# Arctic Investment Platform

## Feasibility Study | Final Report

NSPA
Northern Sparsely Populated Areas

Interreg
Nord
European Regional Development Fund

EUROPEAN UNION

# Arctic Investment Platform

## Feasibility Study | Final Report

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# 1. Where We Stand

## 1.1. Cross-Regional Investment: A key to the Future of Arctic Regions

**A Sense of Urgency.** Climate change[1] and recent geopolitical trends have made the Arctic area the center of current and future political and economic concerns[2]: these range from defense to trade and are affected by common challenges across Arctic territories[3] that have established a strong ground for collaboration[4]. The Arctic area has gained enough international attention to become a key subject of strategic interest for Nations such as China, Russia and the United States. The European Commission Policy Center even recently pointed to the Arctic as a "Jewel under threat", also referring to the fact that international players "would prefer the Arctic governed collectively at the international level rather than becoming a terrain for geopolitical competition" and concluding on new opportunities and interests which "can only mean one thing: coordination of European Arctic policies is needed now more than ever"[5].

**A Clear Need for Reinforced Economic Cooperation.** The Arctic Council pointed to the small size of home markets leading to clear benefits of opening up Arctic economies as to "link the Arctic value chains to the global value chains" and established as a key part of its mission to foster such market connectivity "as a vital part of international value chains" for the countries involved[6]. Pragmatic opportunities for Arctic countries to cooperate and build both complementarities and synergies are known and range from shipping to digital[7]. While new patterns in Foreign Direct Investments (FDI) could be perceived as an opportunity, they are also considered a risk for the Arctic: Northern areas are subject to incoming investments flowing in from a wide range of countries such as India and China, some of which are considered unregulated[8]. They illustrate among other things an opportunity cost of not tapping into the opportunities of growing local businesses.

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[1] Arctic Monitoring and Assessment Programme (2019), "Arctic Climate Change Update 2019 - An Update To Key Findings Of Snow, Water, Ice And Permafrost In The Arctic (Swipa) 2017"
[2] See Jari Vilén (European Commission ambassador and senior adviser for arctic policy) 2019 comment on A holistic EU Arctic strategy available here
[3] Partly addressed by the Arctic Council, https://arctic-council.org/index.php/en/our-work/agreements
[4] See among other examples the 2019 Report to Congress on the US Department of Defense Arctic Strategy available here
[5] European Political Strategy Centre (2019) "Walking on Thin Ice - A Balanced Arctic Strategy for the EU", EPSC Strategic Notes, Issue 31
[6] Arctic Economic Council, see here
[7] Arctic Council (2019), "Together Towards a Sustainable Arctic", Iceland's Arctic Council Chairmanship 2019-2021
[8] Mark E. Rosen, Cara B. Thuringer (2017), "Unconstrained Foreign Direct Investment: An Emerging Challenge to Arctic Security", COP-2017-U-015944-1Rev, CNA's Occasional Paper series

**The Arctic, Subject of EU policy**. Empowering Arctic Regions has thus become a necessity which gained visibility and recently translated into new fora such as the Arctic Economic Dialogue and the EU Arctic Forum[9]. The European Council itself insisted on the fact that "many of the issues affecting the region can be more effectively addressed through regional or multilateral cooperation"[10]. The Center for European Policy Studies (CEPS) highlighted the crucial nature of Arctic challenges despite of the "relative marginality" of Arctic issues in Brussels[11]. The 2016 Communication on "An integrated EU policy for the Arctic" incentivized a joint approach of which one of the 3 key pillars was oriented toward the promotion of the collaborative and "sustainable use of resources and economic development"[12]. It built its ground upon the importance of strategic priorities including among others innovation, technology, and investment.

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[9] See respectively Arctic Economic Dialogue and EU Arctic Forum

[10] Council of the European Union (2016), "Council conclusions on the Arctic Foreign Affairs Council, 20 June 2016", 10400/16, COEST 166

[11] Adam Stępień and Andreas Raspotnik (2019) "Can the EU's Arctic Policy Find True North?", CEPS in Brief

[12] See https://ec.europa.eu/environment/efe/news/integrated-eu-policy-arctic-2016-12-08_en

## 1.2. The New MFF Opens a Momentum: An AIP at the Core of the European Agenda

**A Momentum for a Changing Arctic Area: Alignment with the European Union**. The Arctic has therefore risen on the European agenda toward a high-cooperation approach[13]. The Arctic Investment Platform comes at a turning point: with the newly launched Green Deal, the new European Union Multiannual financial framework for 2021-2027 is now reaching a final form and is tuned to key challenges of the Arctic and the ambition to strive for sustainable investment[14]. It addresses a wide range of priorities from scaling up small businesses to digitization, cutting across priorities of Arctic regions.

**At the Core of the New Cohesion Policy.** The AIP clearly aligns with the unprecedented weight of cross-regional investment in the new Cohesion policy of the EU: this is illustrated among other things by the European Commission proposal for the so-called "Component 5", a € 970,000,000.00 investment instrument dedicated to link regional ecosystems along cross-regional value chains and that received broad support from European Regions[15]. The European Territorial Cooperation (ETC) is a reference point in that context[16] which has been constantly growing in budget: cross-border cooperation is the largest of ETC strands and will now require stronger regional commitments to targeted and supported investments[17]. It also aligns with the newly confirmed inclusion of cross-regional collaboration as one of the key strategic objectives underlying ESIF Operational Programmes and Smart Specialisation Strategies (S3) under the Cohesion Policy[18].

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[13] EU Arctic Forum: Statement by the High Representative/Vice-President Federica Mogherini, Commissioner Karmenu Vella and the Minister for Foreign Affairs of Sweden, Ann Linde (2019)

[14] Ursula von der Leyen (2019), "A Union that strives for more – My agenda for Europe", Political Guidelines for the Next European Commission 2019-2024"

[15] See for example the Vanguard Initiative expressing a "great level of interest" here

[16] See European Court of Auditors (2019), "Rapid case review Allocation of Cohesion policy funding to Member States for 2021-2027", March 2019; as well as the European Commission Interreg : European Territorial Co-operation recap arcticle

[17] European Parliament (2019), "European territorial cooperation (Interreg) 2021-2027", EU Legislation in Progress, 2021-2027 MFF, Briefing, available here

[18] See Council of the European Union (2018), "Cohesion Policy Legislative Package 2021-2027 - Presidency report", 15428/18 available at https://data.consilium.europa.eu/doc/document/ST-15428-2018-INIT/en/pdf

**A Growing "Investment" Mindset**. The new programming period and the renewed objectives of the European Union across several key agendas thus open new opportunities. These encompass among others the ambitions of building a greener, smarter and more connected Europe and a shift in mindset toward growing investment models. Such shift is illustrated by the setup of the InvestEU fund in connection with Structural Funds[19] as well as the growing will to combine grants and financing instruments in conjunction with private capital[20]. The new orientations set for the European Innovation Council (EIC) and its blending approach are a clear achievement in that respect. They come in conjunction with a growing role of platform models promoted by organisations such as the European Investment Bank (EIB)[21] or the European Investment Fund (EIF)[22], bringing in new avenues for growing businesses by combining the investment potential of regional ecosystems. This growing investment mindset also translated into the International Platform on Sustainable Finance, recently launched by the European Commission Vice President[23] – in line with the spirit of the Arctic Investment Protocol for Responsible Investment in the Arctic[24].

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[19] Source: "New Cohesion Policy", available here

[20] See "What is the InvestEU programme?", available here

[21] See "How the Hub can help set up Investment Platforms" available here

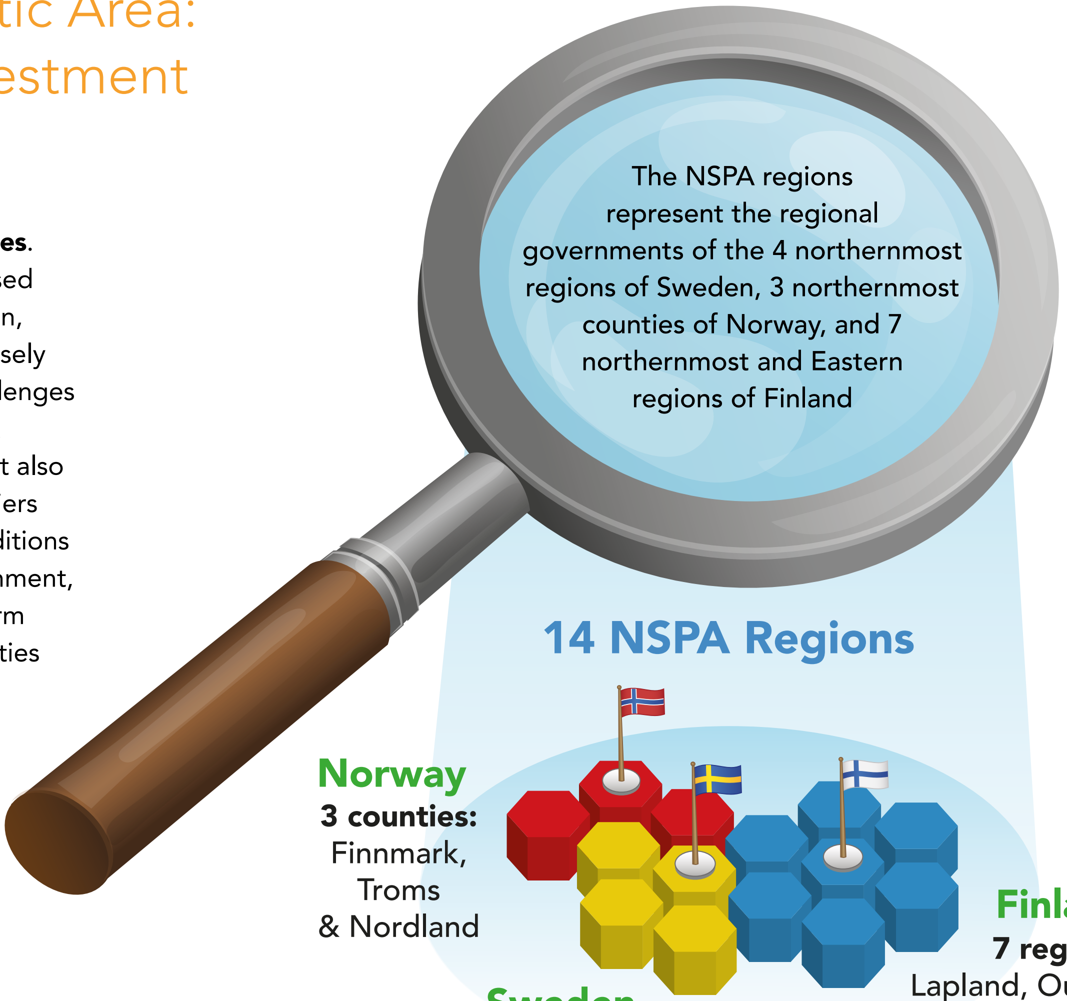
[22] Such as the EIF-NPI Equity Platform for instance, depicted here

[23] See the Joint Statement on the International Platform on Sustainable Finance (IPSF) published on https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/191018-international-platform-sustainable-finance-joint-statement_en.pdf

[24] World Economic Forum (2015) "Arctic Investment Protocol Guidelines for Responsible Investment in the Arctic", Global Agenda Council on the Arctic

# 1.3. For a Competitive Arctic Area: Building the Arctic Investment Platform (AIP)

**Addressing Common Arctic Investment Challenges.** The AIP is a response to growing threats and missed opportunities. It was initiated by the 14 Norwegian, Swedish and Finnish regions of the Northern Sparsely Populated Areas (NSPA) which face common challenges with respect to SME investment. These relate to a weak access to capital and lack of critical mass but also information asymmetries: in the NSPA, these barriers are aggravated by the peculiar geographical conditions (long distances, limited accessibility, harsh environment, etc.). Value chains and financing streams find a form of anchorage at the regional level; economic realities however cut across regional borders and make it necessary to consider any investment strategy beyond the current administrative lines.



The NSPA regions represent the regional governments of the 4 northernmost regions of Sweden, 3 northernmost counties of Norway, and 7 northernmost and Eastern regions of Finland

**14 NSPA Regions**

**Norway**
**3 counties:**
Finnmark,
Troms
& Nordland

**Sweden**
**4 regions:**
Norrbotten, Västerbotten,
Jämtland Härjedalen
& Västernorrland

**Finland**
**7 regions:**
Lapland, Oulu Region,
Central Ostrobothnia,
Kainuu, North Karelia,
Pohjois-Savo & South Savo

***Figure 1:***
The 14 Northern Sparsely Populated Areas (NSPA)

**Why an Investment Platform?** A wide range of reports have emphasized the crucial need for collaboration over investment across the Arctic, all calling for coordinated investment across NSPA regions. They put forward gaps that are particularly felt when considering Northern sparsely populated regions, as they suffer from more intense market failures, which often link to the sub-optimal availability of risk capital[25]. A recent study found that "the biggest challenge concerning access to finance for SMEs is a lack of venture capital – especially for the early expansion and scale-up phase", hampering growth in the Arctic Regions[26]. The same study supported the proposal held by the NSPA of setting up an Arctic Investment Platform to address the fragmentation of the Northern economic landscape. Collaborations on this topic however remain at a low level across the Arctic[27]. A better cooperation and coordination of funding among the NSPA regions is therefore needed and was recommended by institutions such as European Commission[28] and OECD[29] who both support a stronger collaboration and coordinated investment across NSPA Regions.

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[25] Source : AIP pre-feasibility study, 2019

[26] Oxford Research, Nordregio and Lauritzen Consulting (2018), « Business Finance in the Arctic Analysis of access to finance for SMEs and start-ups in the Arctic region"

[27] Daniel Örtqvist (2019) « SMFs gränsöverskridande Samverkan », Rapportserie inom Regional förnyelse

[28] See European Commission Joint Research Centre (2015), Implementing Smart Specialisation in Sparsely Populated Areas, JRC Technical Reports – S3 Working Papers Series No. 10/2015 by Jukka Teräs, Alexandre Dubois, Jens Sörvik and Martina Pertoldi

[29] See OECD (2017), OECD Territorial Reviews: Northern Sparsely Populated Areas, OECD Publishing, Paris. https://dx.doi.org/10.1787/9789264268234-en

## AIP, the Arctic Unique Value Proposition to Make us "Stronger Together"

The AIP aims to become a vehicle for the convergence of funding and financing streams across NSPA Regions. It should leverage Operational Programmes and other instruments at the disposal of the 14 NSPA Regions to attract risk capital to the Arctic and ensure that the 14 Regions can avoid double-spending. NSPA SMEs currently face a wide range of challenges directly related to their geographical position, leading to slow endogenous growth. Joining forces is a pre-requisite to demonstrate the attractiveness of NSPA businesses to National and European investors, leading to an EU-spun growth in the Arctic area.

**With an AIP, the NSPA will:**

1. Consolidate the NSPA investment project pipeline for investors
2. Build SME capacity to attract risk capital and grow
3. Coordinate funding and financing streams
4. Build upon complementarities and synergies to achieve greater attractiveness and impacts
5. Ensure an Arctic development fully steered by Northern Regions
6. Address the challenges hampering the matching between SMEs and investors
7. Allow for the upscale and internationalisation of small businesses across NSPA Regions
8. Leverage national and European funding and financing streams through a dedicated mechanism

**Process Overview: from the NSPA to the AIP.** Since its creation, the network of Northern Sparsely Populated Areas (NSPA)[30] has become the forum for cross-regional collaboration in the Northern regions of Finland, Norway and Sweden. In reaction to the clear need for joint investment, NSPA Regions triggered the process of assessing the potential of an Arctic Investment Platform which kicked-off early 2018[31], starting from the consensual agreement on the commonalities shared by NSPA and the existence of common challenges. It built upon multiple gatherings and events across NSPA Regions as well as a pre-feasibility assessment performed by external experts who reviewed SME investment needs in the NSPA. This process led to intermediary conclusions on the relevance of moving ahead with a scan of investment needs that would justify an Arctic Investment Platform.

**Gaining European Traction to the Highest Level.** First results on key investment gaps and possible pathways for joint, coordinated investments were presented by a Delegation of County Governors from all three countries to the Vice President of the European Commission for Jobs, Growth, Investment and Competitiveness in December 2018, leading to a confirmation of the relevance and traction of the initiative from an international perspective. While gaining visibility in various Directorate-Generals (DGs) of the European Commission, the AIP also caught the attention of the European Investment Bank (EIB): in the Summer of 2019, the institution decided to support the investigation effort of the NSPA by providing advisory services from the Experts of the EIB Advisory Hub. A Financial Expert Group gathering representatives from prestigious financial organisations such as the European Investment Fund (EIF), EIB, etc. gathered in September 2019 to feed into the assessment process.

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[30] http://www.nspa-network.eu/

[31] Contact points in all NSPA regions were asked to send all relevant reports from the last 5 years.

# 2. AIP Moving Forward: 3 Key Messages

*The present report follows up on the initial steps. It is aimed to provide a ground of evidence over the path to follow, as to establish a funding collaboration mechanism to support SME funding and financing across the NSPA. It builds upon existing sources and new evidence from targeted surveys as well as demonstrates the necessity of cross-regional investment in the Arctic and further supports the relevance of NSPA regions efforts to investigate the modalities of a possible dedicated Fund for the Arctic. The following 3 Main Messages summarize the conclusions and implications put forward by the external experts supporting the process:*

1 **NSPA SMEs Have Clear Investment Needs.** Evidence from a wide range of sources shows that SMEs located in the NSPA are facing clear investment needs related to close-to-market and scaling-up phases of their business lifecycle. While they call upon balanced mixes of capital and operational expenditures, they often require investments for collaborative projects and initiatives that often correspond to amounts that are realistic to address at regional level (€500.000,00 to €3.000.000,00 for instance) or justify a larger investment pot (beyond € 7,000,000.00). SMEs face in that context key barriers such as their lack of credit history, project complexity or market risks. With a recurring notion of pre-commercial risk (linking to needs below TRL9[32]), companies tend to mostly seek corporate and venture capital investors that are currently absent from the NSPA due to a lack of visibility of the deal flow, which consequently is deemed insufficient. When looking at individual regions, investors thus often conclude on a lack of business opportunities, while SMEs are craving for capital.

2 **Setting Up a Vehicle to Tackle Information Asymmetries: An immediate Priority for the NSPA**. Multiple forms of information asymmetries apply to NSPA regions. These stand in the way of SMEs who have difficulties reaching out to financial intermediaries active in the urban hubs of the southern parts of the 3 countries under the scope. Information asymmetries also relate to the need for capacity building at different levels – from SMEs who should have the ability to present a solid business plan to the right investor, to investors who would benefit from a form of pre-screening of a potential deal flow. Such challenge also applies to the difficulty of finding reliable co-investors, which can be faced by Venture Capital firms. A consolidated and visible deal flow allowing for a structured matching of demand and supply is therefore needed.

Evidence shows that by building a common platform, NSPA Regions could consolidate a unique pipeline of SME investment projects and match-make these projects with financial providers. A Vehicle could indeed support SMEs build strong business plans and bridge them with relevant financial products offered by investors who address both the sectors and lifecycles considered as problematic in the NSPA. The Vehicle could constitute the ground of a future, fully-fledged Fund. Building on other best practices, such a Vehicle could first concentrate on 2 of the 4 pillars that could then possibly materialize into a Fund (see Figure 2).

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[32] See https://ec.europa.eu/research/participants/data/ref/h2020/wp/2014_2015/annexes/h2020-wp1415-annex-g-trl_en.pdf for a definition of Technology Readiness Levels or "TRL"

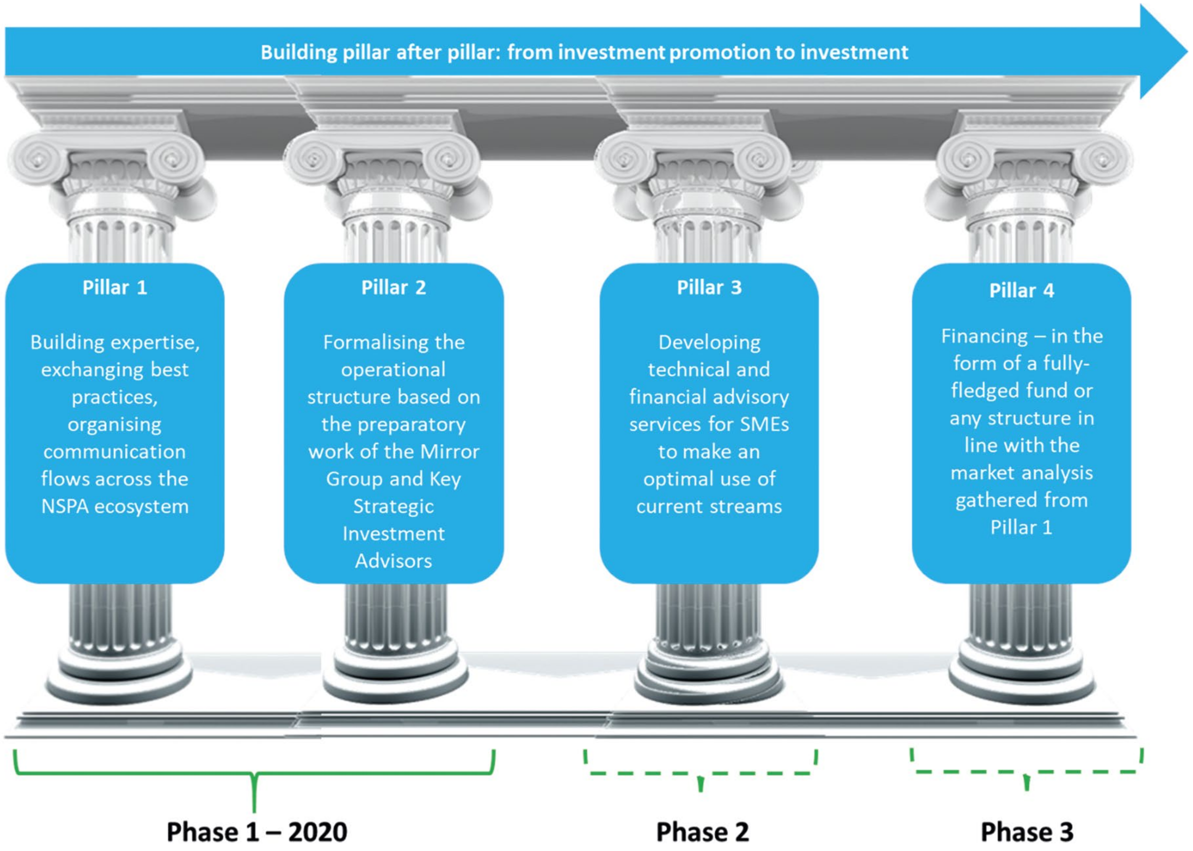

***Figure 2:*** *Concentrating on 2 of the 4 Key Pillars of the AIP*

3 **Establishing a Fund will first Require a Strategic Alignment and Engagement across Policy Levels in the 3 Countries**. A clear need for regional alignment and engagement of key stakeholders was put forward by the Financial Experts who highlighted the need to see an active convergence of regional and national priorities and objectives. Such process could be built in the context of the first two pillars of the above picture, starting from embedding the funding and financing streams available across the NSPA. Ensuring such alignment requires an engagement of regional and national policy makers, but also representatives from the financial and industrial spheres.

The on-boarding process would allow for a validation of the AIP and provide relevant information to define its features as well as possible commitments from given contributors. Both 1) key stakeholder organisations (investment community/industrial federations/SME associations) and 2) key National government representatives should be actively engaged during this process. Possible gaps (e.g. hybrid financing, metal, wood and forestry financing discovered through this study) could also be validated and a homogenous approach could be formalized with a Memorandum of Understanding (MoU). More specific steps are proposed in the current report.

# 3. Generating Evidence

## 3.1. A First Validation Step: Supporting Evidence

**A first Ground of Evidence**. Following the decision to explore the possibility of setting up an Arctic Investment Platform, the NSPA Regions decided to trigger a pre-feasibility study, generating a first ground of evidence. The objective of the first phase of assessment was to survey key needs of a selection of SMEs as well as gather view on investment conditions in the Arctic. This first layer would allow to build the validation of a first roadmap aimed at paving the way for a newly established cooperation mechanism to attract and streamline investment across the NSPA. The present study contributes to this assessment by providing additional insights from targeted surveys.

**Arctic Investment Platform (AIP)**. The AIP assessment process was therefore given a focus: it emphasized the potential of investing in "Digitisation and Natural Resources enhancing the Arctic Economy". Its goal was to identify key investment needs and characteristics from a limited set of actors (both SMEs and investors). One should note that the angle adopted in this study was consciously excluding a wide range of other business segments with investment needs. The targeted key added value of a possible AIP (regardless of its format) is expected to be an increase in the added value and of the sustainable use of Arctic Natural Resources and Digital capabilities across industrial value chains. The pre-feasibility stage demonstrated the existence of a need. However, further investigation was necessary to gather company perspectives from the ground, setting a structured questionnaire to consult SMEs and investors directly to gather their perspectives.

**Focus on SME Investments**. The surveys that fed into the present report, emphasized investments meant to an "upscale" -or 'scaling-up'- of SMEs or their innovations. The key target group in that context thus mainly encompassed Arctic scale-ups (10+ employees with 20% annual growth rate) but also innovative micro-companies with a will to grow and expand internationally. SMEs are more likely to be subject to uncertainty (both technological and marketwise) in their investment approach – with a higher impact of funding and financing constraints over their growth. The scope therefore remained open to larger SMEs experiencing difficulties in accessing capital. The second key target was institutional and risk investors who may or may not be active in the NSPA.

**Wide Thematic Angle**. The Arctic Investment Platform should in consequence support investment projects and SMEs (investment project promoters). The early phase of the study led Regions to consider the area of 'Arctic Natural Resources' which are a common but distinctive characteristic of NSPA Regions. The AIP would in that context lead to attracting external investors and enabling critical value chains cutting across NSPA regional ecosystems. A wide range of resources fall under such scope, from mining and forestry to other natural products. In addition, digital technologies were pointed as a key investment area that very often plays a role of enabler of businesses across the Arctic region. Digital technologies address challenges related to long distances as well as natural resources and the value chains they feed in (for instance when considering earth observation, monitoring of landmass, etc.). Digital businesses were therefore added to the thematic scope of the study while excluding other promising areas on purpose for consistency reasons (such as medical technologies, etc.).

# 3.2. Approaching the Study Process

*The feasibility study was meant to further characterize the reality underlying the needs identified along the first phase (pre-feasibility, 2018), as well as the extent to which they could correspond to various forms of financing sources. In order to do so, external experts mandated by the NSPA designed and animated 4 main data collection streams:*

- **The SME Survey** was meant to further evaluate the demand side of financing. It was expected to provide visibility over investment needs and investment project claims from SMEs across the NSPA as to determine whether or not there could be a pipeline relevant to finance. The SME survey was launched on 04/06/2019 and closed on 31/08/2019. It entailed two key reminders, one a week after the launch and the other early August 2019. Over a panel of 684 targeted respondents, 67 responded to the questionnaire (for a response rate of 9.8%), 47 of which completed the questionnaire entirely – for 20 partially completed questionnaires. 9 declined and a total of 40 invitations were bounced, leading to an effective **response rate of 10.4%**.

- **The Financiers Survey** was meant to provide an overview of the supply side of financing across the regions. It was targeted at organisations and individuals funding and/or financing SMEs across the 14 NSPA regions. The Financiers survey was launched on 04/06/2019 and closed on 31/08/2019. It entailed a reminder one week after the launch of the survey. Over a panel of 139 targeted respondents, 25 responded to the questionnaire (for a response rate of 18%), 20 of which completed the questionnaire entirely – for 5 partially completed questionnaires. 1 declined and a total of 4 invitations were bounced, leading to an effective **response rate of 18.1%**.

- **The Clusters Survey** was meant to provide an overview of the perspectives held by cluster managers and representatives from intermediary organisations across NSPA Regions. The survey was launched on 03/09/2019 and closed on 30/09/2019. It entailed a reminder one week after the launch of the survey. Over a panel of 187 targeted respondents, 27 responded to the questionnaire (for a response rate of 14.4%), 12 of which completed the questionnaire entirely – for 15 who partially completed the questionnaire. None declined and a total of 4 invitations were bounced, leading to an effective **response rate of 14.7%**.

- The process was concluded by a **Financial Expert Workshop** organized in Stockholm on 23 September 2019. This meeting took the form of a Workshop bringing together Financial Experts from various institutions (with a representation of both public/private sectors). Animated by the external experts, this workshop was meant to validate the interpretation of survey results and identify key steps to be taken by the AIP in 2020.

Based on the budget reserve linked to an INTERREG project to support their effort, NSPA regional contact points were requested to be active in promoting each survey regionally, contacting individual organisations and unlocking responses along the months of June-September 2019. All actors involved in the process were conscious of the difficulty of collecting responses in a context of multiple surveys of Arctic firms and many provided complementary evidence (often documentary) to reflect on the wider range of challenges faced by Arctic SMEs. The present final report depicts the results of the three surveys as well as of the Financial Expert Meeting. The analysis also built upon the ELMO Process implemented in the 7 Regions of East and North Finland and through which a cross-regional voucher support system is being piloted in the context of the European Commission Pilot Action on industrial transition.

# 4. Assessment of Investment Needs

## 4.1. An Investment Landscape to be Structured across the 3 Countries

The national systems of Finland, Norway and Sweden provide a quite advanced set of financing mechanisms and investment conditions that are ranking rather high in reference indices[33]. The Norwegian equity market is for example considered as "largely well-functioning" and a reasonably performant debt market[34]. New initiatives arise such as the recent EIF-Swedish lending guarantee agreement in favour of small businesses[35]. Still, in addition to necessary improvements in bond and pension assets use, clear enhancements are required that are particularly affecting non-listed companies. This is the case of access to venture capital[36] which is particularly missing in Northern areas[37].

Gaps are especially felt when considering the regional level: Northern sparsely populated regions suffer from more intense market failures which often link to the sub-optimal availability of risk capital[38]. A recent study found that "the biggest challenge concerning access to finance for SMEs is a lack of venture capital – especially for the early expansion and scale-up phase", hampering growth in the Arctic Regions[39]. The same study supported the proposal held by the NSPA of setting up an Arctic Investment Platform to address the fragmentation of the Northern economic landscape.

Among others, the access to human and financial capital remain key challenge and collaborations remain at a low level across the Arctic area[40]. A better cooperation and coordination of funding among the NSPA regions is therefore needed, which was acknowledged by the European Commission[41] and OECD[42] who both support a stronger collaboration across Arctic Regions. A best practice is presented in the following box which illustrates such dynamic taking place across the Finnish Arctic regions.

The following sub-sections provide a concise overview of some of the key survey results acknowledging key investment needs of Arctic SMEs, as well as feedback from selected investors and cluster organisations which were requested to provide their views and positions through dedicated surveys. One should note that the surveys focused on a specific area (Arctic Natural Resources) and excluded other promising segments such as MedTech, etc. where SMEs also show key investment needs.

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[33] See for instance European Investment Fund (2018), "EIF SME Access to Finance Index - June 2018 update", EIF Research & Market Analysis Working Paper 2018/49; as well as the European Central Bank (2018), "Survey on the Access to Finance of Enterprises in the euro area" October 2017 to March 2018

[34] Official Norwegian Report (NOU) 2018: 5 – Capital in a time of change

[35] See https://www.governmenteuropa.eu/smes-in-sweden/93436/

[36] Norges offentlige utredninger (2018), « Kapital i omstillingens tid – Næringslivets tilgang til kapital », Omslagsillustrasjon: Bjørn Sæthren, 07 Media AS

[37] Menon Economics (2019), « entreprenørskap i Nord Norge », Menon Publication 6/2019

[38] Source : AIP pre-feasibility study, 2019

[39] Oxford Research, Nordregio and Lauritzen Consulting (2018), « Business Finance in the Arctic Analysis of access to finance for SMEs and start-ups in the Arctic region"

[40] Daniel Örtqvist (2019) « SMFs gränsöverskridande Samverkan », Rapportserie inom Regional förnyelse

[41] See European Commission Joint Research Centre (2015), Implementing Smart Specialisation in Sparsely Populated Areas, JRC Technical Reports – S3 Working Papers Series No. 10/2015 by Jukka Teräs, Alexandre Dubois, Jens Sörvik and Martina Pertoldi

[42] See OECD (2017), OECD Territorial Reviews: Northern Sparsely Populated Areas, OECD Publishing, Paris. https://dx.doi.org/10.1787/9789264268234-en

## Towards a Cross-Regional Pipeline of Investment Projects in East and North Finland

In December 2018, the 7 East and North Finland regions (ENF – the 'Finnish component' of the NSPA) collectively agreed on a common 'Strategy for Industrial Transition' for the whole ENF. This was the result of a strongly participative and iterative process that had started months before, with input and participation not only by all relevant stakeholders from ENF (regional authorities, universities, RTOs, Clusters, industry associations and companies), but also by the EC and the OECD. The Strategy aimed at complementing and reinforcing the 7 regional innovation strategies (S³s).

The strategy also defined some new policy approaches for industrial transition (read modernisation). It was decided to launch new activities in that context: a so-called 'High-Impact Action' (HIA) that would experiment such a new approach for industrial modernisation, and in a cross-regional context. The HIA focuses on the 'Digitisation and Circular Economy for the Tree, Wood and Paper value chain' and targets industrial demonstration projects (beyond TRL6) for the validation of new technologies in industry. A call for cross-regional projects was launched early September: 7 cross-regional projects were selected in November and kicked-off mid-December 2019.

The Call was aimed to better connect complementary capabilities and industrial end-users from different regions; hence to create new synergies and critical mass in relevant domains for the Finnish industry. The call was successful at attracting cross-regional, high-quality projects (17 proposals were submitted by companies) and bundling investment opportunities around a central theme.

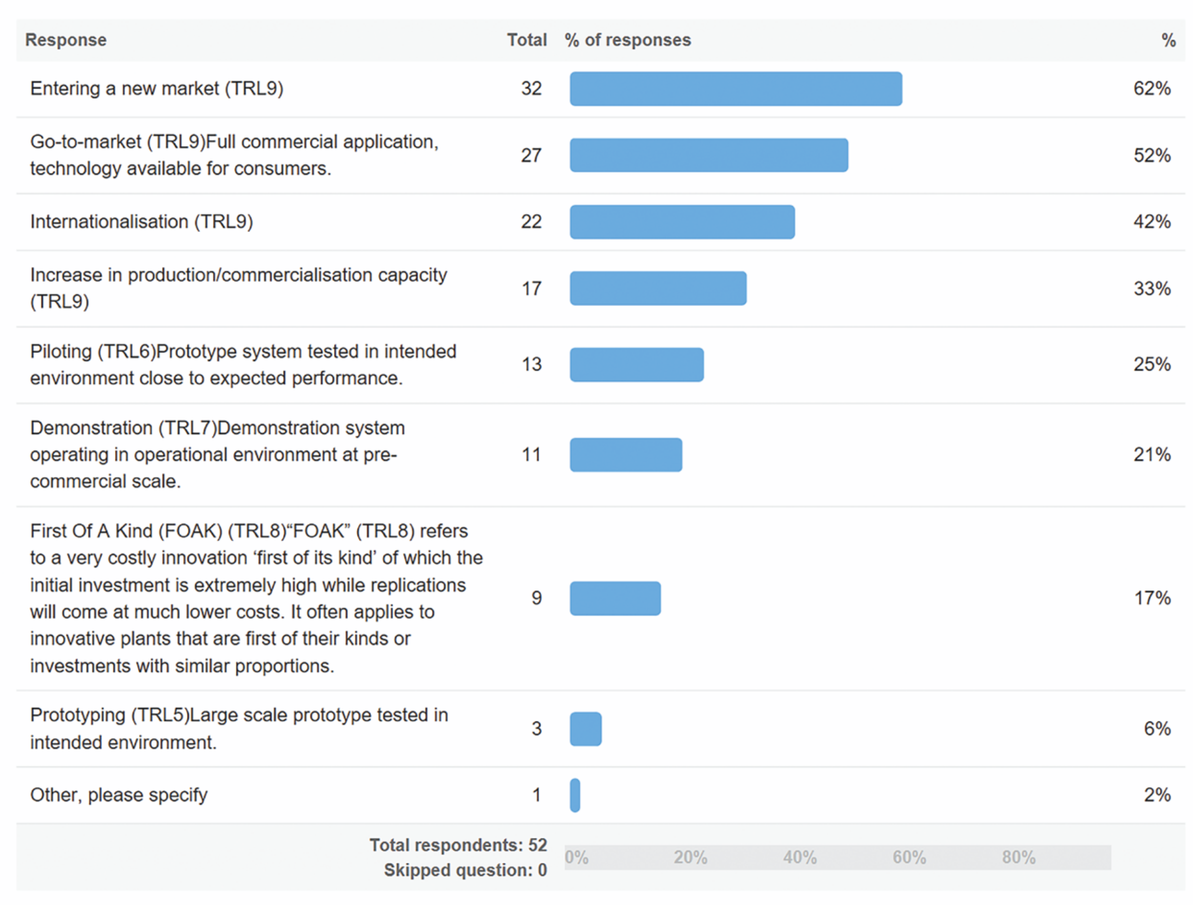
One typical example of a (selected) project: the industrial validation 'in situ' of a new concept for the valorisation of 2 waste side streams (zero fibre waste from a pulp mill and fish offal from a fishery) into the production of nutrient carbon as soil fertilizer for a greenhouse company.

The selected projects are expected to provide the ENF with -if successful- new investment opportunities for further scale up of the Finnish industry. **This process is a good example of how to bundle investment projects into a more visible potential deal flow.**

## 4.2. Survey of NSPA SMEs

**Distribution of Respondents**. The SME survey shows that, although a few regions are lagging in terms of response rate, interests are matched across respondents of whom 93% are SMEs with 50 **employees** or less (of which 63% of micro-companies), while 6% are SMEs with between 50 and 250 employees: they are mainly **oriented** toward ICT and manufacturing industries while Digital ranks on top of the areas targeted by SME respondents. Other **areas** of key importance are mining and metal, wood and forestry but also water, all appearing to be interlinked through respondents active in several areas.

**Market Characteristics**. While 97% of SME Respondents see a growing **market**, nearly 60% have been following a **growth** track for the past three years. SME respondents are now willing to **commercialize** new products (80% of respondents) and move to **new markets** (78%), both drivers being the main reason for seeking investment. These drivers are followed by New business model (42%) and More effective marketing campaign (31%) while other reasons drop to 20% of interests or less.



| Response | Total | % of responses | % |
|---|---|---|---|
| Entering a new market (TRL9) | 32 | | 62% |
| Go-to-market (TRL9)Full commercial application, technology available for consumers. | 27 | | 52% |
| Internationalisation (TRL9) | 22 | | 42% |
| Increase in production/commercialisation capacity (TRL9) | 17 | | 33% |
| Piloting (TRL6)Prototype system tested in intended environment close to expected performance. | 13 | | 25% |
| Demonstration (TRL7)Demonstration system operating in operational environment at pre-commercial scale. | 11 | | 21% |
| First Of A Kind (FOAK) (TRL8)“FOAK” (TRL8) refers to a very costly innovation ‘first of its kind’ of which the initial investment is extremely high while replications will come at much lower costs. It often applies to innovative plants that are first of their kinds or investments with similar proportions. | 9 | | 17% |
| Prototyping (TRL5)Large scale prototype tested in intended environment. | 3 | | 6% |
| Other, please specify | 1 | | 2% |
| | Total respondents: 52<br>Skipped question: 0 | 0% 20% 40% 60% 80% | |

*__Figure 3:__ Categorisation of investment opportunities at stake. Source: the authors, 2019*

**Investment Potential**. While 86% of SME respondents generate revenue of €2.500.000 or less, the other respondents build upon revenue streams ranging between €2.500.000 and €40.000.000 (2% generating more than €40.000.000).

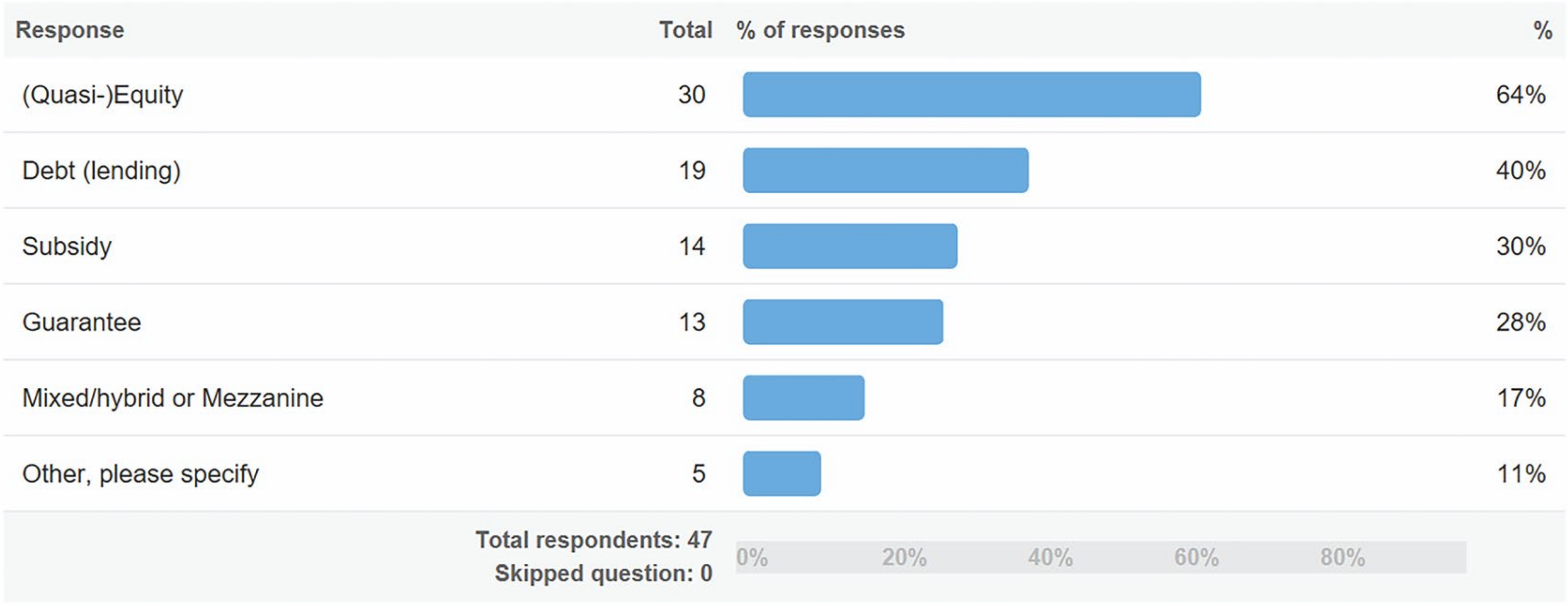
Regardless of the area (digital, wood, etc.), SMEs are mainly **oriented** toward the commercialization of new products and services as well as new markets (including international ones), often linked to innovation-based activities (pre-TRL9). They tend to be rather **mature** in the development process and their investments – 81% of which are expected to be **collaborative** – are essentially to be made in the NSPA area with spillovers at country level (FI, NO, SE) for several companies.

Investment costs essentially range between €500.000,00 and €3.000.000,00 (50% of the total needs put forward by respondents, of which 42% ranging between €500.000,00 and €1.500.000,00); and the remaining weight of investment needs below €500.000,00 (29%). SMEs are divided into 3 groups of similar size ready to respectively **co-fund** 15% or less, 15%-35% and 36%-80% of the investment sought. 70% of SME respondents did not **invest** in all opportunities considered in the past and 85% of them declare that there could be one or more such opportunities in the future.

**Investment Needs**. These investments are essentially turned towards a mix of **expenditures** with a higher weight of Capital Expenditures (CAPEX). SME respondents thus highlighted both intangible (62%) and tangible (60%) CAPEX, while almost half of all respondents (48%) pointed to the weight of operational expenditures. Frequent references to investment in equipment and infrastructure are made by respondents willing to expand their business **scale**. Such investment would more often be expected at the level of the company itself but also in a joint venture **setting**. At this stage companies are mainly counting on debt and own funds to **finance** their investment opportunity, followed by corporate and shareholding investors.

Based on the foreseen investment, 72% of SMEs expecting to generate a **turnover** ranging between €1M and more than €15M (with 24% of respondents expecting a revenue between €5M and €10M) and 13% more than €15M. 35% of SMEs expect to generate between €1M and €5M. With the current distribution of claims, such figure could theoretically lead to a total turnover generation between €181.550.000,00 and €351.000.000,00 (according to SME declarations). **Profitability** would in that context be reached before 5 years for 87% of SME respondents for **IRR** essentially ranging between 20% and 30%. Own funds (mobilized by 79% of respondents having invested in all or part of past investment opportunities) and debt (46%) were key sources for **past investments**. Insufficient funds and the lack of internal resources were key reasons for **not investing** (for respectively 57% and 26% of respondents).

**Access to Capital**. While only half (51%) of SME respondents **struggle** to access finance, the lack of credit history and/or insufficient financial track record as well as project (or business model) complexity appear to be key **barriers** to access finance. These are joined by market and demand risks which companies not struggling to **access** finance also point at as a main hurdle. In that context, SMEs mainly seek to access (quasi-)equity (64%) and lending (40%) which links to a preference for venture capital (60%) and own shareholder (51%) and corporate (40%) **investment**.



| Response | Total | % of responses | % |
|---|---|---|---|
| (Quasi-)Equity | 30 | | 64% |
| Debt (lending) | 19 | | 40% |
| Subsidy | 14 | | 30% |
| Guarantee | 13 | | 28% |
| Mixed/hybrid or Mezzanine | 8 | | 17% |
| Other, please specify | 5 | | 11% |

**Total respondents: 47**
**Skipped question: 0**

***Figure 4:***
*Type of finance sought.*
*Source: the authors, 2019*

The dominant financing gap ranges for 77% of all respondents between €500.000,00 and €3.000.000,00 (with 30% of SMEs seeking between €200.000 and €500.000, while 28% rather target between €500.000 and €1.000.000). A non-negligible share of respondents however target amounts higher than €3.000.000€ (17%) with 9% of companies declaring expectations of €30.000.000 or above. These investments are expected to lead to benefits that are economic in nature such as jobs (83%), turnover (81%), profitability (68%), but also environmental ones (53%).

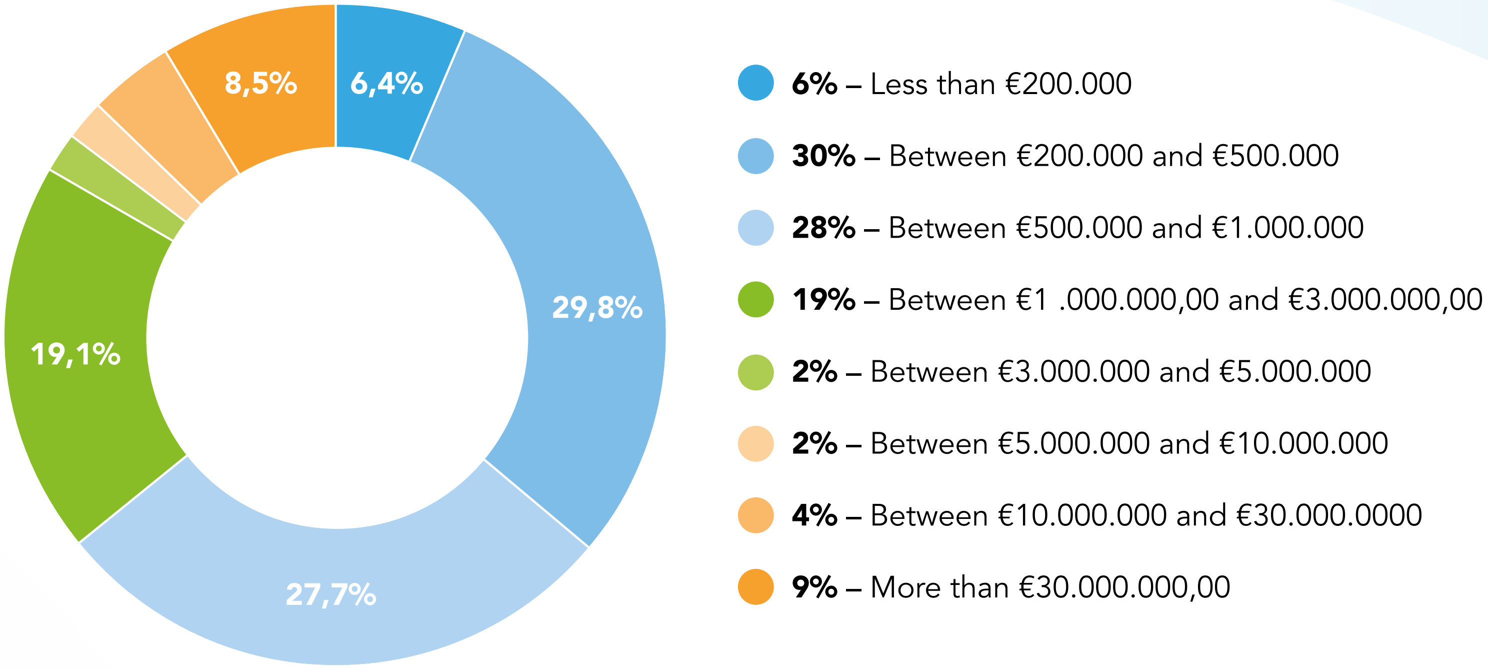


***Figure 5:*** *Financing volume needed by respondents. Source: the authors, 2019*

# 4.3. Survey of Financiers

**Distribution of Respondents**. The **respondents** included a majority of government bodies (32% of respondents) followed by venture capitalists (20%), business angels and investors network (both 12%) as well as bank and family office representatives (both 8%). These were spread across **regions** in a rather balanced fashion.

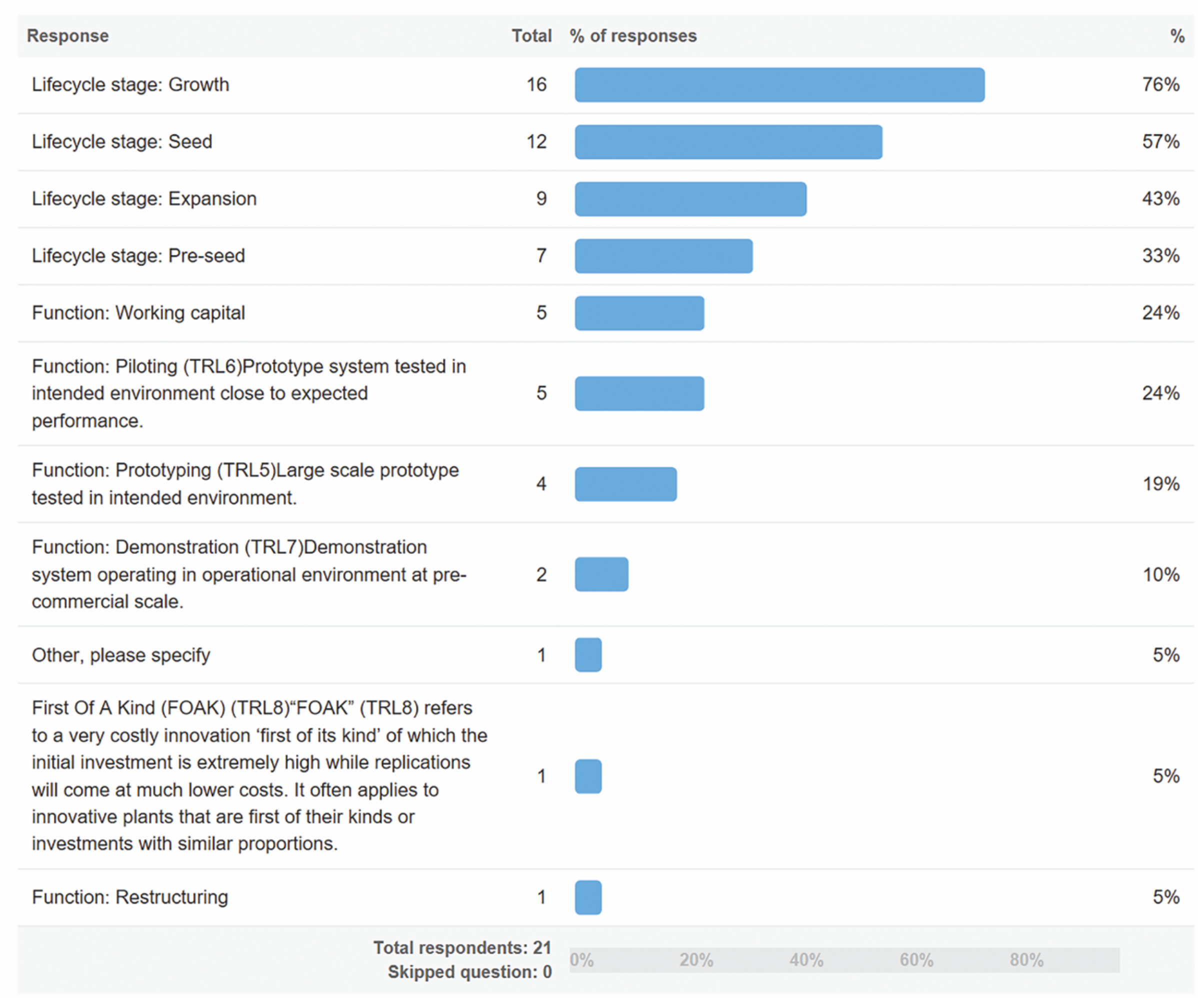
**Investment Patterns**. The survey shows that respondents **invest** in their own region in the first place (72% of them invest regionally while 28% invest internationally and 24% nationally). For a total of 52821 **companies** identified in the portfolio of respondents, 69% would be located in the NSPA. The total **asset under management** (AUM) would according to respondents reach €5.666.200.037 of which 59% would be located in the NSPA. The weight of banks and public entities in that context is overwhelming as they represent by far the largest share of portfolio companies represented in the overall claims of investors (54% of total declared asset under management).

Growth and seed finance are the most **covered** (by 65% of respondents), followed by pre-seed and expansion (respectively 52% and 48%). Demonstration and FOAK ('First-Of-A-Kind') but also restructuring appear to be less covered, addressed by 2 investors groups only. Piloting, prototyping and working capital financing gathered less respondents (although more than demonstration and FOAK) but are addressed by a more diverse set of investors groups (more types of investment entities covering each topic).

**Investment Scope**. Most investors work with companies generating between €500.000 and €2.500.000 or €50.000 and €200.000 of **turnover** (each gathering 57% of respondents' interests). While the spectrum seems well covered, only 9% target companies between €40.000.000 and €100.000.000 (while 26% of investors consider ranges between €15.000.000 and €40.000.000 and 13% consider more than €100.000.000). Less actors thus seem to cover the gap between the '40s' and the '100s'. The higher the financial range the less the investment is covered by several types of investors. Only banks and government organisations seem to cover investments beyond €7.000.000, while business angel financing relates (in this survey) to investments superior to €100.000.000. 90% of investors cover **digital** (which was also highlighted in open responses), 48% invest in other natural products and 43% in water. Wind and fisheries are ranked the lowest with each 24% of respondents while mining and metal as well as wood and forestry respectively gathered 33% and 38% of interests. Some also invest in manufacturing and healthcare.

Coaching and mentoring are **provided** by a majority of investors (74% of them), match-making activities (57%) and analytics or market intelligence are also provided by almost half of respondents (43%). 65% of respondents manage debt **financing** (lending), 52% also provides (quasi-)equity. However, less respondents handle guarantees (35%) and 22% provide subsidies. More details are provided on the time horizon and intensity of each financial product in the description of survey results. A large diversity of groups applies debt and equity instruments, while hybrid instruments are only covered by business angels. 43% of respondents target a minimum **RoI** threshold of 10%, while 26% consider higher ranges of 10 to 15% and another 26% goes as high as 20% in expected RoI. Investments are for 86% of respondents mainly **directed** to companies (with some investments made in holdings – 19%).

**Co-Investment**. 86% of investors are already involved in **co-investment** initiatives in which 56% have even taken lead positions. 48% of respondents are **ready to open a new fund** or commit to a new investment initiative, of which 7 respondents provided indications on the size of such new collaborative fund/initiative (ranging between €1.000.000 and €200.000.000).



| Response | Total | % of responses | % |
|---|---|---|---|
| Lifecycle stage: Growth | 16 | | 76% |
| Lifecycle stage: Seed | 12 | | 57% |
| Lifecycle stage: Expansion | 9 | | 43% |
| Lifecycle stage: Pre-seed | 7 | | 33% |
| Function: Working capital | 5 | | 24% |
| Function: Piloting (TRL6)Prototype system tested in intended environment close to expected performance. | 5 | | 24% |
| Function: Prototyping (TRL5)Large scale prototype tested in intended environment. | 4 | | 19% |
| Function: Demonstration (TRL7)Demonstration system operating in operational environment at pre-commercial scale. | 2 | | 10% |
| Other, please specify | 1 | | 5% |
| First Of A Kind (FOAK) (TRL8)“FOAK” (TRL8) refers to a very costly innovation ‘first of its kind’ of which the initial investment is extremely high while replications will come at much lower costs. It often applies to innovative plants that are first of their kinds or investments with similar proportions. | 1 | | 5% |
| Function: Restructuring | 1 | | 5% |

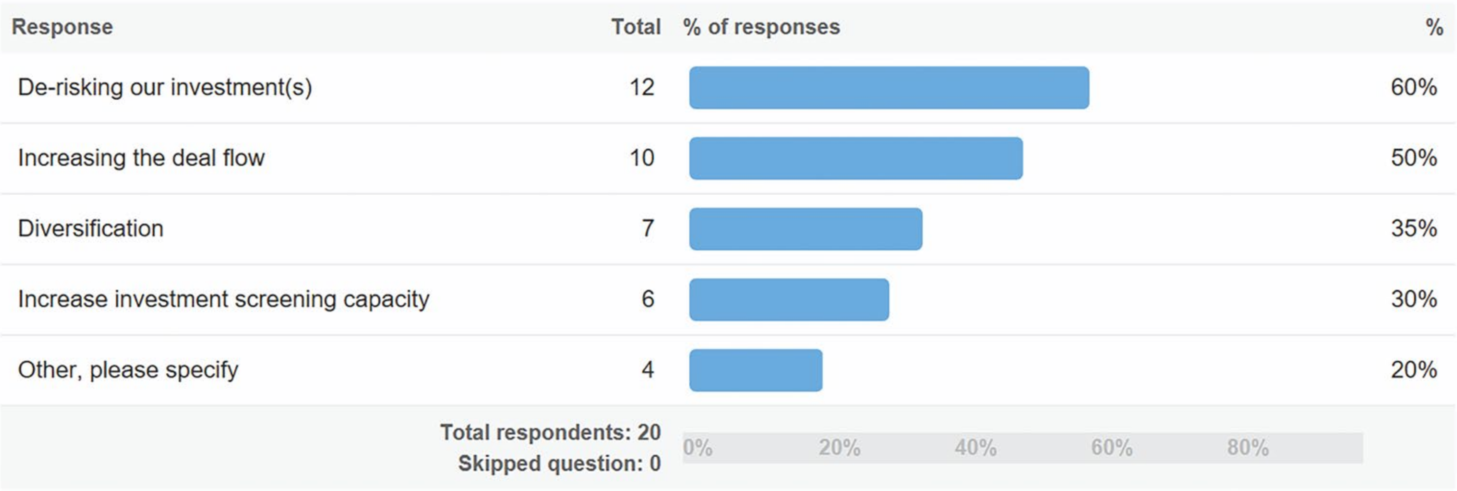
Total respondents: 21
Skipped question: 0

***Figure 6:***
*Co-investment sought.*
*Source: the authors, 2019*

Among the 29% of respondents who struggle to find co-investors, the two most concerned with such difficulty appear to be venture capital and public entity respondents. The main obstacles faced mainly emphasized the lack of other investors in the region. 56% referred to a minimum attractive deal flow at or under €200.000, while 33% targeted €10.000.000. Investors mainly seek co-investment in the area of growth (76%). They also seek co-investment for seed (57%) and expansion (43%) as well as pre-seed (33%). Working capital and piloting only gather 24% of respondents' interest, as other types fall below prototyping (24%).

When considering obstacles to co-investment, 33% of the respondents related to the sub-optimal level (amount) of deals in NSPA regions while 29% highlighted the long distance from their geographical location (which was corroborated in the "other" category). 29% also put forward the "custom" or "habit" of not operating in these areas ("we usually do not operate in those areas"). Other factors ranked below the 14% of respondents who do not have a consolidated network in the NSPA area.

Key co-investment drivers are investment de-risking (for 60% of respondents) and increasing the deal flow (50%). Other reasons such as diversification or an increase in screening capacity respectively concern 35% and 30% of respondents.



| Response | Total | % of responses | % |
|---|---|---|---|
| De-risking our investment(s) | 12 | | 60% |
| Increasing the deal flow | 10 | | 50% |
| Diversification | 7 | | 35% |
| Increase investment screening capacity | 6 | | 30% |
| Other, please specify | 4 | | 20% |

Total respondents: 20
Skipped question: 0

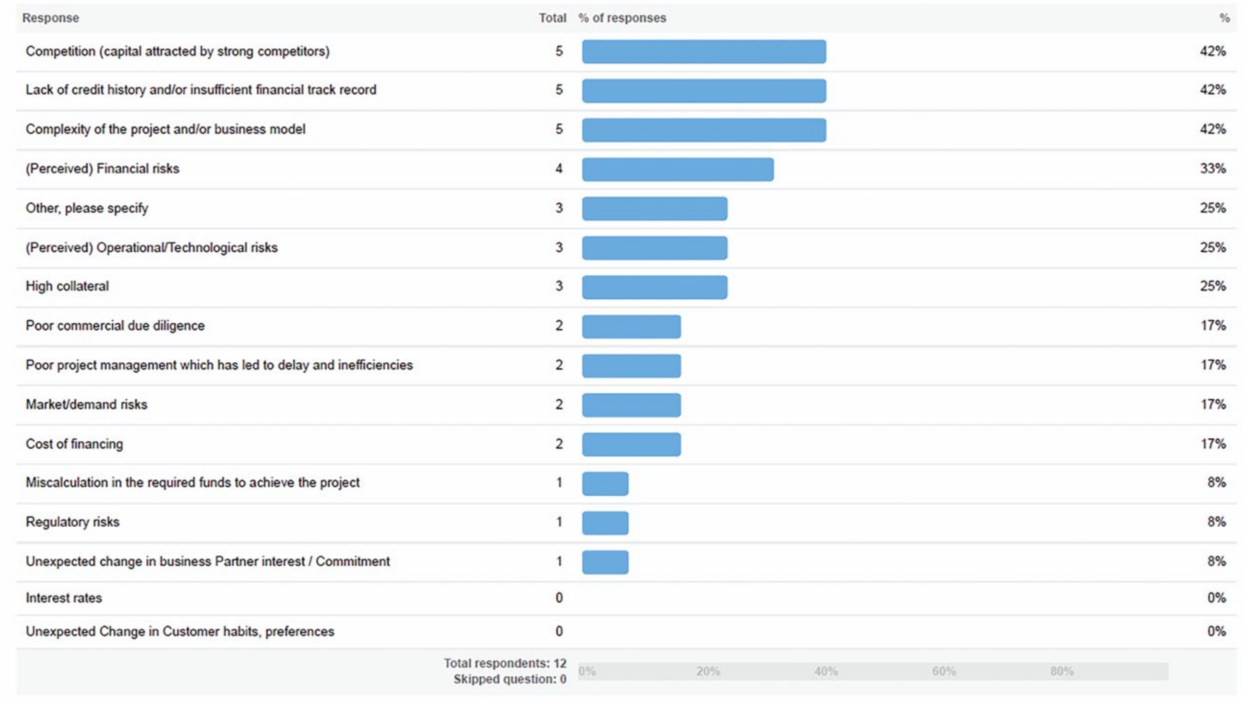
***Figure 7:***
*Drivers and incentives to co-invest with public authorities. Source: the authors, 2019*

# 4.4. Survey of Cluster Organisations

Launched on 03/09/2019 and closed on 30/09/2019, the survey addressed a panel of 187 targeted respondents, of which 27 responded to the questionnaire (for a response rate of 14.4%), and 12 completed the questionnaire entirely – for 15 who partially completed the questionnaire. None declined and a total of 4 invitations were bounced, leading to an effective **response rate of 14.7%**.

Clusters observe that their companies mainly seek finance to increase their production and/or commercialization capacity as well as for piloting activities across TRL6-7. The cluster survey also shows that the amounts usually sought by companies mostly range between €200.000,00 and €500.000,00, but also between € 500.000,00 and € 1.000.000,00 (and to a lesser but noticeable extent between €1.000.000,00 and €3.000.000,00).

The most crucial barriers for business financing observed by cluster respondents include the lack of credit history and the complexity of projects and business models (see also Figure 8). Clusters also consider that subsidies are the main source of finance sought by companies, followed by lending, hybrid and equity financing.



| Response | Total | % of responses | % |
|---|---|---|---|
| Competition (capital attracted by strong competitors) | 5 | | 42% |
| Lack of credit history and/or insufficient financial track record | 5 | | 42% |
| Complexity of the project and/or business model | 5 | | 42% |
| (Perceived) Financial risks | 4 | | 33% |
| Other, please specify | 3 | | 25% |
| (Perceived) Operational/Technological risks | 3 | | 25% |
| High collateral | 3 | | 25% |
| Poor commercial due diligence | 2 | | 17% |
| Poor project management which has led to delay and inefficiencies | 2 | | 17% |
| Market/demand risks | 2 | | 17% |
| Cost of financing | 2 | | 17% |
| Miscalculation in the required funds to achieve the project | 1 | | 8% |
| Regulatory risks | 1 | | 8% |
| Unexpected change in business Partner interest / Commitment | 1 | | 8% |
| Interest rates | 0 | | 0% |
| Unexpected Change in Customer habits, preferences | 0 | | 0% |

Total respondents: 12
Skipped question: 0

***Figure 8:***
*Obstacles hampering (blocking) companies' access to finance.*
*Source: the authors, 2019*

# 5. Building upon the Orientations Set by the AIP Financial Expert Group

*The Financial Expert Group met in Stockholm on 23/09/2019 and gathered 18 participants with financial expertise from both public and private sectors. The panel discussion was protocolled as a workshop during which key insights from the surveys to SMEs and financiers were presented and discussed in view of validating conclusions and next steps. Additional insights were thus brought to the analysis of the findings and its way forward.*

## 5.1. AIP to Address Information Asymmetries

**A Corroboration of SME Needs.** The needs of SMEs were essentially corroborated by the Expert Panel. Large-scale surveys demonstrate for instance the role of financing as one of the key obstacles to SME growth. Additional insights also emerged from the discussion. The first round of discussion led for instance to the conclusion that in the AIP survey context, lending was very often taking place outside the banking system, SMEs often calling upon loans from their own shareholders based on several parameters (trust, low borrowing costs, etc.). SMEs show in that context very little collateral and a call for higher levels of equity financing for go-to-market and long-term development. Market risks add to these issues (sparsity, distance, etc.) in line with the first phase of the study. These results corroborate conclusions from the efforts made by organisations such as the European Investment Fund (EIF) in terms of the average financing amounts but also the characteristics of SMEs at stake (micro-companies oriented toward manufacturing and ICT).

**Ensuring the Availability of Capital in the NSPA.** Investors are mainly located in the large urban areas of the South of the three countries, leaving NSPA regions with a sub-optimal access to risk capital. SMEs in the NSPA thus suffer from the lack of connections to the right fund managers and financial capacity. This aspect has been highlighted by all surveys presented in this report, as investors see little business opportunities while project holders (SMEs) are craving for financial support.

- **Information Asymmetries: Clear Need for a Platform.** One should bear in mind critical information asymmetries which apply to different target groups: while investors might not be aware of the promising deals in the Arctic, SMEs might not be aware of some specific instruments (for instance, when SME decision-makers are not aware of other financial instruments and their characteristics). A way of bridging such gap would first be to organise the AIP as a Platform through which information asymmetries could be addressed, from the consolidation of a single pipeline of SME investment cases at the Arctic level to the investment community. Such initiative would provide visibility but offer de-risking (and diversification opportunities) to potential investors. This approach is corroborated by other recent studies on financing in the Arctic, which led to similar findings. The coordination mechanism recommended by the Expert Panel should thus allow for a structuration of the Arctic Deal Flow and an active engagement of investors (such as banks, venture capital funds, etc.) but also national stakeholders who can carry out valuable support.

**Different Pillars could be Foreseen, such as for Example:**

1. A function around coordination and awareness;
2. An advisory or technical assistance function building upon regional competences;
3. A pillar that could further evolve into financing, cascade funding or another modus operandi

## 5.2. Further Investigation is Needed on the Possibility of Setting Up a Dedicated Fund

**Risk Financing and Venture Capital.** The value of venture capital was confirmed multiple times as an appropriate channel for cross-border financing. In addition, a question remained on whether or not support would be necessary at the stages associated to what some call the "Valley of Death" (VoD). The VoD usually refers to pre-commercial stages of innovation processes. Innovations in that context reach a form that is rather mature (technology readiness 5-6 and higher[43]) but still require public support and/or risk financing to reach the market. It also applies to start-up and spin-off financing (seed stage).

**No Proof (yet) of a Need for a Dedicated Fund.** At this stage, the market failure is not yet demonstrated due to the lack of scale. The survey shows limitation and requires a higher number of respondents. Current response rates are low, and regions are not represented in a balanced way which poses limits to the generalisation potential of the study. At this stage, the study concludes on a need for investment to increase competitiveness of Arctic SMEs but does not demonstrate the need for a dedicated fund. Other parameters add to this challenge, such as the fact that two countries out of the targeted three use their own currency and that the 3 countries have their own regulatory frameworks in place.

**Broadening the Process.** A new phase is required which shall bring together strategic stakeholders including the financial community, companies, fund managers, stakeholder organisations (from the corporate and financial spheres) and National representatives to further investigate the current investment needs in each of the three countries under the scope. A stronger engagement of the regions is necessary to involve the targeted communities' involvement. Such process should ensure an alignment of strategic priorities across the NSPA. This alignment is even more important when considering the possible anticipation on future trends. It should build upon a precise mapping of existing instruments ranging from loans to grants in the thematic area to be defined as to support clear objectives driven by decision makers.

**Defining a Clear Angle.** The adoption of a clear thematic angle is necessary. Digitization and circular economy are two examples in line with what some financial expert organisations such as the EIB are currently developing. A thematic angle should however not lead to the exclusion of any sector: while adopting a generic approach makes it difficult to identify a common ground for investment, a thematic approach will provide attractiveness to the initiative as many investors work with a thematic angle. Time is however pressing to trigger a follow-up process to investigate fund modalities as the new programming period is starting and credit engagement should follow soon while the administrative time can prove rather slow. Political backing will be critical in that context.

**Alignment with the National Level.** In line with the above point, several participants stressed the importance of strategic alignment across government levels and especially between regional and national levels. Strategic priorities and ambitions translating into government spending are key factors to consider when setting up a platform like the AIP. In the Arctic context, such alignment could for instance be linked to issues such as raw materials or the bio- and/or circular economy. These targets could be further supported by the identification of the objectives and thematic priorities pursued by the regional funds. An alignment with national targets will also offer expansion opportunities should a dedicated fund be proven relevant.

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[43] See https://ec.europa.eu/research/participants/data/ref/h2020/wp/2014_2015/annexes/h2020-wp1415-annex-g-trl_en.pdf for a definition of Technology Readiness Levels or "TRL"

# 6. Conclusion and Way Forward

## 6.1. Key Conclusions

*As depicted in the first section of this report, key investment needs exist, which validate the challenges faced by SMEs – such as in terms of accessing risk capital. The present contribution to the AIP Feasibility Study built upon the feedback from 67 SMEs willing to share their investment profiles and needs, as well as open feedback from both investors and cluster organisations. Following up on the analysis and recommendations of the financial expert group, 5 practical conclusions can be drawn.*

1 **Clear SME Investment Needs.** SMEs headquartered and active in the NSPA with the ambition to scale up their business are facing clear investment needs. These needs relate to commercialisation and expansion issues which require balanced mixes of capital and operational expenditures for a total investment need mostly ranging between €500.000,00 and €3.000.000,00. SMEs face in that context key barriers such as their lack of credit history, project complexity or market risks. With a recurring notion of pre-commercial risk (linking to needs below TRL9[44]) companies tend to mostly seek corporate and venture capital investors.

2 **Information Asymmetries.** When confronting the surveys, one can note that the demand of SMEs matches the financial offer put forward by investors. A match indeed can be found in terms of:

- Sectorial and thematic coverage;
- Financial product;
- Financial interlocutor;
- Business lifecycle;
- Coverage;
- Amount.

In addition to other hints such as investors' declarations on the reasons not to invest in NSPA regions, these results tend to suggest that information asymmetries are hampering the convergence of both demand and supply sides.

3 **Possible Gaps.** Possible gaps are to be investigated further as the investors survey shows a possible lack of hybrid financing as well as possible gaps in mining and metal but also wood and forestry financing. The study also shows that investors invest less in the NSPA: it thus questions the fact that the well-performing national patterns could be applicable at the regional level to the Arctic area.

4 **A Need for a Consolidated AIP Pipeline.** Fragmentation is observed and strengthened by the aforementioned information asymmetries. It applies to the NSPA but also to the perception of investors that the NSPA is too far away and lacks investment opportunities. It also applies to the higher level of difficulty faced by Venture Capital firms in finding reliable co-investors. A consolidated and visible deal flow allowing for a structured matching of demand and supply is therefore needed.

5 **A Need for more Intense Engagement of the Triple Helix across Government Levels.** A clear need for regional alignment and engagement of key stakeholders was also flagged during the study. It was particularly put forward by the Financial Experts who highlighted the need to see an active convergence of regional and national priorities and objectives.

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[44] See https://ec.europa.eu/research/participants/data/ref/h2020/wp/2014_2015/annexes/h2020-wp1415-annex-g-trl_en.pdf for a definition of Technology Readiness Levels or "TRL"

## 6.2. Implications and Way Forward: 3 Phases

*In addition to the above observations, the external experts recommend NSPA regions to follow two priority working lines as to initiate the pillar-shaped structure of the upcoming AIP. The AIP should be built pillar by pillar, and a 3-phase approach is recommended to ensure that each layer can be validated in the first place before exploring the next one.*

The AIP should play the role of a cross-regional coordination mechanism to gather information, offer visibility to SME investment projects, establish connections with the financial and corporate investment communities, and undertake soft support actions to match the supply and demand of financial support to SME investments. Such role should constitute the first phase of the AIP, building the first two pillars of the model and aiming for a consolidation before establishing the next pillar: the one of support provision to businesses and active matchmaking. A later phase (phase 3) could then result from the experience built along the first two phases.

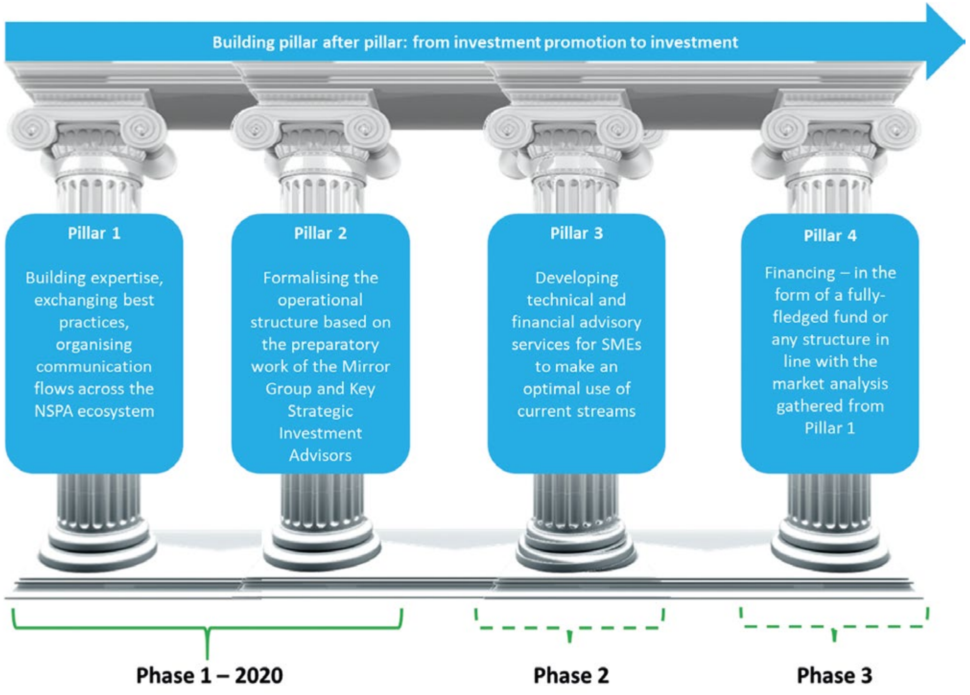

***Figure 9:*** *Building pillar after pillar: from investment promotion to investment*

## PHASE 1:
## Setting up the AIP as a Promotional Platform

It has become clear that a consolidated pipeline is needed and that an opportunity opens for NSPA regions to consolidate their deal flow by structuring their support activities. While the relevance of a dedicated fund (entailing fundraising and the nomination of a fund manager, as well as all legal, administrative and due diligence required) is still unclear, the need for a dedicated platform is confirmed. The following steps are thus recommended:

**1.** In December 2019, the present report was validated by the NSPA regions and next steps taken up as to pave their way toward joint action

**2.** A Memorandum of Understanding accompanied by a joint statement will be written in December and discussed internally in each Region. It will be accompanied by a joint statement.

**3.** The Memorandum of Understanding (MoU) will be discussed internally, and its technical pre-validation will be operated in January 2020 (based on conferencing across regional representatives mid-January 2020 and a meeting of Governors by the end of the month).

**4.** The MoU will then be finalised in February in view of an official launch during the Polar Bear Pitching in March which shall take place in the Oulu region and allow for an appropriate level of press coverage. Steps will be taken toward the nomination of the AIP coordinator.

**5.** A preparatory analysis should identify the mechanisms to sustain the AIP in its first phase as to allow for a proper construction of the first two pillars. A meeting will be organized in May 2020 in connection to the NSPA Forum. It will proceed with a validation of the design and key activities to be implemented by the AIP including its first Board Meeting and a structure (most likely set around two key groups: the Board and the Stakeholders Group).

**6.** Relevant administrative steps will then be taken to build up the administrative structure of the platform toward June and the formal kick-off of the platform activities for Pillars 1 and 2. These activities would be mainly oriented toward the promotion of Arctic investment, raising awareness and creating visibility for business investment opportunities in the NSPA. Relevant investment projects could for instance be scanned and operations could be undertaken to match the supply and demand sides (identifying valorisation and communication opportunities, etc.) while organising the community.

**7.** A first progress report should be submitted by the coordinator of the AIP by December 2020, marking a key milestone in the process.

## PHASE 2:
## Evolving into a Support Platform

A possible follow-up phase could then consist in the provision of expertise and business support services to accelerate SME access to finance. Technical but also business and financial modelling are examples of support activities that could be brought by the AIP to businesses elaborating investment plans. Their readiness to investment could be accelerated and the AIP could play the role of a bridge toward the investment community. The advisory role is thus a next phase of the lifetime of the platform which should be first consolidated along the first phase. Besides mobilising investments in the regions (from the regions themselves and attracting additional investment), the second phase would thus also include capacity building at business level. A key aspect of that phase will be the dialogue with the financial sector which should be held along the scanning of investment projects to identify any possible missing mechanism that could justify public intervention.

## PHASE 3:
## Fully-fledged Arctic Investment Fund

Depending on market needs and the validation process held along the first two phases, an investment fund could possibly be envisaged. It would be built upon a thorough consultation of the financial and industrial communities in partnership with government and intermediaries across the 14 regions and 3 countries under the scope. Risk-sharing and possible other tools (guarantee facility, etc.) could be envisaged which should be anchored into market needs and business realities in the NSPA. Investors would benefit from a streamlined access to a structured deal flow of solid investment projects and the possibility of co-investing.

**All available**
**funding**
**streams**

**Brought**
**together.**

**All available**
**expertise**

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*This QR code and website address brings you directly to the overview of key survey results quoted in this report.*