

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 Nordregion and Lauritzen Consulting,

Aim and scope of the study

Main aim of the study is to map and assess SMEs' and start-ups' access to finance in the Arctic region. The study provides:

- **A mapping of the current landscape of institutions, initiatives and programmes offering finance possibilities for SMEs and start-ups in the Arctic**, 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

The study was commissioned by the Danish Ministry of Foreign Affairs and has been prepared by Oxford Research in cooperation with Nordregio and Lauritzen Consulting.



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**
 - Good coverage of public business development and programmes and a well established public sector business financing architecture. We found 78 national business finance programmes, 10 regional schemes and 10 international programmes.

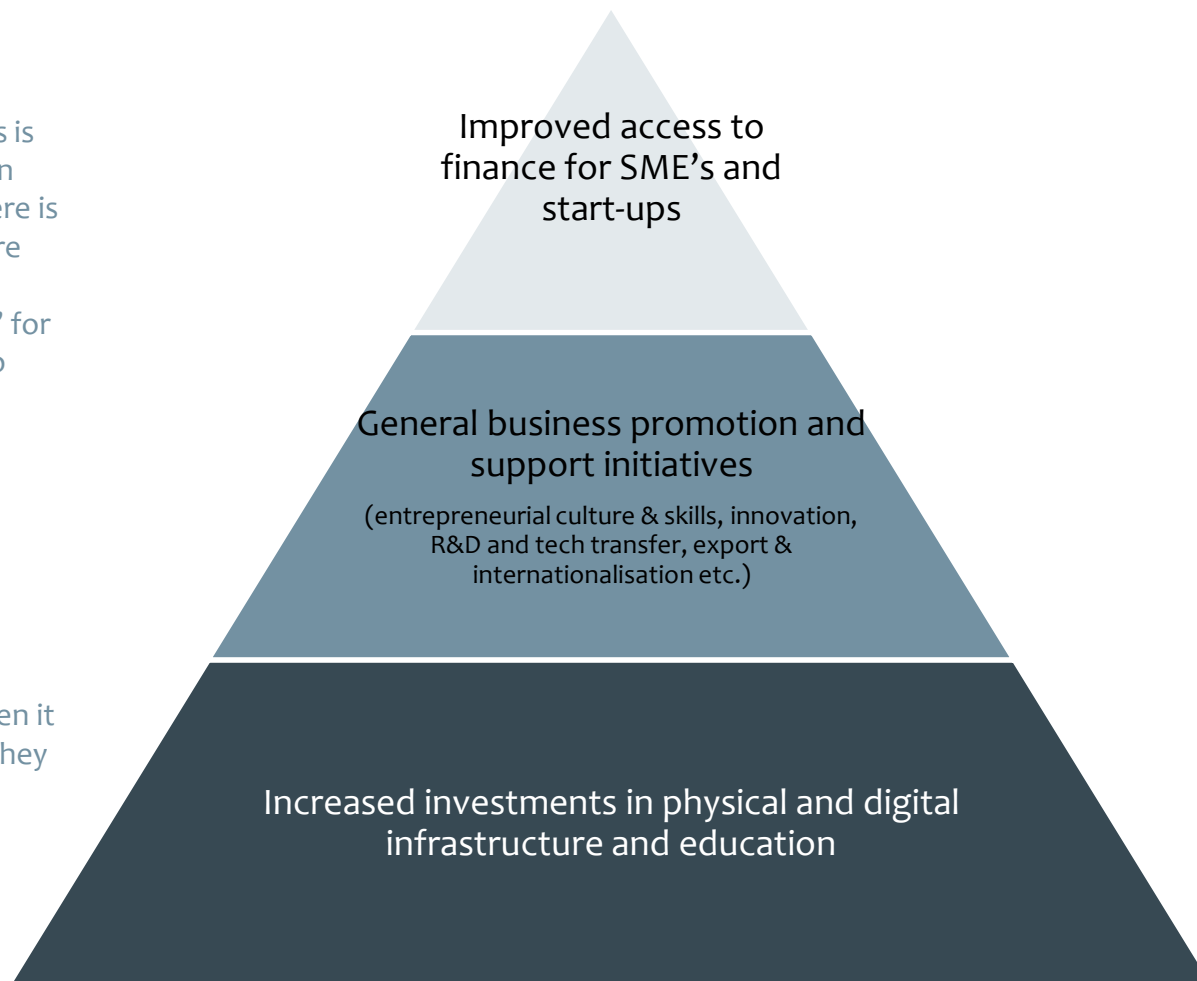
- **Some challenges can be observed related SMEs access to bank lending and mortgage markets**
 - In general, the Arctic has a well established and sound banking system - 29 banks with branches are operating in the Arctic.
 - Competition between banks can be limited - particularly in some rural areas, which can lead to higher interest rates
 - Mortgage lending is, especially in rural areas, not common in the Arctic, due to low real estate prices.
 - In some rural areas and towns there are no local bank offices making it more difficult for entrepreneurs/SME's to build a trustful relation to a bank
 - All together, this means that it can be more difficult for entrepreneurs and SMEs to obtain credit outside the larger cities and town.
 - 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.

Reccommendations

- **Finance is the (important) tip of the iceberg**
 - Improved access to finance for SMEs and start-ups is an important part of promoting business growth in the arctic. But it is only the ‘tip of the iceberg’. There is still a need to increase investments in infrastructure and education and in general business promotion. Without further investments in the ‘ground pillars’ for increased growth in the Arctic improved access to business finance will have little or no impact.
- **In general a challenge is lack of critical mass – this calls for exploiting the potentials of increased pan-Arctic collaboration**
 - Though the Arctic countries and regions differ when it comes to history, language and business culture, they also share many of the same challenges and framework conditions.

Prerequisites for business growth in the Arctic



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.

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 single AIF?**
One AIF covering the entire Arctic will be a complex and demanding task, requiring broad political commitment. Governments and bigger international financial institutions need to discuss whether the needed political will is present.
- **Two or more regional focused funds?**
Point of departure could also be smaller regional funds, where cooperation would already be present. One fund could, for example, cover Greenland, the Faroe Islands and Iceland. Another fund could cover Northern Norway, Northern Sweden, and Northern Finland
- **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 and strengthening their focus on the Arctic.





Thanks for your attention!

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