

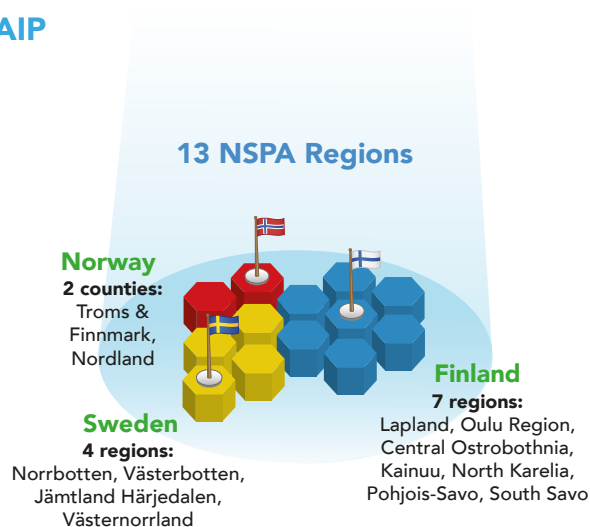
Key Findings of the Feasibility Study and Road Map

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

Climate change and recent geopolitical trends have made the Arctic area the centre of current and future political and economic concerns. The Arctic economy is at a turning point where foreign direct investments come with threats to the independent economic governance of the region, as well as opportunity costs of not tapping into the full business potential of the Arctic area. However, the opportunity is real and the Arctic Investment Platform (AIP) answers the call for a necessary collaboration across Arctic Regions in Finland, Sweden and Norway. Not only does it respond to the needs of Arctic businesses: it aligns with the new European Commission priorities under the Green Deal and Multiannual financial framework for 2021–2027 on cross-regional investment.

2. For a Competitive Arctic Area: Building the AIP

The AIP was initiated by the 13 Norwegian, Swedish and Finnish regions of the Northern Sparsely Populated Areas (NSPA) which face common challenges with respect to SMEs' access to finance. Building upon multiple evidence-based analyses, the NSPA regions decided to address common gaps and market failures. These often link to the sub-optimal availability of risk capital¹, which hampers growth in the Arctic. 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 NSPA. The AIP thus aims to de-fragment the funding and financing landscape and leverage regional, national and European-level programmes as well as other instruments to attract (risk) capital and avoid double-spending in the region.



3. A New Round of Evidence: Hints from the Feasibility Study

SME needs. The feasibility study confirmed key needs of NSPA SMEs having the ambition to scale up their business. 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 EUR 500 000 and EUR 3 000 000. 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, companies tend to mostly seek corporate and venture capital investors.

Gaps and asymmetries. The feasibility study highlights the existence of information asymmetries hampering the access of SMEs to financing that could effectively address their needs. These asymmetries contribute to the overall fragmentation as well as to the difficulties of investors seeking co-investors or an access to investment cases (considered too far when located in the NSPA). Additional gaps were scanned such as in terms of hybrid financing or gaps in mining and metal as well as wood and forestry financing. The feasibility 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 NSPA.

A need for a new structure. A consolidated and visible deal flow allowing for a structured matching of demand and supply is therefore needed. Setting up such pipeline and support structure for SMEs requires cross-regional and cross-border alignment and engagement of key stakeholders and authorities across the three countries.

¹ Source : AIP pre-feasibility study, 2019

4. AIP, the Unique Value Proposition to Make the NSPA “Stronger Together”

These findings combine with other reports and research undertaken by various organisations (from the OECD to the European Commission) to support the setting up of the AIP. 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 the NSPA
6. Address the challenges hampering the matching between SMEs and investors
7. Allow for the upscale and internationalisation of small businesses across the NSPA
8. Leverage regional, national and European funding and financing streams through a dedicated mechanism

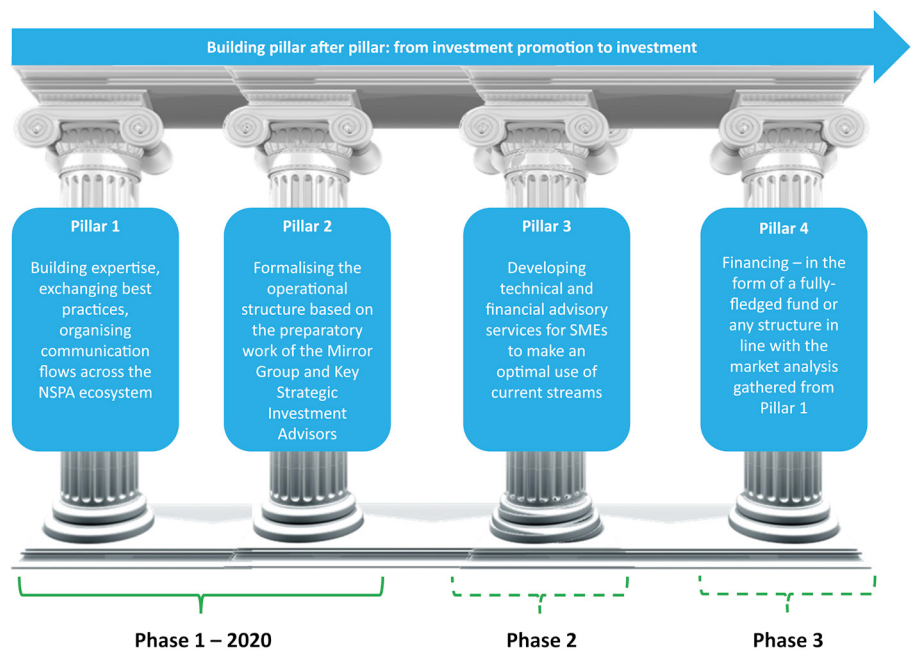
5. AIP Moving Forward

The AIP should play the role of a cross-regional and cross-border coordination mechanism to gather information, offer visibility to SME investment projects, establish connections with the financial and corporate investment communities, and undertake non-financial 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.

PHASE 1:

Setting up the AIP as a Promotional Platform

It has become clear that a consolidated pipeline of investable projects is needed and that an opportunity opens for the NSPA 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 promotional platform is confirmed.



PHASE 2:

Evolving into an Advisory Support Platform

A possible follow-up phase could then consist in the provision of advisory 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.

PHASE 3:

Fully-fledged Arctic Investment Platform

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 13 regions and 3 countries under the scope.



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