Targeting of Business Subsidies in Finland

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Outline

1. Who gets business subsidies in Finland?

2. Are there signs of credit shortages

3. Concluding remarks
1 Who gets business subsidies in Finland?
   – Type, sector, size, age.
State Aid to Manufacturing and Services

State Aid to Manufacturing and Services by Sector, Finland

Business Support by Source Institution, 2012

Tuet yhteensä 1300 M€

Valtiovarainministeriö
31%  (Ministry of Finance)

TEM (ml. ELY- ja TE-keskukset)
36%
(Ministry of Economic Affairs and Employment)

Liikennevirasto
6%  (Transport Agency)

Maaseutuvirasto
4%  (Agency for Rural Affairs)

Finnvera
3%

Tekes
20%

Yrityksen kehittämisavustus
Kuljetustuki
Startiraha
Kansainvälistymisavustus
Finprolle myönnettävä tuki
Energiaerotuki investoinneille
Telakoiden innovaatiotuki
Palkkatuki (yrityksissä työskenteleville)
Työllisyysperustainon investointituki
Syöttötariffi
Tekesin T&K rahoitus yrityksille
Finnveran luottotappiokorvaukset ja korkotuki
Maa- ja metsätalousministeriön
miKroyritystuki
Tuki kauppa-aluksille
Energiaerotuki energiantensiiviselle

telollisuudelle ja kasvihuoneyrittäjille

Lähde: Työ- ja elinkeinoministeriö (2012b, 2013b)
Summary

• GDP share of state aid comparable to EU average
• State aid share has increased over the past years
  – Driven by large increases in tax breaks to energy intensive manufacturing
  – And increases in environmental support (supporting green energy production)
  – Support to R&D has declined (accounts for around 20%)
Characteristics of Supported Business?

- Statistics Finland Business Support Database (Yritystukitietokanta)
- Covers direct subsidies (~0.5mil EUR p. a.) + loans by Tekes, Finnvera and Ministry of Economic Affairs and Employment (TEM)
Subsidies, Loans and Guarantees

Business Subsidy Database, 2003-2014

[Bar chart showing the allocation of subsidies, loans, and guarantees from 2003 to 2014]
Fraction of Support Received by SMEs
Subsidies, Loans and Guarantees, Business Subsidy Database, 2003-2014
Support by Size
Subsidies, Loans, and Guarantees, Business Subsidy Database, 2003-2014
Support by Age
Subsidies, Loans, and Guarantees, Business Subsidy Database, 2003-2014
Support by Industry
Subsidies, Loans, and Guarantees, Business Subsidy Database, 2003-2014

Manufacturing
Computer and related activities; research and development; real estate

SMEs
Large Companies

MEUR

Retail

Industry

Total

# companies
Summary of Who Gets the Support

• Tekes, TEM and Finnvera funding:
  – Direct subsidies ~500 mil. EUR p. a. + loans & guarantees
  – Bulk of support goes to manufacturing and computer/R&D related activities
  – SMEs get the largest share, but also large manufacturing companies a big receiver

• How about subsidies not included in the Business Support Database?
  – Major category is energy tax breaks: go to large manufacturing companies = ~400 mil. EUR p. a.
Why public support to business?

• Most failed business proposals don’t get private funding because rate of return too low (bad projects)
• Efficiency rule: Governments should not invest tax payers money to business projects with low return
  – Exception: project has some societal benefits over and above private return (positive externalities)
• Private funds seek return – good proposals get private funding
  – No need for government intervention
• Unless credit markets don’t work well enough
2 Are there signs of credit shortages

– # failed proposals not a good indicator → many may have failed because rate of return too low
– Compare credit market indicators with large European economies
– SME Access to Finance -survey
Sources of SME funding in Euro Area
SME Access to Finance – survey 2015

- Bank loan: 63%
- Loan from other source: 16%
- Private Equity: 7%
- Private Equity Loan: 4%
- Don’t know: 10%

Source: ECB (2016)
If you applied for a bank loan within the past 6 months, did you get it? SME Access to Finance 2015

Source: ECB (2016). Sep 2015 survey. 450 Finnish companies of which 75 had applied for a loan within the last 6 months.
Average interest rate for new small company loans

Source: ECB (2016)
All Private Equity - Investments as % of GDP
2015 - Market statistics: Location of the portfolio company

Source: IMF, World Economic Outlook Database (GDP) / Invest Europe / PEREP_Analytics
Venture Capital - Investments as % of GDP

2015 - Market statistics: Location of the portfolio company

Source: IMF, World Economic Outlook Database (GDP) / Invest Europe / PEREP_Analytics
Buyout - Investments as % of GDP

2015 - Market statistics: Location of the portfolio company
Growth - Investments as % of GDP

2015 - Market statistics: Location of the portfolio company

Source: IMF, World Economic Outlook Database (GDP) / Invest Europa / PEREP_Analytics
Key problems for SMEs - % of respondents
SME Access to Finance – survey 2015

Finding customers

Regulation

Cost of production and labour

(Low) availability of qualified workers

Other

Competition

Access to finance

Suomi ja Euromaat yhteensä % vastanneista

Suomi N = 448
Euromaat N = 11 725

Lähde: Euroopan Keskuspankki (2016)
Summary of Bank Loan and Equity Markets

• Around 60% of funding through banks
• Small company interest rates at Euro Area level
• Finland ranks high along many key financial indicators compared to Europe
  – Loan application grant rates high
  – Private equity investment as % of GDP one of the highest
  – Companies don’t claim access to finance as their key problem
Concluding remarks

• No signs of credit shortage
• Good projects are likely to get private funding
  – A project that does not attract private funding is likely to have low private rate of return
• Some shortages may occur
• But need to be very careful when justifying public business support by credit market failure
• What to look for:
  – High risk projects with complicated plans (incomplete information on the investor side may deter investment)
  – Otherwise focus on projects with large positive externalities (= societal benefits over and above private return)