



PROJECT «Bringing Together»

Investment Environment and Activities Finland 2016-2020

Bringing Together

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CBC 2014-2020
SOUTH-EAST FINLAND - RUSSIA

*Funded by the European Union,
the Russian Federation and
the Republic of Finland.*

Foreign Direct Investments to Finland, USD

- ✓ Sweden – 35% (29.3 bln)
- ✓ The Netherlands – 20% (16.5 bln)
- ✓ Luxembourg – 17% (14.1 bln)
- ✓ Denmark 7.7%
- ✓ Germany 3%

Outward investments: the Netherlands 29.3%, Sweden 24.9%, Ireland 9.4%, France, Luxembourg

Investments from Russia and to Russia are not significant

Finnish Investment Environment

Strengths

Stable and modern economy, a world-class investment climate, highly skilled, educated and multilingual labor force.

Key challenges

Rigid labor market, high labour cost

Narrow domestic market

Bureaucratic red tape in starting certain businesses

Opening bank accounts by foreigners is more complicated

Since 2014 big problems for Russian residents and companies to open and operate bank accounts in Finland.

Government measures to attract investments

- ❖ 2014 - reduced corporate tax rate from 24.5% to 20%
- ❖ More simple residence permit system for foreign experts
- ❖ 2016 - Competitiveness Pact to reduce labor costs, increase working hours and introduce more flexibility into the wage bargaining system
- ❖ Business Finland: services of several state-funded agencies working for domestic and foreign companies

Policies Towards Foreign Investments

- No general regulatory limitations in acquisitions, a mixture of domestic and EU competition rules.
- Some tax policies unattractive to foreign investors: movement of share ownership in a Finnish company into a foreign company is taxable; no special treatment like tax holidays for foreign investors.
- No forced localization policy for foreign investments in Finland.
- Benefits from Finland membership in the EU and WTO, bilateral investment treaties with 67 countries, including Russia.

Investment Incentives

- ✓ Equal attitude to domestic and foreign-owned companies
- ✓ State support: grants, loans, tax benefits, equity participation, guarantees, employee training
- ✓ Business aid coordination: 15 Centers for Economic Development, Transport and the Environment (ELY) - advisory, training, expert services, grant funding (www.ely-keskus.fi)
- ✓ Guarantees from the state-owned financing company Finnvera in most sectors (www.finnvera.fi)
- ✓ Business Finland free services: data collection, matchmaking, funding, location management (www.businessfinland.fi)

New Finnish Legislation to Screen Direct Foreign Investments

- ✓ Review of the Finland Foreign Corporate Acquisition Act within the new EU legislation
- ✓ The Ministry of Employment and the Economy (TEM) monitors and confirms foreign corporate acquisitions
- ✓ Stricter control and restriction of foreign ownership in 'sensitive' Finnish entities (national security, defense, public order)
- ✓ More control for entities critical for security of fundamental functions (no certain list of industries, applies to telecom, IT, transport logistics, food supply, fintech)

SME Sector Profile

Finnish Small Business Act (SBA) Profile

(The European Commission Annual Review)

- ✓ Finnish non-financial SMEs (except agriculture, education, health, forestry and fishery):
 - 59.6% of value added
 - 65.2% of employment
- ✓ Finland has a strong SBA profile, surpassing the EU average in 5 areas: entrepreneurship, 'second chance' (after bankruptcy), 'responsive administration' (public administration response to SME needs), access to finance, skills & innovation.

SME Sector Profile

- ❖ Entrepreneurial activity as a career is less attractive in Finland than other EU countries. The government and local authorities put considerable effort into entrepreneurship support
- ❖ Finnish SMEs lag behind in internationalisation, esp. online trade, need help in digitalization (use of new technologies)

Response of authorities to SME needs

- ✓ Reduced time and cost to start a business:
4 days in 2017 => 3 days in 2018
€355 => €275
- ✓ Less hours to pay taxes:
93 hours in 2018 vs 90 hours in 2019.
- ✓ Digitalisation of services and permit applications,
deregulation programme 'Norminpurku'20.

Improvement is needed in the time required to transfer property.

SME access to finance

Finland is the EU's second best performer in access to finance (267 credit institutions).

One indicator is worse than EU average: the cost of borrowing for small loans vs large loans increased from 51.3% in 2017 to 62.2% in 2018.

Reported deterioration by SME respondents:

- banks' willingness to provide a loan (4.4% in 2017 => 5.1% in 2018, EU average 9,7%);
- public financial support: 8.8% in 2018 vs 7.2% in 2017, EU average 2018 – 14,9%.

Bank loans to SMEs: the terms tightened in recent years.

National Instruments

to Improve SME Financing in Finland

New instruments: growth funding, junior loans, investment programme for industrial renewal, TEMPO, KIITO.

2019 budget focus shifted from pure research, technology development and innovation (RTDI) support to broader instruments for company and ecosystems growth.

European Investment Bank and Tesi (Finnish Industry Investment) new financing model for SMEs and innovative companies (100 mln EUR public + 100 mln EUR private funding), first of its kind in the Nordics (August 2018).

Growth engine funding (Business Finland, >1bln EUR): support of ecosystems (first bidding - June 2018), bringing together SMEs, larger companies, RTDI organisations and the public sector for exports and investments.

National instruments to improve SME financing in Finland

The Digital Trust Finland Programme (March 2019) - significant funding for innovation and business development in the digital trust business.

The Smart Life Finland Programme (February 2019) - to grow SME business and internationalisation in the health and wellbeing sector.

Success in startup funding in Finland 2019 (BusinessFinland.

Finnish capital Helsinki's start-up scene ranks **#1 in the world** in local connectedness among founders, investors and experts.

Financial programs and instruments are both for domestic and foreign companies in Finland.



Finnish Venture Capital Investors by company stage

- ❖ **Seed, early stage:** Business angels, Crowdfunding, FiBAN (Finnish Business Angels Network www.fiban.org), 650 members, average investment 60 th EUR
- ❖ **Growth stage:** Venture and PE Funds, FVCA (Finnish Venture Capital Association <https://paaomasijoittajat.fi>, 35 funds), average investment 740 th EUR
- ❖ **Growth, buyout stage:** Venture and PE Funds, FVCA, average investment 6 mln EUR

VC and PE Investments in Finland

- ✓ Venture capital investments % of GDP 2017:
Finland 0,04%, EU average 0,03%
- ✓ 2019 record fundraising by Finnish PE Funds - 919 mln EUR

Finnish PE Funds investments:

- 496 mln EUR → 277 domestic companies
- 52 mln EUR → foreign companies (slight ↗)
- total 548 mln EUR (-11%) ↘

International PE Funds investments:

- 517 mln EUR (-48%) → 39 Finnish companies
- foreign investments bigger in size per company

Public vs Private VC Finnish Domestic Investments

A very significant and increasing role of public sector investments in later stage funding:

2016

- private 31 mln EUR
- public 85 mln EUR (2,7 times bigger)

2019

- private 26 mln EUR
- public 132 mln EUR (5,1 times bigger)

VC Investments in Finland by Industries

- ✓ 50% of investments → ICT companies
- ✓ 2019 – growth of investments into B2B products and services (doubled)
- ✓ Growing interest to impact investing
- ✓ Larger part of PE investments in growth companies – majority investments (not minority ownership investments)

Impact Investing

- ❖ Fast growing private equity investment strategy
- ❖ Increasing worry for negative environmental and social factors
- ❖ Investors from wealthy individuals to large pension funds are interested in investments with positive impacts
- ❖ Especially the younger generations – millennials – require more responsibility from their investments
- ❖ Estimated 30 bln USD investment wealth of millennials → the demand for responsible investments can skyrocket

Alternative On-line Finance Channels

- ❖ New trend in Finland since 2014: growth of alternative on-line finance channels
- ❖ New Experimental Crowdfunding Statistics by Bank of Finland since 2018
- ❖ Analysis of 15 crowdfunding platforms in Finland (www.suomenpankki.fi/en/Statistics/crowdfunding)
- ❖ Significant growing trend with a wide variety of business models (lending, investing, donating)

Online Alternative Finance Europe 2017

Volume, mln EUR:

- UK – 7060
- France – 661
- Germany – 595
- Finland – 197 (No.6)
- Russia – 28 (No.19)

Per capita, EUR:

- UK – 107,04
- Finland – 35,7 (No.5)
- Russia – no statistics

Alternative On-line Finance Finland

- ❖ The sector and volumes are still relatively small
- ❖ The sector develops rapidly, new players emerge
- ❖ Rise in corporate lending via crowdfunding platforms
- ❖ Development in domestic crowdfunding in Finland:

Investment based ↗ ↘

2016 +163%, 2017 +64%, 2018 -8%

Loan based ↗ ↘

2016 +123%, 2017 +64%, 2018 +29%

New Crowdfunding Legislation in Finland and Russia

- ✓ 2016 New Finland Law on Crowdfunding → more financing opportunities for SMEs
- ✓ 2019 New RF Law FZ-259 On Attracting Investments with the Use of Investment Platforms (“Law on Crowdfunding”, in effect from 1.1.2020)

Finnish-Russian Joint Investment Projects in SME and Startup Sector

- ✓ Insufficient investment cooperation among Finnish and Russian businesses and individuals
- ✓ Low involvement of Russian organizations and businesses
- ✓ Some examples: Agreement by US Overseas Private Investment Corporation (OPIC) and Finnvera to encourage joint private investments in Russia