

Business Finance in the Arctic

Analysis of access to finance for SMEs and start-ups in the Arctic region

Main findings and recommendations



Prepared by Oxford Research in collaboration with Nordregio and Lauritzen Consulting, December 2018

Purpose and background of the study

Cracking the code to an efficient, sound-working, and well-coordinated business financial ecosystem in the Arctic is key to enabling the Arctic businesses to grow. From this background, the Danish Ministry of Foreign Affairs has commissioned the present study on business finance in the Arctic. The study provides:

- **A mapping of the current Arctic landscape of institutions, initiatives and programmes offering finance possibilities for SMEs and start-ups**, including a mapping and assessment of the current as well as potential future role of international funding agencies such as NIB and EIB
- **An analysis of the investment climate and SMEs’ and start-ups’ access to finance in the Arctic**
- **A mapping and assessment of current cross-border cooperation on business finance as well as the possibilities for strengthening this**
- **Recommendations on how to improve the investment climate and SMEs’ and start-ups’ access to finance in the Arctic.** As part of this, an assessment of the need and feasibility of setting up a cross-Arctic investment fund is presented

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The Arctic region includes Greenland, the Faroe Islands, Iceland, Northern Finland, Northern Norway, Northern Sweden, Northern Russia, Northern Canada and Alaska.

Main findings

- Sound level of public support for business development**

Overall, the number of public business development programmes seems to be high and the Arctic countries well-supplied with public financial possibilities and private banks. The mapping found 78 national business finance programmes, 10 regional schemes, 10 international programmes and 29 banks with branches in the Arctic. In conclusion, there seems to be a well-established public sector business financing architecture that, where relevant, could be better coordinated and animated to address the specific financial concerns of start-ups and SMEs in the Arctic region
- Some challenges can be observed related SMEs access to bank lending and mortgage markets**

The study points toward competition between banks being limited, particularly in some rural areas. This means that finance to some projects that might have received finance in other areas is denied, and/or the lending rates are higher than elsewhere. In areas outside the biggest towns without bank offices, it can be more difficult for SMEs to obtain credit and bank loans. Mortgage lending is, especially in rural areas, not common in the Arctic, due to low real estate prices. These issues underline the importance of having in place public loan and guarantee schemes.
- Lack of venture capital seems to be the biggest financial challenge hindering SME growth**

Lack of venture capital impedes growth in all Arctic regions – especially for start-ups and SMEs especially in the early expansion and scale-up phase . The problem is not only an insufficient supply of venture capital but also a lack of venture competence, and a lack of tradition among SMEs of receiving and accepting venture capital. Some initiatives to expand the provision of venture capital have already been taken in several parts of the Arctic, the creation of a stronger venture capital ecosystem remains an important but also long-term task.

Recommendations

It will be especially important to improve start-ups' and SMEs' access to venture capital. This is where the need seems to be highest, where Arctic conditions differ most significantly from elsewhere, and where the impacts on scaling businesses and creating growth and jobs are the greatest. We recommend that relevant Arctic stakeholders including governments, business and investment promotion agencies and international institutions and organisations:

- **Collaborate on common marketing** of Arctic investment possibilities.
- **Establish an Arctic investment platform** that can facilitate investor network and experience sharing.
- **Develop an Arctic lighthouse start-up and investor event** to attract international investors and strengthen the start-up community.
- **Increase the promotion of youth entrepreneurship** to strengthen entrepreneurial skills among the Arctic youth.
- **Ensure better access to crowdfunding** by pan-Arctic collaboration and alignment of existing crowdfunding platforms.
- **Engage large enterprises** in the start-up communities – they are potential investors, mentors and clients for many SMEs.
- **Develop the Arctic Investment Protocol** to make it more practically applicable.
- **Strengthen public-private synergies** and collaboration in promoting start-ups.

Arctic Investment Fund? Finally, we recommend the Arctic governments to work together with the private venture industry to expand the supply of venture capital. Whether this should be done through the establishment of an Arctic Investment Fund or by other means should however be considered thoroughly (see next slide for elaboration).

Recommendations

Establishing an Arctic Investment Fund?

There are both clear pros and cons for establishing an investment fund. Therefore, we are not able to recommend one specific route, organisation or modus operandi of an AIF, but see three scenarios that should be considered:

- **One AIF?**
Arctic public authorities and governments and bigger international financial institutions should discuss whether there is political will to establish an AIF covering the Arctic.
- **Two or more regional focused funds?**
Public authorities and governments and international financial institutions could also discuss whether there is political will to establish two or more Arctic funds covering different parts of the Arctic. One fund could, for example, cover Greenland, the Faroe Islands and Iceland. Another fund could cover Northern Norway, Northern Sweden, and Northern Finland where cooperation is already close in many respects.
- **Strengthen existing venture funds?**
Lastly, it should be considered if a more viable way would be to strengthen and supply more capital to existing public venture funds. In Greenland and the Faroe Islands the Danish Growth Fund is already gradually expanding its activities, and this could continue or be accelerated without creating new institutions.





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