



Thought
Leaders

Report on Competitiveness

Summary of Key Results | 22 May 2023

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 **FINNVERA**

Introduction

1. **In March 2023, Finnvera plc (Finnvera) engaged TradeRx GmbH (actoRx or Consultant) to deliver a report on competitiveness (Report).** The aim of the Report was, from a competitive point of view, to i) compare pre-defined issues/factors of export credit services of Finland/Finnvera to a group of peer countries/export credit agencies (ECAs), ii) discuss competitive issues, conducting a survey among pre-listed banks, and iii) provide recommendations how to improve Finnvera's competitiveness. The Report enabled Finnvera to examine results based on empirical evidence. This is a summary of key elements of the Report.
2. **actoRx applied a mixed-method research approach, combining quantitative and qualitative data collection techniques and analytical procedures.** The Consultant conducted an analysis with nine institutions as requested by Finnvera: Österreichische Kontrollbank (OeKB) in Austria, Denmark's Export and Investment Fund (EIFO), Bpifrance, Euler Hermes (EH) in Germany, SACE and SIMEST in Italy, Export Finance Norway (Eksfin), as well as Exportkreditnämnden (EKN) and the Swedish Export Credit Corporation (SEK). In addition, financial institutions were included for primary data collection (Figure 1). Exporter and foreign buyer interviews were out of scope.

Figure 1: Assessed Institutions and Bank Interviews (Examples)



Source: Developed for this Report.

3. **Primary data collection focused on interviews with key stakeholders from assessed institutions and banks.** The Consultant used semi-structured one-to-one, one-to-many and two-to-many interviews with a predetermined list of themes and key questions to guide the conduct of each interview. Both quantitative and qualitative secondary data were also collected, for example from previous analyses. Primary data analysis applied a coding approach. Secondary data were analysed using descriptive statistics and qualitative content analysis. **An in-depth description of the analytical framework and a list of references are only provided in the full Report.**

Remarks

This document represents a **Summary of Key Results** discussing the overall approach of the Report on Competitiveness for Finnvera and summarising a limited number of results of the full study with a high-level approach. Due to the request of most ECAs and banks, anonymity had to be guaranteed and participating organisations are not identifiable regarding sensitive quantitative and qualitative results.

4.

Foundations and Strategy

Foundations

5. **Finnvera has been a frontrunner with its set-up for a decade.** Finnvera is a state-owned specialised financing company and acts as Finland's ECA. Moreover, it is a consolidated public agency which includes also domestic support for small and medium-sized enterprises (SMEs). Finnvera is a “Team Finland” member. The governance approach is state-of-the-art according to interviewees: The state owns the entire stock and tasks are defined by a legal act. The Supervisory Board supervises the administration. The Board of Directors (BoD) is responsible for key policies, principles and guidelines. The Chief Executive Officer (CEO) is responsible for operational administration. Finnvera makes its financing decisions independently from the government.
6. **International peers are catching up fast.** The majority of the assessed countries designed their ECAs as a public legal entity (Figure 2). This is in line with global best practices. Nearly all interviewees mentioned that the “agency” model is the most efficient and effective approach, in particular when there is no political influence on specific transactions. More importantly, other countries such as Denmark and France have also created consolidated agencies, focusing on innovation and the climate transition.

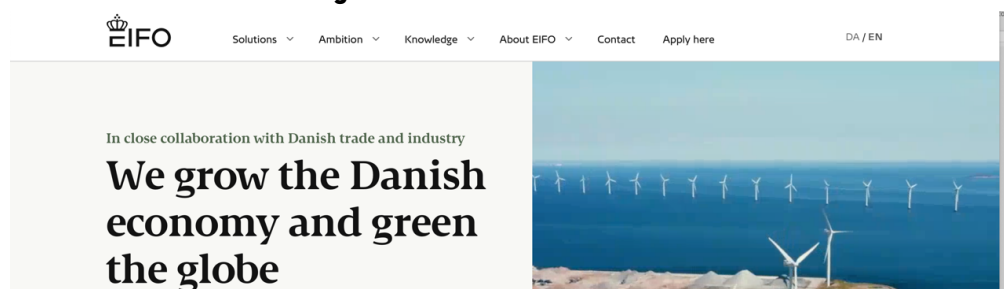
Figure 2: Foundations



Source: Developed for this Report.

7. **Other governments are increasingly active regarding policy directions with the aim to use ECAs as strategic tools; Finland still follows a more restrained approach.** For Denmark and Sweden, the ECAs play a key role for the just transition to net-zero through innovation-driven exports (example shown in Figure 3). Other governments such as Norway and Italy are also expanding scopes and roles of their ECAs. Two assessed agencies are more reluctant. In Finland, the Finnish Ministry of Economic Affairs and Employment (MEAE) is responsible for ownership and industrial policy steering of Finnvera. It sets medium-term goals for and is conservative in impacting the ECA's activities despite the “ecosystem” approach of Team Finland.

Figure 3: New Fund in Denmark



Source: EIFO, 2023.

National Interest Account

8. **ECAs in assessed countries have no national interest account; there is a special mechanism in Finland.** The State Guarantee Fund steps in if Finnvera's reserves are insufficient to cover losses. When necessary, the fund is supplemented by appropriations from the state budget, i.e., applying a "waterfall mechanism". However, this is no national account and benefits are unclear in comparison to other approaches.

Figure 4: National Interest Account



Source: Developed for this Report.

Strategic Directions

9. **Finnvera is moving towards a "trade facilitator" with a client-centric behaviour, a best practice approach.** Many other ECAs already are "trade facilitators" and "trade promoters", or even move towards a "trade creator" approach. This trend is being reinforced by multiple challenges facing international financing. These multiple challenges and competitive moves by ECA peers require a re-evaluation of Finnvera's strategy by the owner, the BoD and Finnvera's management. Finnish exporters expect to receive support at the same level as international peer offerings. Figure 5 summarises the approaches in the investigated countries:

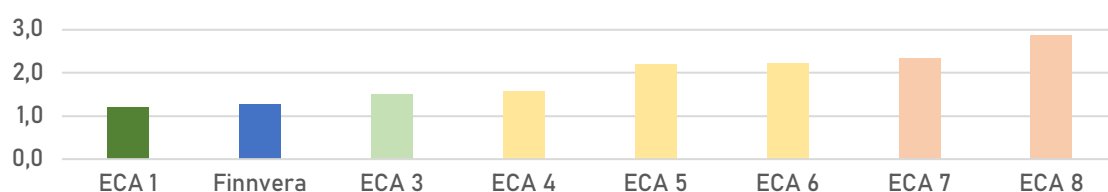
Figure 5: Strategic Directions



Source: Developed for this Report.

10. **Meeting these challenges and enhancing Finnvera's foreign trade promotion profile, as well as competing with progressive peers can lead to higher risks and relatively lower income.** This is also because ECA portfolios are often dominated by long-dated emerging market risk, as well as a small number of industries. Institutions usually have limited abilities to influence sectors. Support must be available at any given time. Therefore, ECAs have difficulties to follow a proactive credit underwriter or management choice to create a well-balanced portfolio. Business in developed countries is often limited to certain sectors such as aerospace, shipping or infrastructure projects that typically require large financing volumes where ECAs close existing market gaps.
11. **Finnvera is very client-oriented, delivering on its vision that their “clients’ success strengthens the Finnish economy”.** Although Finnvera’s sales and marketing behaviour is described as more restrained than the activities of EIFO, EKN and SACE, Finnvera gives evidence for strong and proactive support of Finnish companies. Interviewees also mentioned strong skills and expertise of Finnvera’s staff with regard to knowledge, deal closing and cooperation. Interviewees rate Finnvera’s customer-orientation as “high”, positioning the Finnish ECA in the top group together with two other agencies (Figure 6). Interviewees mentioned, however, that successful initiatives in other countries such as the “pull” or “push” strategy, “shopping lines” or an explicit “pathfinding” strategy for Engineering, Procurement, and Construction (EPC) contractors have not been launched so far in Finland.

Figure 6: Customer-Orientation Ranking



Source: Interviewees' (n=19) subjective ranking of Finnvera and other participating ECAs regarding customer-orientation. Possible answers included “very high” (1), “high” (2), “low” (3), or “very low” (4). “Very high” was regarded as positive, “very low” as negative, etc.

National Content or Economic Interest

12. **National economic interest is the dominant model for assessed ECAs, and Finnvera is no exception** (Figure 7). Interest is realised if Finnish content of an export project is significant, i.e., amounting to more than 33% the export credit amount. However, Finnish economic interest can also be demonstrated if an SME exporter is striving for growth and internationalisation, or the exporter is launching a new product in the market.

Figure 7: National Content or Economic Interest



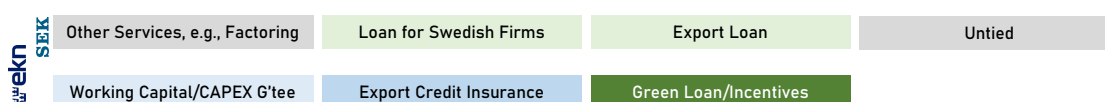
Source: Developed for this Report.

Products and Premia

Products

13. **Several ECAs in the sample provide a broad variety of offerings while others are still “pure cover” providers; Finnvera has a diversified product suite.** Interviewees mentioned that ECAs provide more and more financing and de-risking solutions. Finnvera offers both support for domestic SMEs and (potential) exporters. This includes short-term and medium- and long-term insurance and guarantee solutions, export loans for “small tickets” and Commercial Interest Reference Rates (CIRR) solutions. However, some of the assessed agencies are even more focused on innovation and technology-driven firms. “Green” products and incentives for climate-related transactions are on the rise in other countries, creating a potential competitive disadvantage for Finnish firms. Interviewees have pointed to gaps in Finnvera’s product range and mentioned that Finnvera should step up regarding climate finance.

Figure 8: Example EKN/SEK Product Portfolio



Source: Developed for this Report based on Interviews and Publicly Available Information.

14. **Long-term fixed-rate loans based on the CIRR interest rate are important for exporters’ competitiveness in several assessed countries; this also applies for Finland.** Approaches differ in assessed countries such as Germany and Sweden. Germany, for example, offers three different CIRR products for exporters focused on specific sectors or country of destination. Most interviewees mentioned that relatively easy access to accurately priced long-term CIRR-based funding for foreign buyers is important. One study participant emphasised that Finland must ensure an effective, transparent, and reliable approach with competitive pricing like the Swedish system.

Table 1: Product Offerings relevant for this Report

Country		Loans		CIRR	Concessional	Untied
		SMEs	Large			
Austria (OeKB)		No	No	Yes	Yes	Yes
Denmark (EIFO)		Yes	Yes	No	Yes (with IFU)	No ¹
France (Bpifrance)		Yes ²	Yes ²	Yes	No	Yes
Germany	EH	No	No	No	No	Yes ³
	KfW ⁴	Yes	Yes	Yes	Yes	Yes
Italy	SACE	No	No	No	No	Yes
	SIMEST	Yes	Yes	Yes	Yes	Yes
Norway (Eksfin)		Yes	Yes	Yes	No	Yes ⁵
Sweden	EKN	No	No	No	No	Yes ³
	SEK	No ⁶	Yes	Yes	No	Yes
Finland (Finnvera)		Yes	No ⁷	Yes	Yes	Yes ³

Source: Developed for this Report. Notes: 1) EKF had no untied programme. EIFO has a much broader approach now. 2) Bpifrance offers direct lending, but in a commercial approach and not as an ECA. Loans amount up to EUR 25 m for stand-alone loans, and up to EUR 75 m for co-lending. 3) Untied loan guarantee for raw material supply. 4) The national promotion/development arm of KfW offers loans, but no export-related financing. KfW IPEX provides export financing, but on a purely commercial basis. KfW DEG provides soft loans, but not

related to exports. 5) Eksfin offers financing for export-related investments and climate-friendly projects with export potential. It is also suitable for companies with export ambitions if they are not already established exporters. 6) SEK's target customer group are companies with an annual turnover of EUR 50 million or above, i.e., mid-caps (EUR 50 m to 1 bn turnover), as well as large corporates (turnover EUR 1 bn or above). 7) Some exceptions in the past, i.e., during the Covid pandemic.

Premia

15. **Premia approaches differ, but with an overall objective to follow the lowest possible rate; Finland is regarded as more conservative than others. Pricing is a very competitive factor according to interviewees; and there is no international best practice regarding loan pricing and guarantee or insurance premia. While some agencies apply a commercial-oriented approach, others follow a risk-based approach or apply minimum premium rates (MPRs) of the Arrangement (Table 2).**

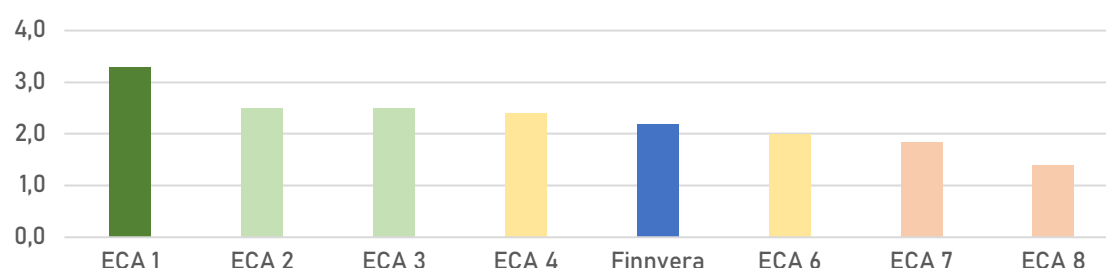
Table 2: Premia Examples

Country	Malaysia (Cat. 2)	Colombia (Cat. 4)	Namibia (Cat. 6)
Denmark	1.4–4.8%	3.2–7.3%	5.8–8.2%
Germany	1.4–4.7%	3.1–7.1%	5.6–8.0%
Norway	1.4–5.0%	3.3–7.7%	6.4–9.1%
Sweden (EKN)	1.4–7.1%	3.3–8.4%	6.4–10.3%

Source: Developed for this Report based on respective online calculators; upfront premia for a 25 m (respective currency) transaction with a draw down period of 1 month (if applicable) and a repayment period of 60 months.

16. **Finnvera's practice to balance different references and to ensure competitiveness is regarded as technically appropriate by interviewees.** However, interviewees mentioned that Finnvera's guarantee pricing is often higher than others using the MPRs required under the OECD premium scheme (Figure 9). Interviewees mentioned that this approach, irrespective of sophisticated internal rating models, led to situations where Finnish companies lost deals in the past.

Figure 9: Pricing Ranking



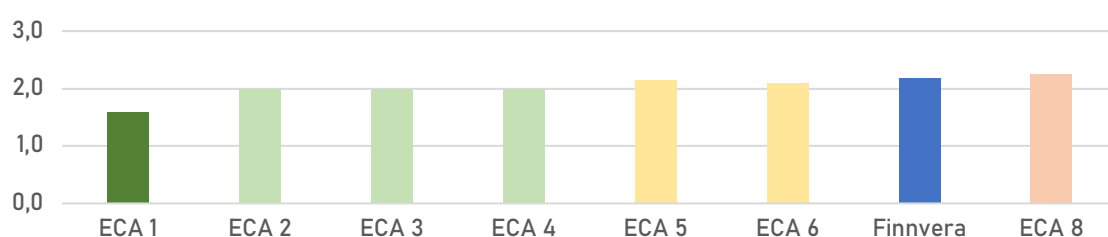
Source: Interviewees' (n=19) subjective ranking of Finnvera and other participating ECAs regarding pricing for both loans and guarantees or insurance. Possible answers included "very high" (1), "high" (2), "low" (3), or "very low" (4). "Very low" was regarded as positive, "very high" as negative, etc.

Risk and ESHR Processes

Risk Management

17. **Interviewees mentioned that all assessed ECAs have enough risk capacity and robust risk management frameworks; this also holds true for Finnvera.** Agencies such as EIFO, Eksfin and relevant Swedish institutions created sound risk management guidelines and systems linked to business strategy and objective-setting. However, many ECAs contend with large risk concentrations, reflecting their countries' industry structure. Finland is no exception. Hard limits exist in all assessed countries, either due to equity regulations or statutory limits from national budget laws. However, there is no unified approach for hard or soft limits for countries, sectors, obligors or transactions. While interviewees mentioned, for example, that one ECA applies soft limits for all four categories, Finland only implemented a combination of hard and soft limits for obligors. For CIRR offerings, the Swedish approach is described as most efficient by interviewees. The loan portfolio related to CIRR loans is funded with short-term borrowings that have maximum tenors of one year. In addition, SEK benefits from SNDO's SEK 175 billion credit facility.
18. **Risk appetite differs according to interviewees.** EKN, SACE, EH and OeKB have been regarded as very much prepared to take risks. On the other hand, several interviewees describe another ECA as more reluctant. The same applies for Finnvera: Most interviewees mentioned that Finnvera is regarded as a relatively conservative and risk-averse agency (Figure 10). This might, however, partly be related to the agency approach of the Finnish ECA and its economic capital model. EH and OeKB can follow a traditional insurance underwriting approach with much more flexibility as an Interministerial Committee (IMC) takes cover decisions, creating direct obligations of the state.

Figure 10: Risk Appetite Ranking



Source: Interviewees' (n=19) subjective ranking of Finnvera and other participating ECAs regarding risk appetite. Possible answers included "very high" (1), "high" (2), "low" (3), or "very low" (4). "Very low" was regarded as negative, "very low" as negative, etc.

ESHR Processes

19. **Environmental, social and human rights aspects are crucial for all assessed ECAs; Finnvera follows a highly sophisticated approach.** For most ECAs, environmental, social and human rights (ESHR) impacts have become fundamental. While some agencies apply only international frameworks, in particular the Common Approaches, others go beyond international requirements and screen every transaction irrespective of credit periods and volumes. Interviewees mentioned that Finnvera can be attributed to a more "severe" group of agencies regarding ESHR processes. Since 2021, all applications for

its export financing are screened for environmental and social risks. However, interviewees did not mention any disadvantages, lost transactions or other challenges because of this approach. Furthermore, Finnvera is also less strict regarding other specific ESHR components.

Selected Recommendations for Finnvera

20. **Enhance the dialogue between owner, board, and management to agree on future strategic directions and priorities.** Assess how to improve alignment between the government's policy goals and Finnvera's current and future role. Proceed with the approach regarding governance and transaction-related decision-making processes. However, it is crucial to quickly move towards becoming a fully-fledged "trade facilitator", as other countries are implementing enhanced strategic approaches. Define focus sectors and priority markets, as it is too costly to target and be competitive in all areas and regions. Proceed with the client-centric approach, delivering on Finnvera's vision and strategy.
21. **Look selectively into improving origination and product range based on and guided by strategic directions and agreed priorities.** It is key to retain the level playing field for Finnish exporters in today's divisive global environment regarding product offerings. Critically assess if previous recommendations regarding a more transparent and competitive approach for the CIRR offering should be implemented and be ready to benefit from the momentum when the new disciplines come into force in July 2023. Following the Arrangement reform, implement climate-related products and/or incentives, preventing to fall behind other ECAs. Also assess if soft loans and concessional offerings in other countries create disadvantages for Finnish exporters.
22. **Revise Finnvera's pricing strategies in priority sectors and markets and assess solutions to leave the image behind that Finnvera is more expensive than others.** Try to react as early as possible with pricing adjustments during contract negotiations to ensure competitiveness. While maintaining the economic capital model and sound risk management, critically assess how to adjust Finnvera's risk appetite and/or "sell" the Finnish ECA, especially in priority sectors and markets. Proceed with the current ESHR process approach, delivering on Finnvera's strategy regarding environmental and social risks. Closely monitor that Finnvera's ESHR processes are in line with international best practices, maintaining the level playing field for Finnish businesses and improve the transparency of existing processes.

WHO WE ARE

At actoRx Advisory, you will find experienced practitioners and renowned academics focusing on analytics, strategy and leadership, organisational design, operations and change, as well as marketing and communication.

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OUR TEAM

actoRx consultants have wide experience in working with governments, development banks, export-import banks, export credit agencies, climate and innovation funds, non-profit organisations, as well as corporates. We have a strong background in benchmarking and strategy, institutional design and programme set-up, as well as management of public-private sector programmes. We use our strategic acumen and insight to implement world-class solutions. For our clients, the actoRx team is passionate in offering the best results.



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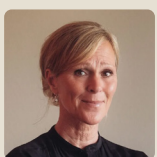
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