

EIF Market Study on NSPA: Financial intermediaries *and* *deployment capacity* in the region

NSPA Forum, Skellefteå
24 March 2022

Agenda

- 1 Assumptions on market study
- 2 Market study highlights
- 3 Conclusions and recommendations
- 4 Next steps

Assumptions of the market study

Main features of the investments

Geographical focus	Northern Sparsely Populated Areas (NSPAs): 13 regions in Finland, Sweden and Norway
Policy, thematic or stage focus	<ul style="list-style-type: none"> Public policy goals, subject to further discussions: Competitiveness, Growth and Cohesion; Innovation; Sustainability and Green Transformation Scaling-up and growth
Proposed products	<ul style="list-style-type: none"> Private Equity, including quasi-equity Venture Capital
Indicative size	EUR 60-100m fund-of-fund , distributed as follows: EUR 30m from participating countries and EUR 30m from EIF
Go-to-market approach	To be defined once the next steps and possible products are decided
Eligible final recipients	Micro enterprises, SMEs and mid-caps

EIF experience in the NSPA

In general and for the policy focus

Number of mandates	None
Number of financial intermediaries supported in the targeted geography	1 financial intermediary (“FI”) with a local office (Spintop Investment Partners, Sweden), 18 other FIs that have invested opportunistically in the NSPAs
Total commitments	No direct commitments in the region
Total investments in final beneficiaries in the geography	The total investments of EUR 185.4m across 29 deals: Around 41% of deals were made in Oulu region (Finland), 14% in North Savo (Finland) and 10% Norrbotten (Sweden)
Stage split (VC/PE/Infra)	9 Venture Capital, 7 Private Equity, 1 Tech Transfer Accelerator, 4 Hybrid Debt-Equity, 1 Other Private Debt, 1 Social Impact investments

Market overview

Selected highlights from 2015-2021

Around
1,000 deals
into 700
SMEs since
2015

Success
stories have
emerged
from NSPA

Diverse
ecosystem
established
in the area

- **61% in Oulu region (33%), Västerbotten (18%) & Norrbotten (10%)** – 8% in Norway
- Buy-out & Growth: in total **57%**
- 7 Initial public offerings
- Market has fluctuated - investments into NSPA between **EUR 100m and EUR 350m p.a.**

- **Optomed (FI)**
- **Detection Technology (FI)**
- **OneMed Group (SE)**
- **Nordcraft Company (NO)**

- Regional promotional organisations
- Universities
- Accelerators & incubators
- Business parks

Financial intermediaries

Target the NSPA opportunistically

EIF portfolio
currently has **no FIs**
dedicated to invest
in NSPA

19 FIs in EIF
portfolio have
made
opportunistic
investments
into NSPA(1)

EIF pipeline
includes further 3
FIs that target Nordics
(but not NSPA)

During the market study, only one financial intermediary, **venture capital fund manager Nordic Option** (not currently in EIF portfolio), **was eager to make a hard commitment to invest in the NSPA**

Feedback from financial intermediaries interviewed

Perceived low level of deal flow is key concern for financial intermediaries

Feedback from
the *financial
intermediaries
on NSPA*
(venture capital
and private
equity funds)

- The NSPAs are in need of a **systematic, comprehensive strategy** to promote *entrepreneurship and innovation*.
- The *existing business centres fall behind vis-à-vis the more established regions* in terms of skills, experience and entrepreneurial mind-set, hence making it difficult to complete PE/VC deals.
- Some underlined that the **NSPA market is too small and heterogeneous for having a dedicated team for the region**.
- They are concerned about the **low level of deal flow** and hence **reluctant to accept a commitment from EIF**, if that requires making a *binding obligation to deploy this capital to NSPAs unless changing the commercial terms* (as this might require turning down more promising opportunities in the central areas and compromising on financial return).

Conclusions and recommendation

Initial intervention model needs to reflect current stage of the NSPA market

Conclusions
on the most
suitable
model of
intervention
based on
market study:

- Some regions in the Arctic area/NSPA hold *economic potential in green-energy, clean-tech, life science and tourism, as well as urbanisation*. Investments are needed for building both urban and business infrastructures, business scale-up and green transition, also in traditional industries.
- Based on interviews and market analysis, for EIF might not be ready yet to deploy up to **EUR 60-100m equity investments in the NSPA** .
- **A better fitted and tested model for the current stage of the market** would be to *provide guarantee products*, relying on commercial banks with strong regional presence, to deliver with respect to geographical focus.

Next steps

- We recommend that the *NSPA regions discuss the EIF market study conclusions among themselves*, and their preferences for a potential intervention, including financial instruments
- If the NSPA regions wish, EIF is interested to engage with the NSPA representatives in a dialogue vis-à-vis *guarantee products*

For more information, please visit our website: www.eif.org

Follow our stories & work on social media



@eif4smes @EIF_EU