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Financing SMEs in Finland – the case of Finnvera Plc

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A brief introduction



- D.Sc. (Econ. & Bus. Adm.)
- Professor in Entrepreneurship
- Director, TSE Entre (former known as the Small Business Institute), Turku School of Economics (TSE), University of Turku (UTU)
- Head of **C**entre for **R**esearch and **E**ducation, **CRE**
- Adjunct Professor in entrepreneurship and SME policy, TSE, UTU
- A number of academic appointments within the TSE since 1992
- Kingston university, UK: Leverhulme visiting research fellow 2005-2006
- **Research areas:** entrepreneurship: especially company growth, family business, corporate entrepreneurship, entrepreneurship education, innovation and entrepreneurship policies



- Leading Entrepreneurship Research

- Our mission: **to generate entrepreneurship research of international quality both in terms of scholarly excellence and policy relevance**
- Our vision: to become "The Place for the Top Entrepreneurship Researchers"
 - In truly international research networks TSE Entre conducts applied and basic research on entrepreneurship, work and innovation in a changing society in Finland and internationally
- Research Programme – "Towards an Entrepreneurial Society"
 - The programme investigates the role and dynamics of entrepreneurship in the society. Entrepreneurship is understood as a versatile phenomenon that touches upon individuals, organisations and societies alike.



Agenda

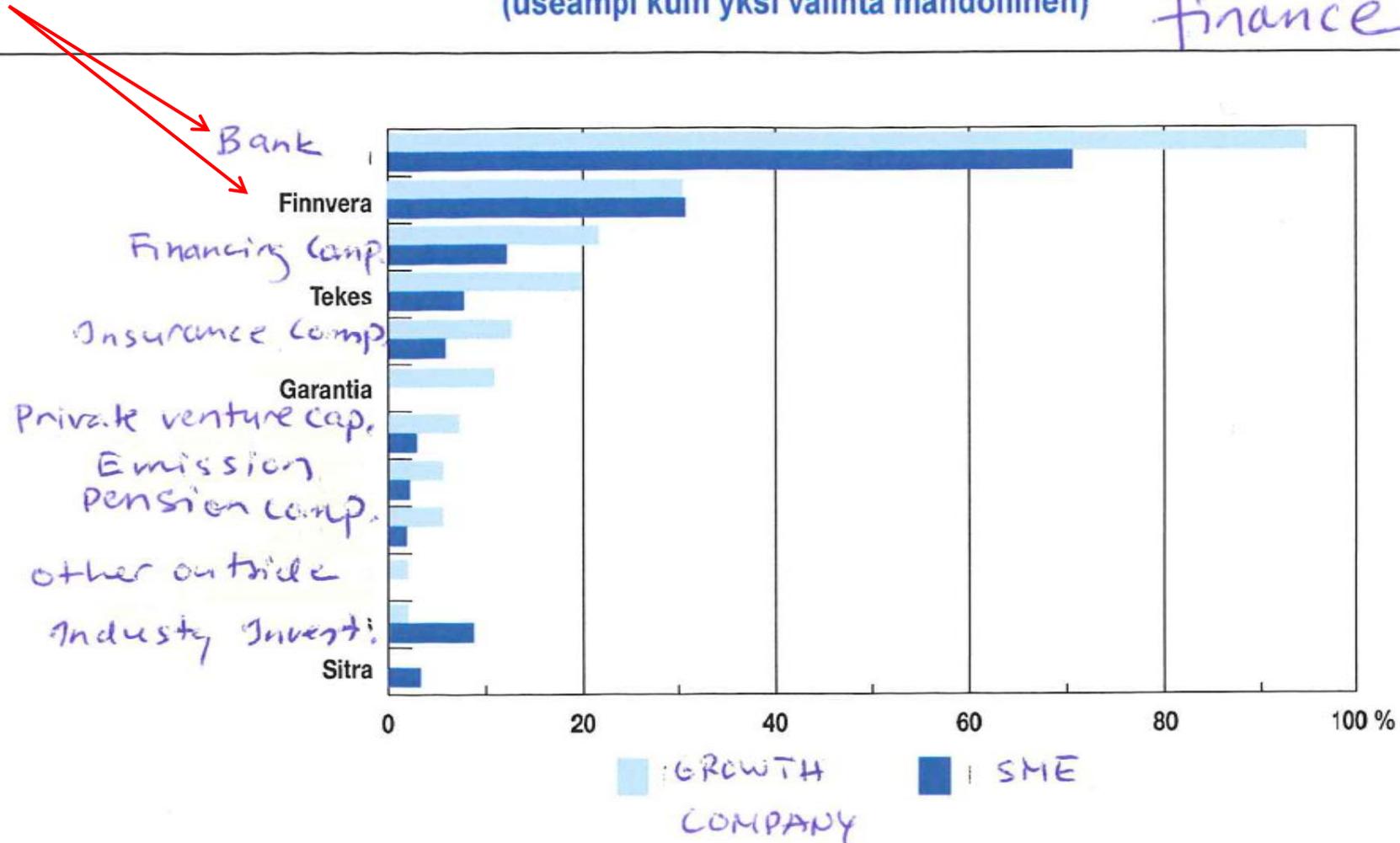
- Finnish SME financing in brief
- Introducing public risk financier Finnvera Plc
- An overview of FV's activities from 1999-2008
- Some insights on FV's role on SME financing in Finland
- FV – does it make a difference?



Sources of finance in Finland

Kuva 7. Rahoituksen ja vakuuksien hakulähteet
(useampi kuin yksi valinta mahdollinen)

Sources of finance



Lähteet: EK:n ja Ernst&Youngin kysely kasvuyrittäjille sekä EK:n pk-rahoituskysely



Finnvera Plc – a public risk financier

- a specialised financing company owned by the State of Finland
- It provides its clients with loans, guarantees, venture capital investments and export credit guarantees
 - When an enterprise's own resources or collateral are insufficient for acquiring financing on the commercial market, but it has a good business idea/concept meeting profitability criteria
 - According to the principle of market failure
- FV has official Export Credit Agency (ECA) status
 - FV gives guarantees against political or commercial risks associated with the financing of exports



Operations of Finnvera

- steered by the industrial and ownership policy goals laid down by the State:
 - increasing the number of starting enterprises
 - enabling financing for changes encountered by SMEs
 - promotion of enterprise growth, internationalisation and exports
- FV expected to adhere to the principle of economic self-sustainability
 - The State of Finland covers some of FV's credit and guarantee losses enabling FV to take higher risks and to share risks with other financiers
 - The State is responsible for guarantees issued by FV's Export Financing
- The funds needed for granting credits to SMEs are obtained from the financial market
 - The European Investment Bank is a major lender
 - FV can obtain State guarantees for its acquisition of funds and has no credit rating of its own

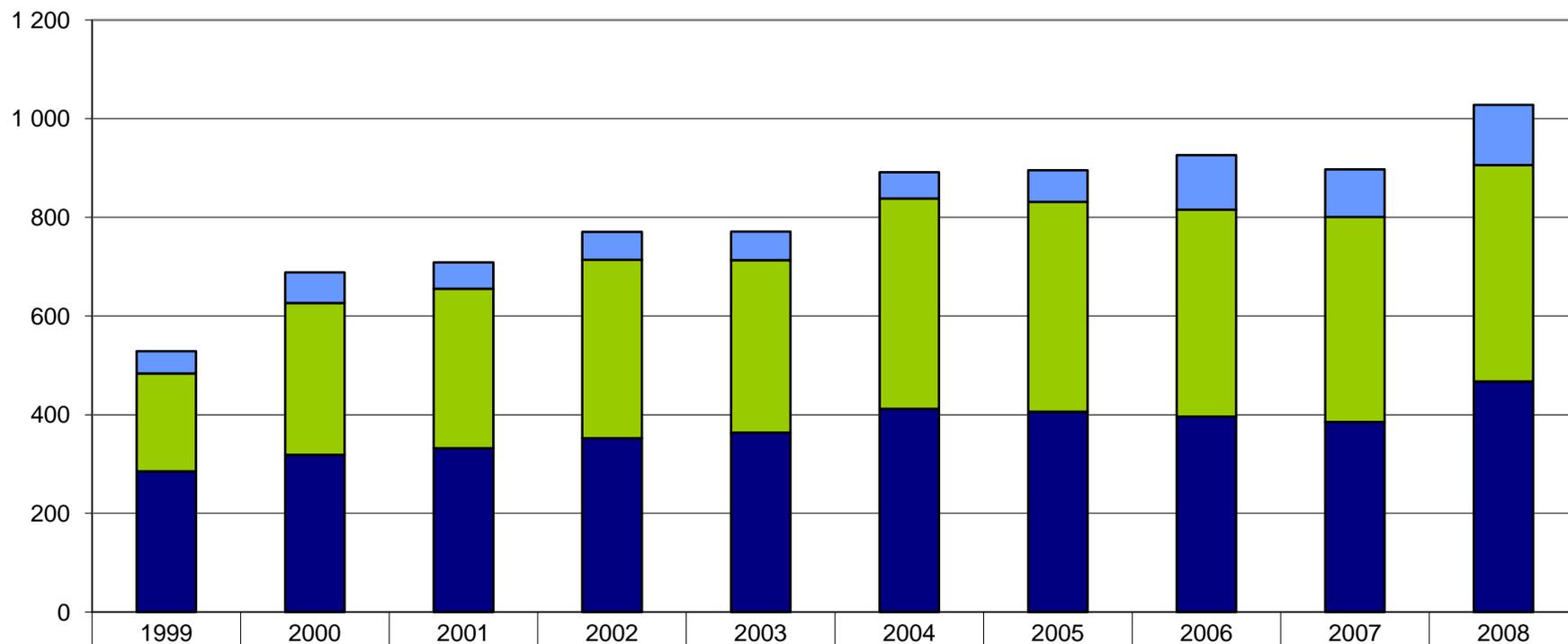


FINNVERA PLC – TEN YEARS OF EXPERIENCE ON PUBLIC RISK FINANCING

- Domestic financing
- Export financing



Domestic financing 1999-2008 (mill. €)

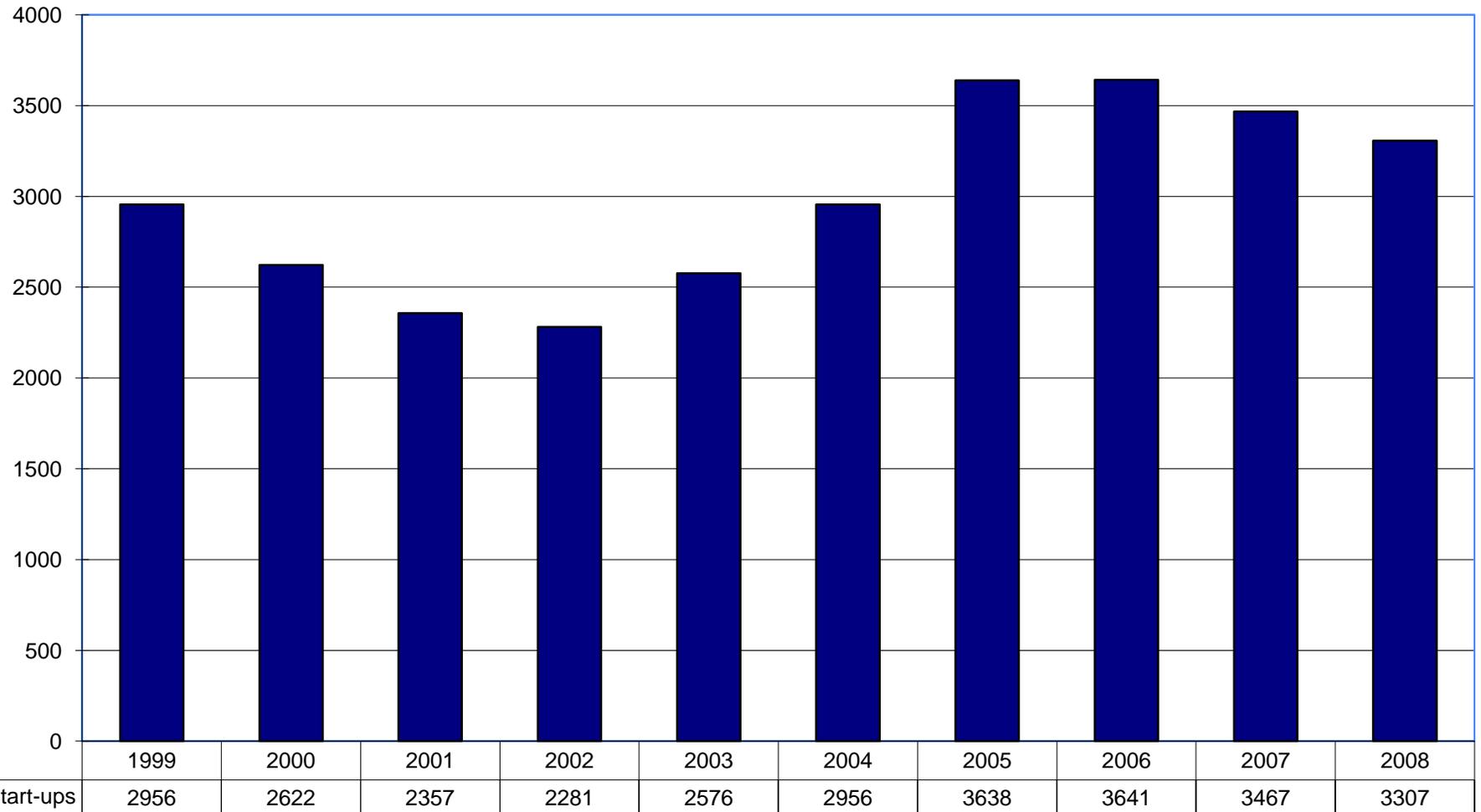


	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
■ Export guarantees	45,4	61,9	53,2	56,4	57,5	53,1	63,9	110,4	96,2	121,9
■ Gurantees	198,2	308	323,1	361,7	349,6	426,6	425,6	419,4	415,7	438,3
■ Loans	285,3	318,6	332	352,1	363,7	411,8	405,8	396,2	385	467,6

■ Loans ■ Gurantees ■ Export guarantees

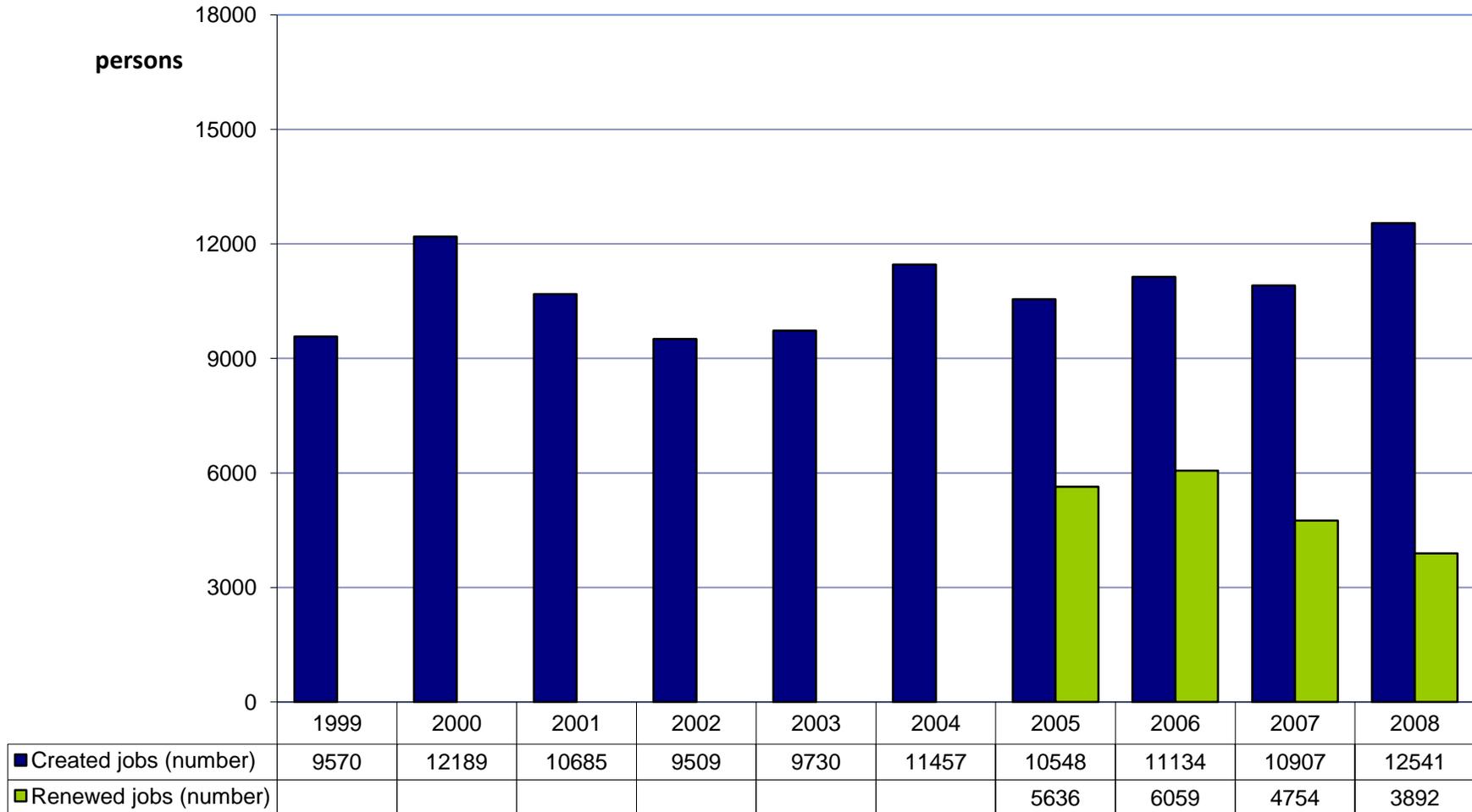


Domestic financing, number of start-ups 1999-2008





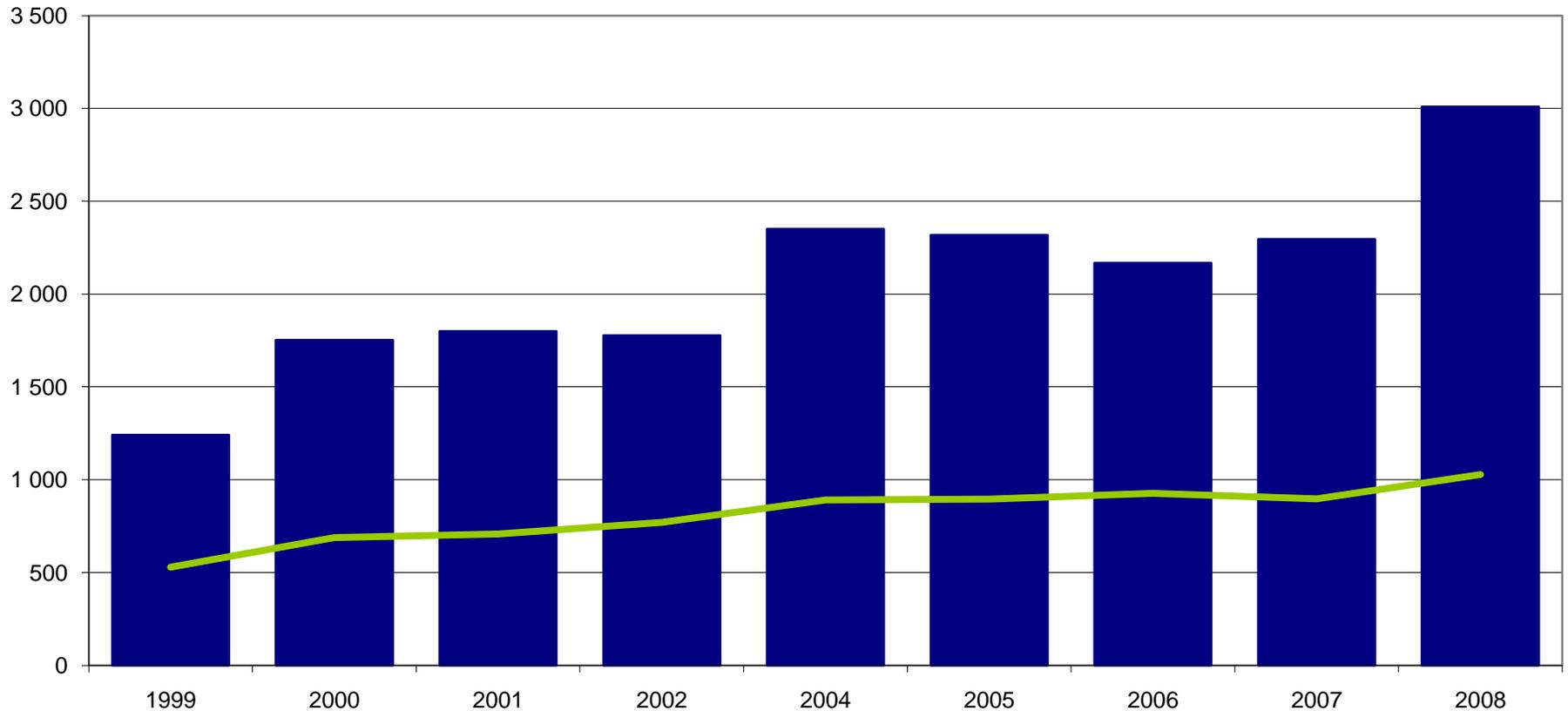
Domestic financing, number of jobs created and renewed 1999-2008



■ Created jobs (number) ■ Renewed jobs (number)



Share of Finnvera financing of the total in domestic financing

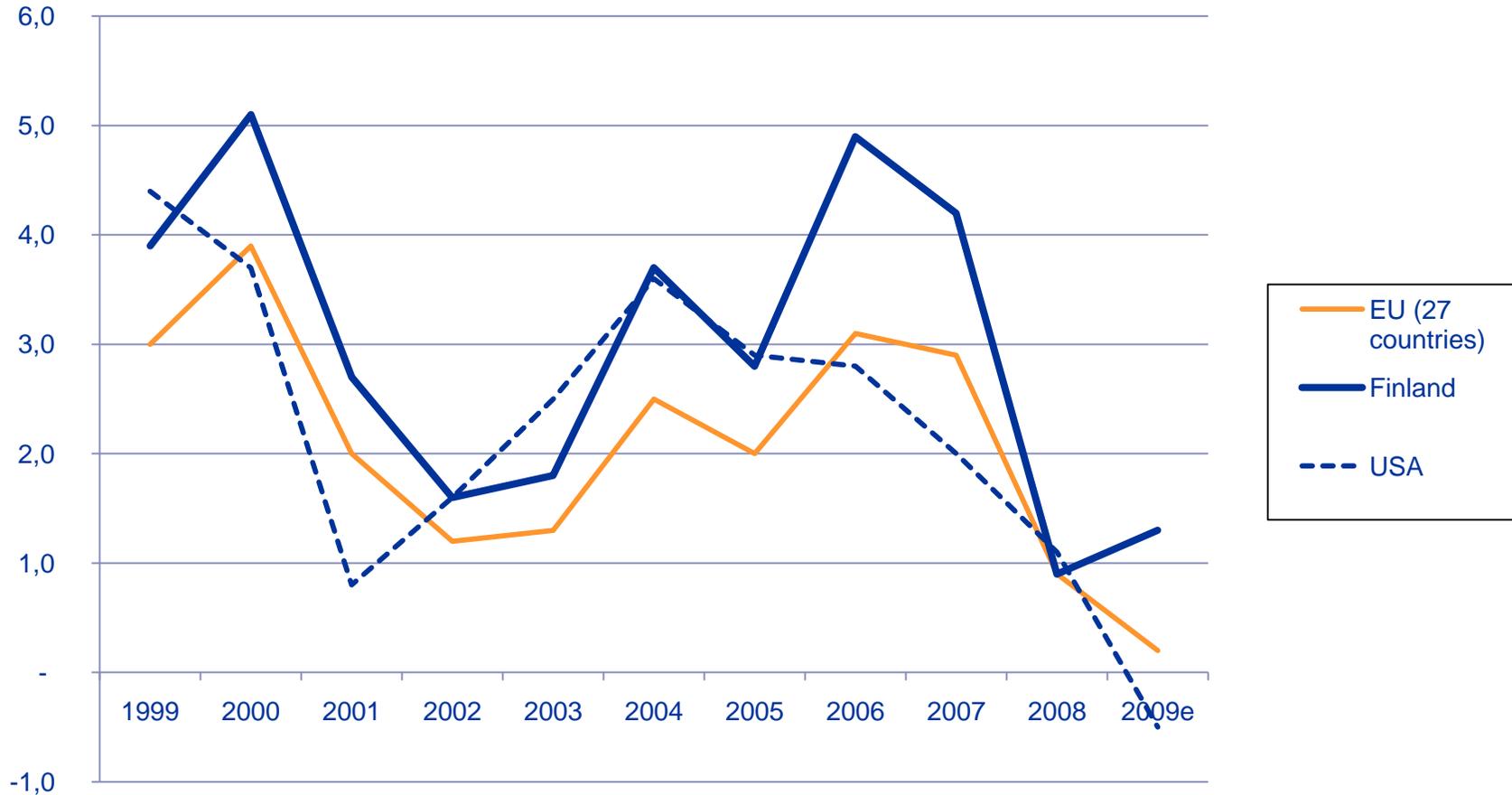


■ Total financing — Finnvera financing



Macro economic development 1999-2008

GDP Growth %





Some observations on domestic financing

- Relatively stable, but not constant growth
- Changes in types of financing (guarantees)
- Decrease in total share of financing
- Development of venture capital financing
- Weak relationship with macro economic development

- How market failure and its changes are reflected on FV activities?

- Increasing volumes in economic upswing do not create economic impact proportionally



Some observations on export financing

- Reflects the exports of larger exporters, particularly in the fields of shipbuilding and telecommunications
- The number of SMEs exploiting the export guarantees has increased although the volumes come from large companies and deals
- Annual changes do not reflect the GDP, but
 - More general situation in financial markets (e.g. financial crunch)
 - The development of exports
- 'System level' impact



FINNVERA PLC INTERPRETED BY THE MNGMT (ANNUAL REPORTS) 1999-2008

- Mission statement
- Strategic guidelines
- Collaboration
- Success
- Impact
- Industrial and ownership policy goals laid down by the owner (State)



From survival to institutionalised risk financier and finally to societal impact

- First, A successful merger of Kera and Finnish Guarantee Board (the start of Finnvera Plc)
- Then, becoming an insitutionalised public risk financier
- Meeting the growth objectives (volume) formed a basis for self-sutainability
- Industrial and ownership policy goals laid down by the owner (2002)
- Focus on **impact** in 2003 - a turning point
 - International evaluation
- Success and performance assessed based on a number of elements (2004):
 - Financing (loans and guarantees) offered, industrial and ownership policy goals, customer value-added, staff job satisfaction, profitability of the business



Focus on impacts

- Impact assessment based on policy goals set by the State
 - Promoting employment
 - Supporting start-ups
 - Conducting industrial and regional policy
 - Promoting exports



Some observations

- Basic assumptions (mission) have remained unchanged
 - Task based on legislation, but in process of time its realization has become more customer-friendly and business- like
- Respective development in strategies
 - More focused and dynamic according to the changes in business environment
 - Strategic choices reflect the goals for better impact
- Interpretation of success changes
 - From volumes and profitability (self-sustainability)
 - To meeting the policy goals of the owner, and finally
 - **To the impacts of FV 's activities**



Crucial question

- "How a state-owned instrument, public risk financier FV, would really make a difference (*impact*) by supporting Finnish businesses and regional development?"
- The role opens up for FV itself only gradually



SOME INSIGHTS ON IMPACTS

- External evaluations
- Customer and stakeholder analyses



Domestic financing

- Value-added for the SMEs: good impact and favourable outcomes
 - Greatest among start-ups and growing firms and among the ones investing heavily on development (market gap)
 - For a quarter of the firms the participation of FV is not critical ('normal' development)
- Market gap: weak collateral (growing, innovative firms and service firms) and some lack of information
- Criticism:
 - Mutual dependency of banks and FV – a self-evident fact
 - Regional policy goals and activities of FV: do not necessarily support correcting market gap (smaller leverage effect of financing in regions)



Export financing

- Successful in promoting Finnish export
- Greatest impact on exports to countries with political risk, in new customers and in large (volume) and long-standing contracts/projects
- One third would not have been accomplished without FV, but respectively one third would (potential production flows to other countries)
- FV has an important role to play as long as other countries (with whom the Finnish exporters compete) have similar export credit systems



FV in change

- Volume has grown in domestic and export financing
 - Growth not linear
 - No direct association with macro economic development of Finnish economy (GDP)
 - Impacts and volumes have not grown proportionally
- When and why (what kind of market failure) FV is needed?
 - Exports: risk taking ability of banks, demand of exports, interest equalization based on interest level
 - Domestic: start-ups; in economic boom investments and working capital for growth; in down-turn working capital due to weak demand
- FV financing and presence for their part generate impacts although all the impacts would not have been unfulfilled without FV
 - About one third or fourth would have been realized without FV (grey area, 'normal' development)



Summing up the FV activities

Impacts of Finnvera's activities	2008	2007	2006	2005	2004
Domestic financing					
Loans, domestic guarantees and export guarantees offered	1,027.8	896.9	926.0	895.3	891.5
- Financing for assisted areas, MEUR*	437.6	353.7	456.8	460.3	433.9
Number of enterprises started with the help of financing	3,307	3,467	3,641	3,638	2,956
Number of jobs created with the help of Finnvera's financing	12,541	10,907	11,134	10,548	11,457
Financing/new job, EUR 1,000	82	82	83	85	78
Financing of exports					
Export credit guarantees and special guarantees offered, MEUR					
- SMEs	76.8	38.3	48.8	44.6	18.6
- Major companies	6,224.0	1,777.8	2,843.8	4,047.3	2,708.3
Total	6,300.8	1,816.1	2,892.6	4,091.9	2,726.9
- Share of foreign risk	4,248.3	1,626.8	2,760.2	2,974.3	2,209.4
Guarantees that came into effect, MEUR					
- SMEs	43.0	43.3	40.0	18.3	16.8
- Major companies	3,801.9	720.7	1,257.9	2,627.2	1,094.5
Total	3,844.9	764.0	1,297.9	2,645.5	1,111.3
- Share of foreign risk	2,719.8	705.7	1,239.8	1,406.9	987.1
Exports covered by export credit guarantees, %					
- Share of Finland's total exports	2.4	1.9	2.7	1.9	2.4
- Share of exports to countries with political risk	4.4	4.0	6.4	4.9	5.7
Number of clients					
Domestic and export financing together	27,500	28,000	28,000	27,600	26,300

* Assisted areas were revised in 2007



Finnvera in change

- Focus from self-sustainability and business profitability to wider societal impact
 - Growth has not been directly associated with impact
 - Particularly focused instruments seem to generate better impact (restricted resources)
- Self-sustainable public risk financier => noteworthy and influential societal actor
- Taking into account the political agenda and discussion within the Finnish society
 - 'learning'



Finnvera – does it make a difference?

- What is the role of Finnvera...
 - when financial markets do not function properly?
 - during economic downturn?
- It is hard to find any answer from FV's history
 - Its role is different in different economic cycles
- Expectations:
 - Active and well-reasoned risk taking
 - Activities with high impact (focus)
 - Risk sharing with banks
 - 'Sensitive touch' on dynamic market gaps
 - Other financiers
 - Companies



(Re)introduction of cyclical loans and guarantees

- Started in March 2009 – good timing (financial crunch)
 - In 2009-2011 a total amount to be granted: **max 900 mill. Euros**
 - The first six months the most active ones
 - In April 2010:
 - Cyclical financing: 204 mill. Euros for almost 600 firms in order to help them survive the financial crisis
- A part of Government's programme to reinvigorate the economy
 - Securing working capital for firms
 - Collaboration with banks (securing the overall financing of a firm)
- In comparison with cyclical loans in 1990's the average loan/guarantee has been bigger



Finnvera – does it make a difference?

- Legitimacy:
 - Does Finnvera presence make a difference?
 - Positive effects
 - **Market gaps!**
- The most effective (greatest impact) financing instruments/elements change according to the changes in market gaps
 - Flexibility
 - Speed to accommodate