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National Audit Office of Estonia

Activities of the state in venture capital funds

How has the Ministry of Economic Affairs and Communications organised the setting of goals for SmartCap funds, investment in the funds, and the supervision of the funds' activities?

Overview by the National Audit Office
to the Riigikogu
Tallinn, 7 August 2026

Summary

The Ministry of Economic Affairs and Communications has contributed €465.7 million for SmartCap's venture capital investments. **The amount and timing of allocations from the state budget have not been based on the funds' actual investment capacity, which means that a large proportion of the funds earmarked for venture capital investments has remained unused for a long time. At the same time, the Ministry of Finance repeatedly issued short-term bonds to balance the state's day-to-day cash flow.**

SmartCap's venture capital investments are investments made directly in companies or sub-funds via three investment funds in order to develop the Estonian venture capital market.

Capital paid into SmartCap funds:

- **Venture Capital Fund** 265.7 million
- **Green Fund** 100 million
- **Defence Fund** 100 million

When making contributions, the Ministry of Economic Affairs and Communications has not always taken the funds' actual capital requirements into account. Such a practice is not in line with the logic of a market-economy investor and is not optimal from the viewpoint of managing the state's cash flows.

No measurable target levels or time horizons have been set for the indicators used to assess the achievement of the strategic objectives of SmartCap's funds, making it difficult to objectively assess whether the investments have been successful or whether the fund manager's performance meets the state's expectations.

As at the end of 2025, the portfolio of SmartCap funds contained investments in

- 17 companies and
- 16 sub-funds.

Investment agreements had been concluded in the amount of €230.4 million, of which 119.5 million had been **paid out** to sub-funds and companies.

SmartCap's funds had €261 million in **available funds** for future investments and expenditure.

Several roles are held by the same individuals in SmartCap's management structure. This may create the risk of overlapping roles and reduce the transparency of decision-making processes.

The rules governing the investment of public funds are set out in several documents and are largely confidential, which is why the information used for decision-making focuses primarily on general goals and expectations. The explanatory letters submitted to the Government do not always provide an exhaustive account of the financial position of specific funds or the risks associated with investments. The substantive rules governing the investment of public funds are divided between the fund rules and supplementary agreements, which makes it difficult to assess objectively the state's actual risk exposure and the effectiveness of its use of funds.

The National Audit Office analysed the public funds paid into these funds, the venture capital investments made using these funds, how targets were set for these investments, and the effectiveness of oversight.

The objective of SmartCap's funds is to develop the Estonian capital market. Although more than half of SmartCap's fund investments are aimed at foreign fund managers, it is expected that large-scale international funds find an investment opportunity in Estonia that is larger in scale than SmartCap's own investment in that fund. Both SmartCap and the Ministry of Economic Affairs and Communications regard the geographical restricting the fund investments with Estonia as

a factor that hampers returns and the development of the Estonian capital market.

Feedback from the Minister and the management board of SmartCap

The Minister of Economic Affairs and Industry noted that the observations of the National Audit Office provide valuable input for the further development of SmartCap's governance and the state's investment activities. According to the Minister, reporting has already been updated, an impact assessment of SmartCap investments has been launched, and work has begun on analysing options for depositing SmartCap's funds with the State Treasury and updating the governance model, in order to more clearly define the roles of the Ministry, the Estonian Business and Innovation Agency and SmartCap, and to strengthen governance and oversight.

A member of the management board of AS SmartCap clarified that, although the investment period of the Green Fund was affected by the time limit arising from the terms of the European Union's Recovery and Resilience Facility, this did not, in the company's view, affect the quality of its investment decisions or compliance with the due diligence obligation. SmartCap also emphasised that the investment policy statement should be regarded as an operational tool that makes it possible to clarify the fund rules, for example, by setting sector- or market-based priorities based on the market conditions.