

Evaluation of Finnvera Plc

Final Report

Publications of the Ministry of Employment
and the Economy
Innovation
28/2012



TYÖ- JA ELINKEINOMINISTERIÖ
ARBETS- OCH NÄRINGSMINISTERIET
MINISTRY OF EMPLOYMENT AND THE ECONOMY

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<p>Julkaisun nimi Titel Title Evaluation of Finnvera Plc</p>	
<p>Tiivistelmä Referat Abstract</p> <p>Finnvera plc provides financial support for the start-up, growth and internationalisation of small and medium sized enterprises as well as guarantees and financing against risks related to exports. As a state owned public limited company, it is administered and governed by the Ministry for Employment and the Economy (MEE) which also commissioned this evaluation.</p> <p>The evaluation assesses Finnvera in the context of both the national and international business environment and provides a perspective on the areas in which Finnvera needs to be focusing for the period up to year 2020. The evaluation of Finnvera includes the evaluation of 1) MEE strategy and objectives, 2) Finnvera's strategic activity in financial markets, and 3) operational activity and effectiveness of Finnvera. The report presents recommendations for how Finnvera can be supporting the Finnish economy by helping Finnish companies grow and be internationally competitive and by supporting the financial sector through striking the proper balance between private and scarce government resources.</p> <p>As to MEE strategy and objectives, the goals set for Finnvera are of an operational nature rather than strategic. Finnvera meets the goals set by MEE relatively well and achieves the objectives of legislation and MEE steering.</p> <p>Finnvera's intervention in the financial markets is largely appropriate but certain products are more impactful than others. Each instrument has its own task and each instrument needs to be assessed against the three criteria which give basis for Finnvera's strategic activities in financial markets: a) addressing market failure; b) catalysing private financial institutions; and c) stimulating competition between banks and ensuring fair pricing.</p> <p>As to Finnvera's activity and effectiveness, Finnvera applies numerous management processes to achieve the desired outputs. Much effort has been invested in recent years in improving processes and maximising efficiency and productivity. Finnvera's strength is its people and its leadership has fostered has a culture which is highly professional.</p> <p>Contactperson within the Ministry of Employment and the Economy: Enterprise and Innovation Department/ Pekka Lindroos, tel. +358 50 3963313</p>	
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Foreword

The corporate governance of the Ministry of Employment and the Economy's (MEE) includes a programme for developing the strategic performance, services and productivity of the Ministry and the organizations in its domain, 'the MEE Group'. The aim of the development program is to meet the productivity goals, to improve effectiveness and to develop the operations of the MEE Group.

MEE is pursuing continuous improvement in both the governance and cost-effectiveness of the enterprise support system and there is an identified need to reduce its complexity. Consequently, the Ministry decided to launch evaluations of two of its main funding agencies - Tekes and Finnvera plc. The Ministry commissioned two external, international evaluating teams to evaluate these two organizations at the end of 2011.

The international financial markets are undergoing significant changes and company financing is facing new challenges. On the other hand, Finnish financial markets have become better functioning after the previous evaluation of Finnvera in 2004, in particular before the 2008 turbulences. It is expected that significant changes will occur in Finnish financial markets by 2020 and the roles and functions in government enterprise support system will have to be redefined.

The aims of this evaluation of Finnvera were to:

Evaluate the operations of Finnvera and its performance as part of the MEE Group. The purpose of this evaluation was also to form a view of Finnvera as a future enterprise policy actor by with a 2020 perspective by:

- evaluating operational efficiency, quality and impact of Finnvera
- basing on international experience, formulate an independent view on central adjustment challenges for Finnvera's strategic operations taking into account the ongoing change in financial markets and to identify means for Finnvera to react efficiently and effectively to those changes
- basing on international expertise, formulate an independent view of Finnvera's future role as industrial policy and financial market operator

Evaluate Finnvera's role as part of the MEE Group

- evaluate Finnvera's operations from the perspectives of MEE corporate and customer strategy implementation
- evaluate synergies between Finnvera and other actors and clarity of division of labor with regard to other actors in MEE Group, in particular Tekes- the Finnish Funding Agency for Technology and Innovation, that is also being evaluated, with the aim to identify new means to enhance Finnvera's performance

- identify core structural and administrative development needs as part of MEE Group, taking into account needs to develop MEE's steering system

Present recommendations

- draw conclusions and recommendations on needs to renew Finnvera's strategy, operations, structure and tasks. The evaluator was expected to present future oriented recommendations (including activities to be discontinued) with the view up to year 2020.

The evaluation was carried out by the international evaluation team consisting of the Turku School of Economics, University of Turku and International Financial Consulting Ltd.

To support the evaluation team, the Ministry set up a national sounding board which consisted of experts from different fields of Finnish enterprise and financing system. On behalf of the Ministry, I would like to express my gratitude to everyone who participated in this work and especially to the sounding board members: Kaija Erjanti, Federation of Finnish Financial Services FK, Timo Parmasuo Meconet Oy, Petri Castren Nokia Siemens Networks Ltd, Sampo Ahonen Beneq Oy, Pekka Roine Boardman Oy, Tommi Toivola Confederation of Finnish Industries EK, Janne Känkänen and Päivi Marttila Ministry of Employment and the Economy. The sounding board was chaired by Pekka Lindroos of the Ministry of Employment and the Economy.

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Glossary and Acronyms

ASKO 2	Act on the Client Information System of Enterprise Services
CIRR	Commercial Interest Reference Rates
ECA	Export Credit Agency
ELY Centre	Centre for Economic Development, Transport and the Environment
ERDF	European Regional Development Fund
EU	European Union
FEC	Finnish Export Credit Ltd
FII	Finnish Industry Investment Ltd
Group 1	Finnvera, Tekes, Centre for Economic Development, Transport and the Environment (including Employment and Economic Development Office), Finpro, Finnish Industry Investment Ltd, Finnish Technical Research Centre, Geological Survey of Finland
MEE	Ministry for Employment and the Economy
MoF	Ministry of Finance
NIS	National Innovation System
OECD	Organisation for Economic Cooperation and Development
PDB	Public Development Bank
Tekes	Finnish Funding Agency for Technology and Innovation
VC	Venture capital
WTO	World Trade Organisation

Tiivistelmä

Finnvera Oyj on Suomen valtion omistama erityisrahoitusyhtiö, joka tarjoaa rahoitusta yritystoiminnan alkuun, kasvuun, kansainvälistymiseen ja vientiin. Finnveraa ohjaa työ- ja elinkeinoministeriö (TEM).

Evaluoinnissa Finnvera arvioidaan kansallisessa ja kansainvälisessä liiketoimintaympäristössään. Raportti esittää näkemyksen Finnveran roolista toimintaympäristössään yhtenä TEM-konsernin osana, näkökulmana vuosi 2020. Evaluoinnissa tarkastellaan Finnveran toimintaa ja tuloksellisuutta sekä ministeriön Finnveraan kohdistamaa ohjausta. Raportissa esitetään suosituksia Finnveran tulevaisuuden muutostarpeista liittyen Finnveran strategiaan, toimintoihin, rakenteisiin ja tehtäviin. Arviointi keskittyy kolmen kokonaisuuden arviointiin:

- Finnvera osana TEM-konsernia ja Finnveran ohjaus
- Finnveran strateginen toiminta rahoitusmarkkinoilla
- Finnveran operatiivinen toiminta ja tehokkuus.

Näitä kokonaisuuksia tarkastellaan arviointikehikkoon pohjautuvien normatiivisten väittämien perusteella. Väittämät kuvaavat niitä ehtoja, joita toimivan ja terveen systeemin tulisi noudattaa. Arviointi perustuu monipuoliseen tutkimusaineistoon: kirjalliseen taustamateriaaliin sekä erilaisiin sidosryhmähaastatteluihin. Finnveran toimintaan liitettävät normatiiviset väittämät arvioitiin kerätyn tutkimusaineiston perusteella.

Tiivistelmä arvioinnin tuloksista

Finnveran kotimaisten toimintojen arviointi osoittaa, että Finnveran asiakkaat pitävät Finnveraa ammattitaitoisena ja osaavana. Kasvavat ja kansainvälistyvät pk-yritykset eivät kuitenkaan arvosta Finnveran ammattitaitoa aivan yhtä korkeaksi, ja korkean potentiaalin omaavien yritysten osuus Finnveran portfolioista on vaatimaton. Finnveran kyky löytää potentiaalisia innovatiivisia ja kasvavia asiakkaita on kohtuullinen, joskin tässä on parantamisen varaa. Suomessa kasvuyrityksiä on vähän, ja monet niistä tulevat toimeen myös ilman julkista rahoitusta.

Kansainvälisillä markkinoilla toimivat vientiyritykset pitävät Finnveran tukea tärkeänä, mutta Finnveran rahoituksen merkitys vaihtelee sektorista, ostajamaasta ja ehdoista riippuen. Finnveran tuki on elintärkeää niille yrityksille, jotka kilpailevat sellaisten ulkomaalaisten vientiyritysten kanssa, jotka ovat saaneet markkinaehtoista suotuisampaa tukea omilta kansallisilta vientitakuuyhtiöiltään.

Finnveran strateginen toiminta (interventio) rahoitusmarkkinoilla perustuu kolmeen kriteeriin: 1) markkinapuutteen korjaaminen, 2) yksityisen sektorin toimijoiden katalysointi ja 3) pankkien välisen kilpailun ja kohtuullisen hinnoittelun edistäminen. Viennin rahoituksessa väliintuloon voi olla vielä neljäs peruste: muiden

maiden vientitakuuyhtiöiden kilpailuun vastaaminen. Finnveran olemassaolo perustuu markkinapuutteeseen ja markkinoiden toimintahäiriöihin, joita Finnvera tunnistaa ja toiminnallaan korjaa. Kotimaan rahoituksessa Finnveran rooli voidaan paikoitellen nähdä markkinoita "täyttävänä", sillä pankit ovat tottuneet pitämään itsestään selvyytensä Finnveran tarjoamaa riskisuoja. Pääomasijoittamisen markkinat Suomessa ovat alikehittyneet ja markkinapuutetta esiintyy erityisesti hyvin varhaisissa vaiheissa, ns. siemenrahoituksessa. TEM on pyrkinyt selvittämään Finnveran (Veraventure ja Avera) ja Suomen Teollisuussijoituksen rooleja kehittyvillä pääomasijoitusmarkkinoilla jo useaan otteeseen, mutta selkeitä johtopäätöksiä ja toimenpiteitä ei ole tehty vielä tätä raporttia kirjoitettaessa. Viennin rahoituksen osalta Finnveran on tärkeä vastata muiden vientitakuuyhtiöiden asettamaan kilpailuun.

Markkinoiden toimintahäiriöiden osalta Finnveran rahoitusta arvioitiin suhteessa sen kykyyn vastata väliaikaisiin toimintahäiriöihin. Tulokset osoittavat, että maailmanlaajuisen finanssikriisin aikana Finnvera vastasi ongelmiin tehokkaasti ottamalla käyttöön suhdanneinstrumentit. Vaikka asian hyväksyttäminen Euroopan komissiossa vei aikaa, lyhytaikaisten luottovakuutusten laajentaminen vastauksena yllättäviin ja väliaikaisiin markkinoiden toimintahäiriöihin hoidettiin hyvin. Toisaalta vientiyritykset ja pankit tuomitsivat väliaikaisen rahoitusmallin olevan "liian vähän" ja tulevan "liian myöhään", jolloin epävarmuus jatkuu. Tämä oli kuitenkin Finnveran päätöksenteon ulottumattomissa.

Kansainvälisessä vertailussa Finnvera on kilpailukykyinen muihin vientitakuuyhtiöihin verrattuna, mutta oletuksena on, että Suomi ei menetä vientitoimintojaan luottohinnoittelusta johtuen. Näyttää siltä, että Finnvera on halukkaampi sovittamaan hinnoittelun luottoriskin mukaisesti. Rahoittamisen (fundauksen) hinnoitteluun ja järjestelyihin liittyvät neuvottelut valtiovarainministeriön kanssa viivästyivät aiheuttaen kilpailuhaittaa suomalaisille viejille erityisesti suhteessa sellaisiin maihin, joilla vastaava järjestelmä oli jo käytössä.

Kun vertaillaan Finnveraa muiden valtioiden vientitakuuyhtiöihin, muut maat ovat valmiita ottamaan suurempaa riskiä, niiden portfoliot ovat hajautetumpia, ja niiden taseet ovat suuremmat (tai niillä ei ole tasetta, koska vastuut menevät suoraan valtiolle) tai ne saavat täyden tai osittaisen valtioneuvoston jokaiselle sopimukselle. Tämän seurauksena Finnveran on löydettävä markkinoilta riskikapasiteettia ja pyrittävä jakamaan riskiä muiden toimijoiden kanssa. Kotimaassa Finnvera on monelta osin samankaltainen verrattuna vastaaviin kansainvälisiin toimijoihin (ottaen huomioon että Finnvera tarjoaa rahoitusratkaisuja). Systeemin tasolla joissakin maissa on vähemmän ja keskenään paremmin koodinoituja toimijoita, ja joissakin maissa luotetaan enemmän yksityisen sektorin rahoittajiin. Eri valtioiden toiminnot ovat kuitenkin kontekstispesifejä eivätkä siten helposti sovellettavissa muihin maihin.

Finnvera kunnioittaa ja noudattaa kansainvälisiä lakeja ja velvoitteita varsin kurinalaisesti.

TEM ohjaa Finnveraa varsin operatiivisesti tavalla, joka on epätyypillistä osakeyhtiölle. Kansalliset poliittiset linjaukset löytyvät Finnveran ohjauksesta, mutta käytännössä operatiivisemmat tavoitteet ajavat niiden yli. Tästä syystä Finnveran kontribuutio kansallisten linjausten toteuttamiseen on puutteellista ja strateginen keskustelu Finnveran vaikutuksesta ja roolista on epämääraistä. Kaiken kaikkiaan Finnvera pääsääntöisesti saavuttaa sille annetut tavoitteet. Finnvera toimii hyvin myös alueellisesti, ja pk-yritykset ja pankit arvostavat sen toimintaa. Alueilla Finnveran osallistuminen ei välttämättä ole perusteltavissa markkinapuuhteella. Vaikka Finnvera saavuttaa sille asetetut tavoitteensa vuosittain, sen vaikutus alueelliseen kehittämiseen on edelleen epäselvä. On mahdollista, että Finnveran osallistuminen pitkittää ja hidastaa tarvittavaa rakenteellista kehittymistä alueilla. Pk-yritysten globaali toimintaympäristö on oleellisesti muuttunut, ja aluekehittämistä nimenomaan julkisen yritysrahoituksen keinoin ei enää pidetä tehokkaana.

TEM:n konsernistrategia korostaa synergian tärkeyttä pyrkien vähentämään päällekkäisyyksiä ministeriön alaisten organisaatioiden kesken. TEM:n toimijat muiden julkisten toimijoiden lisäksi tarjoavat julkista rahoitusta eri muodoin/instrumentein. Asiakkaan tarvetta ei kuitenkaan yhdessä tunnisteta, vaan toimijat keskittyvät tarjoamaansa palveluun. Yritys-Suomi - verkkopalvelu, Kasvuväylä - ohjelma, yhteinen asiakassegmentointi sekä asiakastietojen sähköinen jakaminen ovat TEM:n organisaatioiden käyttöönotettavia pyrkimyksiä lisätä synergiaa, mutta tietoa asiakkaiden tarpeista ja tilanteista ei jaeta tehokkaasti ministeriön (ja muiden julkisten) toimijoiden välillä. Ilman TEM:n koordinoitumpaa ohjausotetta on mahdotonta olettaa, että eri toimijat voisivat tehokkaammin hyödyntää synergiaetuja. Nykyinen "siilo-ohjaus" tekee vaikeaksi hahmottaa kokonaisvaltaisesti, mitä TEM:n eri toimijat tekevät.

Finnveraa ohjaavat säännökset ovat selviä ja selkeästi ilmaistuja, mutta yksityiskohtaisuudessaan ne vähentävät Finnveran joustavuutta ja ennakointikykyä aiheuttaen tarpeetonta taakkaa Finnveralle ja TEM:lle. Säännökset eivät välttämättä heijastele markkinatilannetta ja -puutetta ja tarjoavat tästä syystä vähän lisäarvoa Finnveralle ja sen asiakkaille.

Finnveran arviointi sisältää 1) työ- ja elinkeinoministeriön strategian ja tavoitteiden, 2) Finnveran strategisen toiminnan rahoitusmarkkinoilla ja 3) Finnveran operatiivisen toiminnan ja tehokkuuden arvioinnin.

Työ- ja elinkeinoministeriön strategia ja tavoitteet: Finnveralle asetetut tavoitteet ovat pikemmin operatiivisia kuin strategisia luonteeltaan. Tavoitteista sovitaan TEM:n ja Finnveran johdon kesken, ja näin ohitetaan Finnveran omat hallinnolliset elimet. Finnveran lakiin perustuva mandaatti ei heijastele toimintaympäristössä tapahtuneita merkittäviä muutoksia. Kaiken kaikkiaan Finnvera saavuttaa lain ja TEM:n sille asettamat tavoitteet verrattain hyvin.

Finnveran strateginen toiminta rahoitusmarkkinoilla: Finnveran intervention tarkoituksenmukaisuus rahoitusmarkkinoilla riippuu sen tarjoamien tuotteiden toimivuudesta. Jokaisella tuotteella on oma tehtävänsä ja ne on syytä arvioida

kolmea kriteeriä (markkinapuutteen korjaaminen, yksityisen sektorin toimijoiden katalysointi ja pankkien välisen kilpailun ja kohtuullisen hinnoittelun edistäminen) hyödyntäen ja vertailematta tuotteita keskenään. Paikoitellen Finnveran toiminta näiden kolmen kriteerin toteuttamisessa on hyvinkin tarkoituksenmukaista, mutta toisinaan myös puhtaasti ohjauksen antamiin tavoitteisiin reagoivaa, jolloin interventio ei ole kovin strategista.

Finnveran operatiivinen toiminta ja tehokkuus: Finnvera on viime vuosina panostanut laajasti erilaisten johtamis- ja liiketoimintaprosessien kehittämiseen haluttujen tulosten saavuttamiseksi ja toiminnan tuottavuuden ja tehokkuuden parantamiseksi. Tunnustuksena pitkäjänteisestä työstä Finnvera on saavuttanut ISO sertifikaatteja. Finnveran riskienarviointiprosessi on ammattimainen ja kumppanien, pankkien ja muiden toimijoiden arvostama. Finnveran arviointiprosessi viennin rahoituksessa on kilpailukykyinen ja hyvin johdettu.

Finnveran vahvuutena on sen henkilökunta ja Finnveran hyvä johtamisen ansiosta yhtiöön on syntynyt erittäin ammattimainen työkuultuuri. Henkilökunta on yleisesti ottaen tyytyväinen ja motivoitunut työhönsä, työympäristö on positiivinen ja ryhmätyöhön kannustava. Koska henkilökunnan vaihtuvuus on vähäistä ja keskimääräinen työssäoloaika on lähes 20 vuotta, yhtiössä on rajoitetusti ns. "uutta verta". Työntekijöiden vaihtuvuutta on edistetty kenttäorganisaation ja pääkonttorin sekä kotimaan rahoituksen ja viennin rahoituksen välisillä henkilösiirroilla, jotka ovatkin tuottaneet positiivisia tuloksia erilaisten työkuultuurien ja kokemusten vaihdon vuoksi. Vaikka Finnvera on lähentänyt näitä perustoimintoja toisiinsa, lisää on tehtävissä yritysten kasvun ja kansainvälistymisen tukemiseksi. Haasteena on kannustaa ihmisiä rikkomaan omia mukavuusalueitaan sekä ottamaan riskiä – ei niinkään taloudellisia riskejä, vaan innovaatioita uuden ajattelun ja uusiutuneiden työtapojen synnyttämiseksi.

Arvioinnin pohjalta raportissa esitetään toimenpidesuosituksia siitä, kuinka Finnvera voi tulevaisuudessa tukea suomalaista taloutta ja yrityksiä kasvamaan ja toimimaan kilpailukykyisesti kansainvälisillä markkinoilla sekä kehittää rahoitusmarkkinoita tavalla, jossa yksityiset ja julkiset resurssit tehokkaasti yhdistyvät.

1. Työ- ja elinkeinoministeriön on asetettava strategiset tavoitteet kasvulle ja kansainvälistymiselle

Innovaatiot, kasvu ja kansainvälistyminen ovat hallitusohjelmassa keskeisessä asemassa. Työ- ja elinkeinoministeriön kantaa vastuuta strategian täytäntöön panosta ja sen tehtävänä on tarjota suomalaisille yrityksille liiketoimintaa synnyttävä ympäristö sekä kasvulle hedelmällinen ekosysteemi. Ministeriön tulee esittää yhteinen "Grow and Go Global" – strategia ja siihen liittyvät tavoitteet toimijoilleen, kuten Finnveralle, ja keskittyä luomaan sellainen liiketoimintaympäristö, joka auttaa mahdollisia kasvuyrityksiä selviytymään menestyksellisesti kohtaamistaan

haasteista. "Grow and Go Global" strategia merkitsee sitä, että Finnveran kaltaisten rahoitusinstrumenttien käyttö aluepolitiikan välineenä on menettänyt merkityksensä. Tämä ei tarkoita, etteikö aluepolitiikka sinänsä olisi perusteltua, mutta muut keinot sen toteuttamisessa ovat tehokkaampia ja sopivampia. "Grow and Go Global" strategiassa painopiste on potentiaalisimpien yritysten resurssien turvaamisessa. Tämä edellyttää strategiaa yksityisten rahoittajien ja osaamisen houkuttelemiseksi. Kun kasvu, innovaatiot ja kansainvälistyminen ovat keskeisessä asemassa, tulisi tämän näkyä myös ministeriön käytännön toimenpiteissä.

2. TEM:n on luotettava siihen, että Finnvera määrittelee tavat, joilla tavoitteet saavutetaan

TEM:n tulee luoda strategisempi yhteys politiikan tasolta Finnveran hallitukseen ja erottaa toisistaan TEM:n, Finnveran hallituksen ja johdon tehtävät selkeän ja johdonmukaisen ohjausmekanismin luomiseksi. TEM:n "Grow and Go Global" strategiasta ja siihen liittyvistä tavoitteista tulee keskustella Finnveran kanssa, jotta voidaan sopia, kuinka Finnvera omalla toiminnallaan voi osallistua tavoitteiden saavuttamiseen. Ylhäältä alaspäin johdettua strategiaa ja tavoitteita tulee tasapainottaa alhaalta ylöspäin suuntautuvalla lähestymistavalla. Tämän mukaisesti, Finnveran tulee esittää ministeriölle ehdotus ministeriön strategian toteuttamiseksi Finnveran tarjoamaa hyödyntäen.

Keskeinen kysymys on: Mikä on Finnveran intervention lisäarvo suomalaiseen yhteiskuntaan ja elinkeinoelämään? Erityisesti kotimaan rahoituksessa turha säätely TEM:n sekä valtiovarainministeriön tahoilta on strategisesti merkityksetöntä ja sitä on syytä virtaviivaistaa. Finnveran on oltava herkkä rahoitusmarkkinoiden sekä asiakkaidensa liiketoimintaympäristön muutoksille ja Finnveran on innovoitava uusia, muutosten edellyttämiä tuotteita. Tämä pitää sisällään myös vanhojen tuotteiden lopettamisen, mikäli niitä ei koeta enää hyödyllisinä. TEM:n ei ole tarpeellista ohjata Finnveran tuoteportfoliota määrällisesti, eritoten jos korkotuetuista lainoista luovutaan nykyisessä markkinatilanteessa (suositus 5). Rahoitustuotteiden määrälliset tavoitteet pikemminkin lisäävät riskiä markkinapuutteen luomiseen kuin sen korjaamiseen. Finnveran rahoitustoiminnan volyymi (eurot) ei ole oikea tapa arvioida Finnveran toiminnan vaikuttavuutta, vaan tarkoituksenmukaista on tarkastella hankkeisiin mukaan saadun yksityisen rahoituksen määrää tai niitä projekteja, jotka jäivät toteuttamatta ilman Finnveraa. Näiden lisäksi Finnveran tulee suojella sen pitkän tähtäimen itsekannattavuustavoitetta. Tätä käsitellään lisää Finnveran riskinottostrategian yhteydessä suosituksessa 4.

3. Finnveran on suuntauduttava asiakaslähtöiseen yhteistyöhön TEM:n toimijoiden kesken

Kansallisen "Grow and Go Global" - strategian pohjalta TEM:n on tehokkaammin kannustettava yhteistyötä TEM-toimijoiden välillä. Näitä julkista rahoitusta yrityksille tarjoavia toimijoita on tarkoituksenmukaista ohjata yhdenmukaisesti, jotta päästään

eroon "siilo"ajattelusta ja -ohjauksesta. Tämä vaatii strategian implementointia kaikissa ministeriön eri toimijoissa selkein roolituksin ja sitä, että ministeriöllä on kokonaisvaltainen kuva ja vastuu ohjauksesta ja strategian toimeenpanosta. Tällä hetkellä ministeriön eri toimijat tekevät innovaatioekosysteemissä toimiessaan liian vähän yhteistyötä. Asiakastietojen ja asiantuntijuuden tehokkaampi vaihtaminen toimijoiden välillä tulisi tehdä kannustavammaksi synergiaetujen saamiseksi. Yhdelle fyysiselle one-stop-shopille ei ole tarvetta, vaan asiakkaitaan paremmin palvellaakseen toimijoiden tulisi vaihtaa tehokkaasti ja läpinäkyvästi tietoa asiakkaistaan ja niiden tarpeista.

4. Finnveran on muotoiltava uudelleen riskistrategiansa: tunnetuista ja tavanomaisista riskeistä kohti uusia, tuntemattomia mutta korkeapotentiaalisia riskejä

Riskirahoittajana Finnveran riskistrategia on sen toiminnan ydin. Finnveran riskinarviointikykyä pidetään erinomaisina sekä sen kotimaan että viennin rahoituksessa, joilla molemmilla on tarvittavat kyvyt riskien tunnistamiseen ja määrittelyyn. Finnvera asettaa riskirajan sellaisille riskeille, joita se on kunkin portfolion tai yksittäisen riskin kohdalla valmis ottamaan. Tämä auttaa päätöksenteossa, informoiden siitä, tuleeko tiettyjä hankkeita tukea vai ei. Arvioinnissa tuli selkeästi esiin näkemys, että Finnveran tulisi jatkossa ottaa nykyistä enemmän riskejä. Tämän voi tulkita kahdella tavalla: 1) Finnveran tulisi ottaa enemmän sellaisia riskejä, joita se ymmärtää – eli siirtyä tavanomaisille, mutta korkeariskisemmille alueille, joissa riskit ovat suurempia kuin mitä Finnveran riskinsietokyky antaisi ottaa; tai 2) Finnveran tulisi ottaa tuntemattomampia riskejä eli riskejä, joissa Finnveralla on vähemmän tietotaitoa ja taustatietoja, mutta joiden osalta on syytä uskoa, että lopputulos on hyvä – eli riskejä arvioidaan niiden potentiaalin perusteella, jolloin riskinotto on entistä epävarmempaa. Riskistrategian muuttamisella on vaikutuksia sekä Finnveran taloudelliseen asemaan että siihen, miten se toimii yhteistyössä yksityisen sektorin rahoittajien kanssa. Tämän lisäksi Finnveran riskinottotavoilla on vaikutusta Finnveran itsekannattavuustavoitteeseen. Tämän vuoksi uusien riskistrategioiden käyttöönottoa on harkittava huolellisesti.

Riskinottovaihtoehto A kuvaa tilannetta, jossa innovaatio- ja kasvuyritykseltä ei ole riittävästi vakuuksia luotolle ja riski muodostuu näin liian suureksi, ja Finnveran (ja pankin) tämänhetkinen riskikynnys kieltää sitä ottamasta kyseistä riskiä. Vakuuksia myöntäessään Finnvera voisi kasvattaa riskinjako-osuutensa esimerkiksi 80 % asti, mikä rohkaisee pankkia osallistumaan hankkeeseen ilman, että sen vastuu nousee kestävämmäksi. Tämä saattaisi muuttaa pankkien käyttäytymistä riskipitoisemmaksi ja saada ne osallistumaan sellaisten hankkeiden rahoittamiseen, johon ne muuten eivät osallistuisi. Mikäli takauksilla ei saada houkuteltua pankkeja lainanantoon, ja Finnveran tulisi toimia suorana rahoittajana, olisi hyödyllistä

tarkastella esimerkiksi välirahoitusmuotojen (mezzanine) käyttöön ottoa. Vaihtoehto A:n mukainen muutos riskistrategiassa ei välttämättä edellytä Finnveran tappiokorvauksen muuttamista. Suosittelemme, että Finnvera arvioi uudelleen tietyn tyyppisten hankkeiden ja yritysten riskinjakamisen tavat löytääkseen keinoja riskinottonsa kasvattamiseen.

Vaihtoehto B, jossa riskit ovat tuntemattomampia Finnveralle ja pankeille, valtio voisi harkita Finnveran tappiokorvauksen kasvattamista esimerkiksi 50%:sta 75%:iin tappioista. Korotettu tappiokorvaus parantaisi Finnveran taloudellista asemaa ja saattaisi muuttaa Finnveran käyttäytymistä saamalla sen ottamaan uudenlaisia riskejä. On syytä mainita, että Finnveran oma strategia on painottanut riskipitoisten kasvavien ja kansainvälistyvien yritysten rahoittamista viimeisen viiden vuoden ajan. Finnvera on ottanut lisäriskejä ja näin ollen tehnyt tappioita tällä liiketoiminta-alueella, mitä tappiokorvausjärjestelmä ei kuitenkaan tunnista. Suosittelemme, että TEM harkitsee tappiokorvauksen korottamista tätä markkinasegmenttiä ajatellen edistääkseen kasvua, innovaatioita sekä kansainvälistymistä.

Molempia vaihtoehtoja voidaan tarkastella myös viennin rahoituksen näkökulmasta. Vaihtoehto A voisi kuvata tilannetta, joka on riskiton kannalta rajatapaus, mutta jonka taustalla on tärkeitä kansalliseen intressiin tai elinkeinopolitiikkaan liittyviä syitä, joiden vuoksi sopimusta tulisi harkita. Vaihtoehto B voisi kuvata tilannetta, joissa pienempien pk-yritysten tuntemattomammat vientitransaktiot vaativat jonkinlaista tappiohyvitystä valtiolta Finnveralle.

Myös vaihtoehtojen yhdistämistä tulisi harkita. Finnveran itsekannattavuustavoite tulee säilyttää, jolloin Finnveran ottamat lisäriskit on otettava huomioon valtion toimesta joko tarkistettun tappiokorvausmallin avulla tai muita mekanismeja hyödyntäen.

5. Yksityistä riskinottoa kannustaviin tuotteisiin keskittyminen

Finnveran laajaa tuotevalikoimaa tulee kaventaa ja fokusoida sellaisiin strategisiin interventioihin, joilla on haluttu vaikutus. Jos Finnveralla on mahdollisuus itse joustavasti valita kulloiseenkin tilanteeseen sopiva instrumentti TEM:n määrällisten tavoitteiden asemesta, Finnvera pystyy keskittymään pienempään määrään kohdennettuja tuotteita, jotka kannustavat yksityistä riskinottoa.

Nykyisessä markkinatilanteessa on oikeutettua, että Finnvera tarjoaa mikroyrityksille, joilla ei ole muita luottotajia. Finnvera täyttää tällöin olemassa olevaa markkinapuutetta. Sen tulisi kuitenkin aktiivisesti etsiä tapoja, joilla houkutella yksityisiä rahoittajia alueelle. Finnveran lainat saattavat stimuloida kilpailua syrjäisemmillä alueilla, joissa on vain yksi tai kaksi paikallista pankkia. Muutoin on vaarana, että Finnveran suorat lainatuotteet vievät tilaa yksityiseltä rahoitukselta. Lisäksi lainojen käyttö takausten asemesta voi olla perusteltua tilanteissa, joissa pankki ei ole halukas siirtämään Finnvera-takauksen myötä parantunutta riskiasemaansa hyötynä asiakasyritykselle. Vuosien 2008–2009

kriisiin aikaiset epävakaat rahoitusmarkkinat osoittivat, että Finnveran portfolioissa on tarvetta suoralle lainalle, kun pankeilla ei ollut lainanantokykyä omien rahoitusrajoitustensa vuoksi. On kuitenkin erittäin tärkeää, että lainanantoperusteet ovat tarkasti määriteltyjä ja myös ymmärrettyjä Finnverassa. Keskeistä on oltava kasvun, innovaatioiden ja kansainvälistymisen edistäminen.

Korkotuettujen lainojen strateginen merkitys on kyseenalainen ja nykyisellä korkotasolla ne tarjoavat vähän lisäarvoa. Takaukset ovat strategisesti merkittävimpiä instrumentteja, sillä ne parantavat pankkien mahdollisuuksia rahoittaa yrityksiä. Pääomasijoitusmarkkinat ovat parhaillaan kehittymässä ja julkisen sektorin katalysointia tarvitaan erityisesti yritystoiminnan alkuvaiheissa. TEM:in "Grow and Go Global" -strategia edellyttää tehokkaita pääomasijoitusmarkkinoita ja tämän vuoksi on tärkeää houkutella pääomasijoittajia mukaan. Pääomasijoitusmarkkinoiden kehittäminen merkitsee kriittistä julkisen pääomasijoitustoiminnan sisällön arviointia ja uudelleenajattelusta pelkän rakenteellisen järjestämisen asemesta. Markkinoiden kehittymisen näkökulmasta kyse on pikemminkin tietotaidosta ja osaamisesta kuin rahasta. Julkiset toimijat voivat tarjota pääomarahoitusta, mutta lisäarvoa sisältävää tietotaitoa kaivataan erityisesti yksityisiltä sijoittajilta. Vaikka suomalaisia pääomasijoitusmarkkinoita ja niiden julkisia toimijoita on tutkittu useasti TEM:in toimesta, konkreettisia päätöksiä tai toimenpiteitä pääomasijoitusmarkkinoiden kehittämisestä ei ole vielä tehty.

Teoriassa Finnvera on onnistunut valtion omistamana riskirahoittajana, mikäli sillä on mahdollisuus hiljalleen hävitä rahoitusmarkkinoilta tarpeettomana - markkinapuute on tullut korjatuksi. Toisaalta vuoden 2008 rahoituskriisi osoitti, että valtio tarvitsee joustavia rahoitusinstrumentteja kyetäkseen nopeasti vastaamaan markkinoiden muutoksiin, jotka uhkaavat suomalaisia yrityksiä. Tulevaisuuden epävarmuus ja yritysten riippuvuus toisistaan globaalisti puhuvat sen puolesta, että Finnveran kaltaista rahoitusinstrumenttia tarvitaan, jotta se voidaan tarpeen tullen nopeasti 'herättää käyttöön' tarvittavassa laajuudessa.

6. Finnveran hyödynnettävä mahdollisuus organisatoriseen uudistumiseen

Finnvera on systemaattisesti kehittänyt toimintojaan vuosien 2003/2004 arvioinnin jälkeen. Dynaaminen liiketoimintaympäristö ja jatkuvasti kasvava kasvun, innovaatioiden ja kansainvälistymisen painottaminen lisäävät painetta organisaation uudistamiseen. Tulevien vuosien eläkkeelle siirtymiset antavat ainutlaatuisen tilaisuuden Finnveralle synnyttää uusia ideoita ja lähestymistapoja. Finnveran henkilökunnan on tunnistettava tarve ylittää omat mukavuusalueensa ja irtaantua perinteisistä tavoista tehdä töitä voidakseen paremmin vastata asiakkaiden muuttuviin tarpeisiin ja TEM:in strategiaan tavoitteisiin. Henkilöstön allokointia tulee harkita aluetoimistojen sekä kotimaan ja viennin rahoituksen

välillä. Finnveran tulee pyrkiä vaihdantaan myös muiden TEM:in toimijoiden sekä yksityisen sektorin kumppanien kanssa.

7. TEM:in vaikutettava jatkuvasti kansainvälisiin säästöksiin, jotka eivät palvele Suomea ja sen etuja

Finnveran tietyt kotimaan ja viennin rahoituksen toiminnot ovat sidoksissa EU:n ja OECD:n kansainvälisiin sopimuksiin. Tästä syystä on tärkeää, että Suomi tunnistaa ja määrittelee strategiset kiinnostuksensa kohteet. Koska Suomi on kansainvälisessä yhteisössä erittäin arvostettu jäsen, Suomen ei tule pelätä sille tärkeiden kiinnostuksen kohteiden aktiivista suojelemista, vaikka se tarkoittaisikin pitkäaikaisten toimintatapojen haastamista.

Executive Summary

As a state owned specialised risk-financing company Finnvera plc provides financial support for the start-up, growth and internationalisation of small and medium sized enterprises and, as well as, guarantees and financing against risks related to exports. As a public limited company completely owned by the State of Finland, Finnvera is administered and governed by the Ministry for Employment and the Economy (MEE).

This evaluation commissioned by the MEE assesses Finnvera in the context of both the national and international business environment and provides a perspective on the areas in which Finnvera needs to be focusing for the period up to year 2020. The report considers not only the performance of Finnvera, but also the role of MEE in its steering or oversight of Finnvera as a part of MEE group, and makes recommendations about the future renewal needs and orientation related to Finnvera's strategy, activities, structures and tasks. The evaluation focuses on three primary concerns:

- The evaluation of Finnvera's strategic activity in the financial markets
- The evaluation of operational activity of Finnvera and its effectiveness
- The evaluation of the Ministry's strategies and objectives with regards to Finnvera and its subsidiaries, taking into account the other actors over which the Ministry has responsibility.

These are assessed by a series of normative statements based on the key themes of the evaluation. They articulate the conditions under which the system is fully functioning and healthy. The evaluation is based on multiple lines of evidence that were collected in order to assess and to validate the findings. The evaluation team reviewed of data and background material and interviewed stakeholders, both primary stakeholders which have a direct interest in Finnvera, as well as secondary stakeholders. Each normative statement is assessed looking at the data collected, based on main sources of evidence.

Summary of evaluation results

The assessment of Finnvera's domestic operations shows that Finnvera is deemed professional and competent by its clientele. Its professionalism is not appreciated equally high among growing and internationalising SMEs and the share of high potential firms in its portfolio is modest. Finnvera's ability to find potential innovative and growing customers is reasonable, but still more could be done to identify growth potential. While there are few growing companies, those that are identified can also perform well without government financial support.

The results on the extent to which Finnvera's financial support is vital to export and internationalisation of its clients suggest that Finnvera's support is considered important for companies wishing to export and internationalise, but the level of

importance varies according to export sector, buying country and terms. Finnvera's support is vital to those exporters competing with exporters from other countries which have support from their national ECAs on terms more favourable than the market.

The basis for Finnvera's strategic activities in financial markets covers all three of the intervention rationales: a) addressing market failure; b) catalysing private financial institutions; and c) stimulating competition between banks and ensuring fair pricing. In the case of export credits, there may be a fourth reason for intervention – matching the competition from other countries' export credit agencies (ECAs). Market failure and malfunction are phenomena that give reasoning for the whole presence of Finnvera. In terms of the extent to which Finnvera operates in areas where the private sector sources of finance and risk capacity are not willing or able to operate it seems that Finnvera identifies market gaps and works to address these. However, on the domestic side Finnvera's role can be seen to "overfill" the market given that commercial banks, particularly in the regions, have become too accustomed to the risk cover. Moreover, venture capital markets in Finland are underdeveloped and market gaps exist particularly in the very early stages, i.e. Seed Funding. MEE has undertaken several reviews of the roles of Finnvera and Finnish Industry Investment in developing VC markets, but no clear conclusions have been reached at the time of writing of this evaluation report. In terms of export credits, other ECAs operate in a similar way so Finnvera's ability to "match" ECA competition is important.

With respect to market malfunction Finnvera's financial support mechanisms were evaluated in relation to their responsiveness to temporary malfunctions. The results show that during the global financial crisis, Finnvera responded efficiently and effectively in its implementation of the cyclical loan programme. Although requiring approval of the European Commission which took time, the expansion of short-term credit insurance business in response to the temporary market malfunctions that emerged suddenly was well handled. On the other hand, the introduction of the temporary funding scheme was deemed to be "too little too late" by exporters and banks and continued uncertainty remains. This was, however, beyond the responsibility of Finnvera.

In an international comparison Finnvera is competitive with other ECAs against a number of dimensions, but there is an expectation that Finland will not lose export transactions because of credit pricing. Moreover, it seems that Finnvera is more willing to match the pricing for credit risk. With respect to the price of funding, the delay in putting an arrangement in place difficulties caused by lengthy negotiations with the Ministry of Finance to have a workable scheme in putting a scheme in place have put Finnish exporters at a disadvantage, particularly compared to those countries with export financing systems already in place.

When compared to other ECAs, other countries have much bigger risk appetites, much less concentrated portfolios, much larger balance sheets (or none at all as it goes directly onto the government's accounts) or have a full or partial government

guarantee for every deal. As a consequence, Finnvera works to find risk capacity in the market and tries to share risks with other players. In the domestic side Finnvera, as one Finnish actor in SME financing, shares a number of key features of its peers. Comparing an overall systems level, some countries have fewer actors with more coordinated approach and other countries may rely more on private sector financiers. These systems are, however, context specific and not easily applicable in other countries.

Finnvera respects its international legal obligations, and thus, it meets them well. Finnvera tends to “play by the rules” in a fairly strict sense.

In terms of strategic guidance, this evaluation shows that Finnvera’s governance is atypical for a limited company. The owner, MEE, gives relatively specific and operational targets for the management. The national policy agenda is visible in Finnvera’s steering but more operational targets overrule them. The contribution to policy level goals is lacking and the strategic discussion of the impact and the role of the Finnvera remain vague. Still, Finnvera tends to meet the targets given. Finnvera also performs well in regionally and its involvement and collaboration is highly valued by SMEs and banks. Here, however, Finnvera’s involvement is not necessarily justified by market failure. Although Finnvera meets the annual input targets, the contribution of its activities to regional development is unclear. There is a danger that Finnvera support postpones necessary structural adjustment away from “sunset industries” towards new sectors. The global business environment of SMEs has changed dramatically and promoting regional policy through public intervention in the form of company financing is no longer considered efficient.

MEE group strategy highlights the importance of synergy and it attempts to reduce overlaps between different MEE organisations. Different types of public financial support are provided by a number of MEE and other public actors. The customer need is not jointly recognised but the actors focus on offering their agencies and services. Enterprise Finland online service, the Growth Channel programme, joint customer segmentation and electronic exchange of customer information are synergy efforts implemented by MEE organisations. However, information on customer needs and situation are not efficiently shared among MEE (and other public) actors. Without a more coordinated steering approach by MEE, it is hard to expect the MEE actors to implement better synergies. In addition, the current ‘silo’ steering makes it difficult to grasp a holistic picture of the activities of the MEE actors.

The results on MEE’s steering role also suggest that the regulations are clear and explicitly stated, but they decrease Finnvera’s flexibility and proactivity. This again causes unnecessary burden to Finnvera and MEE. The regulations do not necessarily reflect the market situation and failure, and they provide modest value-added for Finnvera and its customers

The evaluation of Finnvera includes the evaluation of 1) MEE strategy and objectives, 2) Finnvera’s strategic activity in financial markets, and 3) operational activity and effectiveness of Finnvera.

As to MEE strategy and objectives, the goals set for Finnvera are of an operational nature rather than strategic. The goals are negotiated between MEE and Finnvera management, by-passing, thus Finnvera's own governing bodies. The mandate given to Finnvera in legislation does not reflect the major changes taken place in the business environment. All in all, Finnvera meets the goals set by MEE relatively well and achieves the objectives of legislation and MEE steering.

Finnvera's intervention in the financial markets is largely appropriate but certain products are more impactful than others. Each instrument has its own task and each instrument needs to be assessed against the three criteria (i.e. addressing market failure, catalysing private financial institutions and stimulating competition) and should not be compared with each other. In some instances Finnvera is intentional in its activities to address market failure or be a catalyst or stimulate competition. In other cases, Finnvera is simply responding to the steering objectives which it has been provided and therefore it does not take such a strategic perspective on how it makes its intervention.

As to Finnvera's activity and effectiveness, Finnvera applies numerous management processes to achieve the desired outputs. Much effort has been invested in recent years in improving processes and maximising efficiency and productivity. This process improvement has been undertaken within the constraints faced by management and, as recognition for this Finnvera has achieved a number of ISO certifications which is a notable achievement. Moreover, Finnvera's risk assessment process is highly recognised and professional and valued by partners, banks, and agencies. Finnvera's underwriting process (on the export credit side) is lean and well managed.

Finnvera's strength is its people and its leadership has fostered has a culture which is highly professional. Employees are generally satisfied by and motivated with their work and the environment is team-oriented and positive. Given the average tenure of employees of nearly 20 years and very little staff turnover, there is limited "new blood". There has been some staff renewal through exchanges between field and head office and between domestic financing and export credit. This "cross-pollination" has generated positive benefits as perspectives, culture and experience are still somewhat different between the regions and head office and between the two main lines of business. Finnvera has worked to bring these together but still more can be done to facilitate growth and internationalisation of the companies. The challenge therefore has been to move people out of their comfort zone and take more risks, not necessarily in a financial sense of risk, but in the area of innovation to stimulate new thinking and approaches.

Based on the evaluation we present recommendations for how Finnvera can be supporting the Finnish economy by helping Finnish companies grow and be internationally competitive and by supporting the financial sector through striking the proper balance between private and scarce government resources.

1. MEE must establish strategic goals focusing on growth and internationalisation

Given innovation, growth and internationalisation are core concerns of the Finnish Government, MEE is responsible for putting the strategy into practice and providing the Finnish companies with a strong business enabling environment and fruitful ecosystem for growth. MEE needs to articulate a joint “Grow and Go Global” strategy and related goals for its agencies, including Finnvera, and to focus on creating a business environment to help potential growing companies overcome the challenges they face. The “Grow and Go Global” strategy implies that regional policy has lost its relevancy as far as the role of financing instruments, such as Finnvera, are concerned. Other means to promote regional policy goals are deemed more appropriate and effective. Emphasis needs to be put on securing enough resources for the companies with the most potential. This means a strategy which entices private financial resources and investment expertise. As growth, innovation and internationalisation are high in the government agenda, it needs to be seen in practice.

2. MEE must rely on Finnvera to define means to achieve the goals

MEE needs to establish a more strategic link from the policy level to Finnvera Board of Directors and segregate the duties between MEE, Finnvera Board of Directors and management in order to provide the clear line of sight. MEE’s “Grow and Go Global” strategy and related goals need to be discussed with Finnvera in terms of how Finnvera is to contribute to achieving the goals. A more bottom-up approach is needed to balance top-down strategy and goals. With a bottom-up approach, Finnvera should provide MEE with its proposed approach for achieving the MEE strategy, across all its business and product lines.

The crucial question is: What is the value for money of Finnvera’s interventions for the policy? Needless regulation of the MEE and the Ministry of Finance with no strategic relevance, particularly in domestic financing, needs to be streamlined. Finnvera needs to be sensitive to the changes in the financial markets and business environment of its clients and to innovatively create new products accordingly. This implies also abolishing the old ones if not considered useful anymore. There is no need for MEE to control and steer Finnvera’s product portfolio volume wise particularly if subsidised loans are set aside in the current market situation as suggested (Recommendation 5). Targets increasing volume, for examples imply a risk of creating market failure rather than eliminating it. Euro value of Finnvera business activity is not the answer or means to measure impact, but rather there is a need to carefully look at amount of private money crowded in or projects remaining unimplemented without Finnvera. In addition, Finnvera needs to protect its long-term objective of self-sufficiency when addressing the strategic goals set for it. This is further elaborated in the recommendation 4, Finnvera’s risk-taking strategy.

3. Finnvera reorient towards customer-centric co-ordination between MEE agencies

Based on the joint national “Grow and Go Global” strategy of MEE with a few important goals MEE needs to encourage greater co-ordination and co-operation amongst its agencies. The agencies providing financial support for Finnish companies should be jointly governed in order to get rid of ‘silo’ thinking and steering. This implies that the joint “Grow and Go Global” strategy is applied in all MEE agencies with clear roles, and a holistic picture of the steering and the implementation of the strategy is possessed by the MEE. Currently different MEE agencies work in the innovation ecosystem with too little co-ordination. More effective exchanging of customer information and expertise (e.g. company analyses) between the agencies should be incentivised in order to achieve synergies. There is no need for physical one-stop-shops, but rather for a rapid referral system and proactive follow-up of customers’ problems and needs as well as transparent exchange of information for the clients’ sake. To enhance internationalisation of Finnish SMEs Finnvera could more effectively use the expertise from Country Risk Assessment team of the export credit business and Finpro, for example.

4. Finnvera should reformulate its risk strategy from taking more of the known usual risks toward taking new unfamiliar but high-potential risks

As a risk-financier, Finnvera’s risk strategy is the core of its business. Finnvera is considered to possess excellent risk assessment skills on both its domestic finance and export credit teams, with capabilities to identify and quantify the risks.

Finnvera sets a risk threshold for the level of risk it is willing or able to take on a portfolio or single risk basis. This then informs its decisions on whether or not to support specific transactions. There is a view that Finnvera should take more risk, but this can mean different things: either A. Finnvera takes more risks that it understands and move into more known, but higher risk areas. (this means accepting risks which are higher than its normal risk tolerance); or B. Finnvera takes unfamiliar risks where the knowledge, expertise and background may be less but there is reason to believe that there is potential for a good outcome (this implies bearing more uncertainty and even deliberately ‘failing forward’ if the case is considered highly potential).

Changing the risk formula will have different effects on Finnvera’s financial position and on how it interacts with the private sector financial players. In addition, Finnvera’s risk philosophies evidently have consequences on Finnvera’s capability to protect its self-sufficiency goal. Therefore, the implications need to be carefully considered.

In the case of Scenario A, there may be certain innovation and growth companies for which the underlying credit risk of the company is considered strong enough, but which lack collateral or other forms of security which therefore makes the risk

unacceptable within Finnvera's current risk appetite. Under the guarantee, Finnvera could increase its risk sharing portion with the banks to 80%, for example, a level which is still significant enough to encourage the banks to undertake their own due diligence, but not so high as to create moral hazard in which the banks are doing the deal because of the guarantee. In this instance, the banks might be more willing to finance transactions that they otherwise might not, i.e. changing the banks' behaviour. Where a guarantee is not the appropriate instrument to entice banks to lend, but rather Finnvera must offer a form of direct financing, it would be useful to explore products such as mezzanine debt or debt in which Finnvera takes a second priority on security. This would mean that it may not be necessary to alter Finnvera's loss compensation ratio. We recommend that Finnvera review its risk-sharing formula to consider for particular types of transactions and companies for which a higher risk coverage could be applied.

In Scenario B, where the risks are more unfamiliar to Finnvera and the banks, the government could consider, for example, increasing Finnvera's loss compensation from 50 to 75% of losses. This instrument would improve Finnvera's financial position and may entice them to take new risks, i.e. could change Finnvera's behaviour. It should be noted that Finnvera's own strategy has emphasised growth and internationalisation companies for the last five years, and Finnvera has taken additional risks and made losses in this business segment, but the loss compensation system does not recognise this segment. We recommend that MEE consider adjusting the loss compensation formula for this market segment in order to promote growth, innovation and internationalisation.

For the export credit business, these two scenarios can also be explored. In Scenario A, there could be a transaction which is considered to be a "borderline" case in terms of risk, but for which there are important national interest or industrial policy reasons to consider the deal. In these cases, it is recommended to specify under what conditions Article 6 of the Act on export credit guarantees relating to special risk taking can be applied and the process by which such cases can be handled.

For Scenario B, there may be also smaller SME export transactions in which the risks are more unfamiliar. In these cases, it is recommended that Finnvera receive some sort of loss compensation from the government.

There seems to be merit in considering combining the approaches. In all cases, Finnvera's financial self-sustainability objective must remain, thus any incremental risks being assumed by Finnvera will need the backing of the government, either through a revised loss compensation scheme, or other mechanisms.

5. Focus on products which encourage private risk-taking

Finnvera's wide array of products must be narrowed to focus on those strategic interventions which have the desired impact. With more flexibility to apply the relevant instrument rather than those being dictated by MEE, Finnvera can focus on a fewer more targeted products, which especially encourage private risk taking.

In the current market situation it is justified that Finnvera offers loans to microenterprises which have no other access to credit. Finnvera is, thus, filling an important market gap, but needs to actively search ways to appeal private financing in the field. In addition, Finnvera loans may stimulate competition in remote areas with one or two local banks only. Otherwise, there is a risk that loans crowd out private money. A third strategic use of loans can be as alternatives to guarantees if the banks are not willing to pass on the benefits to the SME of the better credit quality of the guarantor (Finnvera). In this case, Finnvera may prefer to use direct loans, possibly structured alongside commercial banks' loans. Unstable financial markets during the crisis in 2008-09, for example, demonstrated the need to have direct loans in Finnvera's portfolio as banks were not capable of lending due to their own funding constraints. However, it is critically important that the circumstances under which the loans are very well defined are explicated and understood in Finnvera to support growth and innovation. Otherwise, Finnvera may fall in to the 'systemic' trap of its legacy (Kera) approach.

The strategic value of subsidised loans is highly dubious and in the current interest rate environment, there is little incremental value-added. Guarantees are the most strategically valid instruments as they help boost banks' ability to provide finance to companies. VC markets are currently developing and public sector catalysing is needed particularly in the early phases. The MEE "Grow and Go Global" strategy requires effective venture capital markets with needed know-how and international flavour, and therefore efforts are needed to "crowd in". Developing the VC markets implies a critical assessment and rethinking of the content and remit of the public venture capital players rather than structural arrangement only. It is important to notice, that it is not only a question of money, but more importantly rather of know-how. Public players can provide some venture capital funds, but value-added know-how is required from private sector investors particularly. Although Finnish venture capital markets and public players have undergone several studies by MEE, necessary conclusion are yet to be made.

Theoretically Finnvera is performing well as a state-owned risk financier if it is capable of gradually fading away in the financial markets. On the other hand, financial crunch in 2008 demonstrated the need to have a flexible governmental financial instrument with help of which the government can quickly response to changes in the financial markets threatening the survival of Finnish companies. Given the future insecurity and global interdependence of businesses there is a mere value of the existence of Finnvera as an instrument which can be 'vitalised' when needed.

6. Finnvera should exploit the opportunity for organisational renewal

Finnvera has systematically developed its activities since the previous evaluation in 2003/2004. Dynamic business environment and an ever increasing emphasis on growth, innovation and internationalisation put continuous pressure on

organisational renewal of Finnvera also in the future. The following years with retirement peak give unique opportunities to get fresh ideas and approaches to Finnvera. Finnvera staff needs to recognise the need to break individual comfort zones and traditional working modes in order to be able to successfully address the changing needs of the customers as well as the strategic goals of MEE. Staff allocation should be considered not only amongst the regional offices but also between domestic and export sides of the business. Ideally, Finnvera should seek exchanges as well with other agencies within MEE, and private sector partners.

7. MEE must continuously seek to influence the international regulations which do not currently serve Finland's interest

Certain activities of Finnvera, whether relating to its domestic business or its export business, are bound by international agreements within the EC or OECD. It is vital that Finland clearly identify its strategic interests and, given Finland is a highly credible member of the international community, it must not shy away from actively working to protect these competitive interests even if it means challenging long-standing practices. For example, in the current interest rate environment and given the state of the financial markets, CIRR funding (in USD) is loss-making even for AAA European countries. This has much to do with the non-market formulation and application of the CIRR. An agreement amongst OECD countries to renegotiate (or eliminate the use of) the CIRR formula could be beneficial.

1 Introduction

The objective of this Evaluation for the Ministry of Employment and the Economy (MEE) is to review Finnvera as one of the main entities within the responsibility of MEE. This report, commissioned by the MEE, evaluates Finnvera in the context of both the national and international business environment and provides a perspective on the areas in which Finnvera needs to be focusing for the period up to year 2020.

This evaluation – unlike the previous evaluation conducted in 2003–2004 – considers not only the performance of Finnvera, but also the role of MEE in its steering or oversight of Finnvera. In particular, this report considers Finnvera as a policy instrument/actor in the financing markets as well as Finnvera's role as a part of MEE group, and makes recommendations about the future renewal needs and orientation related to Finnvera's strategy, activities, structures and tasks.

The Report is structured as follows:

Section 2 presents the evaluation methodology.

Section 3 is an overview of the background and context.

Section 4 looks at the private sector considerations.

Section 5 looks at the international considerations.

Section 6 looks at the public sector considerations.

Section 7 is the evaluation.

Section 8 covers the future orientation in 2020.

Section 9 offers recommendations and conclusions.

The Terms of Reference are set out in Appendix A.

Special appreciation is extended by the Project Team of International Financial Consulting Ltd. and the Turku School of Economics within the University of Turku to the many stakeholders interviewed in order to conduct the evaluation, especially to the Ministry of Employment and the Economy (MEE) and Finnvera for their extensive participation.

2 Evaluation Methodology

2.1 Analytical Framework

There are three primary concerns articulated by the Ministry on which this evaluation focuses:

- The evaluation of Finnvera's strategic activity in the financial markets
- The evaluation of operational activity of Finnvera and its effectiveness
- The evaluation of the Ministry's strategies and objectives with regards to Finnvera and its subsidiaries, taking into account the other actors over which the Ministry has responsibility.

To accomplish this, Finnvera's activities are examined in the light of public and private sector considerations, as well as within the context of the international landscape.

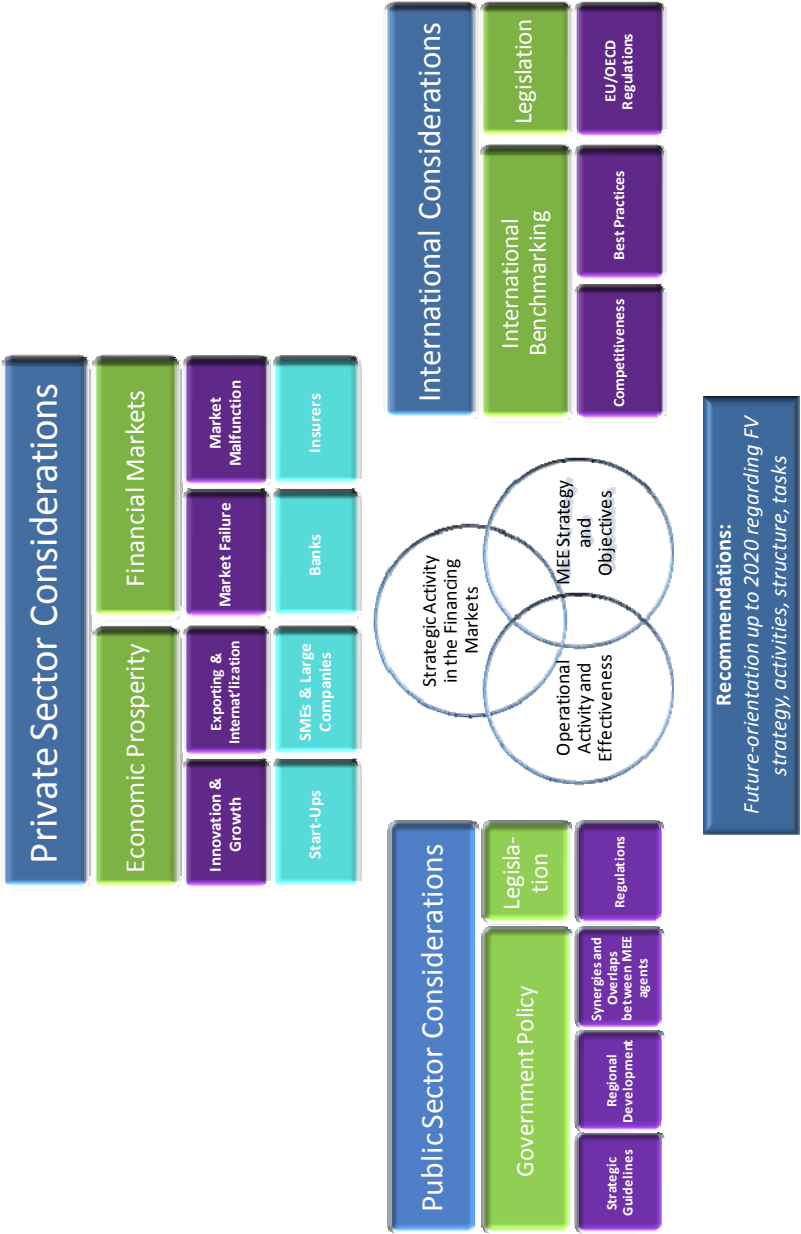
As for private sector considerations, Finnvera's performance is analysed in light of Finnvera's contributions to growth, innovation, internationalisation and export of SMEs and large corporations. In addition, Finnvera's activities are examined in the context of market gaps or market malfunction of the private financial institutions.

In terms of the public sector considerations, Finnvera's ability to address national objectives and priorities is evaluated, looking at how Finnvera responds to and is a critical instrument of government policy. With respect to international considerations, how Finnvera performs relative to its counterparts globally and relative to its international obligations is also assessed.

This report evaluates MEE strategies and objectives with regards to Finnvera and its subsidiaries, taking into account the other relevant MEE actors. With regard to the effectiveness of the group, it is important to focus on Finnvera as one of the organisations implementing the group and customer strategies. However, it is also important to take into account other governmental actors, such other Ministries.

Figure 1 describes the analytical framework used for the evaluation.

Figure 1. Analytical Framework of the Finnvera Evaluation



The evaluation team developed series of normative statements based on the key themes of the evaluation as defined in the Terms of Reference. These normative statements articulate the conditions under which the system is fully functioning and healthy. This evaluation framework assesses Finnvera’s performance against these eleven normative statements each of which covers the boxes in the figure 1 above. The statements are as follows.

Table 1. Normative Evaluation Statements

Evaluation Areas	Considerations
Private Sector Considerations	
Innovation and Growth	1. The extent to which Finnvera 's financial support is vital to innovation and growth
Export and Internationalisation	2. The extent to which Finnvera's financial support is vital to export and internationalisation of its clients
Market Failure	3. The extent to which Finnvera operates in areas where the private sector sources of finance and risk capacity are not willing or able to operate
Market Malfunction	4. The extent to which Finnvera's financial support mechanisms are responsive to temporary market malfunctions
International Considerations	
Competitiveness	5. The extent to which Finnvera provides internationally competitive export credit services
Best Practices	6. The extent to which Finnvera performs well against its peers - both ECAs and SME Financing Systems
EU/OECD Regulations	7. The extent to which Finnvera meets its international obligations
Public Sector Considerations	
Strategic Guidance	8. The extent to which MEE's strategic guidance reflects national policy and is communicated to relevant stakeholders
Regional Development	9. The extent to which Finnvera's financial support is beneficial to regional development
Synergies and Overlaps	10. The extent to which MEE organisation pursues maximum synergy and optimal overlap between its actors
Regulations	11. The extent to which the existing legislation is well balanced between clarity and flexibility in order to serve Finnvera's remit

2.2 Evaluation Approach

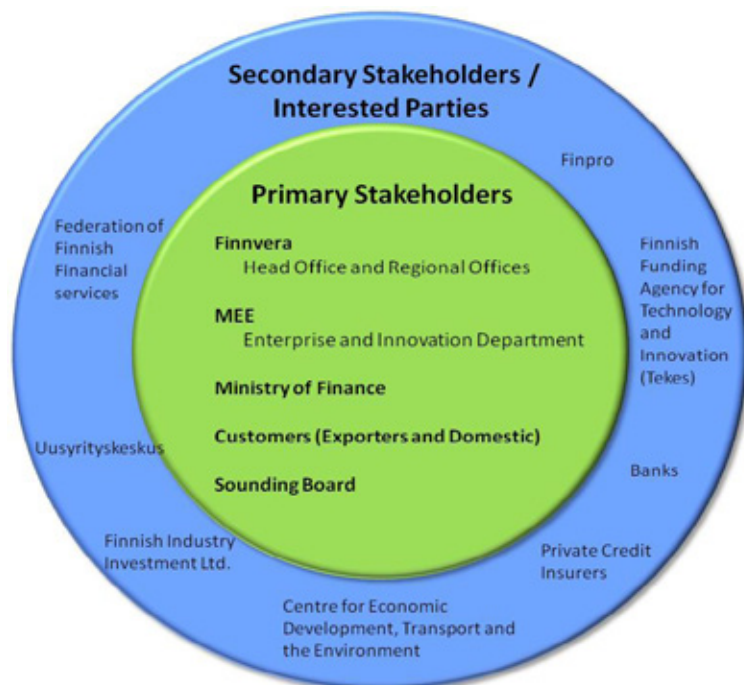
In order to evaluate Finnvera's performance against these normative statements, multiple lines of evidence were collected in order to assess and to validate the findings. The evaluation team reviewed of data and background material and interviewed stakeholders, both primary stakeholders which have a direct interest in Finnvera, as well as secondary stakeholders. Each normative statement is assessed looking at the data collected, based on main sources of evidence.

A key challenge in any evaluation is to determine to what extent success can be attributed to a particular intervention. In other words, can a good performance against objectives be ascribed to Finnvera's intervention or are there other reasons for success that contributed to the outcome.

2.2.1 Stakeholder consultations

The list of interviewees can be found in Appendix B. Figure 2 depicts the primary stakeholders and secondary stakeholders whose input was sought for this evaluation.

Figure 2. Stakeholders Consulted



Finnvera employees have been widely interviewed in the Helsinki headquarters and in regional offices. However, since this evaluation addresses also MEE steering, the team has conducted several interviews and roundtable discussions within the Enterprise and Innovation Department of MEE, in particular. In addition, a Sounding Board was appointed by the MEE to support the evaluation team. The team and the Sounding Board have held individual interviews, round-table discussions and the team have also received written comments from the Sounding Board members.

In addition to MEE steering, the Ministry of Finance plays a significant role in preparing the grounds for MEE steering and Finnvera's activities. The team has gained valuable insight from representatives from the budget and financial markets departments of Ministry of Finance.

The synergy between MEE group actors has been studied particularly from the point of view of Finnvera's activities. The evaluation team has addressed Finnvera's synergy with the Finnish Funding Agency for Technology and Innovation (Tekes) and other MEE actors, such as the Centre for Economic Development, Transport and the Environment (including Employment and Economic Development Office), Finpro and the Finnish Industry Investment Ltd. In addition the activities and synergies have

been addressed by cooperating with the Tekes evaluation team¹. The cooperation between Finnvera and Regional Enterprise Agencies of Finland (Uusyrityskeskus) has also been addressed by means of interviews.

Finnvera's cooperation with banks has been addressed by means of interviews and also a round-table discussion in the Federation of Finnish Financial services. Various bank representatives have been interviewed in eastern, western and southern Finland. In addition, discussions took place with the main private credit insurers.

In addition the team has interviewed and held round-table discussions with Finnvera customers, both exporters and customers operating in the domestic market. The team has also interviewed some business interest groups as representatives of Finnish companies.

Moreover, interviews were conducted with a sample of Finnish growth companies. The list of suitable companies was created by using the annual growth company listing produced by Kauppalehti magazine which meant that it was a sampling drawn from a population that is selected because it is readily available and convenient. All firms which operate mainly in the financial sector, insurance and real estate businesses were excluded from the final list. This study was done in order to find out at what extent fast growing companies had relied on public support (Finnvera, Tekes, ELY Centre and state venture capital investments) during their growth efforts. The results of this assessment were validated by comparing the main findings against the information gathered from Finnvera's customer database (conducted by Finnvera due to confidentiality). Further, the role of Finnvera in supporting growing firms was assessed based on Finnvera's own cross-checking with various public company listings. The evaluation team has also collaborated with Tekes evaluation team and familiarised with the respective evaluation report.

In addition a survey was conducted in order to find out what has happened to different projects when Finnvera had declined the applied funding, targeting companies who have been rejected financing decision in 2010 and 2011. Despite potential biases, given concerns about bank secrecy and confidentiality, Finnvera conducted an internet survey to 111 firms on behalf of the evaluation team. Firms, which were e.g. bankrupted or quit, were dropped off. The contact information was retrieved from Finnvera's customer database and the sample surveyed of 24 companies represents 22% of all companies rejected after company analysis within the time frame.

The consultations approach and objective for each category of stakeholder are shown in table 2.

¹ The Ministry of Employment and the Economy implemented two external evaluations of its largest actors Tekes and Finnvera in 2011-2012. Tekes evaluation was conducted by Technopolis Ltd and Technical Research Centre of Finland (VTT).

Table 2. Consultations Method by Stakeholder

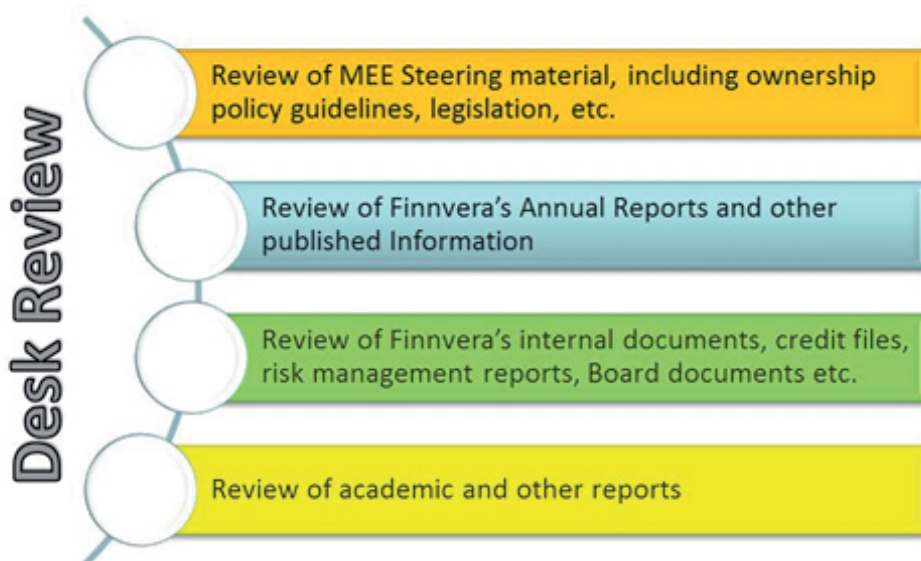
Description, Approach and Objective of Consultation		
Primary Stakeholders	Approach	Objective
Finnvera	Interviews done at both Helsinki headquarters and in regional offices.	Strategic and operational activities addressed as well as MEE steering and Finnvera's synergy with other MEE organisations.
MEE (Enterprise and Innovation Department)	Interviews and roundtables conducted as evaluation also addresses the MEE steering. Sounding board appointed by the MEE to support the evaluation team. Written comments received from the sounding board members.	MEE steering addressed. In addition, sounding board members' expertise used to validate evaluation team's findings.
Ministry of Finance	One-on-one interviews with budget and financial market departments	MoF steering addressed. Funding for export credit. Received valuable insight from representatives from the budget department
Customers/Exporters and Domestic	Interviews and round table discussions with customers (exporters and domestic market) Telephone interview of 30 growth companies/SMEs Internet questionnaire for those companies who have not been granted Finnvera finance	Customer satisfaction and cooperation with Finnvera addressed as well as customers (export) view on Finnvera's competitiveness. The role of public financing in company growth addressed. Operational activities and the role of Finnvera addressed
Sounding Board	Presentations at project launch; interim report and final report	Seek input and guidance about approach, ensuring comprehensive coverage of issues and validation of findings
Secondary Stakeholders	Approach	Objective
Federation of Finnish Financial Services	A round table discussion at the headquarters	Activities, cooperation, the role of Finnvera and synergies addressed
Regional Enterprise Agency	Interviews with some Regional Enterprise Agency' representatives.	Cooperation addressed
Finnish Industry Investment Ltd.	A round table discussion	Activities and synergies addressed
Centre for Economic Development, Transport and the Environment	Representatives of ELY Centres interviewed in three cities.	Activities and synergies addressed
Banks/Credit insurers	Interviews and round table discussion. Bank representatives interviewed in eastern, western and southern Finland Face-to-face meetings with private credit insurers	Cooperation with Finnvera and the role of Finnvera addressed.
Finnish Funding Agency for Technology and Innovation (Tekes)	Interviews in Tekes regional offices	Synergies addressed. Cooperation with the Tekes evaluation team.
Finpro	Phone interviews.	The current and potential synergies addressed.

2.2.2 Desk Review

In addition to consultations, the evaluation team conducted an extensive desk-review and scrutinised legislation and other relevant publicly available documents and reports and the vast material provided by individual Finnvera employees and centrally collected for the evaluation team by Finnvera and the MEE. Such material includes e.g. recent independent client and stakeholder surveys and employee survey which Finnvera conducts regularly, Finnvera annual reports, steering documents, strategy documents and they all have been carefully studied by the evaluation team.

The team also reviewed Finnvera's credit policy and twenty credit files of its largest transactions to analyse Finnvera's risk-taking.

Figure 3. Desk Review Evaluation Material



The evaluation team relied on the annual customer survey that was conducted in March 2011 for Finnvera by a third-party research company, AddValue, which interviewed and surveyed a statistically significant sampling of clients across all of Finnvera's business lines.

3 Background and Context

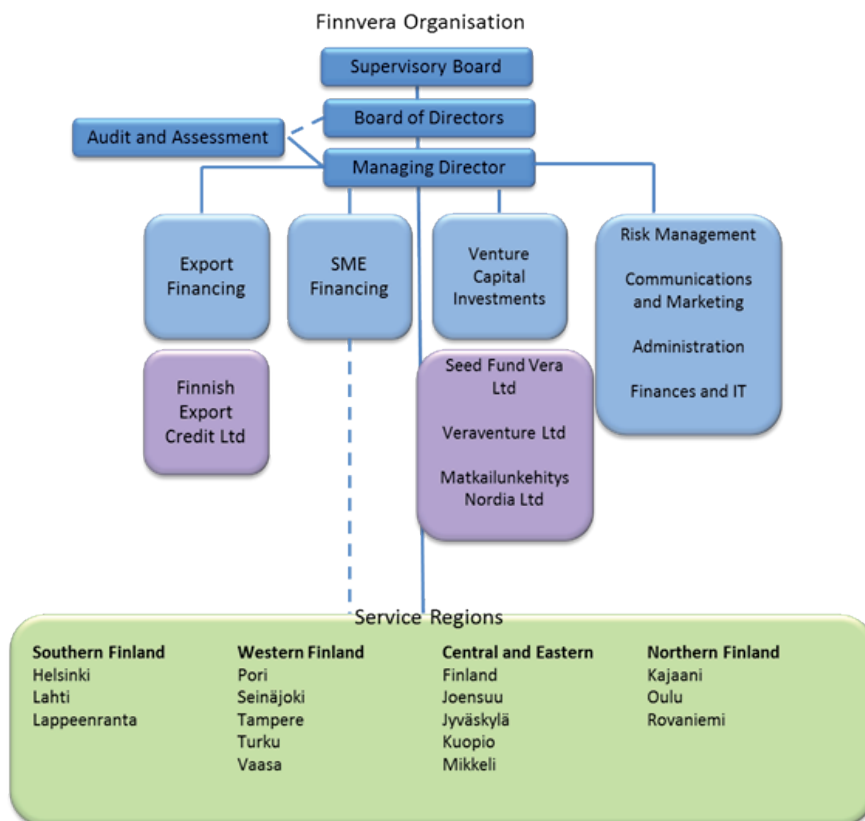
3.1 Finnvera Plc

3.1.1 Organisation and its Mandate

Finnvera plc is a state-owned specialised risk-financing company and the Export Credit Agency (ECA) of Finland. The company was founded in 1999 after the merger of Kera Corporation and the Finnish Guarantee Board. The former provided loans and guarantees for domestic business activities and the latter export credit services.

Finnvera provides financial support for the start-up, growth and internationalisation of small and medium sized enterprises and, as well as, guarantees and financing against risks related to exports. In terms of products and services, Finnvera offers loans, domestic guarantees, venture capital investments, export credit guarantees, and export financing. In addition, as a part of its financing procedure Finnvera makes financial company analysis.

Figure 4. Finnvera Organisation 1.1.2012



SME financing is provided nationally through Finnvera's regional offices (15 offices within 4 districts or service regions). Venture capital investments are provided through Finnvera's subsidiaries Veraventure Ltd, Seed Fund Vera Ltd and Matkailunkehitys Nordia Ltd. Veraventure is a venture capital company responsible for the investment activities of regional funds organised as limited companies, and for the development of these activities. Veraventure also serves as the management company of Seed Fund Vera Ltd, the function of which is to revise the system of seed financing and services for starting innovative enterprises. The fund invests in technology enterprises at their initial stages, and in technology-intensive or innovative service enterprises. Most of Veraventure companies are "born global". Matkailunkehitys Nordia is a venture capital investment fund specialised in the tourism industry.

In 2005, Finnish Export Credit Ltd (FEC) became a subsidiary of Finnvera and since the beginning of 2012, the activities and staff of FEC have been absorbed into Finnvera. FEC enjoys a special withholding tax exemption in the tax treaties the government has signed with over 20 countries.

As a public limited company completely owned by the State of Finland and administered and governed by the Ministry for Employment and the Economy (MEE), Finnvera's activities are steered by special enactment², the government's commitments and annual ownership and industrial policy goals set by the MEE. In addition Finnvera and its subsidiaries are subject to the Companies Act (624/2006) and other administrative provisions and EU, OECD and WTO regulations pertain to the company. However, the Credit institution Act (121/2002) does not apply to Finnvera.

Finnvera's mandate gives the basis for its actions. Its mandate as stated in the legislation is:

- to promote and develop operations in enterprises, in particular SMEs
- to promote exports and internationalisation of enterprises
- to promote realisation of government's regional policy goals.

In domestic financing the state's commitments to Finnvera include (445/1998 paragraph 8.1):

- The state provides funds for Finnvera to pass on to debtors as regional interest subsidies
- The state provides funds for Finnvera to pass on to debtors as interest subsidies on industrial and commercial grounds
- The state compensates Finnvera's credit and guarantee losses, and the limit of outstanding commitments in domestic financing is €4.2 billion
- The state compensates some of Finnvera's operational activities

2 Act on the establishment of Finnvera (442/1998), Act on State-owned special financing company (443/1998), Act on Finnvera's operations (445/1998), Act on the State Guarantee Fund (444/1998), Act on export credit guarantees (422/2001), Act on ship guarantees (573/1972), Act on state guarantee to secure basic raw material service (651/1985), Act on state guarantees and export credits on investments promoting protection of the environment (609/1970).

- The state grants Finnvera guarantee commission to be passed on to be passed on to those for which Finnvera has guaranteed

Finnvera's task is to address shortcomings in the supply of financial services (443/1998, paragraph 1).

3.1.2 Finnvera's Customers

Finnvera's financial services consist of loans, guarantees, venture capital investments, export credit guarantees and export finance. Finnvera's business activities are targeted at four customer segments. The customer segments are:

- Segment 1: Starting a business (small firms)
- Segment 2: Developing a business (regional SMEs)
- Segment 3: Growth and internationalisation (growing and internationalising firms)
- Segment 4: Exports (export firms)

The Segments 1-3 are steered under SME Financing and the Segment 4 under Export Financing (see Figure 4 Finnvera Organisation 1.1.2012).

The overall number of Finnvera's domestic and export clients has increased during the past 5 years from nearly 28,000 in 2007 to almost 30,000 clients in 2011, as can be seen in Table 3.

Table 3. Finnvera's customers per segment

Finnvera Customer Segments	2007	2008	2009	2010	2011
Segment 1: Starting a Business	21 954	19 355	19 592	19 880	19 622
Segment 2: Developing a Business	5 287	7 151	7 736	8 242	8 998
Segment 3: Growth and Internationalisation	647	843	988	1 085	1 168
Segment 4: Exports	92	99	127	120	118
SME and Export Financing (Total)	27 980	27 448	28 443	29 327	29 906

The largest client base is the start-ups, which comprise nearly two-thirds of Finnvera's customers.

3.1.3 Finnvera's Business Activities and Strategies

Finnvera's strategy reflects the customer segments. The aim is:

1. to offer locally operating small enterprises solutions for the establishment of undertakings.
2. to provide financing for the reorganisation, investments and growth of enterprises operating on the domestic market (taking into account regional policy).
3. to offer Group's financing services to growing and internationalising companies.

4. to offer export companies internationally competitive solutions for export financing that benefit the Finnish economy.
5. to improve productivity and customer satisfaction by means of effective procedures and to ensure internationally competitive knowhow through constant development of the work organisation and personnel.

Domestic

Finnvera's domestic activities have been steadily increasing over the last decade and, especially during the period of the global financial crisis in 2008 and 2009, the increase was significant. In 2001 total domestic financing was €708.3 million whereas ten years later, in 2011, total domestic financing was €977.0 million.

Due to the crisis, Finnvera has been able to offer counter-cyclical financing since 2009 as part of the government's reinvigoration policy. The period of granting counter-cyclical financing has been extended until the end of 2012. The value of counter-cyclical financing granted by the end of 2010 was a total of €293 million and it was granted to 1220 enterprises.

The majority of the loans are investment and working capital loans and since 2009 counter-cyclical loans have been the second largest product category. Likewise, most of the SME guarantees are investment and working capital guarantees, counter-cyclical guarantees and export credit guarantees.

Table 4. Finnvera's SME financing 2007–2011

Finnvera Plc SME Financing	2007	2008	2009	2010	2011
Financing granted (€ million)	896.9	1027.8	1194.7	913.7	977.0
Outstanding credits (€ million)	1368.9	1382.3	1663.9	1731.1	1660.2
Outstanding guarantees (€ million)	827.4	882.8	1007.0	1065.3	1092.8

Export

To give a sense of proportion, Finnvera business volumes compared to Finnish exports increased 2008-2009 up to 5,8 percent of exports. In 2011 Finnvera's share of total exports was 4,5 percent, which is not untypical for an advanced country's ECA. The total number and value of guarantees granted vary greatly between 2007 and 2011 as a resulting of the increased demands for cover during the global financial crisis in 2008 and 2009.

Table 5. Finnvera's Export Financing 2007–2011

Finnvera Plc Export Financing	2007	2008	2009	2010	2011
Export credit guarantees and special guarantees offered (€ million)	1816.1	6300.8	4449.7	2379.6	3795.7
Guarantees that came into effect (€ million)	764.0	3844.9	3759.8	2642.4	3158.7
Share of Finland's total exports (%)	1.9	2.4	5.1	5.8	4.5

3.1.4 Finnvera's Financial Performance

Finnvera is expected to be economically self-sufficient, i.e. in the long run it must be able to cover its own operating costs and credit and guarantees losses with income from the commercial activities. The state currently covers approximately 50 per cent of Finnvera's domestic credit losses. Other losses and operational costs are to be covered by profits. Finnvera borrows in the domestic financial market to fund its activities. However, in the end, the state is directly responsible for the domestic guarantees and export credit guarantees granted by Finnvera (443/1998).

Finnvera Group has shown positive financial result since the company was established. The parent company's net income was €58.37 million in 2011 (€65.52 million in 2010) and the group's performance was €63.7 million (€62.9 million in 2010). In 2011 the parent company's profit declined from that of 2010 due to higher impairment losses and credit and guarantee losses in SME financing. During the past few years, Finnvera's outstanding commitments and their risk levels have risen.

Table 6. Finnvera Group Key Financial Figures 2007–2011

Finnvera Group Key Figures	2007	2008	2009	2010	2011
Net interest, net fee and commission income (€ million)	128.6	121.2	136.1	154.2	157.9
Administrative expenses (€ million)	42.1	41.1	42.7	41.4	42.0
Write-down on receivables and guarantee losses (€ million)	44.8	86.3	96.4	74.6	87.3
Credit loss compensation from the state (€ million)	12.5	28.4	32.2	25.4	31.9
Operating profit or loss (€ million)	56.4	9.2	18.3	62.0	66.4
Profit for the year (€ million)	51.3	8.1	17.7	62.9	63.7
Return on equity (%)	10.3	1.5	3.2	10.5	9.3
Return on assets (%)	3.2	0.5	0.8	2.4	2.4
Equity ratio (%)	30.8	30.6	22.4	23.8	24.7
Capital adequacy ratio	19.5	15.7	15.0	14.6	15.5
Balance sheet total (€ million)	1766.5	1803.6	2539.4	2664.1	2890.2

The profits from the domestic financing and export financing are transferred to separate funds on the parent company's balance sheet. In domestic financing the government compensates credit losses annually based on the commitment issued to Finnvera. After that, all the losses (from domestic or export financing) are covered from respective funds. The state is responsible for the losses if they cannot be covered from these funds. In 2011 a fund for venture capital investments was established on Finnvera's balance sheet. This fund was set up to monitor the assets allocated by the European Regional Development Fund (ERDF) for venture capital investments. A sum of €18 million was transferred to the fund in 2011 when MEE granted Finnvera €18 million for venture capital investments during the ERDF programme period 2007–2013.

The limit on outstanding commitments (i.e. the state's commitment to compensate for credit and guarantee losses) in domestic financing is €4.2 billion. In addition, the state also regulates the amount of money granted annually. The authorisation confirmed in the state budget to grant interest-subsidised loans was €273 million in 2009 and €243 million in 2010. The authorisation to grant loans and guarantees that do not have interest-subsidies was €800 million in 2010 and €860 million in 2009. The cap on outstanding export credit guarantees is €12.5 billion.

For the export and special guarantees business, Finnvera has access to the State Guarantee Fund to cover losses. The State Guarantee Fund has cash reserves of €727 million at the end of 2011. Its two purposes are: 1) to cover the guarantees granted before Finnvera was established of which there is currently only €35 million in exposure and 2) to support Finnvera's export credit guarantee business when needed. This means that if Finnvera's export credit guarantee business makes a net loss exceeding the equity in Finnvera's balance sheet allocated to this business

area, the Fund will cover the loss in excess of the equity. The Fund is repaid by Finnvera from future profits.

3.1.5 Overall Performance

During the Global Financial Crisis, the number of financing decisions and loan commitments (see Table 7) has grown, reflecting the evolving market conditions. Meanwhile, the requirement to define and justify interventions (particularly in the export credit side with respect to the opening up of the ST credit insurance market and the export funding scheme), and the increased risk surveillance of the both the domestic and export portfolio, has intensified the work burden for the existing staff.

Table 7. Finnvera Group Key Operational Figures 2007-2011

Finnvera	2007	2008	2009	2010	2011
Finnvera plc					
Finnvera plc staff	397	395	411	397	391
Total cost of operations (€ million)	39.8	38.6	39.7	38.4	38.9
Number of new SME financing decisions	8 008	8 151	9 546	9 338	8 809
Number of growth and internationalisation financing decisions (SME)	1 481	1 499	1 246	1 037	1 043
Financing					
• Total SME financing (€ million)	896.9	1 027.8	1 194.7	913.7	977.0
– Loans (€ million)	385.0	467.6	593.0	396.6	369.3
– Guarantees (€ million)	415.7	438.3	474.4	446.6	496.8
– Export guarantees (€ million)	96.2	121.9	127.4	70.5	111.0
• Total export credit guarantees and special guarantees offered (€ million)	1 816.1	6 300.8	4 449.7	2 379.6	3 795.6
• Outstanding Commitments					
• SME financing (€ million) (among others loans, guarantees, export guarantees, capital invest.)	2 492.9	2 594.4	3 068.9	3 171.3	3 149.4
– from which capital investments	140.7	150.7	180.0	180.0	179.5
Export financing (€ million)	4 889.9	8 186.7	9 556.5	8 834.7	10 255.6
Venture capital activities					
• Veraventure: staff	10	11	16	17	17
• Veraventure: investments (total, € million) (cumulative)	32.9	34.4	34.4	36.9	37.7
• Veraventure: Number of new investments	2	0	0	0	1
• Seed Fund Vera: Investments (total, € million) (cumulative)	16.8	28.8	45.4	63.9	77.8
• Seed Fund Vera: Number of new investments (initial investment)	29	40	29	19	17
• Matkailunkehitys Nordia Ltd's fund (€ million)	3.9	2.4	2.6	2.4	3.3

Finnvera has managed to function with a fairly lean staff during this period. Indeed, in the last couple of years, Finnvera has managed to scale back staff numbers without layoffs as no additional hires were made to replace staff who left the company for retirement or another job. Staff turnover stands at 2% with average tenure of 16-17 years.

The staff resources are organised by regional offices and headquarters. The recent survey (2012) on staff satisfaction indicates that on an average Finnvera performs well above expert organisations in general. Finnvera scores high in all areas studied at individual, department (work unit) and company level. Finnvera's strengths include employees' perceptions on their work and possibilities to develop themselves. Finnvera is highly valued by the staff. The only major weaknesses are related to bureaucracy which may hinder flexibility and organisational renewal.

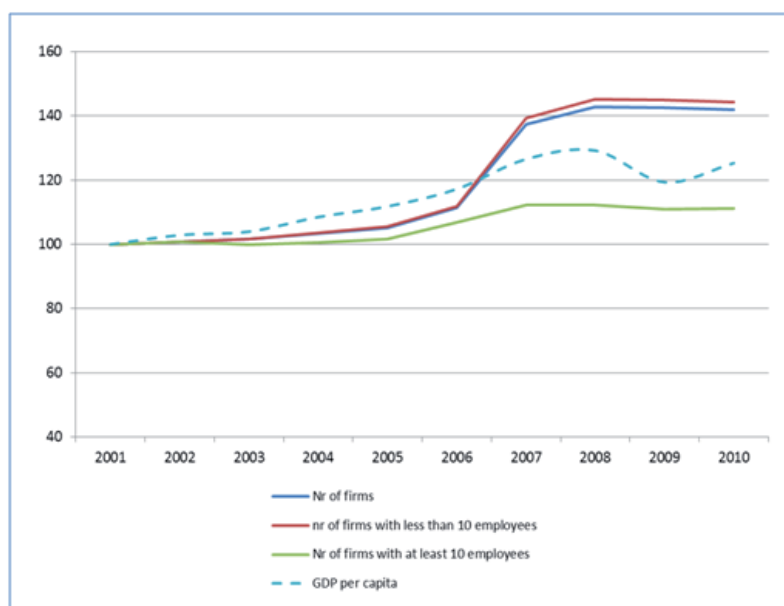
Operational costs have remained steady during period 2007 to 2011, reflecting efforts to improve transaction processing times and a more streamlined approach to dealing with customers. As an example, a detailed on-line transaction diary used for the export credit business minimises the constant requirement to brief various levels of management about all interactions Finnvera has with a client on a particular file, as underwriting officers keep the information up-to-date.

3.2 Finnish Corporate Landscape

Within Finland's corporate landscape, micro- and small firms flourish. In 2010 out of the 318.000 enterprises within the country, 94% were firms with less than 10 employees and 99,8% had less than 250 employees.

A close look shows that the number of smaller firms, with less than 10 employees, has grown over the years while at the same time among larger firms the growth in numbers has been smaller (Figure 5). In all, the growth of number of firms has evened out during the recession years.

Figure 5. The Development of Finnish Firm Population in 2001–2010

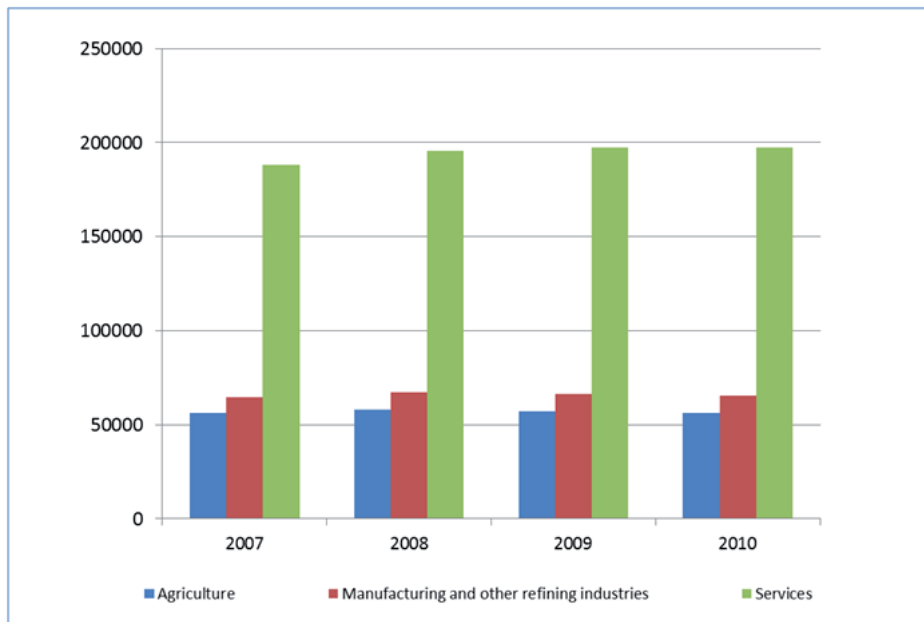


Source: Statistics Finland, 2011

The majority (some 62%) of Finnish firms operate in services (Figure 6). In 2010, a total of 197.000 firms in services employed about 878.000 persons. Trade was the largest service industry in 2010 even if the number of firm in this industry has decreased during the previous years. Meanwhile, the share of technical and business service firms has increased and in 2010 it was almost the same as in trade³. In agriculture and other primary production, the firm size is relatively the smallest. Over 99% of the firms in these industries have fewer than 10 employees. By comparison, the same share in services was 94% and in manufacturing it was 90% in 2010.

3 Statistics Finland, 2011

Figure 6. Finnish Firm Population by Industry



Source: Statistics Finland, 2011

Based on the number of places of business, the geographical distribution of firms shows that 26% of firms operate in/from Capital region⁴. In comparison Lapland's and Kainuu's shares are less than 3% of all places of business. This indicates that firm population is both relatively shattered and concentrated at the same time.

The firm growth among Finnish firm population is struggling. Over the years several studies and reports⁵ have acknowledged that Finnish firms and entrepreneurs are not eagerly pursuing growth. Even if the financial support and other relevant expertise are available to firms⁶, there is a lack of growth-oriented firms generating new jobs and economic growth.

One indicator of the potential changes in the future in terms of growth is shown in the growth-aspirations of new entrepreneurs. In Finland in 2009 about 5% of entrepreneurs, who are starting their business or have been in operation less than three years, have strong growth aspirations⁷. This share is among the lowest among several Finland's innovation-driven peers. A similar signal is shown in the figures among the Finnish firm population (Figure 7). The share of growth firms⁸ among firms with at least 10 employees has been declining after 2001 even if there was a positive incline between 2005 and 2007.

⁴ Ibid

⁵ Autio, 2009; Growth Enterprise Review, 2011; Stenholm et al., 2011

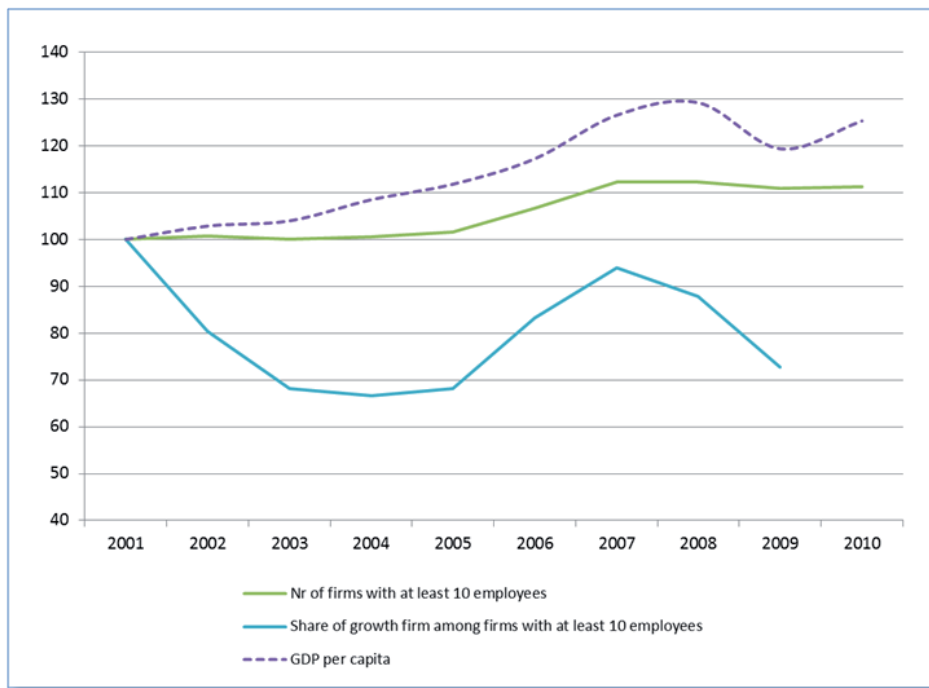
⁶ Ministry of Employment and the Economy, 2009

⁷ Stenholm et al., 2011

⁸ Here growth firms are defined following OECD's definition: Firm is a growth firm if they have at least 10 employees and if they have grown their employment over 20% in three consecutive years.

Furthermore, the share of growth firm varies across regions, but this varies among firm population in general. For instance, in Kainuu region where only 1% of Finnish firms operate, the share of growth firms is 5%. In comparison the same share is in Uusimaa 6.2% and in Varsinais-Suomi 4.1%⁹. This suggests that the regional distribution of growth firms is not dictated by location¹⁰.

Figure 7. The Development of the Share of Growth Firms



Source: MEE, 2011

3.3 Financial situation of Finnish companies

Well-functioning and healthy financial markets are necessary for individual company and overall economic growth. The global financial crisis from 2007 onwards affected the financial situation of Finnish companies in terms of access to finance and their financial structure. Even after the financial crunch, Finnish company financing still remains bank-centered, although the role of other sources of finance, such as loans from employee pension funds, has somewhat increased.

The majority of external finance still comes from banks, but due to cyclical instruments also the role of Finnvera financing has increased, as has Tekes

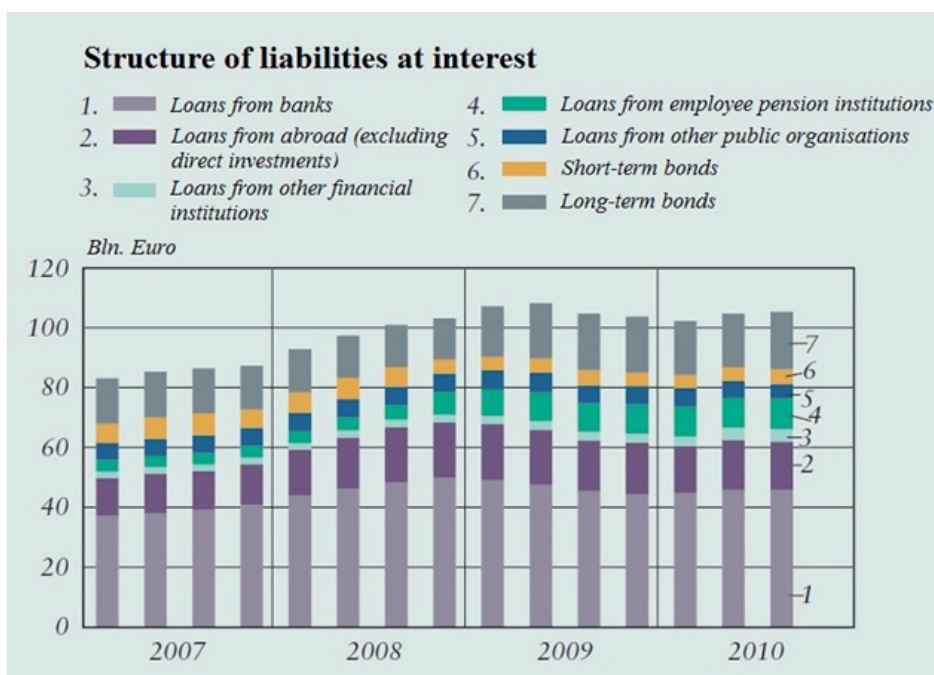
⁹ Growth Enterprise Review, 2011

¹⁰ See also Acs et al., 2008

financing as well as own financing (i.e. from internal sources such as profits or retained earnings and not external financing). This is particularly the case among micro and small companies whereas medium-sized and large companies have relied increasingly on pension funds¹¹.

All in all, Finnish companies are modestly indebted in comparison to their European and Scandinavian peers, for example. In 1999–2009 the indebtedness of Finnish companies also increased relatively slowly due to good profitability of Finnish companies. The following figure depicts the development of the liability structure with interest of Finnish companies in 2007–2010.

Figure 8. Liability Structure with Interest of Finnish Companies in 2007–2010



Source: Bank of Finland in Savolainen & Taipalus 2010

The findings of the latest SME-barometer in spring 2012¹² support the above statistics. According to this study, a large majority (almost 80% of the respondents) rely on bank financing. The role of financing companies has decreased whereas the role of Finnvera has increased, particularly among industrial and growth-oriented companies. External financing is mainly used for working capital as company investments are modest. Interestingly, SME barometer reports increasing interest towards venture capital financing among SMEs.

¹¹ Savolainen & Taipalus, 2010
¹² Pk-yritysbarometri kevät 2012

Finnish venture capital markets have developed in 2000's but growth companies in particular face a lack of seed and early stage finance. Neither the banking sector nor private sector venture capitalists are willing to invest at these early stages due to high risk and insecure revenue expectations.

Public sector venture capital investments are made by Finnvera subsidiaries (Avera and Matkailunkiehitys Nordia) and Finnish Industry Investment. Finnish Industry Investment operates together with private investors in growth and mature businesses (such as buyouts) whereas Avera and Vigo-programme focuses on seed and early phase finance. For the Vigo-programme, a group of consultants work for the benefit of start-ups, and some venture funds may be involved¹³. Finnvera's subsidiary Matkailunkiehitys Nordia Ltd focuses on tourism related businesses. Veraventure Ltd manages Avera Ltd and develops regional venture capital activities. Finnish venture capital markets lack international capital and investors.¹⁴

The financing needs of exporters have been similarly affected by the circumstances of Finland's financial sector. The same dynamics facing domestic companies has been experienced by exporting companies.

Making a distinction between financing exporters and financing export transactions, the financing needs will differ for a particular export transaction, depending on the nature of the export, the nature of the buyer, and the size of the export transaction. Most exports are still sold on open account terms and the company may need working capital to meet the order. In particular, the shipbuilding industry has unique financial requirements for working capital. However, for certain exports in certain buying countries, particularly capital goods exports, or quasi-capital goods, the buyer may require financing and this is often the responsibility of the exporter to arrange.

To be competitive, for non-financed transactions with a credit term of less than 180 days, exporters often must sell direct to importers on open account terms, assuming foreign accounts receivables. Credit insurance covers the risk of non-payment. During the global financial crisis, when the private credit insurers reduced or cancelled limits, Finnish companies, especially SMEs, faced a difficult situation in which their buyers were no longer covered. This required Finnvera to step back into the parts of short-term (ST) credit insurance market for a large number of buyer and country risks that had been previously categorised as "marketable".

3.4 MEE Innovation Policy

MEE is responsible for Finnish entrepreneurship and innovation environment, the functioning of labour markets and development of regions in the global economy. MEE's vision is for Finland to become one of the world leading societies with respect

13 Pääomamarkkinat ja kasvu, 2012

14 Pääomamarkkinat ja kasvu, 2012; Puttonen & Kähkönen, 2010; Ministry of Employment and the Economy, 2009

to competitiveness and welfare and its innovation environment to be the best in the world¹⁵.

Therefore, in order to achieve this, MEE administers an integrated MEE-steering system, which is also reflected in how MEE steers Finnvera. MEE steering is established in the MEE group strategy, the most important single steering instrument, which is designed in collaboration with different MEE actors and influenced by the Government Programme. The MEE group strategy also provides sub-strategies of each policy area. The MEE group strategy represents the owner's "voice" and is, thus, elementary for "substance" strategies which are further communicated and transmitted to governmental budgetary preparation and MEE-actors in forms of goals and objectives.¹⁶

Another important policy document within MEE group is the National Innovation Strategy of Finland. The Proposal for Finnish Innovation Strategy¹⁷ emphasises two issues for Finland's innovation system:

- Productivity improvement in enterprises and companies
- Pioneering innovation on a global scale in selected sectors.

The international evaluation of the Finnish National Innovation System critically assessed the basic choices and key measures¹⁸ and accordingly guidelines for research and innovation policy in 2011–2014 were drawn¹⁹. The National innovation System (NIS) here refers to the totality of private and public actors producing and applying knowledge and information to promote the welfare of Finnish citizens. Ministry of Employment and the Economy is considered as an enabler of application-minded innovative activity, whereas Ministry of Education is responsible for nurturing and providing knowledge, human capital and research, and Ministry of Finance is considered as the 'balancing force' in desires to expend taxpayers' money and providing incentives²⁰.

Accordingly, MEE's activities and role within innovation policy relates mainly to *growth entrepreneurship and internationalisation as well as support for companies and innovation*. The focus is on developing public company and innovation services to become more customer-oriented and user friendly. The implementation of MEE customer strategy is here of crucial importance (see 4.1) in order to increase the impact of public support. In addition, emphasis is put on developing the venture capital markets by attracting international investors and venture capital to Finland. In addition, private investors are being encouraged to invest on knowledge-intensive growth businesses active in global markets.

15 Ministry of Employment and the Economy, 2008a

16 Ibid

17 Aho et al, 2008

18 Ministry of Employment and the Economy, 2009.

19 Tutkimus- ja innovaatiopoliittinen linjaus, 2009.

20 Ministry of Employment and the Economy, 2009

3.5 Role of Government Intervention in Company Development

The public support system is a result of evolving policy actions reflecting the interests of a variety of public bodies. Finnish entrepreneurship policy has traditionally relied heavily on direct public sector intervention. There are a number of actors supporting Finnish companies, and SMEs particularly, under MEE's steering and supervision. All the organisations under MEE have been grouped into four groups. Finnvera is part of Group 1. Regarding the annual ownership and industrial policy goals, during the past two years the MEE has set a common goal for the Group 1 organisations. In 2012 the common goal is to support growth and internationalisation. In group 2, there are a number of actors co-financed by MEE, such as Fintra, Viexpo and Musex and two Chambers of Commerce, which support export and internationalisation of Finnish companies. In addition, various centres of expertise, regional development agencies and private sector organisations provide services for companies. From the company (customer) perspective the system is complex and hard to access and comprehend²¹. This relates both to the support system as a whole and to the public financial support system.

Box 1: Group 1 Organisations

- Finnvera
- Tekes
- Centre for Economic Development, Transport and the Environment (including Employment and Economic Development Office)
- Finpro
- Finnish Industry Investment Ltd
- Finnish Technical Research Centre (VTT)
- Geological Survey of Finland (GTK)

Given the number of actors in the field, it is hard for a growing company to locate and access appropriate sources of support efficiently. On the other hand, as different MEE actors are steered somewhat differently by various government officials, it is questionable whether the system as a whole operates efficiently. Clear and strong owner-steering and responsibility as well as co-ordination between actors are still lacking resulting in weak collaboration and inefficiencies.²² In addition, the needs of innovative, young and potential growth companies are not sufficiently met.²³

MEE group actors collaborate in supporting companies in jointly defined customer segments: start-up companies and inventors, local companies, companies

21 Ministry of Employment and the Economy, 2009.

22 Puttonen & Kähönen, 2010. See also Pääomamarkkinat ja kasvu, 2012.

23 Pääomamarkkinat ja kasvu, 2012.

in national markets, companies attempting grow in international markets as well as large companies. Enterprise Finland -service system²⁴ includes Internet-, telephone-, growth- and innovation-services and regional support services targeted mainly at SMEs. Enterprise Finland provides information about the kinds of assistance available to companies or entrepreneurs for establishing and developing their business. The information is arranged according to the life-cycle of the enterprise.

The guiding principle in Finland is that expert and innovation services are produced in private sector. Public intervention is focused to reducing and removing administrative and systemic deficits and to addressing and fixing market failure²⁵. In addition to market failures, notable externalities, such as new knowledge based on research and innovation projects, justify public intervention²⁶. This principle is highly emphasised and it implies that public intervention involves mainly societal competence investments, provision of infrastructure for companies and investors, reducing information asymmetry, and fixing market gaps by refraining from actual investments. The ultimate goal is to develop private sector activities so that the markets would work efficiently without public intervention. In Finland this situation is still to be reached and public actors are needed to catalyse growth and private sector actors.²⁷

3.6 Intervention Logic of Finnvera's Activities

Based on extensive literature on the topic of government intervention in financing markets, there are three clear rationales for Public Development Banks (PDBs), such as Finnvera, to play a direct role in the financial sector in order to achieve public policy objectives.²⁸

3.6.1 Addressing a Market Failure

The classic rationale for Public Development Banks' intervention is based on the existence of market failures (i.e. the existence of projects or sectors of the economy that are under-served by private sector sources of financial services) and the belief that intervention in the financial sector can make up for this private sector shortfall.

3.6.2 Catalyzing the Private Sector Financial Institutions

The objective under this rationale is to catalyse the supply of financial services from the private sector. The intention of Public Development Bank role under this rationale - whether through risk sharing or back-up guarantee - is to mobilise other

24 www.enterprisefinland.fi

25 Tutkimus- ja innovaatiopoliittinen linjaus 2009

26 Koski & Ylä-Anttila, 2011

27 Puttonen & Kähkönen, 2010.

28 I Inter-American Development Bank, 2011

financial institutions and investors with their financial resources, standard-setting and knowledge.

3.6.3 Improving Competition and Pricing

A third category of rationale used by governments to justify state intervention in the banking sector is in order 'counter the substantial economic and political power of large private banks'²⁹. In this capacity, Public Development Banks would serve in a more comprehensive role as a regulator of market interest rates. The Development Bank is therefore used by government essentially to avoid oligopolistic behaviour on the part of commercial banks and keep interest rates in line with appropriate market levels and improve or increase competition. This is a very sensitive area as it requires the Development Bank to have a deep sense of the market dynamics to avoid undercutting commercial banks to a level that would cause them to withdraw.

In the case of export credits, there may be a fourth reason for intervention – matching the competition from other countries' export credit agencies (ECAs).

3.7 Finnvera's Approach to Risk-Financing

One of the main principles directing Finnvera's operations is risk-financing. This is highly relevant when Finnvera is trying to support growth and innovation, and at the same time is guided under MEE's steering. Currently, from a theoretical standpoint, the guiding principles seem to emphasise an approach which relies on the fact that all information necessary is "out there". This information is applied in the decision-making process by calculating future risks and profits.³⁰ When this takes place, a decision-maker tries to recognise different means for reaching the given goals. Accordingly, the risk of following each of the given means can be calculated in advance (Figure 9). This means that the decision-maker is usually familiar with the risks and the risk threshold is quantifiable. Under these assumptions the decision-making is supported by risk-based data collection tools and the related opportunity costs play a role in decision-making³¹.

When the decision-making is inclined more towards effectuation, the decisions are coloured with uncertainty more than pure calculative risk-taking. Instead of collecting data on risks of each possible mean and trying to minimise and manage them, the effectual reasoning relies on identifying the available resources and networks in order to pursue the goals that can be achieved with those given means and available resources³². Thus, actors in question employ the concept of "affordable

29 Hanson (2004), p. 15.

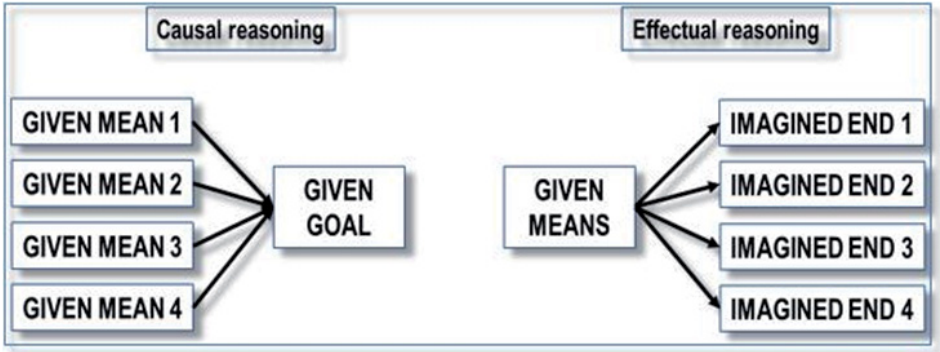
30 Alvarez & Barney, 2007; Kirzner, 1973; Weick, 1979

31 Alvarez & Barney, 2007

32 Ibid

losses” in judging the downside associated with the actions to be taken³³[4], and decision-makers are facing unfamiliar risks which are, however, acceptable.

Figure 9. Causal versus Effectual Reasoning



Source: Sarasvathy, 2001

There are no better or worse approaches; they are just different. However, when growth and innovation are to be promoted, the emphasis might be on the effectual reasoning rather than causal. This is due to assumption that activities in dynamic markets imply particularly bearing of uncertainty and even ‘failing forward’ rather than purely calculating risks.³⁴[5] When discussing and making decisions on Finnvera’s strategies and operations in terms of supporting growth and innovation, the above underlying principles need to be taken into consideration and even further elaborated.

In the following section we present our findings and empirical evidence on the normative statements derived from our analytical framework.

33 Sarasvathy, 2001

34 [5] Sarasvathy, 2001

4 Private Sector Considerations

4.1 Innovation and Growth

The extent to which Finnvera's financial support is vital to innovation and growth.

The customer segment 1 of Finnvera addresses the needs of small (and usually young) companies. These companies have difficulties in access to finance due to small scale of their projects and financing needs, and a market gap thus exists. These projects may create new business and growth in a longer run, and Finnvera's finance is therefore justified. Due to small scale projects Finnvera can and is sometimes the only actor, but if a bank is involved, the risk sharing usually follows 60/40 schema. From Finnvera's point of view, the administrative costs related to this customer segment are high in comparison to the relatively low innovative or growth potential these firms offer.

In terms of innovation and growth, Finnvera is facing the challenge of the specific mentality of Finnish entrepreneurs and cultural issues. Our survey of potential clients, whose application has been rejected by Finnvera, indicates that the majority of rejections are based on: a) no evidence of a market gap; b) lack of transparency on applicant's financial position; or c) simply because the project and/or company is lacking profitability. This emphasises that Finnvera's outcomes and effects related to innovation and growth are hampered by the lack of high growth firms in Finland. As mentioned in Section 3.2, the population of Finnish firms comprises too few growth-oriented firms and entrepreneurs. This means that the potential customer base is relatively small, particularly in the regions. The majority of customers belonging in the high potential category are also customers for Tekes. (See table 8 below) 31.5% of Tekes' customers are also Finnvera's customers whereas only 6.1% of Finnvera's customers are Tekes' customers. Finnvera has approximately five times more customers than Tekes.³⁵

35 Evaluation of Tekes, 2012

Table 8. Overlapping Customers between Tekes and Finnvera

Size category	Number of customers - Tekes	Number of customers - Finnvera	Number of customers in common	Share of Tekes customers that are also Finnvera's customers (%)
Micro, <10 employees	2 633	23 970	940	35.7
Small, 10-49 employees	1 419	3 016	552	38.9
Medium, 50-249 employees	467	499	170	36.4
Large, over 249 employees	784	89	33	4.2
Unknown	84	0	0	0.0
Total	5 387	27 574	1 695	31.5

Source: Evaluation of Tekes 2012

In the segment 3 Finnvera's customer base covers growing and internationalising firms. Thus, the projects in which Finnvera gets involved comprise higher risk as well as higher growth potential. Risk-wise this usually means that Finnvera covers 50% of the risk with banks while the maximum is risk sharing is 80/20. Even if this premise takes place, the level of Finnvera's risk appetite is still sometimes questioned by some banks or customers. In all, this segment has the most potential in following the increased risk taking requirements mentioned in the current Governmental Programme. However, there are so few growth-aspired and growing firms in Finland to which such a scheme could be applied. The 2005 study of Finnvera's domestic finance highlighted that the cooperation between the experts working with growing and internationalising firms and export firms should be enhanced³⁶. Beyond this, there is a strong case to be made that the export finance expertise from Finnvera's Export Credit team can support the best and the brightest firms in segment 3, and the cross-selling opportunity – while better than it was – could be improved.

Another aspect in supporting innovation and growth is related to the potential mismatch between different aims that Finnvera pursues. The segment 2 reflects the needs of developing and investing small firms which on the hand are relatively mundane firms with low or no intentions for growth. Finnvera enables and enhances their development and investment projects via guarantees and loans addressing the regional policy objectives imposed on Finnvera. Earlier studies highlighted that the lack of new and innovative ideas (and growth accordingly) in the regions justifies the need for public policy interventions. However, a more important question relating to this evaluation is whether these needs should be met by financial instruments³⁷.

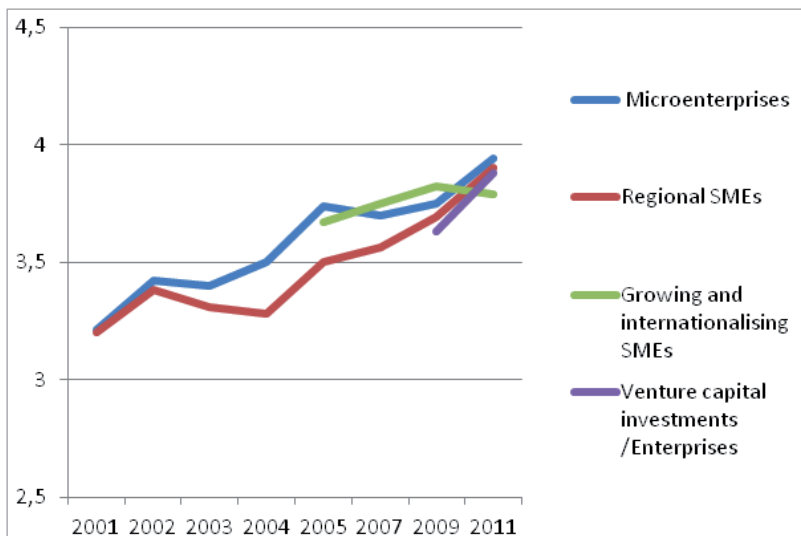
It seems that in the customer segment 2 Finnvera is needed in handling possible market gaps in terms of financing business successions or decreasing the negative effects related to sudden structural changes in industries or regions. Finnvera's

³⁶ Stenholm & Toivonen, 2005

³⁷ Stenholm & Toivonen, 2005; Puttonen & Kähönen, 2010

involvement is then further justified as these kinds of projects are high in the policy agenda. Otherwise, the need for Finnvera's presence in the customer segment 2 may be questioned, as pursuing regional goals and the goals related to innovation and growth at the same time may be inefficient for Finnvera. Thus, in this segment Finnvera's regional aims may not be the only determinant for Finnvera's actions, but instead, the identification of customer needs are of crucial importance. In this sense, Finnvera is perceived as highly professional and competent in providing domestic finance for its clientele (Figure 10). Finnvera performs relatively well in all categories, and the rising trend has continued over the year except among growing and internationalising SMEs.

Figure 10. Finnvera's Professionalism and Competence among Its Clientele



Source: Executive Summary of Finnvera plc, Client, bank and stakeholder surveys 2011, AddValue

Still, Finnvera's ability to find potential innovative and growing customers is reasonable. The Growth Enterprise Review (2011) illustrates this: about 16% of growing firms³⁸ have received Finnvera's loans or guarantees (Figure 11). However, this share is only slightly higher than Finnvera's involvement in non-growing firms. A closer look also shows that out of all Finnvera's customers only 6% are growth firms³⁹. In all, this indicates that in terms of Finnvera's customer base, the share of high potential firms in its portfolio is still modest.

Fortunately, the role of Finnvera's finance on firm growth – by means of increase in turnover and number of employees – is positive⁴⁰. Hyytinen's and Ylhäinen's

38 Here growth firms are defined following OECD's definition: Firm is a growth firm if they have at least 10 employees and if they have grown their employment over 20% in three consecutive years.

39 Growth Enterprise Review, 2011

40 Hyytinen & Ylhäinen, 2012

preliminary results indicate that both Finnvera's loans and guarantees have improved the hiring of new employees as well as improved the rate of growth of firms.

Figure 11. The role of Finnvera in Financing Growing and Non-growing Firms



Source: Growth Enterprise Review, 2011

Further, the interviews of a sample of growing firms show that among 30 top firms⁴¹ only three had received Finnvera's funding. In comparison only two of them were involved with Tekes. Although the sample used does not offer any kind results that can be generalised, these interviews indicate that firms may pursue organic growth and may not necessarily wish to rely on public finance. In order to get deeper insights on the issue, Finnvera provided the evaluation team with other sources of information. Talouselämä magazine's listing of 20 most promising Finnish start-ups in 2012 was cross-checked with Finnvera's customer database and the results show that Finnvera has financed 16 of them. In a ranking of the Technology Fast 50 firms (done by Deloitte) Finnvera is involved in 36 cases. The results from different sources shows first, that the related results vary depending on the ranking used, and second, that there are growing firms operating without Finnvera's or other agencies' support. These findings support the previous results on Finnvera's reasonable ability to find potential and growing firms. Still, one has to remember that in the interviews of the top 30 firms the majority of growing firms were not applying for any public finance.

When adding this fact to the continuous scarcity of growth-aspired entrepreneurs, the Finnish challenge in reaching the goals set for supporting innovative and growing firms is broad, widely acknowledged and not solely in reach of Finnvera's own actions.

In general, it should not be up to governmental actions or public policies to dictate what kind of firms are started or which kinds of strategies firms pursue⁴². Accordingly, instead of direct interventions, the government is to emphasise its role

⁴¹ See Section 2.2.1

⁴² Puttonen & Kähkönen, 2010

as a catalyst and enhancer of necessary infrastructure (i.e. in this case, financial markets)⁴³. Moreover, in Finland there are several actors to support innovation and growth and it is of importance for all the actors, including Finnvera and its subsidiaries, do find a relevant role and synergies with the others. The Growth Channel service, for example, may be able to improve the co-operation between MEE's organisations and benefit firms with high potential for growth, innovation and internationalisation.

It is evident, that well-functioning venture capital markets are important for innovation and growth in Finland. There are enough start-ups but the companies just do not grow.⁴⁴ Innovation and high growth are something venture capitalists particularly look for. Finnish VC markets are underdeveloped and therefore public agencies intervene and attempt to crowd in both national and foreign private investors. Vera Venture focuses on regional ever green funds, whereas Avera invests directly to young and entrepreneurial technology-oriented companies. Matkailunkehitys Nordia has its own focus on tourism industry – a specific and small field in which private sector investors are not necessarily particularly interested. In addition to these Finnvera's subsidiaries, the state-owned Finnish Industry Investment acts as a fund of funds and makes syndicated, direct investments to more mature and larger (industrial) companies. Accordingly, there are many state-owned venture capital companies in the markets. Some of their activities are merely market-based with syndicated investments (Finnish Industry Investment), whereas some manage to crowd in less private money. It seems that public investments are considerable and sufficient and it is crucial to crowd in private money in order to develop the Finnish venture capital markets. In Finland, financial markets are 'disturbed' by some unnecessary subsidies and the regional policy emphasis of them⁴⁵. Some evidence indicates that more active risk-taking by state-owned risk-financier would be appreciated and that too little (money) is given to too many companies.

Summary 1: Innovation and Growth

Finnvera is deemed professional and competent although its professionalism is not appreciated equally high among growing and internationalising SMEs and the share of high potential firms in its portfolio is modest. Finnvera's ability to find potential innovative and growing customers is reasonable, but still more could be done to identify growth potential. While there are few growing companies, those that are identified can also perform well without government financial support.

43 Lerner, J. 2009

44 Pääomamarkkinat ja kasvu, 2012

45 Pääomamarkkinat ja kasvu, 2012

4.2 Export and Internationalisation

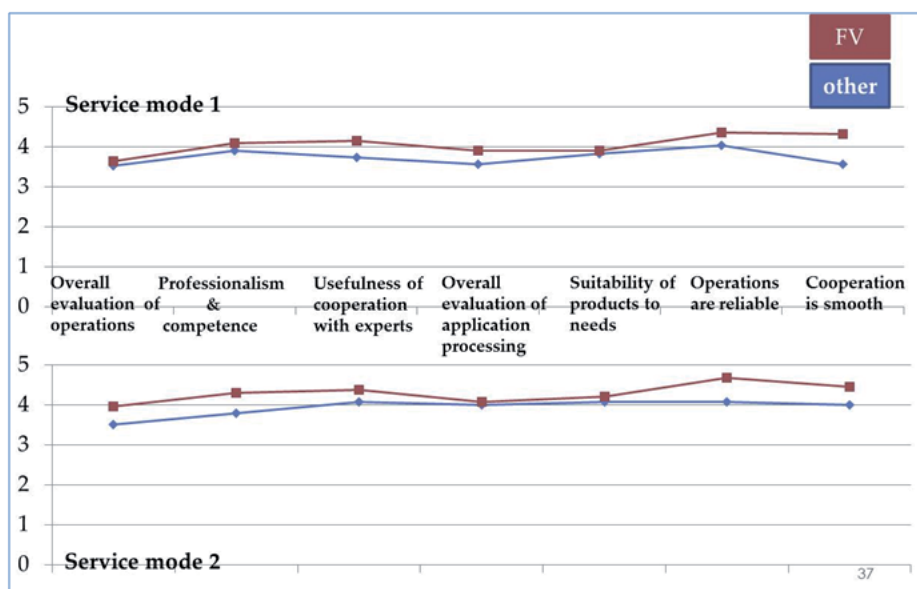
The extent to which Finnvera's financial support is vital to export & internationalisation of its clients.

Segment 4 consists of larger customers with global buyers using export guarantees. These tend to be large capital goods and project exports and with large transactions of €50 mn and up (although the vast majority of transactions are smaller). These clients face competition from other countries with strong ECA support and need internationally competitive export credit guarantee and export finance products.

For Finnvera's export credit programme, competitiveness with other ECAs is critical when a particular buyer is choosing between a Finnish supplier and another country's supplier. The competitiveness of the financing package can be the deciding factor. This is discussed more in the next Section on International Considerations.

There are two categories of export credit clients: regular users (Service Mode 1) and occasional users (Service Mode 2).

Figure 12. Finnvera Performance Compared with other ECAs



Source: Executive Summary of Finnvera plc, Client, bank and stakeholder surveys 2011, AddValue

According to an independent survey of customers, Finnvera rates very well against its peers in a number of areas, including:

- Overall evaluation of operations
- Professionalism & competence
- Usefulness of cooperation with experts

- Overall evaluation of application processing
- Suitability of products to needs
- Operations are reliable
- Cooperation is smooth

While the survey covers Finnvera's quality of service in terms of responsiveness, professionalism, etc., it does not cover other areas of operation which define competition relating to the export credit business: pricing, coverage and risk capacity. These are discussed in more detail below in section 5.2.

Interviews with clients of the export credit programme consistently said that Finnvera is a responsive, professional organisation. It was suggested that Finnvera is very efficient in underwriting risks they understand and with which they have had experience, but are somewhat more hesitant to take new risks or risks on new countries or new banks in foreign markets.

Financiers praised Finnvera's underwriting expertise and ability to be innovative, citing their ability to underwrite innovative structures, such as an Islamic finance deal, as well as FEC's funding support. Some concern was expressed that for complex deals, Finnvera asks for many conditions even though the bank is taking the documentation risks. We consider that Finnvera's underwriting approach is prudent and appropriate.

All of the clients that have direct experience or knowledge with other countries' ECAs – either by virtue of their foreign operations which accessed their programmes, or from what their competition is allegedly able to offer buyers, consider Finnvera to be one of the best ECAs.

According to the independent survey, Finnvera's export credit guarantees are thought to have positive impacts on export companies and employment.

Summary 2: Exports and Internationalisation

Finnvera's support is considered important for companies wishing to export and internationalise, but the level of importance varies according to export sector, buying country and terms. Finnvera's support is vital to those exporters competing with exporters from other countries which have support from their national ECAs on terms more favourable than the market.

4.3 Market Failure

In simplest terms, market gaps can be defined as companies being unable to access funding to meet their needs and commercial banks or insurers are unable or unwilling to provide services to meet these needs.

A number of types of market gaps can exist:

- Credit gaps because the risks are too high (in relation to collateral or cash flow) or too large or too small for the private sector to take
- Liquidity/funding gaps because the private sector sources of funds cannot access long-term liquidity (e.g. long-term borrowings)
- Information gaps relating to certain industries (e.g. new technologies or companies or industries) or the liability of newness (a lack of proven track record), new risks (e.g. Africa), relating to financial solutions (e.g. credit insurance)

However, an important distinction must be made between **market gap** which is defined as a systemic and on-going lack of the availability of financing and **market malfunction** which is temporary disruption in the financial markets.

For an entity like Finnvera, care must be taken to ensure that its role of a “gap-filler” does not become a “gap-creator”. This means that not only must this agency not “crowd out” the private sources of risk capacity and funding, but it must endeavour to “crowd in”. The evaluation of the existence of market failure – either gap or malfunction – is far from straightforward and easy. Markets, and accordingly failures, are very dynamic and context-specific. The gaps with respect to Finnvera’s export business and domestic business are different.

4.3.1 Market Gaps

The extent to which Finnvera operates in areas where the private sector sources of finance and risk capacity are not willing or able to operate.

On the export side, systemic market gaps exist for:

- Certain countries where the political risk is high
- Certain buyers which cannot get coverage from the private credit insurers
- Certain transactions which are very large or very small for which the banks and private credit insurers are unable to support
- Certain sectors which are inherently higher risk
- Certain tenors for repayments which are longer than the banks can get funding

A market gap includes the concept of coverage or financing that might be available to exporters of other countries which compete specifically with Finnish exports on specific transaction. While Finnvera is fairly precise in identifying market gaps and the understanding the changing nature of the gaps is strong, its ability to respond to these gaps is limited and Finnvera is still leaving unfilled gaps due to its own risk capacity limitations.

On domestic side, credit gaps can exist because the banks are unwilling or incapable to lend due to lack of collateral, small size of the venture, the early stage/start-up thus creating a lack of proven track record and high risk involved. This

results in too high a price of financing for SMEs. There are also important information gaps for SMEs, for example how to do business in different export markets.

It is not always obvious that Finnvera is seen as a gap-filler. Very often banks seem to take for granted that Finnvera is involved in risk-sharing (usually 50-50 deal), and Finnvera's presence is accordingly seen as a standard practice. This 'systemic failure' in the markets may rather reflect banks' attitude towards risk taking and willingness to invite Finnvera to share risk with them. However, instead of solely covering market gaps per se, this might indicate some level of an "unhealthy symbiosis" between banks and Finnvera. From Finnvera's perspective, it is hard to say whether they are actually crowding-in or unnecessarily sharing risk with the bank. It seems that Finnvera top management acknowledges the dilemma and emphasis has been put on giving room for banks and refraining from involvement if banks are willing to finance the company alone. However, Finnvera traditions and related practices for SME financing go back years and it takes time to implement the new strategy and for the strategy to take root, particularly when the staff mobility is relatively modest.

During consultations in the regions, it was felt that in some instances Finnvera was potentially crowding out the banks. There is some indication from the regional banks that Finnvera's subsidised loan products may disturb the competition as Finnvera "picks the regional cherries". However, particularly during current, very low interest rates the impact is not likely to be notable. Again, this may reflect common practices in the regions, where SMEs have traditionally relied on Finnvera loans and for them it is most natural to continue to collaborate with Finnvera rather than with the local bank solely. In some cases SMEs may even consider Finnvera as the first resort of finance. However, this implies that Finnvera finance is then not necessarily addressing the market gap, but it is rather 'business as usual'. During the last 20 years or so, financial markets have developed considerably and market gaps are rare. They mainly relate to small projects of small companies, which however can produce considerable amount of new business. In addition, it is suggested that supporting the risky projects of small and innovative (potential) growth companies is justified.⁴⁶

High-potential, innovative start-up companies are in the purview of Avera, which provides seed funds for them. Finnish venture capital markets, particularly in the early pre-commercialisation stage, are underdeveloped and significant market gaps do exist. Avera has succeeded to crowd in some private co-investors with whom Avera has made syndicated investments. On the contrary, there is also some indication that Avera has crowded out private money as the 'market place' for investors and companies used to be restricted to the members of the business angels network only and was not, thus, fully open. Recently the network has been made open and it has, thus, better potential to attract private money. The development of Finnish VC

46 Koski & Ylä-Anttila, 2011

markets requires international funds the development of which is mainly given to the Finnish Industry Development.

Finnvera's new strategy from 2005-06 emphasises that Finnvera refrains from financing if banks are willing to finance a company alone. Finnvera, thus, is not to compete with the banks. This is in line with the idea, that ultimately private sector would develop and no public intervention is needed. Based on Finnvera's figures (e.g. financing granted) this is yet to be seen. From 1999 until 2006 there has been a slight increase annually in the volume of domestic financing granted. It is to be questioned whether market failure has grown accordingly. If that were the case, Finnvera would not have succeeded in fixing the market failure. In 2007, after launching the new strategy there was a slight decline in volume, but in 2008 and 2009 during the financial crunch the volumes increased again (see section 4.3.2 below on Market Malfunction). The volumes of 2010 and 2011 are at somewhat lower level in comparison to previous two year, but this gives no clear indication of Finnvera crowding in our out.

Summary 3: Market Gaps

Finnvera identifies market gaps and works to address these, but on the domestic side can be seen to "overfill" given that commercial banks, particularly in the regions, have become too accustomed to the risk cover. VC markets in Finland are underdeveloped and market gaps exist particularly in the very early stages. On the export side, the market gaps are well-established and well-defined, but Finnvera's risk capacity may limit its ability to cover all gaps. Other ECAs operate in a similar way so Finnvera's ability to "match" ECA competition is important.

4.3.2 Market Malfunction

The extent to which Finnvera's financial support mechanisms are responsive to temporary market malfunctions.

Finnvera's response to the market malfunction during the global financial crisis was fairly well executed. In situations like this, having a viable entity like Finnvera as vital lifeline to be used immediately to establish a new instrument and programme (such as cyclical loan) is an important competitive advantage. Those countries without such financing entities that had to establish programmes from scratch have found that it takes much time and can be less effective.

On the domestic side, the experiences and lessons learned from the implementation of Finnvera's cyclical loan programme during the recession in 1990's were brought to bear effectively during the global financial crisis. The re-introduction of cyclical loan

program was implemented very quickly and deemed highly successful. The increase of Finnvera's financing granted in 2008 and 2009 (see Table 7) reflects the situation in the financial markets then.

On the export side, Finnvera stepping into short-term credit insurance market and then stepping out when private market appetite returned was appreciated by both exporters and the private insurers. In 2008, the rapid reduction or withdrawal of buyer credit limits by private insurers left Finnish SMEs without coverage. Finland was relatively quick to seek a temporary waiver from the European Commission to be able to provide cover for previously marketable-risk countries.

Since the global financial crisis in 2008, financing gaps have emerged relating to inability of commercial banks to fund transactions for certain long-term maturities. A temporary funding scheme was introduced by the State Treasury via FEC which was considered to be too limited in size and took too long to be implemented. These gaps have prolonged and have arguably shifted from temporary market malfunctions to becoming more like systemic market gaps as banks have had difficulty accessing the capital markets for long term maturities and the introduction of Basel III rules may make the funding gap even more pronounced in the future. Moreover, the temporary scheme lapsed before a new permanent scheme was developed. Efforts to put in place a more permanent funding scheme have been slow and negotiations between Finnvera and the Ministry of Finance on the details of the arrangement have been protracted and generated uncertainty which has made it difficult for exporters and banks to give clear signals to borrowers, particularly about the price and conditions of financing. Other countries either had funding vehicles already in place (e.g. SEK in Sweden), or like Denmark, were able to establish a temporary funding scheme.

Summary 4: Market Malfunction

During the global financial crisis, Finnvera responded efficiently and effectively in its implementation of the cyclical loan programme. Although requiring approval of the European Commission which took time, the expansion of ST credit insurance business in response to the temporary market malfunctions that emerged suddenly was well handled. On the other hand, the introduction of the temporary funding scheme was deemed to be "too little too late" by exporters and banks and continued uncertainty remains. This is beyond the responsibility of Finnvera as the new funding scheme required the input of the State Treasury and MEE as well.

5 International Considerations

This section covers three main areas: Competitiveness, Best Practices and International Regulations.

5.1 Competitiveness

The extent to which Finnvera provides internationally competitive export credit services.

Transaction-specific competition exists between Finnish exports and exports from other countries, backed by their ECAs. This section looks at Finnvera within an international context by analysing the extent to which Finnvera is international competitive with its export credit activities.

In order to seek a level playing field between ECAs, the OECD Arrangement on Officially Supported Export Credits was agreed so that competition can be on the basis of the quality and price of the export and not the financing. However, only those countries which are Participants of the OECD Arrangement are bound by it and increasingly countries, such as Brazil, Russia, India and China (BRICs), which do not abide in general with the OECD rules, are becoming direct competitors.

5.1.1 Price Competitiveness

The concept of export credit pricing is critical in competitive situations in which Finnish exporters are competing against exporters from other countries for a particular export transaction. This is especially so when financing packages are sought by the buyers as part of the overall international competitive bidding process in which an exporter needs to present not only a commercial/technical offer but also a financing offer.

From the point of view of the buyer, the financing package is seen as an all-in price, including all fees and interest rates. In order to make the comparison, it is useful to look at the components of the pricing to compare. The all-in price for financing is the basic element of competitiveness relating to the financial package. The main components of all-in pricing are in essence:

- Credit spread
- Cost of funds

The credit spread relates to the risk of the borrower and the availability of cover from the ECA, whereas the cost of funds relates to the financing entity's own price

of financing. The credit spread charged by the funding bank reflects the credit risk of the borrower/buyer and/or where there is a guarantee from the ECA, the premium charged will be reflected in the credit spread. OECD ECAs are bound by the OECD Arrangement on minimum premium rates, which until recently, only covered country risk, so there was no requirement to charge any additional premium to cover the commercial or project risk. However, since September 2011 the OECD countries agreed that minimum rates will also be applied to commercial risks.

In the past, Finnvera's premium rates have been generally higher priced than some direct competitors, as Finnvera has tried to price to risk, taking market benchmarks where possible, whereas some of its competitors have tended to charge the basic minimum price required under the OECD premium scheme. Some ECAs would treat the minimum premiums as basis for the rates to be charged, irrespective of the risk of the particular transaction. It was suggested that this has been a particular feature of competition with Germany's Euler-Hermes. The difference in pricing has been a particular problem for the better risks where it was said that Finnvera tends to act more as an unfunded bank participant rather than a specialised government risk-taker.

However, with the change in the premium system under the OECD now requiring commercial risk premiums to be charged, it is a step towards further levelling the playing field between ECAs and will improve Finnvera's position by ensuring that other ECAs charge a higher price.

On the funding side, the export finance bank will charge a credit spread on top of its cost of funds. The credit spread will reflected the combined residual (uncovered portion) and the ECA coverage. The cost of funds for banks has become a central issue for funding of export credits. Nowadays, banks have had difficulty accessing long-term funds at competitive prices, if at all. Where they can access long-term funds, banks have had to charge liquidity premiums on top of their "normal" costs of borrowing.

The OECD Arrangement dictates minimum lending rates (Commercial Interest Reference Rate, or CIRR) for situations in which the ECA is providing fixed rate funding support, either as a direct lender, refinancer or through an interest make-up scheme. The CIRR is a formulation meant to approximate the cost of funds in a hard currency which is relative to the government borrowing rate (e.g. US\$ CIRR reflect US Government Treasuries plus 100 basis points) but there are certain features of the CIRR formulation which in the current market environment are not market reflective.

Some ECAs provide direct lending themselves to the foreign borrower at CIRR plus a credit spread (Canada, Australia, Japan and USA, for example). This has been advantageous in the last few years as commercial banks have struggled with funding costs and availability. Since the global financial crisis, it is no longer a question of *at what price* can they offer but *whether* they can access long-term funding at all.

As discussed in Section 4.2, the temporary funding scheme which was introduced in 2009 and was criticised for being "too little too late". A more permanent scheme is deemed to be required and the government has been considering a number of

alternatives to the funding issue. (See Appendix D for a discussion of the Funding Schemes under development). However, no permanent solution has yet been made available (as of time of writing) and the manner in which this issue has been managed has been disruptive to the exporters and financing players which need to give buyers an early and clear signal about financing of an export transaction. The lack of clarity about what funding will be available, when it will be available, how it will be made available and how much will be available has been a source of serious concern.

For Finnvera, which is being required to set up a *de novo* Treasury operation to issue medium-term notes, the uncertainties around the existence and nature of a state guarantee on the funding instrument, as well as the size and conditions of a liquidity line from government have delayed and confused the process of getting to a funding product to the market.

More and more, the funding of export credit transactions is becoming a major issue of competitiveness. SEK in Sweden has many years of funding itself on the capital markets and being able to offer fixed rate finance on long term. The Swedish government backs the inherent liquidity of SEK. Existence of this substantial (“back stop”) limit is very important although in practice this limit has not been needed to be used. In effect, the Swedish government covers SEK’s CIRR risks. Whether SEK and others can continue to offer CIRR flat in US dollars will depend on their governments’ continued willingness to fund the inherent liquidity risks.

5.1.2 Risk Capacity

The second element of competitiveness is risk capacity, i.e. how much risk can the ECA take for a particularly deal or against its overall portfolio limit. Although Finnvera is very well respected for its risk assessment capabilities both domestically and internationally and their underwriting team is strong, some exporters and banks argue that Finnvera does not take enough risk, given its pattern of profits over the last decades.

An ECA’s risk capacity is a function of its capital and level of government backing, as well as the nature of the transactions it supports. However, Finnvera’s risk taking is limited by certain factors – both qualitative and quantitative. There are certain unique features of the Finnish export credit system which impact on its ability to take risk:

1. **Balance sheet limitations and the government backstop**

As is discussed in more detail in Section 5.2, Finnvera is limited by the size of its own capital base and the extent of the government’s backstop. Finnvera is a limited liability company with an explicit guarantee of the government for its obligations.

2. **Liability of Directors as limited public liability company**

As a plc under the Companies Act, Finnvera’s corporate governance means that its directors are liable for decisions taken. This is in contrast to a government

agent or department. Historical experiences with antecedent organisations to Finnvera still linger in the corporate memory (even if the events occurred long before the current management was in place) and great care is taken when decisions to underwrite large deals are taken.

3. Concentration risks are very high

Given the nature of the export business, Finnvera's transactions tend to be large and lumpy. Whereas the domestic portfolio comprises thousands of small transactions, for which efficiency is the critical factor, the export portfolio comprises a few, large and relatively risky deals which require detailed analysis. Getting one deal wrong would have significant consequences, i.e. could wipe out Finnvera's capital.

For these reasons, Finnvera is cautious about taking risks and seeks to risk share with funding banks and other private and other market players (such as private political risk insurers and multilateral development banks), not only to reduce exposures, but also to validate their assessment of the risks. The extent to which Finnvera relies upon and requires other risk participants may be higher than other ECAs and thus can be seen to complicate the deals more than exporters would want. According to the 2011 independent survey, foreign financiers felt that Finnvera's products were less suitable than those of other ECAs (3,91 out of 5 for Finnvera versus 4,28 for other ECAs). But, given the constraints under which it operates, Finnvera's approach is reasonable and appropriate.

The issue of whether Finnvera takes enough risk is discussed in more detail in Section 5.2 and in Appendix C.

5.1.3 Other Aspects of Competitiveness

There are additional aspects of competitiveness which relate to the percentage of risk-sharing and quality of coverage of the ECA.

With an AAA credit rating by virtue of its government shareholding, Finnvera's coverage is more valuable to financing banks than ECAs of government's whose credit rating is lower. Finnvera's maximum percentage coverage is 95% for commercial risk to match other ECAs (such as Germany and Sweden) which provide as a standard 95% coverage of the commercial risk of the export contract for a buyer credit. This means that the financing bank has a larger uncovered portion which it will seek additional collateral or other risk mitigation instruments.

In terms of national interest, this defines what parts of a Finnish company's activities are eligible for Finnvera support. Historically, the definition was restricted to Finnish content of an export transaction. ECAs worldwide have expanded their definitions from national content to national interest. This has meant that no longer was support limited to products or services "made in Finland" but could be expanded. Finnvera is as flexible as – or even more so than – other ECAs.

Summary 5: Competitiveness

Finnvera is competitive with other ECAs against a number of dimensions, but there is an expectation that Finland will not lose export transactions because of credit pricing. Moreover, it seems that Finnvera is more willing to match the pricing or credit risk. With respect to the price of funding, the delay in putting an arrangement in place caused by lengthy negotiations with the Ministry of Finance to have a workable scheme have put Finnish exporters at a disadvantage, particularly compared to those countries with export financing systems already in place.

5.2 Benchmarking

The extent to which Finnvera performs well as compared to its peers – both ECAs and SME Financing Systems.

Finnvera operates essentially in two main areas: export and domestic. The relevance of the international considerations for the domestic side relates to benchmarking how other countries support their SMEs and provide SME financing. Similarly, having analyzed competitiveness, this section also looks at the export credit business of Finnvera and benchmarks against other ECAs and ECA systems.

5.2.1 Export Credit

There is no single perfect model for an ECA and each must be assessed against the unique characteristics of that country in terms of its export profile, financial system and the governance system. It is useful to look at this area carefully given some of the unique features of Finnvera. So ECA practices in China or Canada or Germany would not necessarily be appropriate to apply in Finland. Each country's activities must be considered within the context of their local circumstance. Therefore, the range of ECA business models and practices are a product of history, as well as the particular situations faced by each country.

The best ECA is one which strikes an appropriate balance between a) minimising the risk position of the government; b) optimising the involvement of the commercial banks and private financiers and c) meeting the needs of exporting companies. Differing approaches to public finance, national accounting practices, variations in domestic economic conditions and export market requirements all have a role to play in establishing what may be viewed as an appropriate export financing business model.

5.2.1.1 MINIMISING THE GOVERNMENT'S RISK POSITION

From a Treasury perspective perhaps the two most critical elements are the source of funds for export transaction support, and the approach to credit risk management. The relationship between the export credit institution and the government shareholder is vital not only to the institution, but also to the fiscal balance and borrowing program of the government itself. Even entities which are “self-sustaining”, or have this as a goal, carry risks which will ultimately need to be backstopped by the public shareholder.

For government sponsors of ECAs, the question is how to structure the relationship in a manner which manages these risks effectively, and efficiently, while ensuring the export credit institution has the tools and incentives to deliver on its export promotion mandate.

Like all financial institutions, ECA financing has embedded risks to the Treasury which need to be recognised, understood, and managed effectively. Fiscal surprises due to unanticipated losses, or surpluses, which carry through to the government's bottom line can be disruptive to anticipated outcomes for the government's economic and financial performance more broadly.

The spectrum of business models, running from full on-book government management toward substantially externalised risk, is set out below. Within these models, variations on products and services offered include insurance, credit guarantees, interest make-up, and financing. A basic characterisation of ECA business models, in order of increasing autonomy, runs along the following lines:

A. Department of government, internalised risk (e.g. EDC's Canada Account)

This model is closest to government, arguably with greatest direct Treasury control over funding arrangements and credit decisions. The Treasury bears full risk of default and would normally provision against the risk of loss on its own accounts. The Treasury may fund transactions (e.g. EDC's Canada Account) or may choose external funding source under a guarantee. This approach is perhaps best suited to situations where the government wishes to exercise greatest control over the decision to finance, such as in national interest cases. Canada's decision to match Brazil's financing subsidies in the context of the WTO dispute over regional aircraft financing is a case in point. The full risk of loss is borne by the Treasury and is backed by accounting provisions in the government's books.

B. Agency of government, backstopped risk (e.g. US Ex-Im; Japan's NEXI)

The differences between this model and the departmental approach described above are largely administrative. Autonomous agencies of government may have operational and accountability advantages and can take on defined missions with greater focus and effectiveness than government itself, although typically with less policy input.

However from a Treasury perspective there is, arguably, little difference. The underwriting risks and the funding typically fall directly on the Treasury. That said, for larger scale operations where policy control over individual transactions is less critical, the operational and accountability gains are important. Moreover, the focus of purpose can allow governments to take a strategic approach, approving business plans and requiring periodic accountability on both costs and results.

C. Private or public/private autonomous agent, backstopped risk on government account (e.g. Germany's Euler-Hermes, France's COFACE)

Outsourcing to a private operator (or operators) is a fundamentally different approach to institutionalising a nation's export credit system. Externalising the credit operations can allow the government to leverage off of private sector expertise in the complex business of credit underwriting. This has the potential to build on the synergies between underwriting projects backed by the public sector with those of the private sector. Public risk exposure can be tightly controlled by authorisation limits and project selection overseen through official processes thus maintaining appropriate oversight of business operations being undertaken with explicit public support.

One challenge of this approach is to maintain incentive structures within the private entity that remain consistent with the public sector goals. Another is how to select the private partner and to ensure no disruption of normal market operations for credit underwriters not linked to the public system.

D. Highly capitalised entity, internally provisioned (e.g. Canada's EDC, Russia's EXIAR)

Highly autonomous entities with full borrowing capacity and the internal ability to manage all decisions on credit support, risk management strategies in line with broad objectives of expanding the export sector. Such entities operate most effectively with a diverse lending portfolio across a broad range of economic sectors. Institutional incentives are centered in the organisation which is strengthened by the degree of autonomy. Government controls over operations tend to be at the most general level, possibly through annual business plan approval processes. Governments are not able to manage operational decisions; where this is necessary the agency may provide services under a separate national account where it administers select business with the funding and risk itself being borne by the public shareholder.

E. Partially capitalised entity, risk backstop protection (EKN, SEK)

These are autonomous, wholly-owned public entities with the capacity to hold and manage capital to meet operational needs. Such entities frequently are structured to retain earnings, and reinvest as a practical way of externalising some of the risks

that would otherwise fall on solely on government. This type of structure can be particularly useful in incentivising strong risk management performance.

SEK has a long track record of borrowing in the capital markets and arranging CIRR-based (flat) financing for Swedish exports. In 2008-2009 the Swedish government launched a major guarantee programme which included providing a guarantee for SEK's borrowing. SEK has been able to access a state guarantee for its borrowing with "commercial conditions" in which SEK pays a market-based fee for the state guarantees. However, to date, while the option to seek such a guarantee is available, SEK has not used this. Other countries have other types of mechanisms to facilitate the provision of CIRR-flat financing, such as direct lending (e.g. EDC, JBIC and US Ex-Im).

Finnvera is arguably in Category E of this list.

5.2.1.2 OPTIMISING THE INVOLVEMENT OF THE COMMERCIAL BANKS AND PRIVATE FINANCIERS

As is discussed in detail in Section 7.2.2, Finnvera's business model – on both the export credit guarantee and export funding side – works very closely with the banks and seeks to maximise the involvement of other players. Some feedback we have received suggests that Finnvera needs to find additional risk sharing partners to close the gaps. This includes private insurers and multilateral development banks (MDBs) or bilateral development finance institutions (DFIs).

Summary 6a: Benchmarking Against Other ECAs

Other countries have much bigger risk appetites, much less concentrated portfolios, much larger balance sheets (or none at all as it goes directly onto the government's accounts) or have a full or partial government guarantee for every deal. As a consequence, Finnvera works to find risk capacity in the market and tries to share risks with other players. This reflects the risk taking model that has been adopted.

5.2.2 Domestic Financing

Regarding domestic SME financing there are as many systems as there are countries. The domestic systems are always country/context specific and not easily transferable as such to another setting. However, benchmarking of different systems provides valuable insights on the ways public intervention in finance is being organised in different settings. Unlike export credit systems, the domestic financing systems do not directly face competition in the global market place.

Sweden – Almi

Almi Företagspartner AB is state-owned and has 17 subsidiaries. These 17 companies are active in all Swedish counties and responsible for all operational activities. The parent company is responsible for management, coordination, development of products, for example. The parent company owns 51% of the subsidiaries and the other owners are, for example, regional authorities. The “trade department” (Näringsdepartementet) provides Almi with annual action plans but the regional authorities can steer the subsidiaries’ activities as they prefer.

Almi is a combination of financing (loans) and business development. Out of the staff of 450 a majority works in consultancy services that are subject to charge. The objective is to get more innovative ideas to the market successfully, to get more viable businesses launched and developed, as well as to increase the competitiveness and profitability of the businesses. Almi’s lending activity is self-financed. Swedish Almi has started to emphasise the potential of the company or the plan (for applicants in the planning phase) and the capabilities and know-how of the management in its financing decisions. Almi aims at financing successful commercialised innovation, more companies devoted to sustainable development and more competitive growth companies. Almi offers customised company and innovation advice and a free study programme for people with entrepreneurial intentions.

Bank financing is a precondition for Almi financing. Almi’s success is measured on an annual basis. The indicators are used to measure how many customers are able to commercialise their idea; how many start-ups that received support from Almi are surviving after three years; the revenue and employment rate of Almi customers; and profit of financing operations, for example. In addition to Almi, a regional Norrlandsfonden offers loans for SMEs. In general the Swedish system is quite complex and it has many actors corresponding to the Finnish enterprise support system.

Norway – Innovation Norway

Innovation Norway is state-owned and its task is to enhance sustainable business and to support regional development by financing companies’ innovation and internationalisation. It offers loans, grants, capital investments and consultancy services. The consultancy services are subject to charge. Innovation Norge was established in 2004 after a merger of a great number of public agencies. Innovation Norway has a staff of 750 people out of which one third is in its regional offices, one third in its technology and export offices abroad and one third in the Oslo headquarters. Innovation Norway’s tasks are to promote innovation and competitiveness of Norwegian companies, promote Norway as a tourist destination, support development in rural areas, help transforming ideas into business and promote interaction between enterprises, communities and research and development institutions. Compared to Finnvera, Innovation Norway does not provide export financing nor domestic guarantees. Innovation Norway has both domestic and foreign networks and it is responsible for activities and foreign activities

corresponding to Finpro's activities, MEK's (Finnish Tourist Board) marketing activities as well as grant services corresponding to ELY-Centre's support.. Innovation Norway's loans have a market-based pricing and its losses are compensated by the state.

Denmark – Vaekstfonden

Vaekstfonden is a state investment fund. Its products are direct investments and loan guarantees (no direct loans) and its financing is market-based. The size of the fund is 300 million €s (2006) and the number of staff is 50. Vaekstfonden invests in life sciences, technology ventures, growth companies, need driven ventures and regional initiatives. Its customers are mainly SMEs. In general the Danish system is quite light, efficient and market-based.

Germany – KfW

KfW banking group is a state owned development bank that offers loans, capital investments and consulting services. The group of five banks operates under the German Ministry of Finance and is one of the country's biggest credit institutions with a staff of 3600. The five banks under the KfW umbrella are SME bank, Progress bank (housing, infrastructure, environment and climate), the IPEX bank (international projects and exports), Development bank (financing investments and consulting in developing countries) and DEG bank (credit and consulting services in transition economies). KfW provides credit for companies, communities, export and projects and development aid, for example. KfW's credit for SME through the banking sector, other credits are direct. Regarding SME bank KfW's customers are SMEs and self-employed persons. KfW used funds from European Structural funds in its capital investments.

Italy – MCC SpA

The Italian MCC is owned by the Italian State (majority) and co-operative banks. MCC administers public SME financing programmes and is a commercial bank. Regarding public operations MCC offers grants and guarantees. On the banking side MCC offers market-based loans and does market based business in project and export financing. In addition to MCC National Agency for inward investment promotion and enterprise development (Sviluppo Italia) supports innovation, regional growth and entrepreneurship in Italy. It offers grants, small loans and consultancy services and cooperates with MCC in the regions. In Italy the administration of state's SME financing programmes is subject to tendering process every five years.

Canada – Business Development Bank of Canada and Canada Small Business Loan Administration

Business Development Bank of Canada (BDC) is a state-owned development bank that offers loans, consultancy service and capital investments. It operates in high risk projects and its products and services are relatively expensive. It has a staff

of 1700. BDC is relatively inexpensive for the state; the state does not cover BDC's losses or pay interest subsidies for BDCs customers, but BDC pays the state from its profit. BDC has 94 regional offices around the country and 95% of financing decisions are made in regional offices. Canada Small Business Loan Administration (CSBLA) is administered by the state and offers guarantees for investment loans offered by commercial banks. The number of staff is 30 and CSBLA's pricing is market-based.

Israel – Yozma

Yozma programme was initiated by Israeli government in 1992 solely to generate an international and well-functioning capital investment market. The aim was to remove the deficiencies in business knowledge, networks as well as to increase the amount of capital by attracting international actors from the USA, Western Europe and Japan. The programme was built on syndicated investments with Israeli government and private investors and they were to last 10 years. The Israeli government had no profit-making goals. The aim was to create a novel financial market and private investors are able to buy-out the government share with new equity during first five years of any fund. In 2002 the equity funds covered 2,9 billion dollars, and before 2009 almost 90% of funding was international and there were 60 actors involved. The financial turbulence, however, decreased to amount of available funds in Yozma^{47 48}.

In addition, up-to-date information received from Finnvera Business intelligence unit indicates that many countries providing public SME finance roughly adopt similar risk-sharing with banks: 20% own financing of an SME when banks and a public risk-financier share the rest very often on 50/50 basis. In some cases, e.g. Almi in Sweden, the share of public finance may be less, about 25-40%.

During the financial crisis many countries in Europe have launched programmes to make SME financing more accessible. Often countries have increased the risk-taking capacity and/or commitment limits, developed new products or made them available for new customer types and branches. Slowly European countries are in a process of suspending the temporary programmes launched during the financial crisis.

Summary 6b: Benchmarking Against Other SME Financing Systems

SME financing systems are context specific and not easily applicable in other countries as such. Finnvera, as one Finnish actor in SME financing, shares a number of key features of its peers. Comparing an overall systems level, some countries have fewer actors with more coordinated approach and other countries may rely more on private sector financiers.

47 Lerner, 2009

48 Puttonen & Kähkönen, 2010

5.3 EU and OECD regulations

The extent to which Finnvera meets its international obligations.

Finland is a well-respected and highly credible member of the international community. Finnvera is similarly respected as a SME Development Bank and ECAs within its respective peer networks.

Finnvera tends to “play by the rules” in a fairly strict sense. Finland was one of the first countries to apply and receive a waiver from the EC for offering short-term credit insurance on marketable countries during the global financial crisis. However, Finnvera and the MEE also can work actively to help shape them with the EU context (for both export credit and EU structural funds.

Summary 7: International Regulations

Finnvera respects its international legal obligations, but MEE must recognize its ability to influence the rules to make them more market-reflective and practical.

6 Public Sector Considerations

6.1 Strategic Guidance

The extent to which MEE's strategic guidance reflects national policy and is communicated to relevant stakeholders

As Finnvera belongs to the MEE group it is steered by MEE. In addition, Ministry of Finance gives frames for the steering as it is responsible for the state budget. Each year Finnvera and MEE negotiate annual goals which reflect MEE group strategy and it is demonstrated in industrial policy goals and ownership policy goals. For 2012 the goals are as follows:

Table 9. Goals of Finnvera in 2012

Goals
MEE Industrial Policy Goals
<ul style="list-style-type: none"> • Finnvera supports value added new, growth and export oriented business <ul style="list-style-type: none"> – Finnvera participates in Growth Channel services and participates in Enterprise Finland events – Finnvera targets financing for growth companies and starts to use a common growth company definition with other MEE organisations • Finnvera develops venture capital activities for start-ups and regional funds <ul style="list-style-type: none"> – Vera Ltd has further focused on targeting EU Regional Funds to VC-activities. 75 private investors have participated in Seed Fund Vera activities – There are 170 members in the business angel network and private investors' share in regional funds has been taken level required by EU state aid rules <p>Finnvera promotes Finland's energy self-sufficiency by financing projects supporting it</p>
Other Industrial Policy Goals
<ul style="list-style-type: none"> • Finnvera addresses market failure by focusing on start-ups (financing for 3500 start-ups) • Finnvera helps create 10 000 new jobs • Finnvera finances all eligible projects in structural change regions • Minimum of 40% of loans, guarantees and export guarantees are granted to regional policy support areas I and II • Finnvera continues to develop the export credit scheme to guarantee a competitive service for Finnish exporters • Maximum of 10 % of Finnvera financing is granted to large companies outside support areas
Ownership Policy Goals
<ul style="list-style-type: none"> • Finnvera Group's cost-efficiency ratio is maximum 0.50 and parent company's domestic financing's ratio is maximum 0.60 • Finnvera Group's solvency ratio is 12-20%
Qualitative Goals
<ul style="list-style-type: none"> • Finnvera implements the common enterprise customer strategy for MEE organisations • Finnvera complements its operations system with a project management system • Finnvera participates in external evaluation commissioned by MEE • Finnvera takes into account all special MEE organisation themes

In addition, the annual steering document includes detailed annual information (key figures) on the issues related to the above goals. This annual document is negotiated by MEE and Finnvera management and Finnvera Board of Directors take it as given. The goals are of an operational nature rather than strategic. Although there is a visible semantic link to MEE overall goals with regard to promoting growth and exports, the contribution of the Finnvera goals to wider national policy goals remains unclear. These overall goals as well as more operational goals such as participation in the Growth Channel and Enterprise Finland, integrate Finnvera activities to other MEE actors, particularly those belonging to Group 1. However, the respective actors are steered on one-by-one basis indicating the lack of steering synergies with other MEE actors, especially MEE financing agencies such as Tekes, Finnish Industry Investment and ELY-centres.

The goals as well as the performance stated in the appendix of the steering document are very detailed and specific, and sometimes even contradictory, e.g. it is quite impossible to assess *ex ante* how many start-ups firms or companies situated in regional policy support areas face market gaps in their financing during the following year. In addition, goals related to supporting growth and regional policy aims might conflict or at least regional policy perspective in company support does not necessarily provide optimum level of growth. Finally, the goal to increase risk-taking may conflict requirement for self-sufficiency. Although Finnvera's targets are derived from the MEE policy and its goals, the line of sight between its goals and the MEE strategic objectives is unclear as steering impulse from the MEE does not pass on in the organisation from the top-down but it at least partly by-passes Finnvera's governing bodies. This is discussed in more detail in Section 7.2.3.

Although very specific goals are set for Finnvera it is unclear who possesses the overall picture of the risk taken in relation to economic and societal impact of Finnvera. Given that Finnvera is a public risk financier and it is mandated to promote SME-development, exports and internationalisation of companies and government's regional policy goals by addressing market gaps, information on the achievement of core targets in relation to risk taken remains vague and unclear. Finnvera is steered more like a government department than an autonomous limited company. Board of Directors concentrate on operational decision-making, particularly on decisions related to larger financing deals. There is too little time for strategic perspective and dialogue with the MEE (owner).

The supervisory board has a role of an advisory board although it needs to be consulted when major organisational changes are implemented or other far reaching decisions made. However, it has a significant role in informing the members of the Finnish parliament who make decisions on state's budget and laws, for example, both of which have impact on Finnvera activities.

Summary 8: Strategic Guidance

Finnvera's governance is atypical for a limited company. The owner gives relatively specific and operational targets for the management. The national policy agenda is visible in Finnvera's steering but more operational targets overrule them. The contribution to policy level goals is lacking and the strategic discussion of the impact and the role of the Finnvera remain vague. Finnvera tends to meet the targets given.

6.2 Regional Development

The extent to which Finnvera's financial support is beneficial to regional development.

Finnvera is mandated to promote realisation of government's regional policy goals. The mandate goes back to Finnvera's establishment in 1999 and particularly to its predecessor Kera Corporation, which was a regional development fund. Roots for Finnvera's regional development activities are deep.

The business environment of Finnish companies has changed dramatically due to globalisation for example, and the possibilities to support regional development through risk-financing instruments have changed accordingly. Currently, risk-financing is very much related to supporting growth and innovation. A number of studies question the role of regional policy objectives in promoting growth and innovation suggesting that the integration of regional and growth policies might even lead to inefficiencies. Regional policy objectives are not justified by market failure per se – there is no justification for regional policy objectives based on financial theories but rather on politics. In addition, lack of growth companies in the regions does not necessarily imply lack of money, but rather lack of ideas to be commercialised. This is not to say that regional policy would not be important, but rather the issue is whether Finnvera as a public risk financier is the optimal or even relevant actor to address regional policy targets. Using Finnvera to achieve regional development objectives might, as discussed earlier in section 6.1, lead to conflicting steering impulses and outcomes accordingly particularly from the market failure point of view.

The regional policy perspective of Finnvera's financing is visible in the annual steering document (see 6.1.). The targets are communicated as input measures and, as such, they reflect neither regional development objectives nor the contribution to wider national policy goals but rather are based on the amount of finance granted by Finnvera. Particularly Finnvera's customer segment 2 is to address the regional policy goals as Finnvera supports the needs of developing and investing SMEs in the

regions. Although Finnvera's involvement is certainly beneficial for SMEs tackling with their investments, it does not necessarily address innovation and growth of the SMEs. Certainly Finnvera manages to support SMEs in the regions and most SMEs are very content with Finnvera's services complementing those of banks (see Figure 10, Section 4.2.). In most cases also banks are satisfied with the co-operation as risk-sharing with Finnvera makes it possible for them to finance risky SMEs. Particularly in the regions there are long traditions for collaboration between SMEs and Finnvera and also with local banks. Serious concerns are related to how Finnvera support then addresses market failure, which is the fundamental requirement for Finnvera involvement. Some occasional indication of competition was raised by local banks reflecting the fact that market failure and regional policy do not necessarily go hand in hand. On the other hand, it seems that sometimes Finnvera pushes banks to offer more affordable conditions for their finance and to take more risks. In these cases, access of finance seems not to be the major problem, but it is rather about the pricing and conditions related to risk-taking.

Another question is how much Finnvera involvement supports regional development or growth, innovation and exports respectively. Surely some benefits of Finnvera's involvement for regional development exist but other means might be more effective for regional policy than pure financial instruments. On the other hand, regional policy goals may rather support old industries and structures, and, thus, hinder structural development in the regions. Finally, regional policy instruments of Finnvera with ERDF elements cause administrative burden for Finnvera and decreases Finnvera's availability to interface and work directly with customers.

Summary 9: Regional Development

Finnvera performs well in regions and its involvement and collaboration is highly valued by SMEs and banks. However, Finnvera involvement is not necessarily justified by market failure. Although Finnvera meets the annual input targets, the contribution of its activities to regional development is unclear. There is a danger that Finnvera support postpones necessary structural adjustment away from "sunset industries" towards new sectors. The global business environment of SMEs has changed dramatically and promoting regional policy through public intervention in the form of company financing is no longer considered efficient.

6.3 Synergies and Overlaps between MEE Agents

The extent to which MEE organisation pursues maximum synergy and optimal overlap between its actors.

The MEE organisations' enterprise support services and financing network have been reviewed and even criticised by other reports⁴⁹. It is also suggested that the system itself work reasonably well, but Finland just lacks the input to the system. i.e. ideas and companies to be supported⁵⁰.

There are numerous regional programmes and points of service which may hinder the supply of private service providers. Different types of public financial support are provided by a number of MEE actors:

- Finnvera Plc: loans, guarantees, export credit guarantees, and through its subsidiaries:
 - Veraventure: Investments to regional funds
 - Seed Fund Vera Ltd: Direct investments (early stage)
 - Matkailukehityksen Nordia Ltd: Direct investment in tourism industry
- Tekes: grants and loans for R&D&I and and venture capital via NIY (Young Innovative Companies) and TULI (from research to business) programmes
- Finnish Industry Investment: direct venture capital investments (growth and internationalisation) and investments on VC funds
- ELY-centres: start-up grants and development grants.

From MEE's perspective the steering of these various actors is a challenging task given that the agencies have some joint goals but different means to reach them. A crucial question is: how and by whom the holistic picture of the support provided and impacts thereof is created and communicated to the stakeholders and relevant agencies so that they can improve their performance accordingly?

In addition, there are a number of other public actors to provide business support for SMEs in Finland. Some of the Group 1 (see Section 3.4) organisations have participated in creating a common enterprise customer strategy for MEE organisations. The idea of the strategy is to create common customer segments for all organisations serving enterprise customers. Finnvera's segmentation matches with the common MEE customer segmentation. Relating to the joint customer segments Enterprise Finland online service was developed to provide information about the kinds of public assistance available to companies or entrepreneurs in Finland. Enterprise Finland is supposed to be a point of single contact for the enterprise.

6.3.1 MEE cooperation in growth & internationalisation

MEE organisations are given a mutual goal of supporting growth and internationalisation. Finnvera participates in the Growth Channel model with Tekes, ELY-Centres, Finpro, Finnish industry Investment and the National Board for Patents and Registration. The model was launched in 2011 as government wishes to support SMEs seeking fast growth and internationalisation.

49 See, e.g., Puttonen & Kähkönen 2010.

50 Heinonen & Hytti, 2008

From the steering standpoint, assessing the success in supporting growing and innovating firms is currently somewhat challenging. MEE has not adopted a common definition for a growth firm for their Group 1 organisations. Even if the lack of common definition does not affect the actual operations of these organisations, it makes joint effort and the measurement of their impact complicated.

Different MEE agencies offer their products and services for companies and there seems to be a lack of attempt to understand holistically the problems of the companies during their life-cycles. Each agency has its own approach and point of view for their services. Finpro is the MEE organisation that is specialised in internationalisation services. Where Finnvera bases its activities on financial analysis, Finpro is primarily interested in customer's value proposition in foreign markets. Based on market analysis Finpro tries to find the right markets and partners for the customer, exploring the markets and making initial preparations for firms. Finpro and Finnvera cooperate at regional level mainly through Growth Channel programme. The majority of Finpro's customers are SMEs at the very beginning of their internationalisation project. At this point the customers use more Tekes and ELY Centre's services (grants) whereas Finnvera's products become more important when the company already has some success in the foreign country and begins to need credits and guarantees.

Finnvera's risk categories for different countries are public information and are shared with Finpro, for example. However, Finnvera's risk assessment expertise is not widely used for foreign risk assessment. Finnvera and Finpro do not actively scan potential internationalising companies. Finpro supports companies in foreign markets whereas Finnvera is focused on financing them. At Finpro Finnvera is mainly seen as a bank.

Tekes and Finnvera both have instruments and programmes for (innovative) growth companies. The main difference is that Tekes provides mainly grants and Finnvera loans and guarantees. However, Tekes has the possibility of providing risk loans as well. Finnvera's subsidiary Seed Fund Vera also cooperates with Tekes in the VIGO Start Up programme.

On a daily basis Finnvera cooperates mainly with banks. With respect to this, the cooperation with other MEE agents is not crucial for its daily activities although likely beneficial at the regional level. Moreover, different MEE organisations use their own customer segmentations, if any.

6.3.2 Company analysis

The cooperation between MEE organisations is more technical than analytical. Finnvera and Tekes both analyse the companies from their own perspective, but they do not share the results or the analyses with other MEE organisations. This is partially clear and obvious since different MEE organisations analyse their customers for different purposes (e.g. financial vs. technological). However, there

might be some synergies and possibilities to gain complementary information on the companies if analysis information were openly discussed, jointly evaluated and efficiently shared. Naturally, information sharing is to follow reciprocity principle.

In 2011 the MEE Group launched electronic exchange of customer information. The amendment of The Act on the Customers Data System for Enterprise Services⁵¹, the so called ASKO 2 legislation, entered into force on 15 December 2010. Currently MEE organisations have opportunities to adapt joint customer management. The Act was adopted by Finnvera, Tekes and ELY Centres. ASKO 2 enables wider exchange of client data among public financiers and other public actors. Currently, the organisations share only factual information, and the actual company analysis is not shared with others. Finnvera is currently in the process of renewing its own customer database (the KORIS system) and changing the structure of entire company analysis. Comparing to the current way of analyzing the companies' background information, Finnvera is to put more emphasis on the analysis of companies' economic situation and future perspectives. A working group has been established to redesign the information Finnvera shares in the ASKO system.

6.3.3 Start-up assessment

Regarding the assessment of start-ups, the current situation could be more streamlined. The administrative tasks have been scattered by starting a close collaboration with the Regional Enterprise Agencies of Finland (Uusyrityskeskus). The target of Finnvera is to assess about 20 percent of all the small companies financed itself and to outsource the rest of start-up assessments to Regional Enterprise Agencies. Currently Finnvera's share is higher than the target 20 percent. There are 32 respective agencies in Finland and they have over 80 points of service. They are not MEE agents (apart from some regional exceptions such as Potkuri in Southwestern Finland within the ELY Centre), but they are co-financed by the municipalities, Finnvera, private companies and the European Regional Development Fund, for example. However, their tasks give room for cooperation and synergies with MEE agents.

For Finnvera this has enabled the streamlining of the processes and reducing overlapping work in business analyses in the customer segment 1. Despite some pre-assumptions on the (lower) quality of the outsourced company reports, the procedure and analyses currently match the requirements of Finnvera's decision-making, and synergies have, thus, been gained. However, since this cooperation is relatively new, it is not yet working as efficiently as anticipated. In the future the collaboration will continue at least in its current form, but ultimately it is dependent on how the Regional Enterprise Agencies will be financed. In terms of continuity,

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Regional Enterprise Agency's own financing is continuously uncertain and some of the centres have a high turnover of workers.

The start-up assessments are carried out based on co-operation agreement with Regional Enterprise Agency. Finnvera is a member of association that runs the operations and Finnvera pays an annual membership fee. This is rather advantageous to Finnvera in comparison to the amount of reports the centre provides for Finnvera. The start-up reports these centres provide for Finnvera receive both very positive and negative feedback from Finnvera. In some cases the cooperation is seamless but in some cases Finnvera regional offices have to assess the start-ups themselves and ignore the Regional Enterprise Agency's report. Given a number of actors already in the field, it is surprising that the MEE agent "Employment and Economic Development Office" which manages the start-up grant and purchases start-up assessments from Regional Enterprise Agency has started to hire own staff to assess start-ups.

Summary 10: Synergies and Overlaps

Different types of public financial support are provided by a number of MEE and other public actors. The customer need is not jointly recognized but the actors focus on offering their agencies and services. Enterprise Finland online service, the Growth Channel programme, joint customer segmentation and electronic exchange of customer information are synergy efforts implemented by MEE organisations. However, information on customer needs and situation are not efficiently shared among MEE (and other public) actors. Most importantly, the crucial challenge is to find new customers and ideas for the system to support to grow.

6.4 Regulations

The extent to which the existing legislation is well balanced between clarity and flexibility in order to serve Finnvera's remit.

The remit of Finnvera is stated in legislation and goals are given in the form of ownership and industrial policy goals each year (see 6.1.). In domestic finance a limit of €4.2 billion is given for outstanding liabilities (i.e. loans and guarantees) and in export credit the limit is €12.5bn. In addition to the legislation and annual goals, MEE provides Finnvera with annual product based commitment limits, which cause unnecessary administrative burden to Finnvera as it then needs to keep track of the product-based volumes and allocate the limits within the company accordingly. The value-added of these strict limits is questionable as they are negotiable and the ultimate limit of €4.2 billion still secures the solvency. In addition, the product-based

limits further support product-oriented thinking within Finnvera, whereas the customer need and market failure should be focused.

It seems that these steering impulses or regulations at different levels have developed during the years and their relevance in the current situation is to be questioned. The complex regulation is burdensome not only to Finnvera, but also to MEE, where the steering of Finnvera is very concentrated and faced with scarce resources. A clear need to renew the sediment of regulations has been identified in MEE and Finnvera, and 'mental' acceptance for it is acknowledged. However, this legislative work needs to be resourced project based.

Summary 11: Regulations

Regulations are clear and explicitly stated, but they decrease Finnvera's flexibility and proactivity, and cause unnecessary burden to Finnvera and MEE. The regulations do not necessarily reflect the market situation and failure, and they provide modest value-added for Finnvera and its customers.

7 Evaluation

7.1 Summary of the Normative Statements

This section summarises the normative statements in Table 10 and, based on the analysis, provides a rating for Finnvera's performance against each statement. The ratings are a range of 0 to 5.

Scoring Legend

0	Not at all
1	To a very limited extent
2	To a limited extent
3	To some extent
4	To a large extent
5	To a great extent

Table 10. Summary of Evaluation

	Normative Statements	Summary of Evaluation	Rating
Private sector considerations			
1.	The extent to which Finnvera's financial support is vital to innovation and growth	<ul style="list-style-type: none"> Finnvera is deemed professional and competent although its professionalism is not appreciated equally high among growing and internationalising SMEs and the share of high potential firms in its portfolio is modest. Finnvera's ability to find potential innovative and growing customers is reasonable, but still more could be done to identify growth potential. While there are few growing companies, those that are identified can also perform well without government financial support. 	3
2.	The extent to which Finnvera's financial support is vital to export and internationalisation of its clients	<ul style="list-style-type: none"> Finnvera's support is considered important for companies wishing to export and internationalise, but the level of importance varies according to export sector, buying country and terms. Finnvera's support is vital to those exporters competing with exporters from other countries which have support from their national ECAs on terms more favourable than the market. 	4
3.	The extent to which Finnvera operates in areas where the private sector sources of finance and risk capacity are not willing or able to operate	<ul style="list-style-type: none"> Finnvera identifies market gaps and works to address these, but on the domestic side can be seen to "overfill" given that commercial banks, particularly in the regions, have become too accustomed to the risk cover. VC markets in Finland are underdeveloped and market gaps exist particularly in the very early stages. On the export side, the market gaps are well-established and well-defined, but Finnvera's risk capacity may limit its ability to cover all gaps. Other ECAs operate in a similar way so Finnvera's ability to "match" ECA competition is important. 	3
4.	The extent to which Finnvera's financial support mechanisms are responsive to temporary market malfunctions	<ul style="list-style-type: none"> During the global financial crisis, Finnvera responded efficiently and effectively in its implementation of the cyclical loan programme. Although requiring approval of the European Commission which took time, the expansion of ST credit insurance business in response to the temporary market malfunctions that emerged suddenly was well handled. On the other hand, the introduction of the temporary funding scheme was deemed to be "too little too late" by exporters and banks and continued uncertainty remains. This is beyond the responsibility of Finnvera as the new funding scheme required the input of the State Treasury and MEE as well. 	4
International considerations			
5.	The extent to which Finnvera provides internationally competitive export credit services	<ul style="list-style-type: none"> Finnvera is competitive with other ECAs against a number of dimensions, but there is an expectation that Finland will not lose export transactions because of credit pricing. Moreover, it seems that Finnvera is more willing to match the pricing for credit risk. With respect to the price of funding, the difficulties in putting a scheme in place have put Finnish exporters at a disadvantage, particularly compared to those countries with export financing systems already in place. 	4

6.	The extent to which Finnvera performs well against its peers - both ECAs and SME Financing Systems	<ul style="list-style-type: none"> Other countries have much bigger risk appetites, much less concentrated portfolios, much larger balance sheets (or none at all as it goes directly onto the government's accounts) or have a full or partial government guarantee for every deal. As a consequence, Finnvera works to find risk capacity in the market and tries to share risks with other players. This reflects the risk taking model that has been adopted. SME financing systems are context specific and not necessarily applicable in other countries as such. Finnvera, as one Finnish actor in SME financing, shares a number of key features of its peers. Comparing an overall systems level, some countries have fewer actors with more coordinated approach and other countries may rely more on private sector financiers. Finnvera respects its international legal obligations, but must recognise its ability to influence the rules to make them more market-reflective and practical. 	5
			4
7.	The extent to which Finnvera meets its international obligations		5
Public sector considerations			
8.	The extent to which MEE's strategic guidance reflects national policy and is communicated to relevant stakeholders	<ul style="list-style-type: none"> Finnvera's governance is atypical for a limited company. The owner gives relatively specific and operational targets for the management. The national policy agenda is visible in Finnvera's steering but more operational targets overrule them. The contribution to policy level goals is lacking and the strategic discussion of the impact and the role of the Finnvera remain vague. Finnvera tends to meet the targets given. 	2
9.	The extent to which Finnvera's financial support is beneficial to regional development	<ul style="list-style-type: none"> Finnvera performs well in regions and its involvement and collaboration is highly valued by SMEs and banks. However, Finnvera involvement is not necessarily justified by market failure. Although Finnvera meets the annual input targets, the contribution of its activities to regional development is unclear. There is a danger that Finnvera support postpones necessary structural adjustment away from "sunset industries" towards new sectors. The global business environment of SMEs has changed dramatically and promoting regional policy through public intervention in the form of company financing is no longer considered efficient. 	2
10.	The extent to which MEE organisation pursues maximum synergy and optimal overlap between its actors	<ul style="list-style-type: none"> Different types of public financial support are provided by a number of MEE and other public actors. The customer need is not jointly recognised but the actors focus on offering their agencies and services. Enterprise Finland online service, the Growth Channel programme, joint customer segmentation and electronic exchange of customer information are synergy efforts implemented by MEE organisations. However, information on customer needs and situation are not efficiently shared among MEE (and other public) actors. Most importantly, the crucial challenge is to find new customers and ideas for the system to support to grow. 	2
11.	The extent to which the existing legislation is well balanced between clarity and flexibility in order to serve Finnvera's remit	<ul style="list-style-type: none"> Regulations are clear and explicitly stated, but they decrease Finnvera's flexibility and proactivity, and cause unnecessary burden to Finnvera and MEE. The regulations do not necessarily reflect the market situation and failure, and they provide modest value-added for Finnvera and its customers. 	2

7.2 Evaluation Summary

The three main areas as set out in the Terms of Reference for the Evaluation are depicted in Figure 13 below.

Figure 13. Evaluation Summary



The approach taken is consistent with the basic OECD principles for evaluation of development assistance (OECD, 1991) which were applied in the evaluation process. The “DAC Criteria” consist of Relevance, Effectiveness, Efficiency, Impact and Sustainability. Although Finnvera is not an instrument of development assistance, but of national economic prosperity, the first three elements of the DAC Criteria are applicable methodological tools for this evaluation.

The **Relevance** of Finnvera’s activities relates to whether MEE Strategy and Objectives are met; the **Effectiveness** of Finnvera relates to its effectiveness in the financing markets and its **Efficiency** relates to operational activity and effectiveness.

This section considers these three main areas: a) Finnvera as a part of MEE strategy and its objectives, b) Finnvera’s strategic activity in the financial markets and c) Finnvera’s operational activity and effectiveness.

Box 2: Key OECD DAC Principles for Evaluation

Relevance

Evaluating the relevance of an activity means measuring the extent to which an activity is suited to the priorities and policies of the target group. Part of the process is to review the extent to which the objectives of the project are still valid and consistent with the overall goals and the attainment of its objectives. Additionally, it must be assessed whether the activities and outputs of the programme are consistent with the intended impacts and effects.

Effectiveness

Regarding effectiveness, it is important to measure the extent to which the objectives were achieved or are likely to be achieved and what have been the major factors influencing the achievement or non-achievement of the objectives.

Efficiency

The qualitative and quantitative outputs will be measured in relation to the inputs. The main focus is to assess if the activities were cost-efficient and objectives achieved on time. It is important to review whether the programme or project was implemented in the most efficient way compared to alternatives.

7.2.1 MEE Strategy and Objectives

This evaluation area looks at the MEE objectives for Finnvera and considers first if they are still valid and appropriate, reflecting the MEE's strategy, and, secondly, if so, whether these objectives are being achieved.

Finnvera's activities are steered by special enactment; the government's commitments; annual steering document and related indicators set by MEE; the MEE group strategy and sub-strategies for different policy areas (see Sections 3.1.1 and 3.4).

7.2.1.1 MEE GROUP OBJECTIVES AND SYNERGIES

MEE group strategy⁵² highlights the importance of synergy and it attempts to reduce overlaps between different MEE organisations. There is no unambiguous answer to how Finnvera manages to implement the group strategy in terms of synergy. When synergy between MEE actors is discussed, it is important to bear in mind that Finnvera is a specialised financing company whereas the others have different roles in promoting Finnish companies. Irrespective the role, from the MEE perspective,

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information exchange and streamlining of activities are of vital importance to Finnvera and other MEE actors.

MEE as the owner and the steering body has a crucial role in promoting synergy between different MEE actors. Surprisingly, different agencies such as Finnvera, Tekes ELY-centres and Finnish Industry Investment, are steered very differently. This can be partly explained by different statuses of the organisations (limited company, governmental agency) but not entirely. Without a more coordinated steering approach by MEE, it is hard to expect the MEE actors to implement better synergies. In addition, the current 'silo' steering makes it difficult to grasp a holistic picture of the activities of the MEE actors.

There are a number of operational synergy efforts, such as the Growth Channel programme, Enterprise Finland online service, electronic exchange of customer information and joint customer segmentation (and joint growth company definition), which attempt to integrate the activities of MEE actors. Finnvera participates to these schemes and thus meets the goals set by MEE. However, MEE organisations, including Finnvera, tend to be confident with their own competence and therefore may fail to notice the actual needs of potential companies. There is a risk that the MEE organisations all stay on their turf as there are no incentives to enhance cross-fertilisation and synergies. The synergetic goals set and the instruments developed are important steps on the road to a well-functioning and streamlined cooperation between MEE actors, but this far the cooperation remains technical and forced without true attitudinal changes.

7.2.1.2 THE OWNER'S STEERING

In the steering of Finnvera the annual ownership and industrial policy goals and related indicators (see Section 3.1.1) play a major role. The goals are of an operational nature rather than strategic. MEE steering document is negotiated between MEE and Finnvera management which means that it by-passes Finnvera's own governing bodies. In addition, MoF with its budgetary powers influences the steering by regulating the commitments, for example. Finnvera is steered more like a government department and the board of directors concentrate on operational decision-making. Therefore, MEE steering does not serve Finnvera's needs and may even restrict the power of Finnvera's Board of directors.

The mandate given to Finnvera in legislation does not reflect the major changes taken place in the business environment during the last decades. Regional policy objectives seem not be justified by a market gap per se. Means other than pure financial instruments might be more effective for regional policy, and therefore there is a need to question the relevance of regional policy objectives set for Finnvera. In addition, regional policy goals may rather support old industries and structures and hinder inevitable structural development in the regions.

In general, Finnvera achieves the objectives of legislation and MEE steering. However, it seems the goals set by MEE are partly out of date and no longer serving their ultimate purpose.

7.2.1.3 MEETING THE CUSTOMERS' NEEDS

The MEE enterprise customer strategy⁵³ sets objectives for MEE organisations in the customer interface. The MEE expects Finnvera and other organisations to have a common pursuit to work together for benefit of the client, and thus to support the companies to grow.

Finnvera meets the goals set by MEE relatively well. Finnvera is highly competent in providing domestic and export finance for its customers and Finnvera's capability to find potential innovative and growing customers is reasonable although there is still room for improvement. Potential customers could be better detected if there was more synergy between the MEE actors in recognising customers' needs and if information was shared more openly and effectively.

7.2.2 Strategic Activity in Financing Markets

This evaluative area considers whether the objectives of Finnvera being achieved in the most effective way and considers if the approach to meeting the objectives has been appropriate.

The basis for Finnvera's strategic activities in financial markets covers all three of the intervention rationales described in Section 3.6 for the involvement in the financial markets by Public Development Banks. These are described as: a) addressing market failure; b) catalysing private financial institutions; and c) stimulating competition between banks and ensuring fair pricing.

Finnvera is active in the financial markets through the provision of loans, guarantees, export credits and venture capital. Each one of these instruments interacts differently with the financial markets and has a different impact. Customers appreciate Finnvera's ability to offer loans which have the effect of stirring competition with banks.

Considering Finnvera's products, by category, Table 11 examines the relevance of each product to the fulfilment of the intervention objectives. This table assumes the application of a single instrument of Finnvera, whereas in reality, Finnvera could intervene in a particular project or company through a combination of means.

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Table 11. Finnvera's Strategic Role in the Financial Markets

	Addressing Market Failure	Catalysing Private Financial Institutions	Stimulating Competition
Loans	Yes, fully, when loans are given at market rates, it is for smaller transactions for the micro-enterprises (customer segment 1). This segment has limited access to finance. Not necessarily, for other customers segments, as there is no evidence of market failure under normal circumstances.	No, Finnvera loans do not catalyse but replace private finance.	Yes, in remote regions with few players. With this instrument, FV can stimulate competition by being one of the market-rate financing options available to companies.
Subsidised loans	No, as there is an infinite demand for subsidised interest rates, so this is arguably not a product which addresses market failure, but in fact can create it. Relevance questioned particularly with current interest rates.	No. This product has a potential negative catalytic impact by undercutting the market and thus "crowding out" banks by encouraging companies to approach Finnvera first.	Not Applicable, as there is no competition in this sector.
Guarantees	Yes, fully. When the credit quality or available collateral of an SME is lacking, guarantees are a powerful tool to address this market gap.	Yes, fully. Guarantees by their very nature are catalytic as they induce commercial banks to lend to risks that they otherwise would not.	Yes, in a limited way. Guarantees made available to all financial institutions may induce greater competition.
Venture Capital	Yes, partially. However the execution of public intervention may create market failure.	Yes and No. There can be both positive and negative catalytic effects on other investors. Positive catalytic effects are about fixing the market gap and crowding in, whereas negative catalytic effects are about filling the market gap and crowding out.	No, as Finnish VC markets are still underdeveloped.
Seed Capital	Yes, fully. The market failure is in the area of start-ups is significant, so any support from Finnvera works towards filling the vast market gap.	Yes and No. Finnvera minimises the crowding out effect in the investment process by assuring that the applier has not got any financing offers from private investors. Finnvera also manages a business angel network of more than 200 active business angels who make syndicate investments with Aloitusrähoitus Vera.	No, as there is such a lack of seed funds in Finland that competition of seed funders is not yet relevant.

Short-term credit insurance	Yes, partially. FV can address only those non-marketable risks allowed by the EC. FV cannot address market failure in other areas, such as large single risks, for which the private credit insurers might need extra capacity.	No, given the restrictions on FV, it can only play a role of insurer of last resort in a limited and prescribed area of the market.	Yes, fully as the EC rules on ECA involvement in short-term credit insurance puts the most emphasis on ensuring fair competition for the private insurers.
Export Credit Guarantees	Yes, fully.	Yes, fully. FV's involvement persuades commercial banks, and even to some extent private insurers of political risk, to support into a transaction.	Minimally, given that competition for covering the long-term export credit is still very limited.
Export Finance	Yes, fully, as the commercial banks cannot access long-term funds to on-lend for export finance.	Yes, fully, as this allows commercial banks to provide borrowers with long-term loans and allows Finnish exporters competitive financing packages to those being offered by exporters from other countries. If FV were to lend direct to projects, banks would be crowded out.	Yes, fully, as banks can still compete to access funds.

Based on this analysis, Finnvera's intervention in the financial markets is largely appropriate. Each instrument has its own task and each instrument needs to be assessed against the three criteria and should not be compared with each other. In some instances Finnvera is intentional in its activities to address market failure or be a catalyst or stimulate competition. In other cases, Finnvera is simply responding to the steering objectives which it has been provided and therefore it does not take such a strategic perspective on how it makes its intervention.

Loans to microenterprises which have no other access to credit are filling an important market gap but still, there is a need to find ways to stimulate private financing in the area. One option is to consider whether it were possible to wholesale microloans to the banks, for example. Although Finnvera loans in certain occasions are more advantageous for the customers due to banks' willingness to optimise their pricing despite Finnvera's guarantee, Finnvera's direct loans risk replacing private finance. When banks are incapable of lending due to their own funding constraints, such as during the financial, direct loans are justifiable, but need explicitly to be targeted at growth, innovation and internationalisation.

The strategic value of subsidised loans is highly dubious. In the current interest rate environment, with interest rates already at historically low levels, there is little incremental value-added of this product.

Guarantees are the most strategically valid instruments and they are also reflective to the financial markets as well as to banks' ability to provide finance to companies. This applies both to the domestic and export side.

Finnish venture capital markets are currently developing (albeit slowly) and public sector catalysing of private resources is needed particularly for the investment in early phase companies. The critical role of public intervention in the VC market is help create an overall balanced ecosystem which can attract private - national and importantly international - investment resources from both venture capitalists and institutional investors into Finnish VC companies. The markets are dynamic and public actors need a delicate touch and to be prepared to withdraw when not needed anymore and the ecosystem is working effectively. Finnvera's intervention in this market is needed, but great care has to be taken in not only defining its role but ensuring execution does not have the unintended consequence of having a negative "catalytic" effect on private investors, i.e. the very involvement of Finnvera in a company's equity that the company is not private investor-ready.

Most importantly know-how and competence for providing venture capital and collaborating with the VC-funded companies are desperately needed in Finland. The public agencies themselves are not likely to possess the required know-how in the long run but they need to do their best to "crowd in" necessary resources. Currently there are many public players in the field which may not lead to an optimal result from the government nor from the customer's point of view. However, if considering organisational changes, the remit and value-added of the public players as well as their contribution to the vital know-how is more important than the structure

or amount of funds per se. Developing Finnish venture capital markets requires a thorough rethinking of the content and remit of public venture capital actors and the roles of different actors accordingly.

7.2.3 Operational Activity and Effectiveness

This evaluative area relates to how efficiently and effectively Finnvera is using its inputs or resources, namely its people, processes and risk capacity to achieve its objectives. The qualitative and quantitative outputs are measured in relation to the inputs. This section considers if the activities were cost-efficient and whether there is an alternative or better way to achieve the same results.

7.2.3.1 PEOPLE

Finnvera's strength is its people and its leadership has fostered has a culture which is highly professional. Employees are generally satisfied by and motivated with their work and the environment is team-oriented and positive. On a regional level, staff resources are not as well distributed as they could be: there is a 'surplus' in North and East, and insufficient resources in West and South. Nonetheless, the organisation of offices by four service regions, instead of 15 separate offices, has made it easier to exploit company resources better.

Given the average tenure of employees of nearly 20 years and very little staff turnover, there is limited "new blood". There has been some staff renewal through exchanges between field and head office and between domestic financing and export credit. This "cross-pollination" has generated positive benefits as perspectives, culture and experience are still somewhat different between the regions and head office and between the two main lines of business. The market segment of SMEs which are focusing on "going global" have the most to gain from the greater synergies created between the domestic and export sides. Finnvera has worked to bring these together but still more can be done to facilitate growth and internationalisation of these companies.

While such consistency and longevity of staff has brought stability and reliability in Finnvera's business activities, the challenge therefore has been to move people out of their comfort zone and take more risks, not necessarily in a financial sense of risk, but in the area of innovation to stimulate new thinking and approaches. The cadre of professionals due to retire in 2012-13 should be seen as an opportunity to introduce new staff with fresh ideas.

This renewal similarly applies to the composition of the Board of Directors. Renewal of the Board to include more private sector experience will enable Finnvera to act more as a public limited company and less as a department or agent of government. The shift in chairmanship to a private sector person is expected to create better segregation of duties between Finnvera and MEE and professionalism within the Board, applying international best practices and processes. The distinction between

the responsibilities of the MEE, Board and management is not as clear as it should be. This is crucial to optimising the contributions that the people resources can bring.

7.2.3.2 PROCESSES

Finnvera applies numerous management processes to achieve the desired output – risk financing for Finnish companies. These include *inter alia*: market analysis, product development, customer acquisition, strategic planning, underwriting, portfolio management, etc.

Much effort has been invested in recent years in improving processes and maximising efficiency and productivity. This process improvement has been undertaken within the constraints faced by management and, in recognition of this, Finnvera has achieved a number of ISO certifications which is a notable achievement. However, there is a slight risk that such approved processes become entrenched, so that proactive flexibility and innovative solutions are less apt to be explored in order to maintain the certification.

Finnvera's risk assessment process is highly recognised and professional and valued by partners, banks, agencies.

Finnvera's underwriting process (on the export credit side) is lean and well managed. Although the credit limits under the delegations of authority are somewhat low compared to the level of activity, there are no serious concerns that Finnvera is too slow. The quality of the risk assessment is very good and management gives the Board recommendations on cases. If management deems the risk of default is unacceptable, then the transaction will be rejected.

There is an expectation from MEE and, to some extent the exporters, that notwithstanding a recommendation to reject an export credit deal for risk reasons, management is then expected to make a recommendation to the Board to still do the deal for other than risk reasons, i.e. industrial policy reasons. Clarification of the special risk taking provisions (Article 6) within the legislation will help Finnvera to distinguish between those risks that are unacceptable for risk reasons, and then provide for MEE to decide for industrial policy reasons that Finnvera should underwrite a risk. In this way there is no risk that the integrity of Finnvera's professional underwriting expertise is harmed, if they are expected to do something "unnatural" which is to recommend risks that they believe are outside their risk threshold.

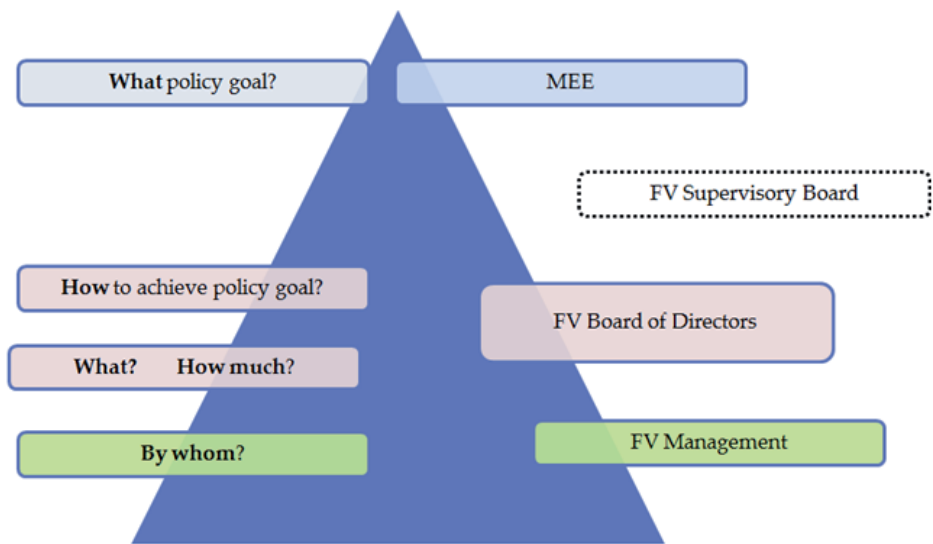
An area that may require additional enhancements is the process of customer acquisition and product development. While it is recognised that it is a challenge to find new growth customers, the regional offices of Finnvera are not as well-prepared as they need to be to find and mentor these new customers. Coordination with the other MEE agencies in the regions would need to be much more smooth and a customer-centric model of interaction must be deployed.

The process most in need of a serious overhaul is the development of the strategic plan and in most respects this is beyond the full responsibility of Finnvera management as it involves the Board and the MEE.

As described in Figure 14, MEE should be in a position to define the overall policy goals, linked to the government’s strategic plan. Finnvera’s Board then is responsible for determining how these goals are to be achieved. The Board should also approve, through a “bottom-up” discussion with management, how these goals translate into specific measures and targets. Management’s job is to execute the plan and deciding who should take responsibility for achieving the plan.

Figure 14 depicts how the roles and responsibilities should be defined between MEE, the Board and Management.

Figure 14. Line of sight between MEE policy goals and Finnvera



8 Future Orientation up to 2020

There is no doubt that Finnvera as an organisation has changed in the last five years – all for the better. Moreover, there is no doubt that the business environment in which Finnvera operates has changed, perhaps even more so than the organisation. These last five years have been marked by the most significant economic volatility and uncertainty in decades, precipitated by a crisis in global finance.

Looking forward to the year 2020, there are a number of evolving factors that impact the business environment in which Finnvera operates. The three most important factors we consider in this section are:

- the state of the real economy in Finland
- the state of the financial markets in Finland, and
- the government's fiscal stance.

While it is certainly the case that Finnvera can impact and influence all three of these areas by its interventions, this analysis first considers the future without Finnvera as a policy instrument and then defines what areas Finnvera can best focus on in the future. Based on an outlook in 2020, this evaluation looks at a way forward for Finnvera to improve its focus and operations and for MEE to improve oversight, streamline functions and operational authorities. The following outlines a possible vision of the business environment in which Finnvera is operating in 2020.

8.1 Real Economy in Finland

In 2020, Finland will continue to be an export-oriented economy. Competition from Finland's existing industries is likely to arise from new and emerging markets, i.e. non-OECD countries or BRICs which may have a more interventionist approach to supporting and financing exports. The current evidence of the export credit programmes from Brazil, China, India and now Russia (since the establishment of EXIAR in 2012) suggests that these countries, with their heavily capitalised ECAs are well poised to provide significant support for their countries' exports. Moreover, these countries are not restricted by the OECD Arrangement rules on export credits, thus have more freedom to provide flexible terms to foreign buyers. While these ECAs are bound by the WTO requirement that they at least "break-even", it seems unlikely that this will restrict their activities unless another country is willing to challenge them.

In terms of new industries, Finland's ability to enjoy a culture of innovation continues to be developed. The sound basis for this is provided by the high-quality education at all levels. In order to nurture risk-taking and for entrepreneurship to flourish, old stereotypical ideas about failure and entrepreneurship must change. New industries and growth companies, especially those identified as "go global" companies,

have access to state-of-the-art mentoring and coaching on winning and executing contracts in global markets. Networking and business development to achieve a foothold into the global supply chains is undertaken. Otherwise, growth opportunities for businesses are mainly found in service sector which is equally facing the challenge of continuous innovation. It is likely that GDP growth remains modest for a number of years due to Finland's high dependency on the European markets.

8.2 Financial Markets

The current challenges facing all commercial banks in terms of capital constraints will only be exacerbated in the coming future with the introduction of Basel III rules. The impact of this will be that banks will be seeking increased margins to cover the cost of capital and increased requirements for collateral will be imposed, thus further squeezing the availability of credit to companies, especially SMEs.

Given the national focus on innovation and growth as well as banking sector's constraints in risk-financing, the need for international venture capital investors to invest in Finnish ventures continues to increase. It is likely that Finnish VC markets have developed as international players have stepped it, including new sources of funds from emerging markets. However, international learning and experience is crucial for the development of Finnish financial markets.

For export finance, banks are not getting appropriate recognition under Basel III of the value of ECA cover. Work is being undertaken to calculate the Loss Given Default (LGD) for ECA-backed loans to provide to the Basel Committee and, indeed the banks' own risk management departments, that ECA cover is low risk and "iron-clad".⁵⁴

8.3 Government's Fiscal Position

Particularly European governments are still facing budgetary challenges as a result of Euro-crisis in 2010's. In 2020, there will most certainly be a continued need for fiscal prudence, necessitating a rationing of limited public money towards activities with most value-added. The government will therefore be seeking to maximise impact of its resources and requiring its agencies and entities to measure and define impact. Emphasis is continuously put to attract also private resources and engines for growth.

8.4 Potential Role of Finnvera in 2020

Against this background, it is useful to consider what role Finnvera can play in 2020 that will positively influence these three factors.

⁵⁴ This effort is being spearheaded by a group of the world's largest export finance banks and the International Chamber of Commerce (ICC) to amass LGD (loss given default) data on ECA-backed transactions.

As to globalisation and growth, Finnvera needs to be both aggressive and selective and must focus its resources on high growth potential globalisation and growth. In that respect, the type and profile of companies with which Finnvera must work includes the traditional companies, but increasingly also services and knowledge-intensive companies for which the assessment of risks, and particularly growth potential, is more difficult. This has obvious implications to the regional policy mandate.

It is of utmost importance that Finnvera, as the Finnish ECA, is internationally competitive not only with traditional European and OECD competition but even more so with the emerging economies.

In terms of the markets in which Finnish exporters must focus, given the slow or stale growth in European countries, Finnish companies must look beyond their current markets. Finnvera has a critical role to support and finance those companies which are focusing on “going global”. This relates to the well-established companies as well as the brand-new start-ups whose very first contract or source of revenue could be from a global customer.

On the financial markets, looking at VC to support these growth companies, Finnvera can make a major impact in developing the VC markets. However, MEE needs first to develop a new model of intervention which is much more strategic, targeting the overall ecosystem and examining the various elements to achieve the desired success, such as encouraging international sources of capital and know-how before deciding the specific role Finnvera and its subsidiaries (as well as other public actors) should play.

Finnvera's guarantee, especially in light of the new Basel regulations, can support banks' risk taking and great care must be taken not to crowd out. This implies a total systemic change in the nature of the relationship between banks, customers and Finnvera.

Finnvera should continue to work with the export finance market to create greater understanding and acknowledgement on the part of regulators in the application of Basel III to ensure that more reasonable reality-reflecting methodologies are implemented. This will ultimately have the desired impact of less involvement of governmental resources.

Finnvera must optimise public resources from the state budget by targeting growth, innovation and internationalisation with a focus on providing Finnish companies a “hand-up”, i.e. helping grow and mature, but not a “hand-out”, i.e. providing support to business activities which have no potential for long-term growth.

The next section discusses our recommendations for how Finnvera can be supporting the Finnish economy by helping Finnish companies grow and be internationally competitive and by supporting the financial sector through striking the proper balance between private and scarce government resources.

9 Recommendations and Conclusions

Of the recommendations covered below, some of them relate to the MEE responsibilities and some to Finnvera.

1. MEE must establish strategic goals focusing on growth and internationalisation

Given innovation, growth and internationalisation are core concerns of the Finnish Government. MEE is responsible for putting the strategy into practice and providing the Finnish companies with a strong business enabling environment and fruitful ecosystem for growth. MEE needs to articulate a joint “Grow and Go Global” strategy and related goals for its agencies, including Finnvera, and to focus on creating a business environment to help potential growing companies overcome the challenges they face. The “Grow and Go Global” strategy implies that regional policy has lost its relevancy as far as the role of financing instruments, such as Finnvera, are concerned. Other means to promote regional policy goals are deemed more appropriate and effective. Emphasis needs to be put on securing enough resources for the companies with the most potential. This means a strategy which entices private financial resources and investment expertise. As growth, innovation and internationalisation are high in the government agenda, it needs to be seen in practice.

2. MEE must rely on Finnvera to define means to achieve the goals

MEE needs to establish a more strategic link from the policy level to Finnvera Board of Directors and segregate the duties between MEE, Finnvera Board of Directors and management in order to provide the clear line of sight. MEE’s “Grow and Go Global” strategy and related goals need to be discussed with Finnvera in terms of how Finnvera is to contribute to achieving the goals. A more bottom-up approach is needed to balance top-down strategy and goals. With a bottom-up approach, Finnvera should provide MEE with its proposed approach for achieving the MEE strategy, across all its business and product lines.

The crucial question is: What is the value for money of Finnvera’s interventions for the policy? Needless regulation of the MEE and the Ministry of Finance with no strategic relevance, particularly in domestic financing, needs to be streamlined. Finnvera needs to be sensitive to the changes in the financial markets and business environment of its clients and to innovatively create new products accordingly. This implies also abolishing the old ones if not considered useful anymore. There is no need for MEE to control and steer Finnvera’s product portfolio volume wise particularly if subsidised loans are set aside in the current market situation as suggested (Recommendation 5). Targets increasing volume, for examples imply a

risk of creating market failure rather than eliminating it. Euro value of Finnvera business activity is not the answer or means to measure impact, but rather there is a need to carefully look at amount of private money crowded in or projects remaining unimplemented without Finnvera. In addition, Finnvera needs to protect its long-term objective of self-sufficiency when addressing the strategic goals set for it. This is further elaborated in the recommendation 4, Finnvera's risk-taking strategy.

3. Finnvera reorient towards customer-centric co-ordination between MEE agencies

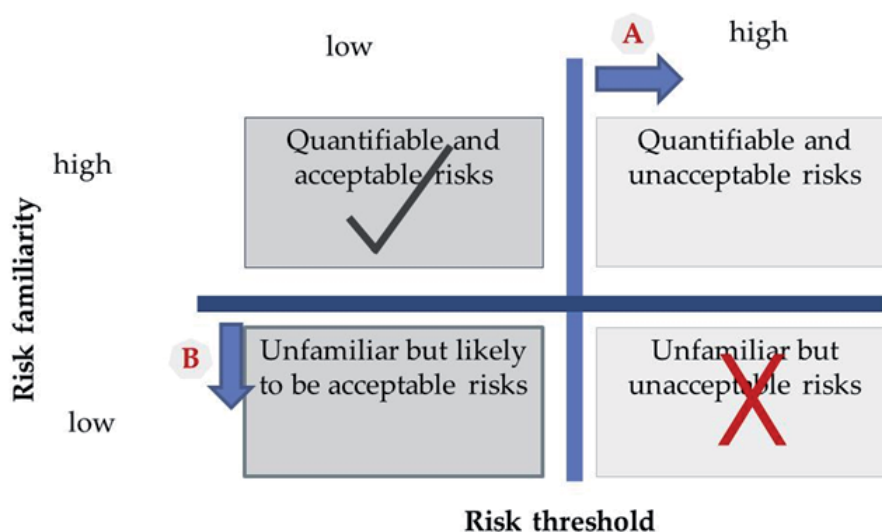
Based on the joint national "Grow and Go Global" strategy of MEE with a few important goals MEE needs to encourage greater co-ordination and co-operation amongst its agencies. The agencies providing financial support for Finnish companies should be jointly governed in order to get rid of 'silo' thinking and steering. This implies that the joint "Grow and Go Global" strategy is applied in all MEE agencies with clear roles, and a holistic picture of the steering and the implementation of the strategy is possessed by the MEE. Currently different MEE agencies work in the innovation ecosystem with too little co-ordination. More effective exchanging of customer information and expertise (e.g. company analyses) between the agencies should be incentivised in order to achieve synergies. There is no need for physical one-stop-shops, but rather for a rapid referral system and proactive follow-up of customers' problems and needs as well as transparent exchange of information for the clients' sake. To enhance internationalisation of Finnish SMEs Finnvera could more effectively use the expertise from Country Risk Assessment team of the export credit business and Finpro, for example.

4. Finnvera should reformulate its risk strategy from taking more of the known usual risks toward taking new unfamiliar but high-potential risks

As a risk-financier, Finnvera's risk strategy is the core of its business. Finnvera is considered to possess excellent risk assessment skills on both its domestic finance and export credit teams, with capabilities to identify and quantify the risks.

Finnvera sets a risk threshold for the level of risk it is willing or able to take on a portfolio or single risk basis. This then informs its decisions on whether or not to support specific transactions. There is a view that Finnvera should take more risk, but this can mean different things: either take more risks that it understands and move into more known, but higher risk areas; or take unfamiliar risks where the knowledge, expertise and background may be less but there is reason to believe that there is potential for a good outcome (see Figure 15).

Figure 15. Finnvera's risk-taking



The Top-Left quadrant is Finnvera's "normal" risk taking. The Top-Right quadrant represents risks which are assessed to be beyond what Finnvera would normally be prepared to take. Such cases may be done for "industrial and growth policy" reasons, but are beyond Finnvera's normal risk threshold. The Bottom-Left quadrant includes those risks which are unfamiliar to Finnvera, e.g. new industries or new countries but there is reason to think that success might be achievable. The normal assessment criteria would not apply as there is a lack of data and track record, but Finnvera can rely on other factors. The Bottom-Right quadrant is to be ignored.

There is some discussion that taking more risk means moving the vertical boundary right into higher known risk territory. This means accepting risks which are higher than its normal risk tolerance (i.e. Scenario A in Figure 15). There is also the possibility of taking more risk by moving horizontally into the unfamiliar but potentially acceptable risks (i.e. Scenario B in Figure 15). This implies bearing more uncertainty and even deliberately 'failing forward' if the case is considered highly potential.

Changing the risk formula will have different effects on Finnvera's financial position and on how it interacts with the private sector financial players. In addition, Finnvera's risk philosophies evidently have consequences on Finnvera's capability to protect its self-sufficiency goal. Therefore, the implications need to be carefully considered.

In the case of Scenario A, there may be certain innovation and growth companies for which the underlying credit risk of the company is considered strong enough, but which lack collateral or other forms of security which therefore makes the risk unacceptable within Finnvera's current risk appetite. Under the guarantee, Finnvera

could increase its risk sharing portion with the banks to 80%, for example, a level which is still significant enough to encourage the banks to undertake their own due diligence, but not so high as to create moral hazard in which the banks are doing the deal because of the guarantee. In this instance, the banks might be more willing to finance transactions that they otherwise might not, i.e. changing the banks' behaviour. Where a guarantee is not the appropriate instrument to entice banks to lend, but rather Finnvera must offer a form of direct financing, it would be useful to explore products such as mezzanine debt or debt in which Finnvera takes a second priority on security. This would mean that it may not be necessary to alter Finnvera's loss compensation ratio. We recommend that Finnvera review its risk-sharing formula to consider for particular types of transactions and companies for which a higher risk coverage could be applied.

In Scenario B, where the risks are more unfamiliar to Finnvera and the banks, the government could consider, for example, increasing Finnvera's loss compensation from 50 to 75% of losses. This instrument would improve Finnvera's financial position and may entice them to take new risks, i.e. could change Finnvera's behaviour. It should be noted that Finnvera's own strategy has emphasised growth and internationalisation companies for the last five years, and Finnvera has taken additional risks and made losses in this business segment, but the loss compensation system does not recognise this segment. We recommend that MEE consider adjusting the loss compensation formula for this market segment in order to promote growth, innovation and internationalisation.

For the export credit business, these two scenarios can also be explored. In Scenario A, there could be a transaction which is considered to be a "borderline" case in terms of risk, but for which there are important national interest or industrial policy reasons to consider the deal. In these cases, it is recommended to specify under what conditions Article 6 of the Act on export credit guarantees relating to special risk taking can be applied and the process by which such cases can be handled.





















For Scenario B, there may be also smaller SME export transactions in which the risks are more unfamiliar. In these cases, it is recommended that Finnvera receive some sort of loss compensation from the government.

There seems to be merit in considering combining the approaches. In all cases, Finnvera's financial self-sustainability objective must remain, thus any incremental risks being assumed by Finnvera will need the backing of the government, either through a revised loss compensation scheme, or other mechanisms.

5. Focus on products which encourage private risk-taking

Finnvera's wide array of products must be narrowed to focus on those strategic interventions which have the desired impact. With more flexibility to apply the relevant instrument rather than those being dictated by MEE, Finnvera can focus on a fewer more targeted products, which especially encourage private risk taking.

Figure 16. Finnvera's product portfolio in the financial markets

	Addressing Market Failure	Catalysing Private Financial Institutions	Stimulating Competition
Loans			
Subsidized loans			N/A
Guarantees			
Venture Capital			
Seed Capital			
Short-term credit insurance			
Export Credit Guarantees			

In the current market situation it is justified that Finnvera offers loans to microenterprises which have no other access to credit. Finnvera is, thus, filling an important market gap, but needs to actively search ways to appeal private financing in the field. In addition, Finnvera loans may stimulate competition in remote areas with one or two local banks only. Otherwise, there is a risk that loans crowd out private money. A third strategic use of loans can be as alternatives to guarantees if the banks are not willing to pass on the benefits to the SME of the better credit quality of the guarantor (Finnvera). In this case, Finnvera may prefer to use direct loans, possibly structured alongside commercial banks' loans. Unstable financial markets during the crisis in 2008-09, for example, demonstrated the need to have direct loans in Finnvera's portfolio as banks were not capable of lending due to their own funding constraints. However, it is critically important that the circumstances under which the loans are very well defined are explicated and understood in Finnvera to support growth and innovation. Otherwise, Finnvera may fall in to the 'systemic' trap of its legacy (Kera) approach.

The strategic value of subsidised loans is highly dubious and in the current interest rate environment, there is little incremental value-added. Guarantees are the most strategically valid instruments as they help boost banks' ability to provide finance to companies. VC markets are currently developing and public sector catalysing is needed particularly in the early phases. The MEE "Grow and Go Global" strategy requires effective venture capital markets with needed know-how and international

flavour, and therefore efforts are needed to “crowd in”. Developing the VC markets implies a critical assessment and rethinking of the content and remit of the public venture capital players rather than structural arrangement only. It is important to notice, that it is not only a question of money, but more importantly rather of know-how. Public players can provide some venture capital funds, but value-added know-how is required from private sector investors particularly. Although Finnish venture capital markets and public players have undergone several studies by MEE, necessary conclusion are yet to be made.

Theoretically Finnvera is performing well as a state-owned risk financier if it is capable of gradually fading away in the financial markets. On the other hand, financial crunch in 2008 demonstrated the need to have a flexible governmental financial instrument with help of which the government can quickly response to changes in the financial markets threatening the survival of Finnish companies. Given the future insecurity and global interdependence of businesses there is a mere value of the existence of Finnvera as an instrument which can be ‘vitalised’ when needed.

6. Finnvera should exploit the opportunity for organisational renewal

Finnvera has systematically developed its activities since the previous evaluation in 2003/2004. Dynamic business environment and an ever increasing emphasis on growth, innovation and internationalisation put continuous pressure on organisational renewal of Finnvera also in the future. The following years with retirement peak give unique opportunities to get fresh ideas and approaches to Finnvera. Finnvera staff needs to recognise the need to break individual comfort zones and traditional working modes in order to be able to successfully address the changing needs of the customers as well as the strategic goals of MEE. Staff allocation should be considered not only amongst the regional offices but also between domestic and export sides of the business. Ideally, Finnvera should seek exchanges as well with other agencies within MEE, and private sector partners.

7. MEE must continuously seek to influence the international regulations which do not currently serve Finland’s interest

Certain activities of Finnvera, whether relating to its domestic business or its export business, are bound by international agreements within the EC or OECD. It is vital that Finland clearly identify its strategic interests and, given Finland is a highly credible member of the international community, it must not shy away from actively working to protect these competitive interests even if it means challenging long-standing practices. For example, in the current interest rate environment and given the state of the financial markets, CIRR funding (in USD) is loss-making even for AAA European countries. This has much to do with the non-market formulation and application of the CIRR. An agreement amongst OECD countries to renegotiate (or eliminate the use of) the CIRR formula could be beneficial.

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Terms of Reference

9.6.2011

LIITE 1a

Palvelukuvaus

Tällä kilpailutuksella työ- ja elinkeinoministeriö pyytää tarjousta hankkeesta Finnvera Oyj:n arviointi. Tarjouksen tulee sisältää kansainvälinen näkökulma.

Arvioinnin tavoitteena on tuottaa näkemys siitä, minkälainen Finnveran rooli tulisi olla kansallisessa ja kansainvälisessä toimintaympäristössä yhtenä TEM-konsernin toimijana, näkökulmana vuosi 2020:

Muodostaa käsitys Finnverasta tulevaisuuden rahoitusmarkkinoiden ja elinkeinopolitiikan toimijana

- arvioida Finnveran toiminnan tehokkuutta, laatua ja vaikuttavuutta
- muodostaa riippumaton ja kansainväliseen asiantuntemukseen perustuva näkemys keskeisimmistä muutoshaasteista Finnveran strategiselle toiminnalle ottaen huomioon rahoitusmarkkinoiden muutos sekä löytää keinoja, joiden avulla Finnvera voi reagoida tehokkaasti ja vaikuttavasti muutoksiin.
- muodostaa riippumaton, kansainväliseen asiantuntemukseen perustuva näkemys Finnveran roolista tulevaisuuden elinkeinopolitiikan ja rahoitusmarkkinoiden toimijana

Arvioida Finnveran roolia TEM-konsernin osana

- arvioida Finnveran toimintaa TEM-konsernistrategian toteuttajana sekä TEM:n asiakkuusstrategian näkökulmasta
- arvioida Finnveran ja muiden toimijoiden synergiaetuja sekä työnjaon selkeyttä suhteessa TEM- konsernin muihin toimijoihin, erityisesti Tekesiin, tavoitteena etsiä uusia keinoja lisätä yhtiön tuottavuutta
- tunnistaa Finnvera- konsernin keskeiset rakenteelliset ja hallinnolliset kehittämistarpeet osana TEM-konsernia sekä työ- ja elinkeinoministeriön ohjausjärjestelmän kehittämistarpeet

Esittää suositukset

- tehdä johtopäätöksiä ja suosituksia Finnveran strategian, toiminnan, rakenteiden sekä tehtävien uudistamistarpeista. Arvioijalta odotetaan tulevaisuuteen tähtääviä suosituksia (ml. poisvalinnat). Näkökulma ulottuu vuoteen 2020.

Viitekehys

Seuraavan viitekehysten tarkoituksena on tuoda esiin tilaajan kannalta keskeiseksi katsottuja arvioinnin näkökulmia. Viitekehys ja siinä esitetyt näkökulmat ja kysymykset ovat lähinnä suuntaa-antavia ja tarjoajan tuleekin esittää tarjouksessaan alustava oma näkemys arvioinnin viitekehyksestä ja näkökulmista.

Ministeriö teettää samanaikaisesti Tekesin ja Finnveran arvoinnit ja asettaa niille yhteisen johtoryhmän.

Arvioinnin taustamateriaalia: ks. liite 1b

Arviointihankkeen yhteydessä selvitettävät kolme keskeistä asiakokonaisuutta ovat:

A. Finnveran strateginen toiminta rahoitusmarkkinoilla

Finnvera Oyj on Suomen valtion omistama erityisrahoitusyhtiö, jonka tavoitteena on edistää suomalaisten yritysten kilpailukykyä. Finnveran tarkoituksena on täydentää rahoitusmarkkinoita myöntämällä lainoja, takauksia ja vientitakuita sekä tekemällä pääomasijoituksia. Yhtiön tarkoituksena on edistää ja kehittää erityisesti pk-yritysten toimintaa, vientiä ja kansainvälistymistä sekä aluepoliittisten tavoitteiden toteutumista. Finnveran tytäryhtiöitä ovat Aloitusrahasto Vera Oy, Veraventure Oy ja Matkailunkehitys Nordia Oy, jotka tekevät pääomasijoituksia ja Suomen Vientiluotto Oy, joka hallinnoi OECD-ehdoisiin vientiluottoihin ja alusrahoitukseen liittyvää korontasausjärjestelmää sekä jälleenrahoittaa vientihankkeita (vuosina 2009-2011).

Arvioinnin tarkoituksena on selvittää, miten onnistuneesti lainsäädäntö määrittää Finnveran tehtävät ja miten onnistuneesti se on täyttänyt ne. Erityisesti arvioinnissa tulisi kiinnittää huomiota siihen, mikä on se markkinapuute, jonka täyttämiseen Finnveran toiminta kohdistuu ja onko odotettavissa tulevaisuudessa esimerkiksi rahoitusmarkkinoiden muutoksen vuoksi, että markkinapuute ja sitä kautta Finnveran tehtävät muuttuvat seuraavien vuosien aikana.

Samoin tulisi arvioida Finnveran toiminnan vaikuttavuutta sekä kotimaan rahoituksen että vienninrahoituksen osalta. Arviointi tulee toteuttaa vertailuna vastaaviin kansainvälisiin toimijoihin. Toisaalta arvioinnissa tulisi vastata kysymykseen siitä, aiheuttaako Finnveran toiminta vääristymiä elinkeino- ja/tai rahoitustoiminnassa, estääkö sen toiminta välttämätöntä luonnollista uudistumista yrityskehityksessä tai vaikuttaako se rahoitusmarkkinoihin epätoivotulla tavalla. Arvioinnin tulisi kattaa sekä lyhyen aikavälin rahoitusmarkkinoiden palvelutarjonta että pitkän aikavälin rahoituspalvelujen markkinaehtoisen kehityksen mahdollisuudet.

Arvioinnissa tulisi tunnistaa Finnveran riskinottoon liittyvä problematiikka ottaen huomioon Finnveralle asetettu itsekannattavuusvaatimus sekä pyrkiä selvittämään Finnveran riskinottoa ja -halukkuutta erilaisissa suhdannetilanteissa. Vastaavasti tulisi arvioida Finnveran kykyä tunnistaa sellaiset riskipitoiset hankkeet ja osallistua niihin, joissa julkinen rahoitus on välttämätöntä/toivottavaa. Tässä yhteydessä tulisi myös arvioida organisaation kykyä joustaa ja olla ketterä

muuttuvassa toimintaympäristössä sekä se, antaako voimassa oleva säännöstö mahdollisuuksia vaadittavalle joustavuudelle.

Erityisesti vienninrahoituksen osalta arviointi on välttämätöntä tehdä vertaamalla vastaavia kansainvälisiä toimijoita ja arvioida Finnveran rahoituksen kilpailukykyisyyttä suhteessa näihin vienninrahoituksen toimintaympäristössä. Vienninrahoituksen arvioinnissa tulee erityisesti kiinnittää huomiota EU- ja OECD-sääntelyyn ja arvioinnissa tulisikin selvittää, hyödyntääkö Finnvera kansallisesti katsoen parhaalla mahdollisella tavalla kansainvälisen sääntelyn antamat joustot ja mahdollisuudet. Vienninrahoituksen arvioinnissa tulisi myös arvioida Finnveran edellytyksiä vastata sille lainsäädännössään asettuihin tavoitteisiin ottaen huomioon myös Vienninrahoitus 2011 –työryhmän mietinnössä esitetyt uudet tehtävät ja tavoitteet vienninedistäjänä.

Arvioitaessa Finnveran strategista toimintaa tulisi samalla tunnistaa myös Finnveran toimintaympäristön asettamat rajoitteet (lainsäädäntö, sitoumukset, budjetti, pääomitus) sekä tehdä kehittämissuhteita tarvittaessa myös näiltä osin.

B. Finnveran operatiivinen toiminta ja toiminnan tehokkuus suhteessa asetettuihin tavoitteisiin

Finnvera-konsernin liiketoiminta-alueet ovat pienrahoitus, alueellinen rahoitus, kasvu- ja kansainvälistymisrahoitus sekä viennin rahoitus.

Arvioinnin tarkoituksena on selvittää, täyttääkö Finnvera lainsäädännössä sekä TEM:n omistajaohjauksen sille asettamat tavoitteet ja onko sen toiminta tehokkaasti organisoitu. Erityistä huomiota tulisi kiinnittää siihen, palvelevatko Finnveran tuotteet asiakkaiden tarpeita, mikä on tuotteiden vaikuttavuus sekä onko Finnveralla riittävät mahdollisuudet uusien tuotteiden kehittämiseen ja toisaalta vanhoista luopumiseen. Tässä yhteydessä tulisi erityisesti arvioida organisaation toimivuutta ja kykyä uusiutua ottaen erityisesti huomioon mahdolliset asiakkaiden potentiaaliset liiketoiminta-alueet.

Finnvera hoitaa julkista hallintotehtävää ja sen tulee toiminnassaan noudattaa mm. hallintolakia ja valtio vastaa Finnveran antamista vientitakuista ja –takauksista sekä erityistakauksista. Finnveran toiminta on hallintotehtävistä ja valtion talousarviosidonnaisuudesta huolimatta järjestetty osakeyhtiön muotoon, ja siihen tulee soveltaa osakeyhtiölain säännöksiä, jollei toisin ole säädetty.

Arvioinnissa tulee selvittää Finnvera-konsernin toiminnan organisatorinen tehokkuus sekä organisaation joustavuus muuttuvassa toimintaympäristössä. Samalla tulee arvioida Finnveran aluetoimintojen tehokkuus etenkin ottaen huomioon TEM-konsernin muut alueelliset toimijat etenkin ELY-keskukset.

Arvioinnissa tulee tunnistaa hallituksen ja johdon toimintaan liittyvät mahdolliset kehittämistarpeet, arvioida prosessien toimivuutta sekä vastuiden ja delegoinnin tarkoituksenmukaisuutta sekä riskienhallinnan tasoa. Operatiivisen toiminnan arvioinnin yhteydessä tulisi myös tunnistaa mahdolliset henkilöstön osaamista koskevat haasteet muuttuvassa toimintaympäristössä.

C. Finnvera osana TEM-konsernia ja Finnveran ohjaus

TEM:n konsernistrategia määrittää koko konsernin keskeiset painopisteet ja linjaukset, jotka pohjautuvat hallitusohjelman kirjauksiin. Ne konkretisoituvat substanssistrategioiden kautta. Yhteisten toimintamallien periaatteet kiteytyvät konsernin tavassa toimia kuten asiakkuusstrategiassa. Sen mukaan TEM-konserni palvelee asiakkaitaan tasapainottaen asiakaslähtöisyyden, yhteiskunnallisen vaikuttavuuden ja kustannustehokkuuden.

Konsernistrategia

Arvioinnin tarkoituksena on selvittää, miten hyvin Finnvera toteuttaa TEM konsernistrategiaa ja sen tavoitelinjauksia. Konserninäkökulmaa painottaen tulisi selvittää, miten vahva synergia Finnveran ja toisen suuren TEM-konsernin toimijan eli Tekesin välillä on. Lisäksi tulee arvioida Finnveran suhde TEM-konsernin muihin toimijoihin ja miten tuloksellista tämä yhteistoiminta on. Erityisesti tulisi arvioida työnjakoa Suomen Teollisuussijoitus oy:n kanssa pääomasijoitustoiminnassa, Finpron kanssa kansainvälistyvien yritysten näkökulmasta sekä Elinkeino-, liikenne ja ympäristökeskusten kanssa pk-yritysten ja rahoituksen ja alueellisen toiminnan näkökulmasta.

Arvioinnissa tulee selvittää, onko Finnveran ja Tekesin sekä edellä mainittujen muiden toimijoiden palvelutarjoama selkeä vai onko toiminnoissa olemassa päällekkäisyyksiä tai toisaalta vaikuttavuuden kannalta tunnistettavia selkeitä aukkoja. Samalla tulisi selvittää onko rahoitukseen liittyvä osaaminen keskitetty optimaalisesti eri toimijoiden kesken TEM-konsernissa. Arvioinnissa tulisi myös tunnistaa Finnveran rakenteelliset ja hallinnolliset kehittämistarpeet nimenomaan osana TEM-konsernia sekä tehdä tulevaisuuden kehittämisehdotukset.

Asiakkuusstrategia

Arvioinnin tarkoituksena on selvittää, miten Finnvera TEM-konsernin asiakkuusstrategiaa toteuttaessaan edistää yritysten uudistumista ja kasvua. Tarkastelu tulee ulottaa siihen, miten palvelut tavoittavat erityyppiset nykyiset ja uudet potentiaaliset asiakkaat ja tukevat niiden kautta Suomen yrityskannan jatkuvaa uudistumista ja sen kilpailukykyä kehityksellä.

Asiakassegmenttijaottelun mukaisesti tulee arvioida palvelujen saatavuutta ja tehokkuutta eri segmenteissä. Tässä yhteydessä arvioitavaksi tulee myös Finnveran sähköisten palveluiden asiakasystävällisyys sekä eri organisaatioiden tuottaman tiedon hyödyntäminen.

Ohjaus

Finnveran toimintaa ohjataan monella konserniohjausmallin keinolla. Arvioinnissa tulee erikseen Finnveran osalta tarkastella sitä, onko ohjaus (säädös-, omistaja- ja informaatio-ohjaus, kehitystoiminnan ohjaus ja hallitus- ja johtokuntatyön ohjaus) oikein mitoitettua ja laadukasta ja auttaako se Finnveraa saavuttamaan sille asetetut tavoitteet. Ohjauksen arvioinnissa tulee erityisesti huomioida muiden nk. toimijaryhmä I organisaatioiden ohjauksen mahdolliset synergiat.

Appendix B

List of Stakeholders

Ministry of Employment and the Economy (MEE)

Erkki Virtanen, Permanent Secretary

MEE - Enterprise & Innovation Department

Petri Peltonen, Director General

Risto Paaermaa, Director

Kari Parkkonen, Government Counsellor

Janne Känkänen, Head of Division

Ilkka Korhonen, Chief Counsellor

Pekka Lindroos, Counsellor

Christina Snellman, Government Secretary

Sirpa Alitalo, Industrial Counsellor

Other MEE Organisations

Henri Grundstén, Director, Finnish Industry Investment Ltd

Juha Marjosola, President and CEO, Finnish Industry Investment Ltd

Kalevi Pölönen, Head of Unit, Tekes, North Karelia ELY Centre

Ritva Saarelainen, Director, North Karelia ELY Centre

Kari Virranta, Director General, North Savo ELY Centre

Erkki Lydén, Head of Unit, Tampere Region ELY Centre

Kenneth Nyholm, Head of Unit, Tekes, Tampere Region ELY Centre

Markku Kuismin, Executive Vice President, Finpro

Kimmo Aura, Area Manager, Finrpo

Ministry of Finance

Raine Vairimaa, Government Councillor

Arto Eno, Financial Councillor

Finnvera group

Pauli Heikkilä, Managing Director

Topi Vesteri, Executive Vice President, Export Financing

Tuukka Andersen, Vice President, Head of Underwriting

Jari Kautto, Co-Head of Structured Finance

Raija Rissanen, Vice President, Research

Eeva-Maija Pietikäinen, Vice President

Benita Salenius, Head of Trade Finance

Annamarja Paloheimo, Senior Vice President, SMEs Financing

Erkki Kontio, Chief Risk Officer

Risto Huopaniemi, Senior Vice President, Administration
Anita Muona, Managing Director, Finnish Export Credit Ltd
Mikael Nordgren, Head of Treasury
Kalle J. Korhonen, Chairman, Board of Directors
Markku Pohjola, Chairman, Board of Directors
Ulla Hagman, Senior Vice President, Finance and IT
Tarja Svartström, Senior Vice President, Corporate Communications and Marketing
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TC Venkat Subramanian, former Chairman and CEO of India Ex-Im Bank

Analysis of Finnvera's Risk Taking Capacity

1. Introduction

We considered the issue of Finnvera's risk taking capacity, i.e. whether it takes too much or not enough risk as if it were a stand-alone company without a government back-stop.

In doing so, we examined Finnvera's loan portfolios (both domestic and export) and the related credit risk. The VC portfolio was not included in the calculations given that it is less than 5% of total balance sheet exposure. We did not take into account market risk (foreign exchange, interest rate) as this was said to be minimal⁵⁵, which according to our calculations is valid.

The approach we took to analysing Finnvera's risk taking capacity was to compare economic capital (how much capital is required from an economic point of view to support risks related to current business operations) with Finnvera's actual capital base.

2. Capital Base

The concept of Finnvera's capital base is not entirely straightforward given that it includes, not only its equity position, but also access to the State Guarantee Fund.

Its equity position can be derived as follows:

Table 12. Components of total equity as per end of FY 2011 (€ mm)

Share capital + Share premium + Fair value reserve	247.6
Fund for domestic operations	135.7
Fund for export credit guarantee and special guarantee operations	241.4
Fund for venture capital investments	17.5
Retained earnings	61.2
Share equity held by non-controlling interest	11.3
Total equity position	714.8

Therefore, we considered current equity position in its various components was taken as the institution's capital base.⁵⁶

As stated in the Annual Report 2011, "The State of Finland compensates Finnvera for some of the losses that arise in SME financing. Using revenues from its operations, Finnvera must cover its own share of any domestic credit and guarantee losses incurred from one economic cycle to the next. The State Guarantee Fund and the

⁵⁵ Annual Report FY 2011

⁵⁶ There are specific funds for specific operations, so consolidating them is in theory not entirely accurate but makes the analysis much more transparent

State of Finland secure the foreign country, bank and enterprise risks stemming from export credit guarantee operations. In the long term, profits from operations must cover the expenses and guarantee losses arising from operations. “

We separately considered the resources from the State Guarantee Fund. It has two purposes: 1) to cover the guarantees granted before Finnvera was established of which there is currently only € 35 million in exposure and 2) to support Finnvera's export credit guarantee business when needed. This means that if Finnvera's export credit guarantee business makes a net loss exceeding the equity in Finnvera's balance sheet allocated to this business area, the Fund makes a payment to Finnvera covering the loss in excess of the equity. The Fund is repaid by Finnvera during the following profitable years.

The amount of cash reserves in the Fund was € 727 million at the end of 2011. On this basis, we added € 727 mm to make an alternative equity calculation, totalling € 1441.8 mm

3. Methodology

We then looked at the Finnvera's approach to calculating expected loss (EL) and unexpected loss (UL).

We reviewed a sample of 20 files, covering the top exposures in each rating category. (All of these were export credit files, given domestic cases are very small exposure per file, with strong diversification). On the basis of this review, we were in broad agreement with Finnvera's approach to calculate its expected loss parameters (PD, LGD and EAD).

In terms of Finnvera's approach to calculating Unexpected Losses, Finnvera's Risk Management relies on JP Morgan Credit Metrics, which is a proven technology. However, we considered more specifically in terms of correlations that its company specific parameter is on the high side, reducing ecap. Moreover, default correlations were probably on the low side, and based on expert “feeling” instead of using asset correlations (inferred from equity prices) as a basis, reducing ecap. Finnvera also relies on a confidence interval of 99%, which is in line with BB+ rating which is both low and without having an intentional or real risk philosophy.

4. Findings with respect to risk philosophy

Finnvera calculates ecap. However, Finnvera has not defined what being “self sustainable” actually means in terms of risk appetite / business volume. Reference is made in the Annual Report “In the long term, profits from operations must cover the expenses and guarantee losses arising from operations. “

Having an ecap target and desired stand-alone credit rating for Finnvera as an institution could provide guidance in this respect. For example, an AA rating requires much more capital for the same level of risk taken than a BB rating would require. Alternatively, for a given amount of capital a desired BB rating allows much more risk taking than an AA rating.

5. Analysis of capital adequacy

Finnvera's domestic portfolio is much smaller (10% loan exposure) and is well diversified. Therefore, we put more emphasis on the export guarantee book.

In order to achieve a BB rating on the export book, our assessment suggest a capital backing of €1,2bn is required, versus €2.5 bn for AA, which is more stringent than Finnvera's own assessment because of other correlation approach (assumptions: company specific down -50%, correlations up +100% for export and + 50% for domestic portfolio).

Comparing with capital base and state fund, this will give following results (€ mm):

Table 13. Capital Base per Desired Credit Rating

Desired Rating	AA	A	BBB	BB
Export ecap	2761	2546	1773	1203
Domestic ecap	238	231	195	144
Total ecap	2999	2777	1968	1347
Total equity	715	715	715	715
Total equity + State Guarantee Fund cash reserves	1442	1442	1442	1442
Excess of capital base (total equity + State Guarantee Fund cash reserves)	-1557	-1335	-256	+105
Additional risk capacity (assuming same risk intensity risk portfolio)	-51.9%	-48%	-26.7%	+7.8%

6. Conclusions

As stated earlier, if Finnvera were to be a stand-alone company without a government back-stop, the desired stand-alone rating shall define risk-taking capacity:

- If Finnvera is targeting AA or A, total equity defined in the broadest sense (+ cash reserves State Guarantee Fund) should almost be doubled
- For a BBB rating, required capital increase is much more modest.
- For a BB rating, there is even a small excess of capital

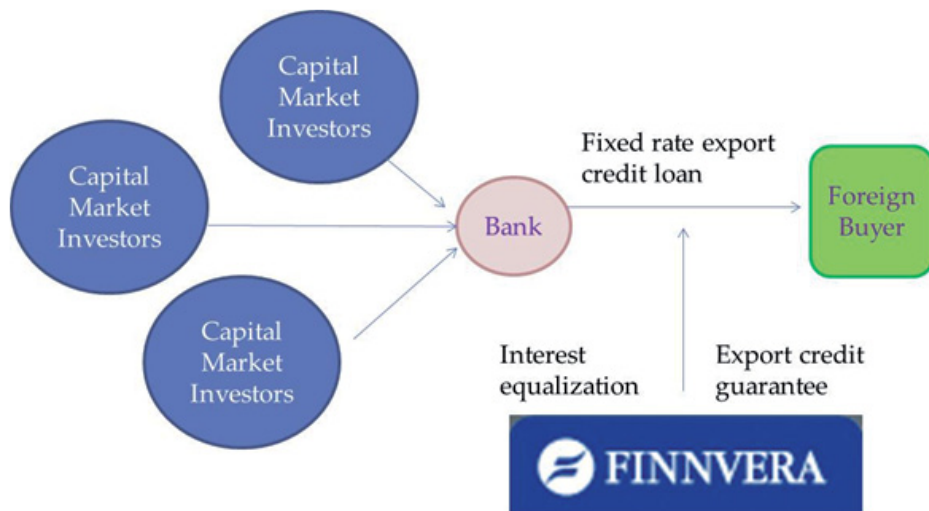
Alternatively, business/risk exposure could be trimmed down to achieve the same rating target (assuming risk intensity is maintained)

- It would require cutting portfolio by half (without changing capital base) to achieve AA or A rating
- For a BBB rating to be obtained, the portfolio should be decreased by 26.7%
- For a BB rating to be targeted, there is even a small margin to grow the business.

Export Credit Funding Issues

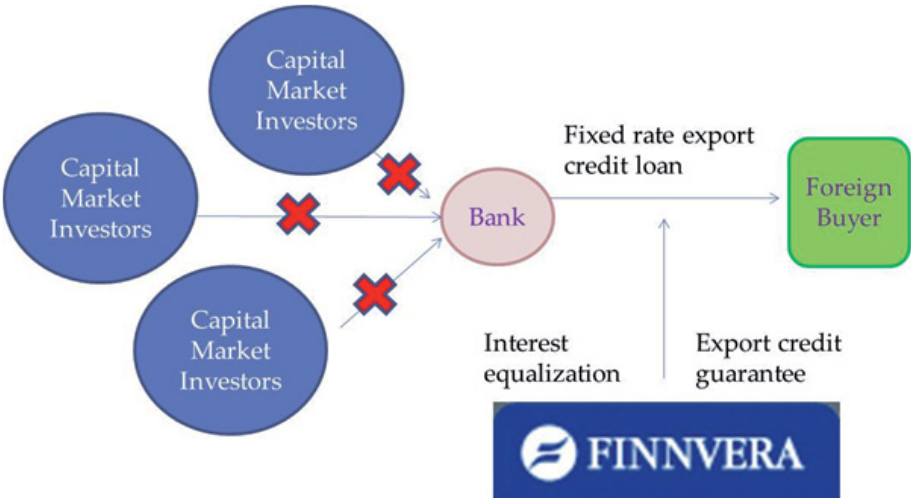
Since the global financial crisis, commercial banks have had difficulties to borrow long-term funds in the markets to on-lend in support of capital goods exports and projects. Those countries with funding instruments have been able to address these which have arisen. Many EU ECAs as guarantors have faced the challenge of funding gaps and have had to develop solutions.

Figure 17. Funding of Export Credit Loans in “Normal” Market Conditions



During the crisis, banks could not access funds to on-lend LT fixed rates (see Figure 16 below).

Figure 18. Market Malfunctions during the global financial crisis



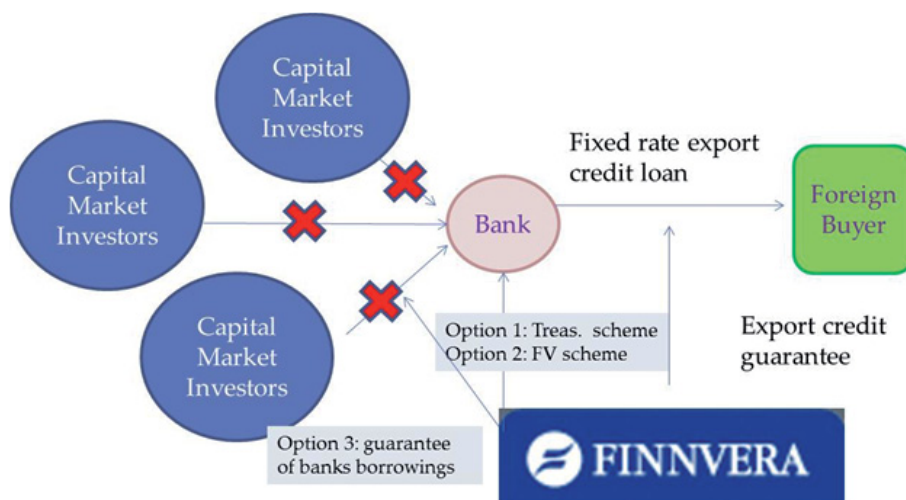
Finland’s temporary funding scheme via the State Treasury was considered a good response to the need but, according to banks and exporters took too long to be implemented and at €500mn was too small to be meaningful to the market demand. The scheme quickly ran out of funds.

It became clear that this was not a temporary market malfunction but rather a more systemic problem for banks and that other dynamics were emerging, such as the introduction of Basel III rules.

It was agreed by a working group consisting of banks, exporters, Finnvera, MEE and Ministry of Finance that a more permanent solution would be needed to be able to match competition.

Various solutions to address this market gap have been considered. Figure 17 shows the various options which were examined.

Figure 19. Funding Options to Address Market Malfunctions



Option 1 is a continuation of the temporary Treasury scheme. Option 2 is the establishment of Finnvera's own borrowing/Treasury operation to refinance the banks. Option 3 is the expanded use of the Finnvera guarantee to attach to the liabilities of banks borrowing through the packaging of the export credit asset for the capital markets. This option requires Finnvera to be able to offer a 100% guarantee (with a 5% counter-guarantee from the bank) which means a change to the legislation.

Option 1 was initially excluded by the working group on the basis that given the current state of the European economies and credit rating agencies, it was important to MOF that the State not be seen to assume incremental debt. While we understand the importance to MOF that Finland maintain its AAA credit rating, we are of the view that it is likely that the credit rating agencies would consider an off-balance sheet liability of a state-owned financing agency to be indeed that of the state, particularly with the explicit guarantee. However, it is most certainly the case that Finnvera's balance sheet gets consolidated into the State's. Since this initial decision, there has been further consideration of renewing the temporary scheme again and as of May 2012 Parliament has approved another €1 bn under this approach.

Under Option 2, as a new borrower like Finnvera, inevitably the costs of borrowing will be higher, even with the government guarantee, and Finnvera is expected to pay a spread over the State's borrowing costs. In addition, the set-up costs in terms of legal, banking and human resources has to be considered. In order to match competition which is still able to provide CIRR flat financing, Finnvera would have to run this scheme at a loss. Even with a liquidity line from the government to allow Finnvera to borrow short-term to lend long-term, given the current market

conditions, USD CIRR rates will amount to less than Finnvera's cost of funds, thus giving rise to deficits which will need to be covered, first, by FEC's capital. However, this situation needs to be addressed to ensure that Finnvera's own capital is not eroded by these expected funding losses.

Option 3 holds some promise as it narrows the role of Finnvera to risk-taker, although puts a double liability on them for both the export credit guarantee, as well as the funding guarantee.

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Julkaisun nimi Titel Title Evaluation of Finnvera Plc (Finnvera Oyj:n evaluointi)			
Tiivistelmä Referat Abstract Finnvera Oyj tarjoaa rahoitusta yritystoiminnan alkuun, kasvuun, kansainvälistymiseen ja vientiin. Finnvera on valtion omistama riskirahoitusyhtiö, jota ohjaa työ- ja elinkeinoministeriö (TEM), tämän evaluoinnin tilaaja. Evaluoinnissa Finnvera arvioidaan kansallisessa ja kansainvälisessä liiketoimintaympäristössään. Raportti esittää näkemyksen Finnveran roolista toimintaympäristössään yhtenä TEM-konsernin osana, näkökulmana vuosi 2020. Arviointikohteina ovat: 1) TEM:n strategia ja tavoitteet, 2) Finnveran strateginen toiminta rahoitusmarkkinoilla sekä 3) Finnveran operatiivinen toiminta ja tehokkuus. Arvioinnin pohjalta esitetään toimenpidesuosituksia siitä, kuinka Finnvera voi tulevaisuudessa tukea suomalaista taloutta ja yrityksiä kasvamaan ja toimimaan kilpailukykyisesti kansainvälisillä markkinoilla sekä rahoitusmarkkinoiden kehittämistä tavalla, jossa yksityiset ja julkiset resurssit tehokkaasti yhdistyvät. TEM:n strategia ja tavoitteet: TEM:n Finnveralle asettamat tavoitteet ovat luonteeltaan pikemminkin operatiivisia kuin strategisia. Finnvera on saavuttanut suhteellisen hyvin sille lainsäädännössä ja TEM-ohjauksessa asetetut tavoitteet. Finnveran strateginen toiminta rahoitusmarkkinoilla: Finnveran strateginen toiminta rahoitusmarkkinoilla on pääsääntöisesti tarkoituksenmukaista, mutta Finnveran tuotteilla ja rahoitusratkaisulla on erilaisia vaikutuksia. Jokaista instrumenttia on syytä tarkastella erikseen toisiinsa vertaamatta pitäen mielessä Finnveran intervention perustana olevat kriteerit: a) markkinapuutteen korjaaminen, 2) yksityisen sektorin toimijoiden katalysointi, ja 3) pankkien välisen kilpailun ja kohtuullisen hinnoittelun edistäminen. Finnveran operatiivinen toiminta ja tehokkuus: Viime vuosien aikana Finnvera on aktiivisesti kehittänyt johtamisprosessejaan ja toimintatapojaan ja näin parantanut toivotulla tavalla tuottavuuttaan ja tehokkuuttaan. Finnvera on ammattitaitoinen ja hyvin johdettu organisaatio.			
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Julkaisun nimi Titel Title Evaluation of Finnvera Plc (Evaluering av Finnvera Abp)			
Tiivistelmä Referat Abstract Finnvera Abp erbjuder finansiering för etablering, tillväxt och internationalisering av företagsverksamhet och export. Finnvera är ett statsägt riskfinansieringsbolag, som styrs av arbets- och näringsministeriet (ANM), som har beställt denna evaluering. I evalueringen utvärderas Finnvera i sin nationella och internationella affärsmiljö. Rapporten ger en syn på Finnveras roll i dess omvärld, som en del av ANM-koncernen, med perspektiv på år 2020. Utvärderingen omfattar 1) ANM:s strategi och mål, 2) Finnveras strategiska agerande på finansmarknaden samt 3) Finnveras operativa verksamhet och effektivitet. Utifrån utvärderingen framförs förslag till åtgärder för hur Finnvera i framtiden ska kunna stödja den finländska ekonomin och företagets tillväxt och konkurrenskraft på den internationella marknaden samt stödja utvecklingen av finansmarknaden på ett sätt som effektivt förenar privata och offentliga resurser. ANM:s strategi och mål: De mål som ANM har satt upp för Finnvera är till sin natur snarare operativa än strategiska. Finnvera har relativt bra uppnått de mål som har satts upp för bolaget i lagstiftningen och ministeriets styrning. Finnveras strategiska agerande på finansmarknaden: Finnveras strategiska agerande på finansmarknaden är i regel ändamålsenligt, men Finnveras produkter och finansieringslösningar har olika effekter. Varje instrument bör granskas separat utan att de jämförs med varandra med tanke på de kriterier som ligger som grund för Finnveras intervention: a) korrigering av marknadsbrist, 2) katalysering av aktörerna inom den privata sektorn och 3) främjande av konkurrens mellan banker och en rimlig prissättning. Finnveras operativa verksamhet och effektivitet: Under de senaste åren har Finnvera aktivt utvecklat sina ledningsprocesser och arbetssätt och därigenom på önskat sätt förbättrat sin produktivitet och effektivitet. Finnvera är en professionell organisation med ett gott ledarskap. Kontaktperson vid arbets- och näringsministeriet: Närings- och innovationsavdelningen/Pekka Lindroos, tfn 050 3963313			
Asiasanat Nyckelord Key words Finnvera Abp, arbets- och näringsministeriet, SMF-finansiering, exportfinansiering, utvärdering, marknadsbrist, tillväxt, innovation, internationalisering			
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Evaluation of Finnvera Plc

In this report the evaluation of Finnvera is presented.

The evaluation focuses on three primary areas:

- The evaluation of Finnvera's strategic activity in the financial markets
- The evaluation of operational activity of Finnvera and its effectiveness
- The evaluation of the Ministry's strategies and objectives with regards to Finnvera and its subsidiaries, taking into account the other actors over which the Ministry has responsibility.

The report concludes that overall Finnvera performs well in both serving its customers and in an international comparative perspective. Finnvera's domestic activities are professional and competent. For companies wishing to export and internationalize Finnvera's support is also considered important. Finnvera's effectiveness has improved in recent years through improved processes and maximized efficiency and productivity. Overall, Finnvera's operations are professionally managed.

The evaluation recommends for instance that strategic goal-setting and division of tasks between the Ministry of Employment and the Economy (MEE) and Finnvera could be further enhanced and co-ordination and synergy between MEE agencies deepened. Furthermore, Finnvera's risk strategy could be developed. Within the perspective for year 2020, ministries and Finnvera should actively promote development of Finnish financial markets with new co-operation models between different actors in enterprise financing. Supporting growth and internationalization of Finnish companies should receive continued attention as a core strategic target for Finnvera.

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