Government policy in venture capital - experience in Finland

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Brief history of venture capital in Finland

- Began with two government agencies in early 1990 (KERA, SITRA), followed by a third in 1995 (FII).
- Strong inflow of private capital in the latter half of the 1990s.
- After ICT bubble, private sector withdrew from early-stage investments and regional funds.
- Strong peak before the financial crisis.
- After 2008, VC firms almost vanished from the market.
Government policy development

• Provision of capital from several agencies is presently ongoing.
• In the beginning, a temporary management fee subsidy and a capital guarantee were standard practice.
• During the financial crisis, the government started to support the demand side, by way of the Vigo accelerator program.
• Recently, the use of indirect measures, tax incentives for business angels and the R&D tax incentive has become standard practice for a time-limited period.
• Use of asymmetric risk sharing to attract private seed and startup investors will be taken into use.
• Bringing continuity to the market with a fund of EUR 1 billion during ten years period, half of which is the government money.
Lessons learned

• The government should, besides providing capital, remove obstacles from private investors and develop in challenging areas incentives for startups, for investors as well as for serial entrepreneurs to coach startups.
• Use government measures only in cases of market failure.
• Instead of direct investments, the government should focus on fund investments.
• Use demand-side policy measures alongside supply-side measures.
• Perform independent international assessments regularly.
• Instead of building regional/national VC markets, build international networks, on all levels (investors, enterprises, VC teams).
• Build strong private partnerships in every government measure.
Favourable ecosystem for venture capital

- Level of R&D and education (competitiveness).
- Activity of big corporations as a source of spin-offs and networking towards startup community (knowledge).
- Entrepreneurial culture (sufficiently ambiguous).
- Business environment (international benchmarkings).
- Investor base (pension funds, private investors, corporations).
Early-stage Venture Capital investment as a percentage of total VC and Private Equity investment
Private vs. public start-up funding in Finland

- **M€**
- **2008**: 35
- **2009**: 30
- **2010**: 41
- **2011**: 33
- **2012**: 39
- **2013**: 59

- **T&K-laina**: 44
- **T&K-avustus**: 49
- **NIY ja VIGO**: 70
- **NIY**: 66
- **Suomalainen yksityinen po-sijoittaja**: 67
- **Ulkomainen yksityinen po-sijoittaja**: 6
- **Suomalainen yksityinen po-sijoittaja**: 26
- **Muu yksityinen (FVCAn keräämä arvio)**
  - **Business angels**: 44
  - **Other private (FVCA estimate)**: 52

- **T&K-loans**
- **R&D loan**
- **R&D grant**
- **Young innovative companies & VIGO**
- **Young innovative companies**
- **Finnish public private equity investor**
- **Foreign private private equity investor**
- **Finnish private private equity investor**
- **Business angels**
- **Other private (FVCA estimate)**

**Funding Breakdown**

- **2008**: 45%
- **2009**: 42%

**Ministry of Employment and the Economy**
Venture Capital - Investments as % of GDP - Market statistics

2013 - Market statistics

Source: Thomson Reuters Datastream (GDP) / EVCA / PEREP_Analytics
Note: *Other CEE consists of Ex-Yugoslavia and Slovakia

2013 European Private Equity Activity
Framework conditions for entrepreneurship

Source: Nordic Growth Entrepreneurship Review 2012
Private equity portfolio companies grow faster – twice the personnel growth of comparable companies

Research results: Finnish companies in private equity ownership compared to comparable control group

Three years’ average growth % (buyout and venture capital)

Example: Jobs created by Vaaka Partners Buyout I – fund

Number of employees in six companies*, ownership time on average ca. 3 years

Sources: PVCA; Alén, T. (2012). The Impact of Venture Capital and Buyout Investments in Finland
Leverage effect of FII (Finnish Industry Investment)

Situation as per 31.12.2013, EIF = European Investment Fund
Thank you!

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