



Regulation of Finnvera's Financing

Contents

1. Finnvera and the State of Finland
2. Regulatory framework for Finnvera's financing
3. Finnvera's statutory tasks
4. Finnvera's authorisation to grant financing
5. Restrictions pertaining to company size
6. Sector-specific restrictions
7. State aid rules
 - i. What are they?
 - ii. Aid included in Finnvera's financing
 - iii. What are the practical implications of the State aid rules?
 - iv. Financing of enterprises in difficulty

Finnvera and the State of Finland

- Finnvera's role as a public provider of financing is based, in particular, on the following aspects:
 - The State of Finland owns Finnvera's entire stock.
 - Some of the financing granted by Finnvera may include interest subsidies or guarantee commission support paid by the State. Finnvera passes on this support in full to its clients.
 - The State covers part of Finnvera's credit and guarantee losses; this enables the taking of greater risks.
 - In the end, the State is directly responsible for the domestic guarantees and export credit guarantees granted by Finnvera.
 - The State grants guarantees for Finnvera's own acquisition of funds.
- Whenever granting financing, Finnvera must consider the EU's State aid rules, because the State plays an important role in Finnvera's operations.

Regulatory framework for Finnvera's financing

- Special regulations on Finnvera:
 - Act on the establishment of Finnvera (442/1998);
 - Act on Finnvera as a company (443/1998);
 - Act on Finnvera's operations (445/1998).
- Acts on export credit guarantees:
 - Act on the State Guarantee Fund (444/1998);
 - Act on export credit guarantees (422/2001);
 - Act on ship guarantees (573/1972).
- EU and international regulations pertaining to Finnvera's financing:
 - The European Union's State aid rules included in competition legislation;
 - OECD and WTO regulations on export credits and guarantees;
 - The European Commission's decision on the exemption of Finnvera from income tax.
- The Government's commitments and the Ministry's decisions:
 - The Government's commitments to Finnvera concerning compensation for credit and guarantee losses, interest subsidies and guarantee commission support;
 - The annual ownership and industrial policy goals, set by the Ministry of Employment and the Economy for Finnvera, and other steering by the owner.
- Administrative provisions applied to Finnvera's operations:
 - Administrative Procedure Act;
 - Language Act;
 - Act on Public Contracts.

Finnvera's statutory tasks

- Finnvera provides financial services
 - to promote and develop the operations of enterprises, in particular SMEs
 - to promote the exports and internationalisation of enterprises
 - to promote the realisation of the government's regional policy goals.
- Finnvera's task is to offset shortcomings in the supply of financial services; for this reason, the company generally shares risks with other financiers.
- Financial services consist of loans, guarantees, venture capital investments and refinancing of exports.
- To be eligible for financing, operations must always be business operations pursued by an enterprise.

Finnvera's authorisation to grant financing

- The cap on outstanding commitments in domestic financing is **EUR 4.2 billion**
= commitments encompassed by the State's commitment to compensate for credit and guarantee losses.
- The State also regulates the amount of financing granted annually:
 - The authorisation to grant interest-subsidised loans is confirmed in the State Budget (authorisation in 2010: EUR 273 million / in 2009: EUR 243 million);
 - The authorisation to grant loans and guarantees that do not include interest subsidies is confirmed by the Ministry of Employment and the Economy after having consulted the Cabinet Finance Committee (authorisation in 2010: EUR 800 million / in 2009: EUR 860 million).
- The cap on outstanding export credit guarantees → at most **EUR 12.5 billion**
- In the long term, operations must be self-sustainable with respect to both domestic and export financing.

Restrictions pertaining to company size

- Finnvera's domestic financing (loans and guarantees) must generally be targeted at SMEs.
- The Commission's definition of an SME:
 - Fewer than **250 employees AND**
 - Turnover at most **EUR 50 million OR** the balance sheet total at most **EUR 43 million.**
 - The ownership structure must also be considered:
 - Over 25% of the company is owned by another enterprise or the company holds a share of over 25% in another enterprise (associated company) → a corresponding percentage of the other enterprise's business indicators is included;
 - Over 50% of the company is owned by another enterprise or the company holds a share of over 50% in another enterprise (subsidiary) → the other enterprise's business indicators are included in full;
 - The public sector holds a share of over 25% → not an SME;
 - For venture capital investors, a holding of under 50% is not noted but a holding of over 50% means that the business indicators of the venture capital investor and its other majority investments are included in full.

Restrictions pertaining to company size

- Credits and guarantees can be granted to large enterprises only
 - in assisted areas if there are special grounds for the financing;
 - outside assisted areas if there are special grounds for the financing and the enterprise has no more than 500 employees or the large enterprise status stems, for instance, from the majority holding of a venture capital investor;
 - for counter-cyclical financing, if the enterprise has no more than 1,000 employees and the enterprise is not in the same group of companies with a large enterprise;
 - for counter-cyclical financing, the above limit of 1,000 employees can also be exceeded under certain special criteria.
- Irrespective of the above, large enterprises are eligible for financing if the financing is used for working capital associated with export deliveries, for performance bonds in exports, or for export credit guarantees.

Sector-specific restrictions

- The Act on Finnvera's operations excludes the following sectors from financing:
 1. building developer's business;
 2. forestry;
 3. field cultivation and animal husbandry included in agriculture.
- State aid rules also set sector-specific restrictions:
 - e.g. coal and steel industry, audiovisual production, shipbuilding;
 - certain special regulations apply to fishery and to the further processing and marketing of agricultural products.

The EU's rules on State aid – What are they?

- All public financing may include State aid which, as a rule, is prohibited and strictly controlled within the EU.
- In practice, the Treaty establishing the European Union and other EU legislation contain a large number of exceptions that allow State aid as part of public financing.
- As a public financier, Finnvera is subject to State aid rules and Finnvera's financing is granted within various "aid programmes"
- The aid programmes applied to Finnvera's financing:
 - Financing for SME investments → SME aid / the General Block Exemption Regulation
 - Other financing → De minimis aid
 - State aid for rescuing and restructuring firms in difficulty

Aid elements included in Finnvera's financing

- State aid associated with Finnvera's financing ≠ a concrete interest subsidy or guarantee commission support potentially included in the financing
 - i.e. Finnvera's financing may include State aid even if no interest subsidies / guarantee commission support were used.
- The amount of imputed State aid included in Finnvera's financing depends on pricing:
 - The real interest rate / guarantee commission is compared to the reference rate confirmed by the EU:
 - If the real interest rate / guarantee commission **exceeds** the reference rate, the financing does not include aid (no aid element is formed);
 - If the real interest rate / guarantee commission **falls below** the reference rate, the financing includes aid (an aid element is formed)
 - The amount of aid is calculated for the whole maturity by discounting the aid element at its current net value

Aid elements included in Finnvera's loans

- **Reference rate = base rate** (IBOR12) determined by the Commission + **a risk premium** depending on the company's risk category and the collateral available.
- At present, the base rate is 1.24% and the risk premium ranges from 0.6% to 10.00%.
- For instance, the risk premium for a starting company is always at least 4.0%; thus, the lowest non-subsidised interest is 5.24%.
- In practice, Finnvera's loans generally include imputed aid.

Table for determining risk premiums

Collateral /Share of loss

Rating (Finnvera's category)	Good	Ordinary	Poor
Very good AAA - A (A1 - A2)	60	75	100
Good BBB (A3 - B1)	75	100	220
Satisfactory BB (B2)	100	220	400
Poor B (B3)	220	400	650
Very poor C (C)	400	650	1 000

Calculation of the aid element included in guarantees

- It is considered that guarantees include aid if the premium collected from the enterprise falls below the premium free of aid, as referred to in the Notice on guarantees.
- The premium free of aid is either the price determined in line with the safe-harbour table published in the Notice or, in exceptional cases, “a true market price”.
- The safe-harbour premium is determined on the basis of the company’s risk category.
- A true market price is the price collected by banks for a corresponding risk.
- The amount of aid is calculated for the period of validity of the guarantee by discounting the aid element arisen from the price difference at its current net value.

Safe-harbour table for guarantees

Rating (Finnvera's category)	Annual safe-harbour premium
Very good AAA – AA-	0.4%
Very good A	0.55%
Good BBB	0.8%
Satisfactory BB (B1)	2.0%
Satisfactory BB- B+ (B2)	3.8%
Poor B – B- (B3)	6.3%
Very poor C	No safe-harbour premium

The safe-harbour premium for starting enterprises is at least 3.8% p.a.

What are the practical implications of the State aid rules?

- The imputed aid included in financing must remain within the maximum limits of the aid programmes.
 - When providing financing for the investments of SMEs (SME aid), the maximum aid levels are 20% (small enterprises) and 10% (medium-sized enterprises) of total investments.
 - When providing financing for working capital and for the investments of large enterprises (temporary aid / de minimis aid), the enterprise-specific maximum aid is EUR 500,000 / 3 tax years.
 - Note: EUR 500,000 still in 2010 → normally EUR 200,000
 - When monitoring the maximum aid level, attention must also be paid to other public financing (Employment and Economic Development Centres, Tekes, municipal subsidies, etc.) granted for the same project / same company.
 - If the maximum levels of aid programmes are exceeded, the terms of financing must be revised so that the amount of imputed aid is reduced
- in practice, by raising the interest rate, by shortening the credit period or by reducing the credit amount.

What are the practical implications of the State aid rules?

- In certain situations, State aid rules set restrictions on the share of financing:
 - In the case of guarantees, Finnvera's maximum share of a loan or another commitment to be guaranteed is 80%;
 - In the case of investments, public financing cannot exceed 75% of total financing in situations where the investment subsidy is granted by a Centre for Economic Development, Transport and the Environment.
- Financing granted by various public operators for the same project must remain within certain maximum levels
 - Requires coordination among financiers
 - If a Centre for Economic Development, Transport and the Environment grants the maximum subsidy, Finnvera cannot usually grant any loans for the same project.

Financing of enterprises in difficulty

- If an enterprise has **lost over half** of its share capital (limited company) or **over half** of its own assets shown by the accounts (limited partnership) and **over one quarter** has been lost during the last **12 months**
- Or if, irrespective of the company form, it meets the criteria for being declared bankrupt
 - it is considered to be **an enterprise in difficulty**.
 - Finnvera can provide financing for an enterprise in difficulty or can alter the terms of previously granted financing only in the following cases:
 1. The enterprise is officially undergoing company reorganisation;
 2. Within so-called temporary aid, if the enterprise was not in difficulty on 1 July 2008;
 3. The financing is implemented within the EU rescue and restructuring aid (in practice, short-term bridge financing followed by a reorganisation plan);
 4. The financing or alteration is implemented together with financiers operating on market terms – the minimum share of financing obtained from the market is 25–50% depending on the assisted area and company size;
 5. Loans can be granted if the interest exceeds the reference rate (= no aid).