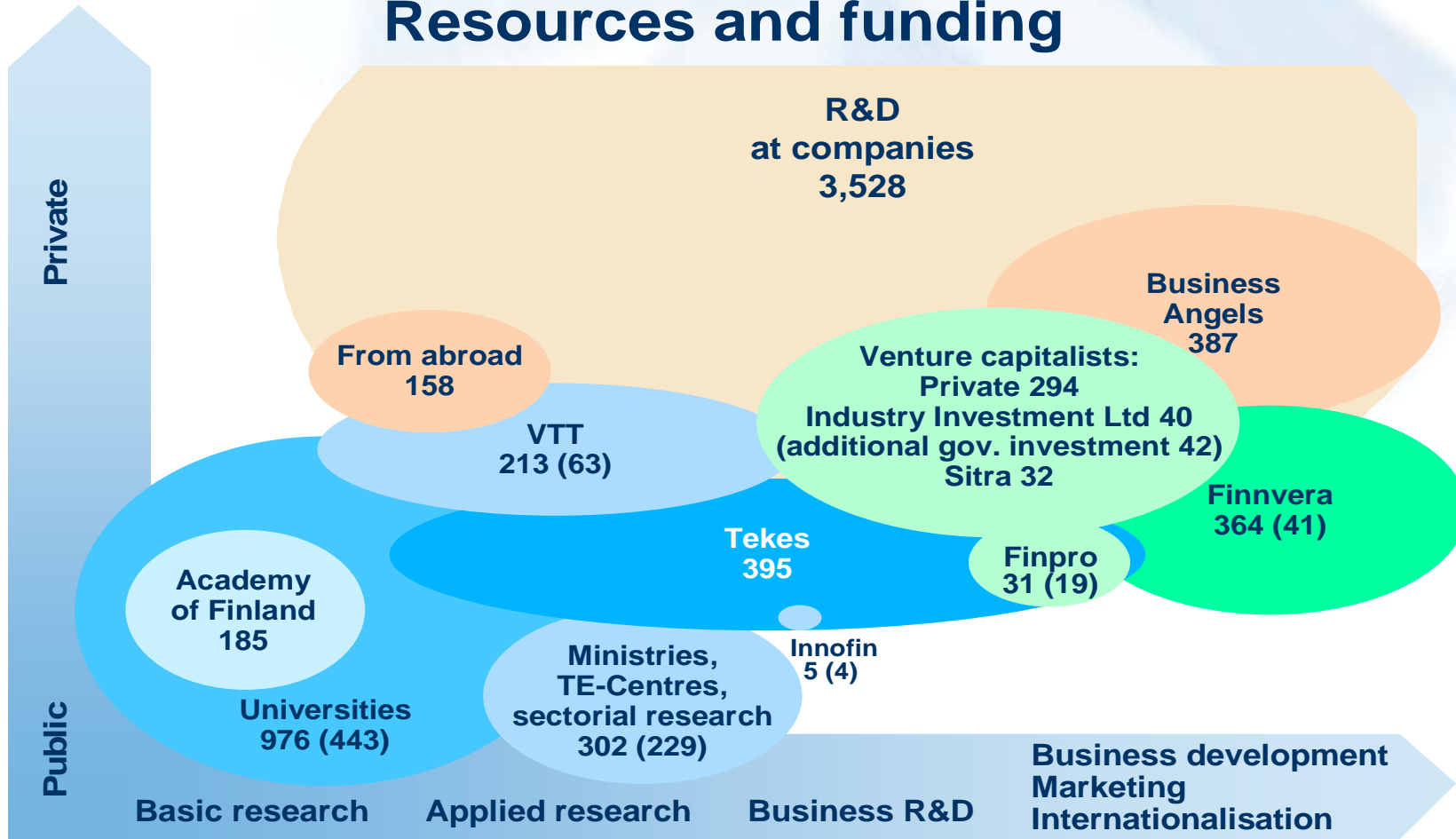
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# Innovation environment in Finland

## 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 Scoreboard 2007

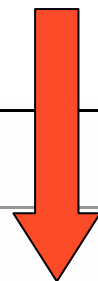
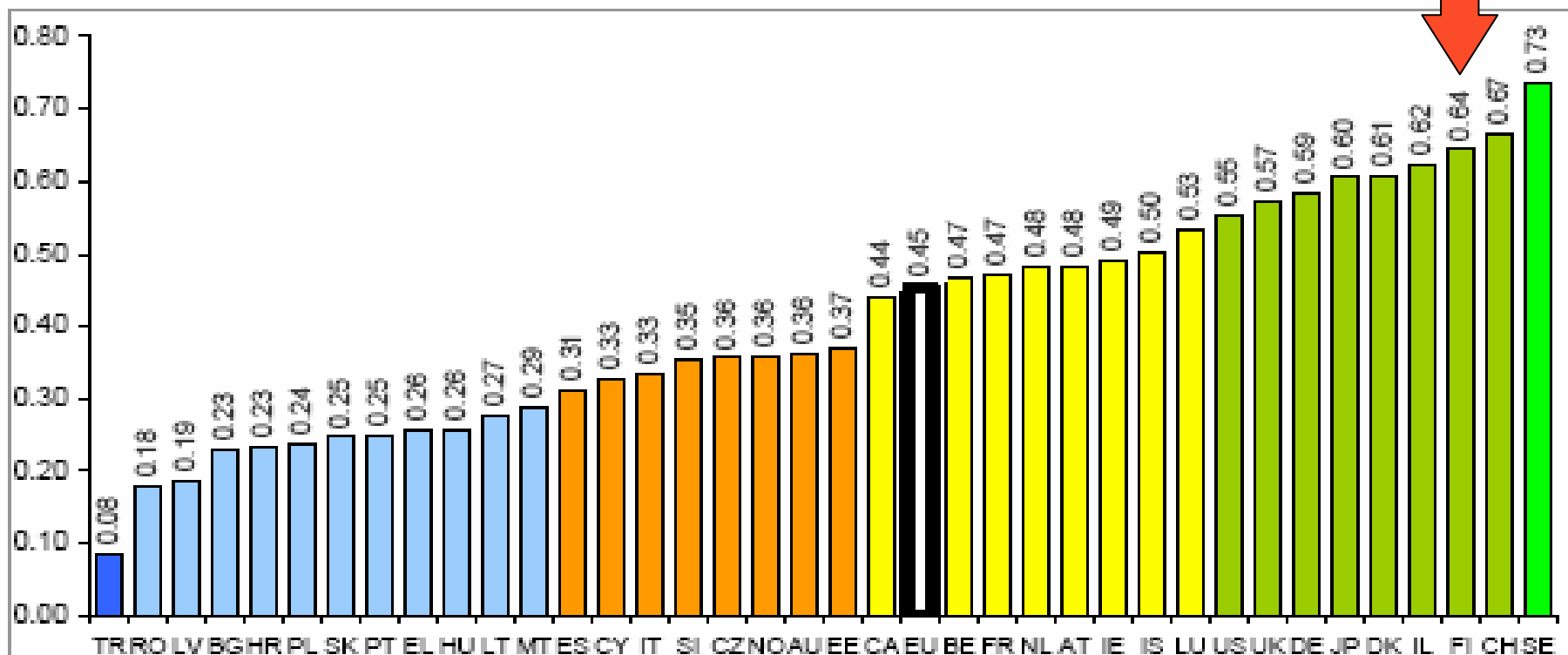
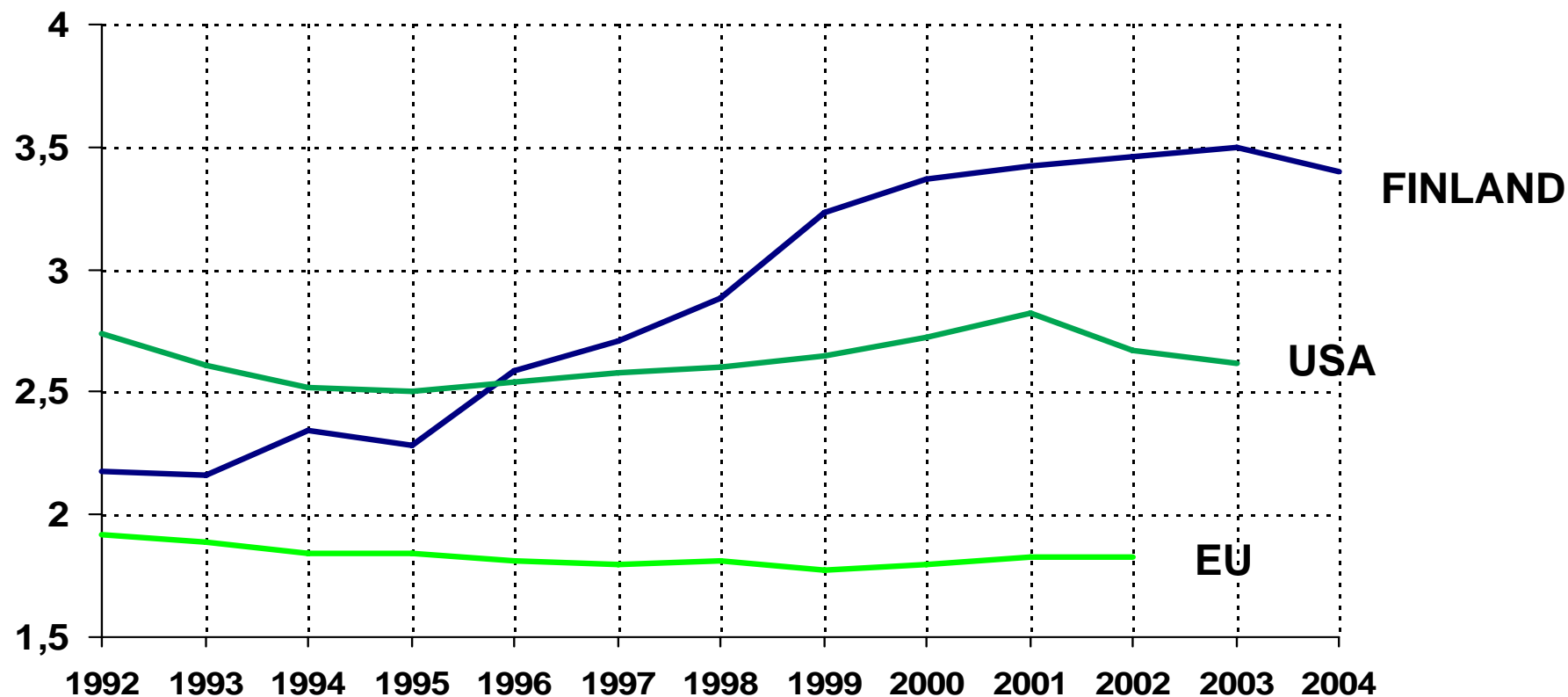


FIGURE 1: THE 2007 SUMMARY INNOVATION INDEX (SII)



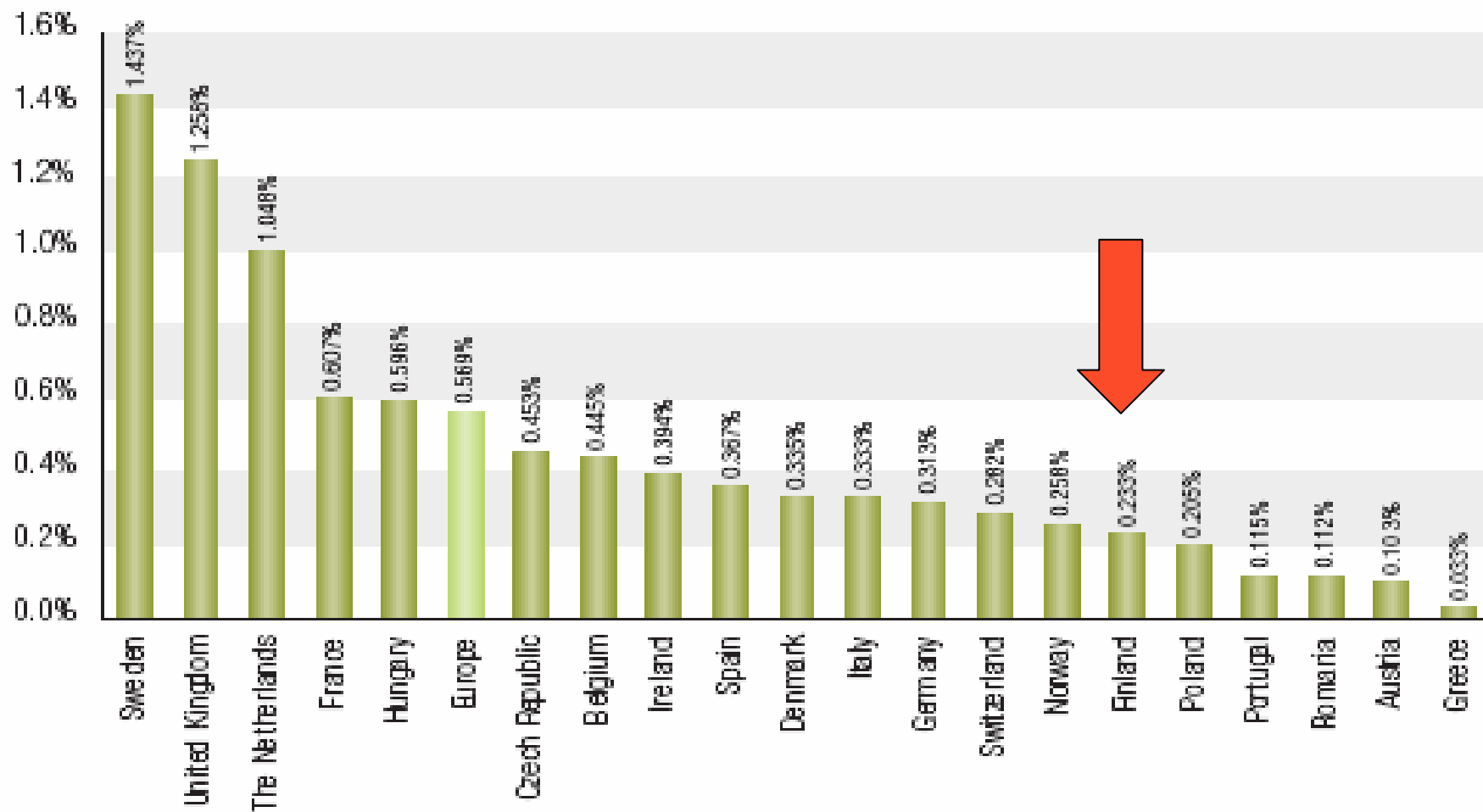
# Finland is investing heavily in innovation...

R&D/GNP %

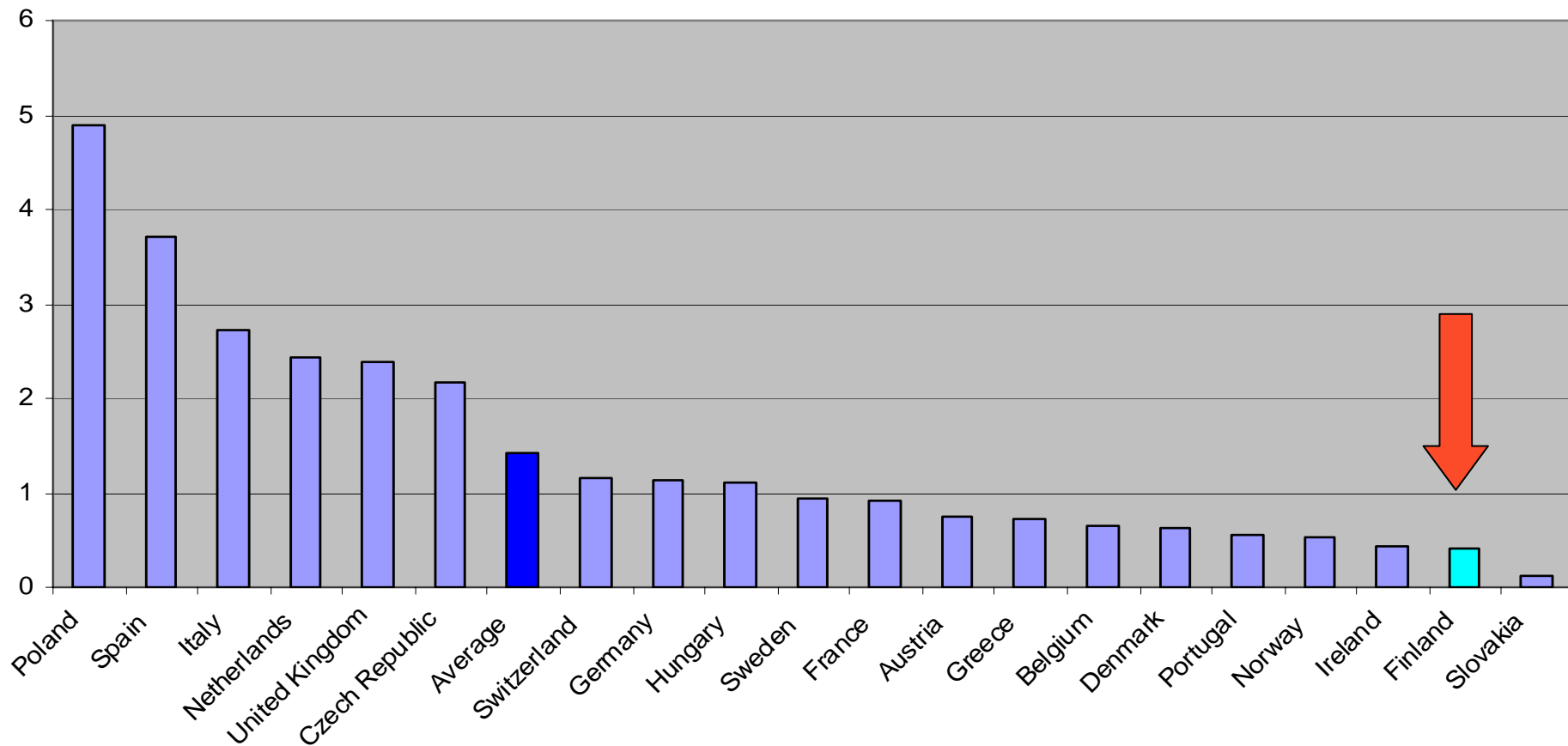


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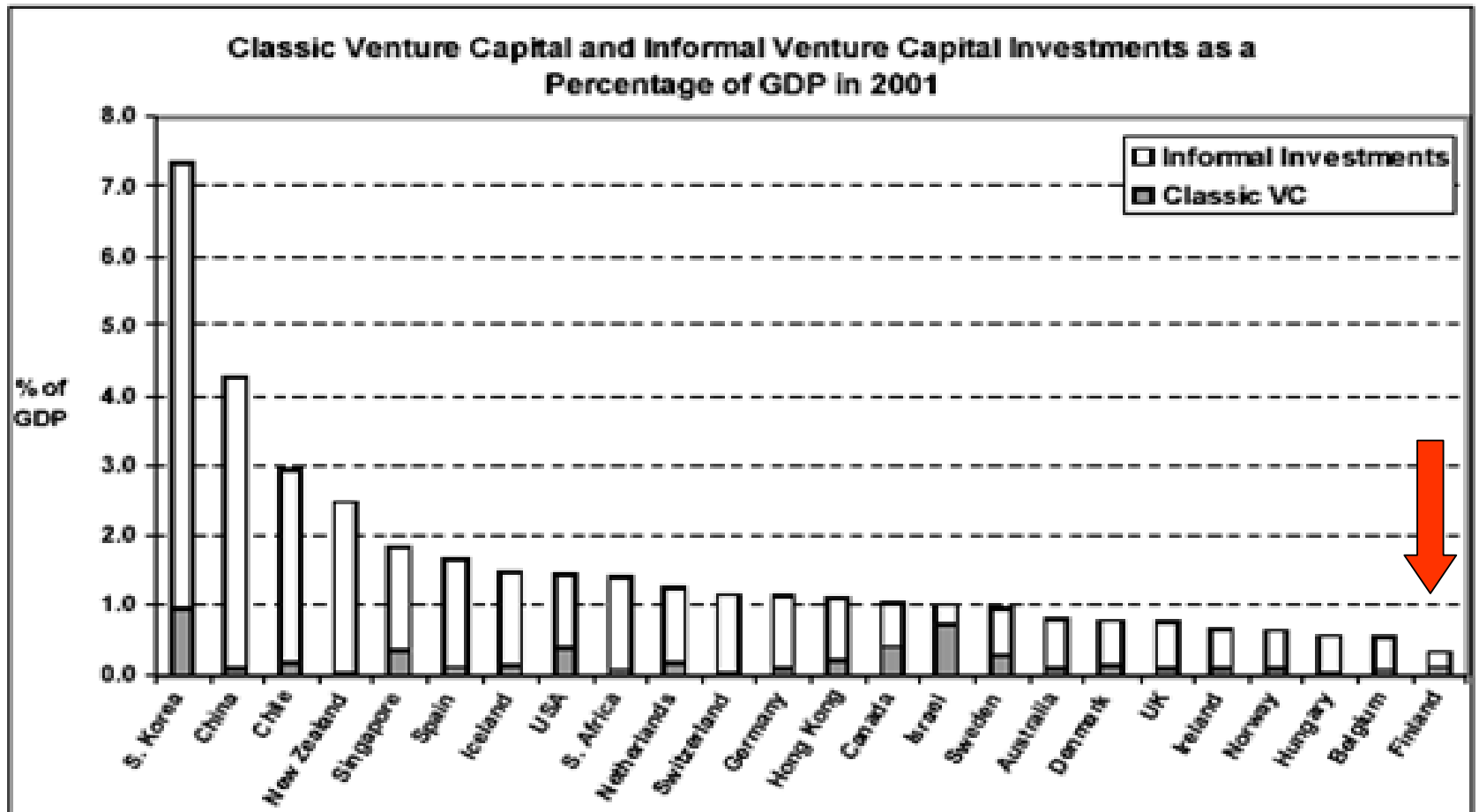
## Private equity investment as % of GDP in 2006 by country of destination\*



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







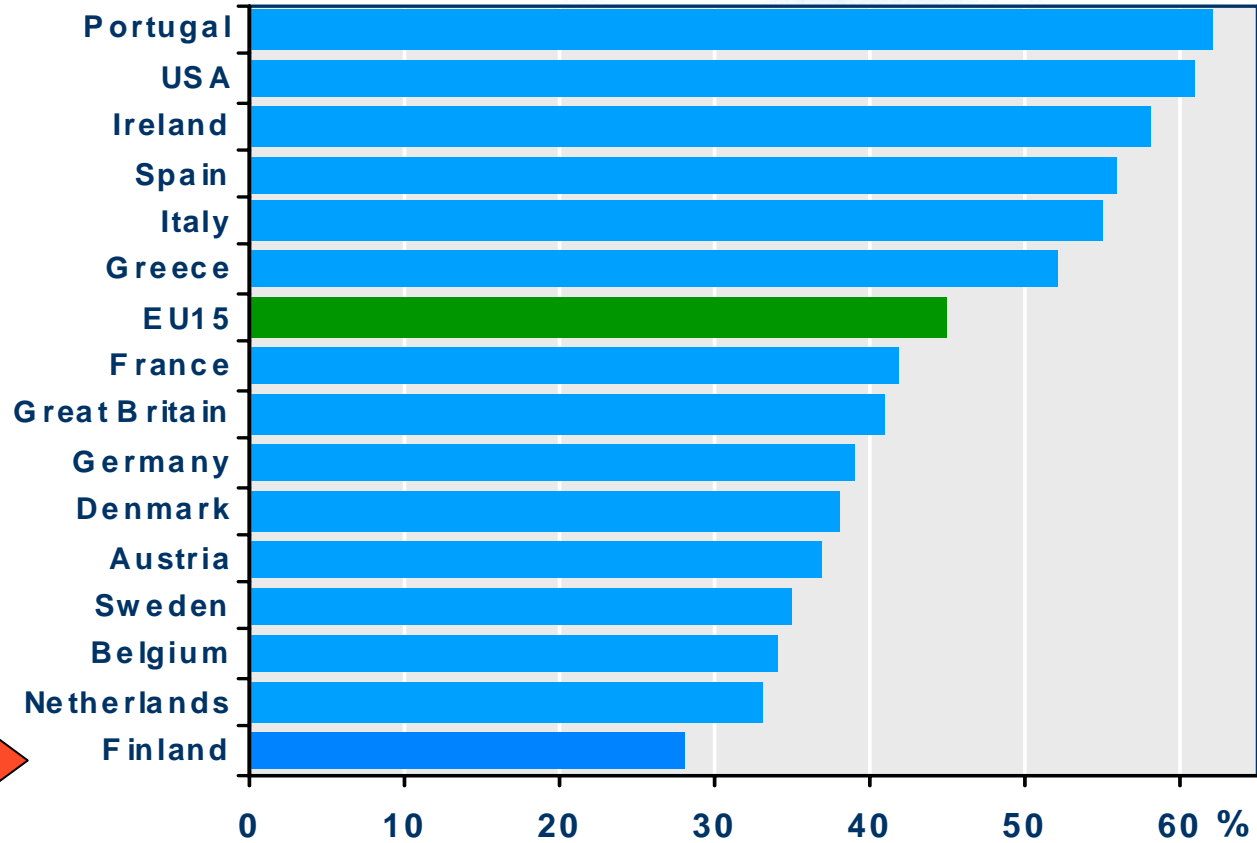
31.1.2006

Pertti Valtonen



# Inclination for entrepreneurship

## Willingness for self-employment



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The survey is based on approx. 21 000 telephone interviews

Source: Flash Eurobarometer 160, 2004

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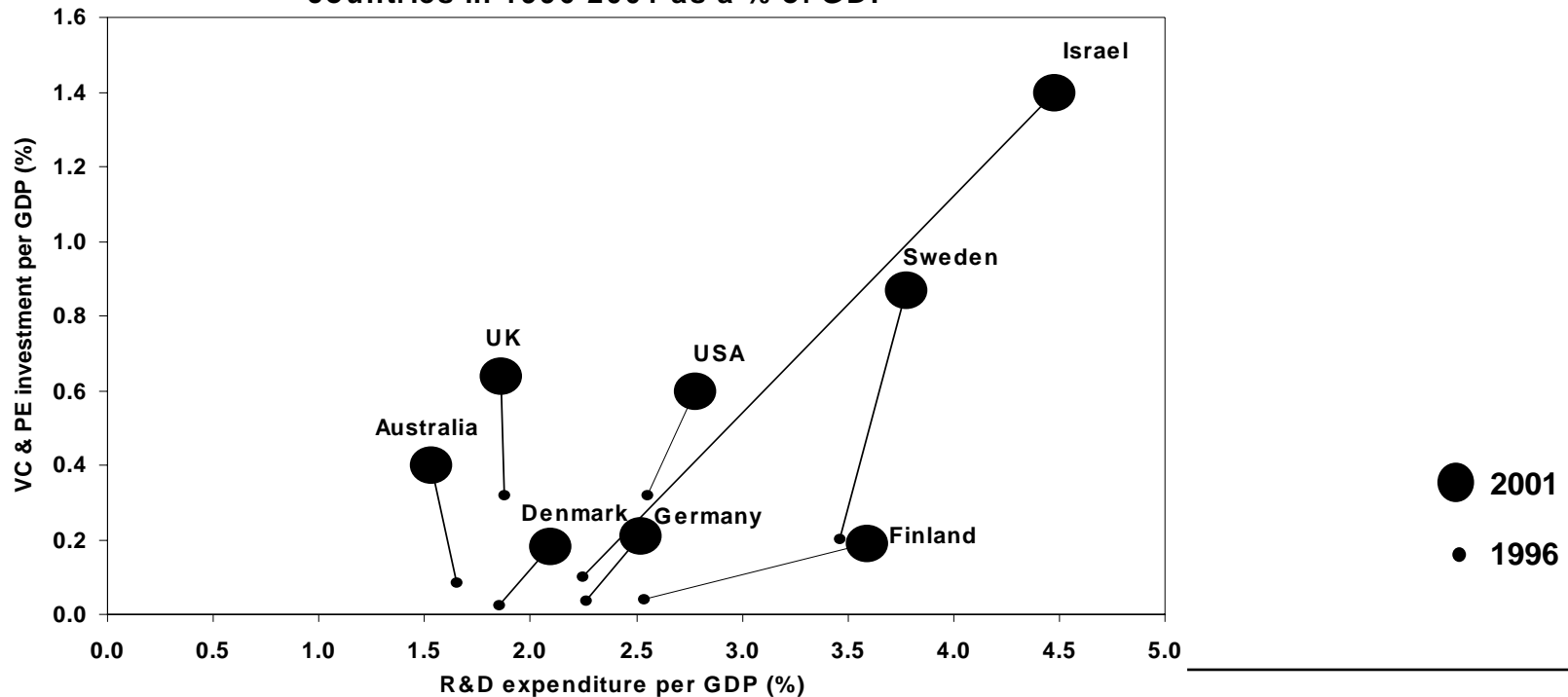
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# THE RELATION BETWEEN R&D AND VC SUGGESTS UNTAPPED POTENTIAL

Development of the gross R&D expenditure and gross venture capital and private equity investment in selected countries in 1996-2001 as a % of GDP



*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
	<b>Total average</b>	<b>1.97</b>
<b>13</b>	<b>Norway</b>	<b>2.04</b>
<b>14</b>	<b>Sweden</b>	<b>2.05</b>
15	Czech Republic	2.12
16	Poland	2.13
<b>17</b>	<b>Finland</b>	<b>2.30</b>
18	Germany	2.37
19	Austria	2.42
<b>20</b>	<b>Denmark</b>	<b>2.46</b>
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

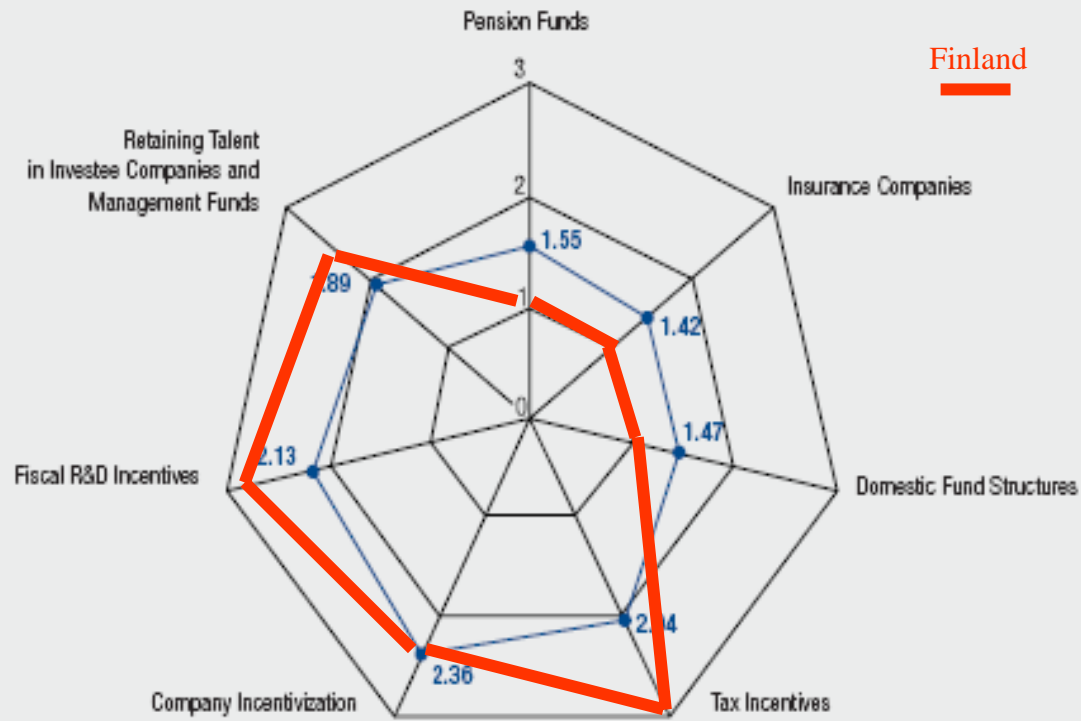
*There is still a lot to do in improving the conditions for growth-oriented entrepreneurship and venture capital in Nordic countries*

Source: EVCA 2004 Benchmarking European Tax & Legal Environments  
Institute of Strategy and International Business



# Benchmarking European Legal and Tax Environment (EVCA)

Figure 1: Current European situation



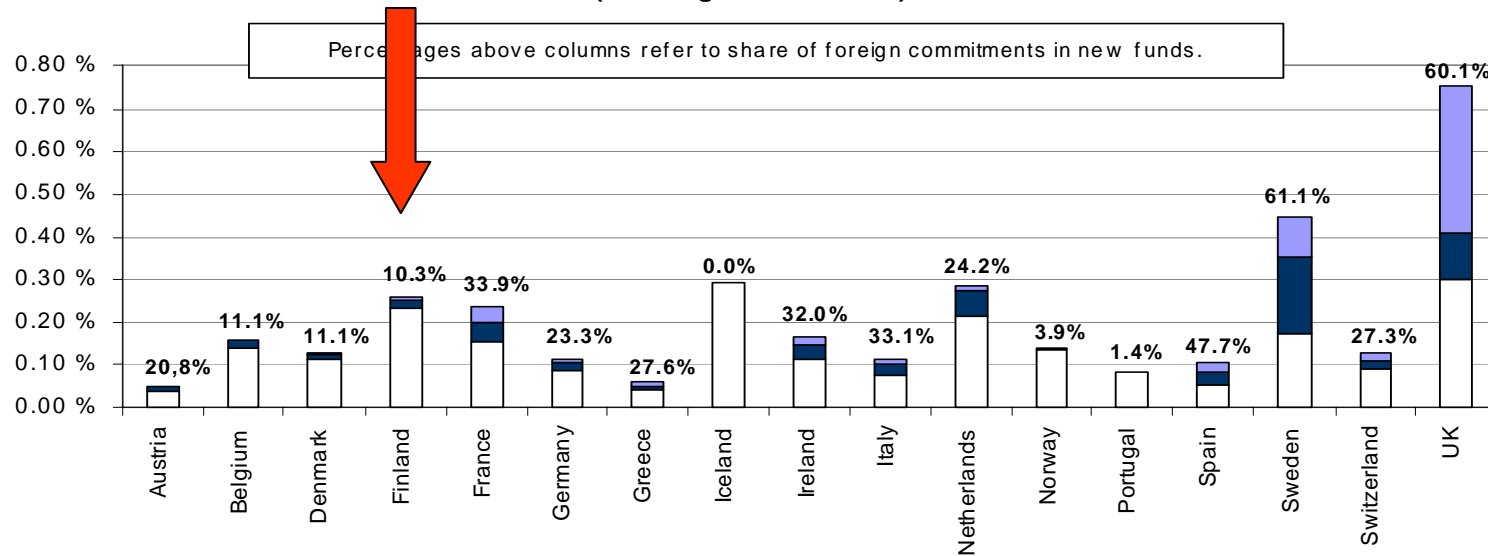
Source: EVCA



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# 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)



**Source:** Analysis based on data from EV CA, Eurostat and EIF

**Note:** Investments of EIF and EIB have been deducted from Other European figures

- Funds raised from non-European investors
- Funds raised from other European investors (EIF excluded)
- Funds raised from domestic investors

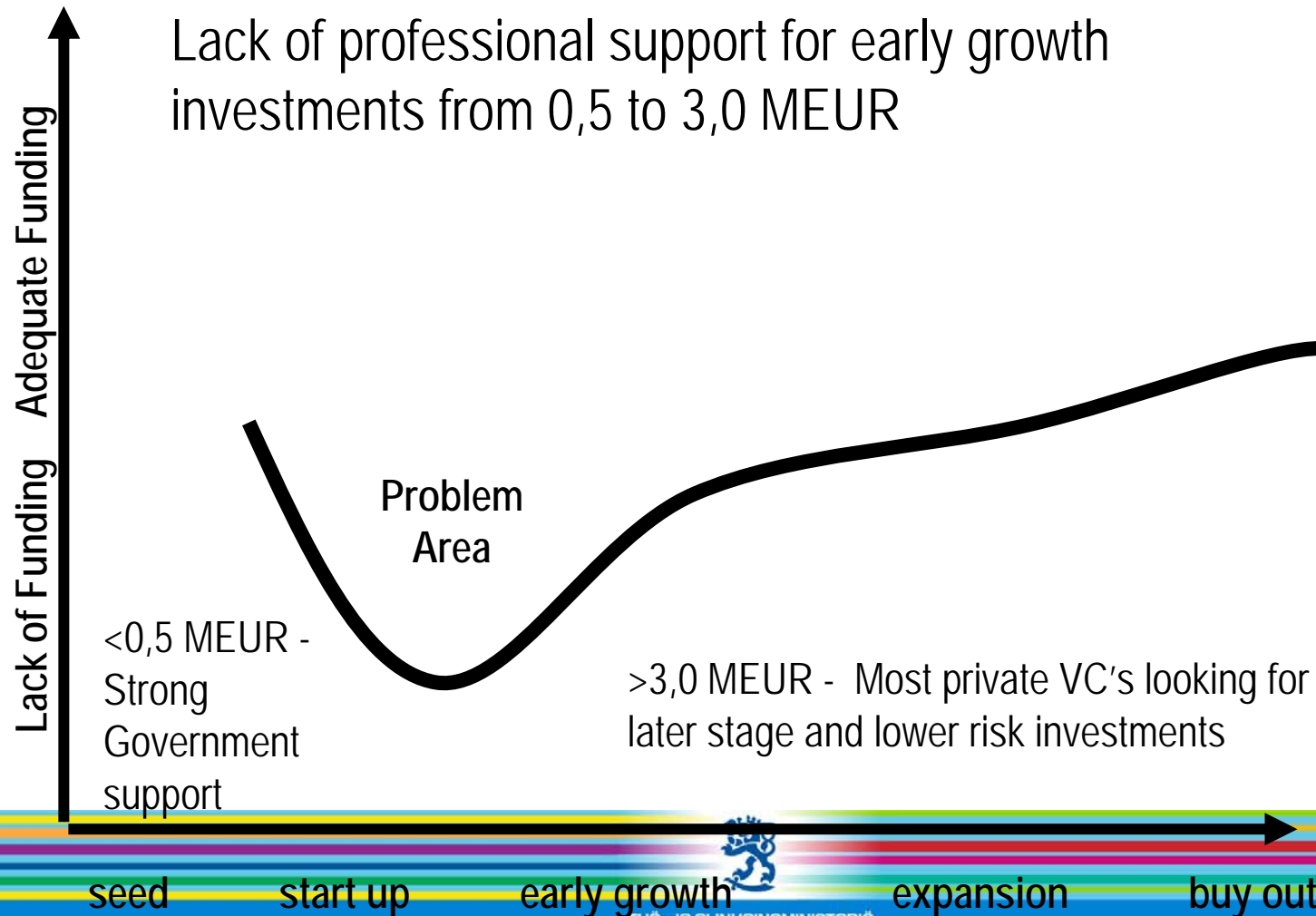
Source: Heikkilä (2004)

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# Lack of professional Venture Capital for post seed



# 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)**



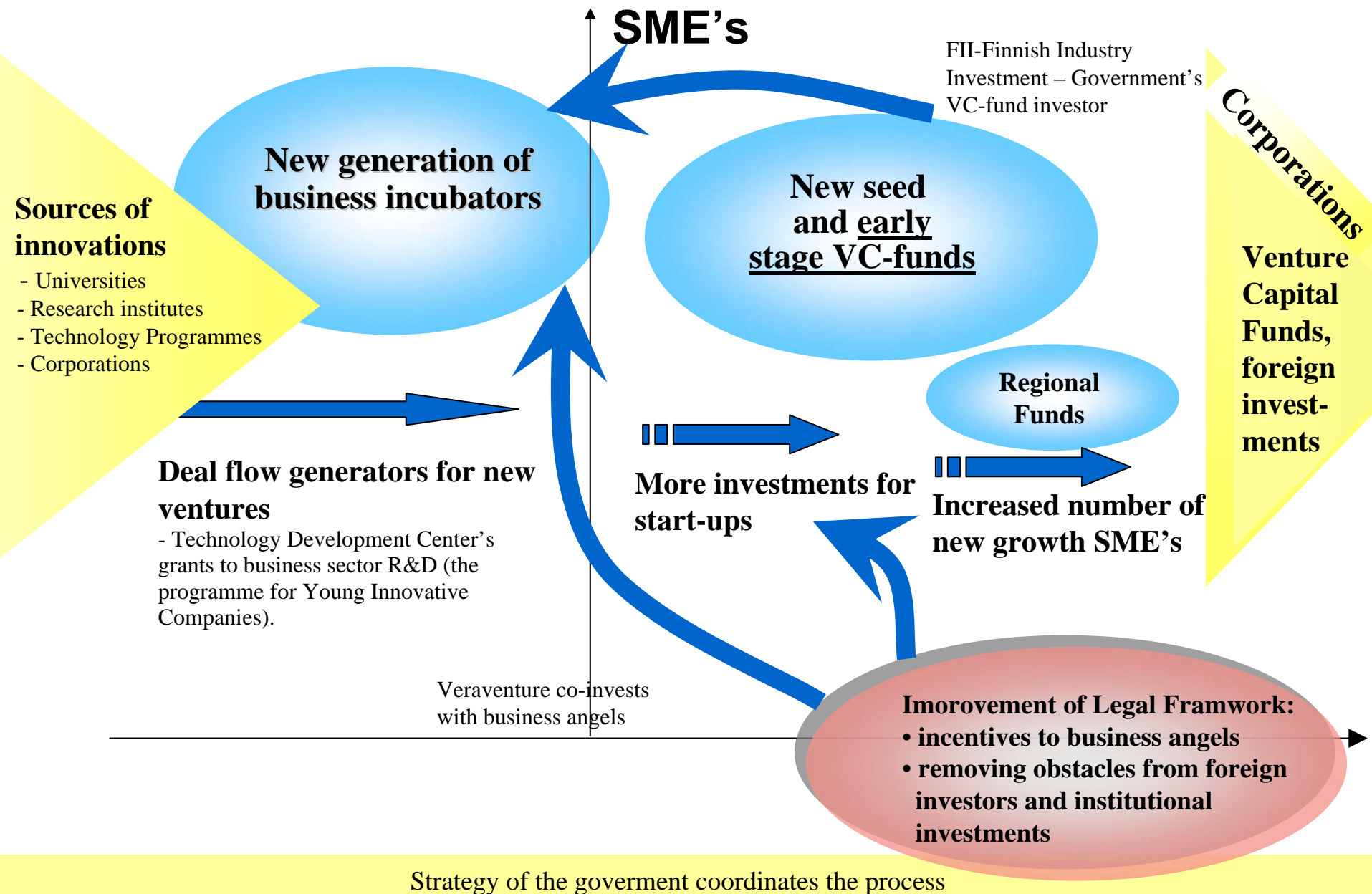


# What has the Government done?

- 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



# Thank you for your attention!

pertti.valtonen@tem.fi

