



Finnish Government Measures for Exporters in Times of Crisis

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Abstract and Policy Implications

If the current situation could be described in one word, it would be 'uncertainty'. In times of global crisis, it is important to support the economy to keep businesses alive. Therefore, this paper shows the Finnish government measures and how exporters can benefit from them. Looking in particular at the maritime sector, the research pointed out that there were not that many specific measures for exporters and shipbuilders. This essay detected that the provided measures are suitable for the needs of the affected companies and are an effective instrument by the government to stabilise the industry. This is proved by the number of companies taking advantage of these loans, grants and guarantees. Due to the already mentioned uncertainty, it remains unclear how measures have to be adjusted in the future.

1. Introduction

This paper deals with the question of which measures for Finnish exporters are provided by the Finnish government and governmental institutions to overcome the current COVID-19 crisis. The focus of this paper is on the Finnish maritime sector, especially the shipbuilding industry, but it also examines general measures for the Finnish exporters.

1.1 The Finnish economy

In the Finnish economy, the share of small and medium-sized enterprises (SMEs) is about 99.7%. The 228,562 SMEs in Finland account for 59.6% of the value-added and 65.2% of the employment in Finland (European commission, 2019). The value-added by sectors was divided into 59.4% services, 24.5% industry, 13.7% agriculture and 2.5% others (Franken et al., 2020). Finland has about 625 large companies with more than 250 employees (European commission, 2019). Due to the importance of the SMEs for the Finnish economy, this paper also shows the general financial measures which are provided by the Finnish government.

The GDP of Finland was about US\$ 257.1 billion in 2018. Figure 1 shows the share of the merchandise export trade flows which was about US\$ 75.84 billion in 2018. In comparison to that, Finland had only an export trade flow of commercial services about US\$ 32.56 billion in 2018. This distribution shows the importance of the export markets for the Finnish merchandise trade. Furthermore, Figure 1 shows that most of the merchandise trade export value was generated by the manufacturing industry (Franken et al., 2020).

According to Finnvera, 40% of the whole export volume is related to the 20 largest companies in Finland. This is quite interesting because of the relation between the large number of SMEs and the big impact of the 20 largest companies.

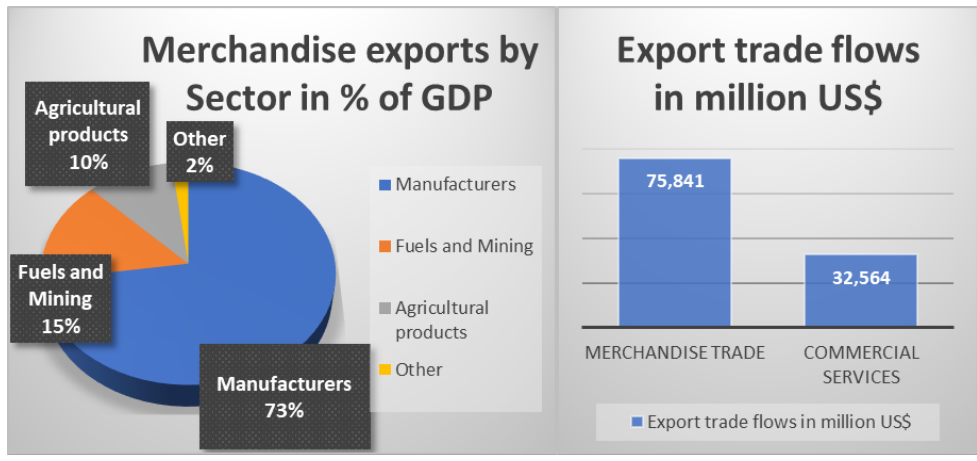


Figure 1: Merchandise exports by Sector and export trade flows (Source: own representation based on Franken, J. et al., 2020)

1.2 The shipbuilding industry in Finland

The Finnish maritime cluster with about 48,700 employed workers, an annual turnover of about EUR 12.991 Billion and a total value added of EUR 3.8 Billion in 2015 is a very important sector of the Finnish economy (OECD, 2018). Its focus is on building cruise and other passenger ships (leading position), arctic vessels and technologies as well as developing green technologies (OECD, 2018).

Already before the COVID-19 crisis, the shipbuilding industry had to deal with several challenges, but there were also some opportunities. One major challenge for the shipbuilding sector is the dependency on the cruise ship industry. Figure 2 shows the distribution of the funding provided by ECAs. More than 50% of the funding is for financing cruise ships and ferries.

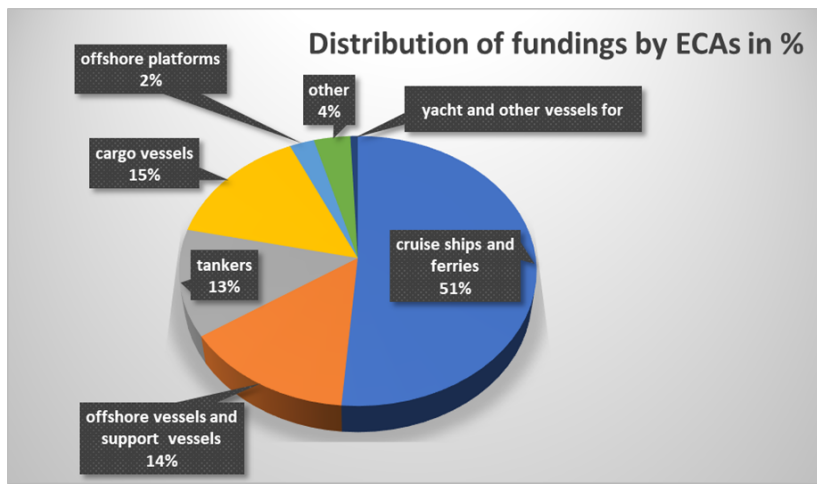


Figure 2: Distribution of funding by the ECAs in the maritime sector (Source: own representation based on OECD, 2019)

As reported by Finnvera, the cruise ship industry was hit hard by the COVID-19 crisis, but even before, the sector was already criticised because of the negative impact on the environment. According to Tesi, a further drop in demand is expected due to this development. Finnvera and Tesi have also indicated that the biggest challenge for the shipbuilders is to keep their order books full and the ecosystem working. However, Tesi holds the view that the Finnish

shipbuilders are in good shape, established a healthy ecosystem over the last years and could benefit from their good product quality.

2. Analytical Framework

This paper is based on information from primary and secondary sources.

The research team acquired **primary data** by dint of interviews. The information given by the interviewees were written down in minutes and analysed directly after the interview. This research contains information from interviews with Finnvera, Business Finland, Tesi and the Ministry of Economic Affairs and Employment of Finland.

The **secondary data** was acquired through web research. The research team mind the quality of free accessible information and only used information from reputable sources like press releases from OECD, Ministries and reports of institutions and well-respected companies. Data collection was carried out until the 30th of June.

3. Impact of COVID-19 on the Finnish economy

This chapter is about the extent of the impact, the COVID-19 crisis had and will still have on the Finnish economy. Moreover, it states the impact in particular on the shipbuilding industry and their financing, by also looking at the ECAs.

3.1 Impact of COVID-19 on the Finnish economy

The Ministry of Finance is expecting a decrease of about 5.5% on the whole economy (Ministry of Finance Finland, 2020). This development will be defined by a bigger drop in the second half of the year 2020 (Ministry of Finance Finland, 2020). In 2021 and 2022, forecasts predict a GDP growth of 1.3% per anno (Franken et al., 2020). Finnish economic figures like the unemployment rate are expected to increase and the danger of restrictions because COVID-19 is still present as the current worldwide economy is struggling. (Ministry of Finance Finland, 2020). Moreover, the worldwide merchandise trade is expected to decrease between 13% and 32% in 2020 (Heaney, 2020).

Referring to Finnvera, the biggest challenge for Finnish exporters in times of COVID-19 is to keep their order books filled. According to the Ministry of Economic Affairs and Employment of Finland, the Finnish companies experienced serious supply chain problems in each step of the value chain due to the shutdown in China and later in the European countries. As Tesi reported, the companies experienced an overall demand shock in the consumer market and the industry sectors after the first month of restrictions. They also mentioned, that due to the uncertain future, there is an insecurity in the investment environment, which could have further negative effects on the economy. In autumn, there will be more clarity about where the economy is heading.

3.2 Impact on the shipbuilding industry

The shipbuilding industry is very dependent on the global economy. A boom in the global economy means a higher frequented transport of material and therefore a higher demand for ships. An economic decline on the other hand causes less frequent transport and hence a lower demand for ships (Tapaninen, 2020).

That is why the corona crisis has a big impact on the shipbuilding industry, following a major decline in international trade activities all over the world. This decline is reinforced by the fact that many government measures affect free trade and passenger traffic like the heavy restrictions of some ports, especially in China (Kamelia cleantech, 2020).

The reaction of the industry was a massive drop in cruise ship bookings but also the cancellation or delay of ship orders (Tapaninen, 2020 & Maritime Executive, 2020a). This development saw share prices of shipbuilding companies drop massively and experts even predict bankruptcies in this sector for the future (Yleisradio, 2020).

The lower demand also caused the demolition or the sale under market value of older ships to save fixed costs (Tapaninen, 2020 & Maritime Executive, 2020b). Although the future is uncertain, Finnvera does not see shipbuilding companies focus on repairing or demolishing ships instead of building new ones. According to Tesi, the order books of most of them are still filled until 2024.

3.3 Financing for shipbuilding

Building a ship often takes about three and a half years and costs over US\$ 200 million which means that companies from the shipbuilding and the shipping industry have to deal with possible options to finance these ships (Giannakoulis, 2016 & Maritime Executive, 2020a).

In order to stay ahead of their concurrence, shipyards tend to offer better methods of payment for the ships they build. To finance material and labour costs, they can agree on the payment of rates with the milestones of keel laying, engine delivery, launching and delivery. Another option would be the payment of 20% on the order date and 80% on the delivery date. If they are lacking working capital, they can use the same financing methods as the buyers from the shipping industry (OECD, 2019).

A ship can either be financed by equity or by debt. The financing by equity can be done by a public equity offering or by introducing a private investor (Giannakoulis, 2016). However, there are more options to finance a ship by debt. One instrument for example is the loan. Loans are usually granted by institutional banks but can be facilitated by ECAs. They are the financing instrument which most companies take advantage of (OECD, 2019). In most cases, the ship is used as a mortgage to make sure that the money is not wasted. In contrast to the mentioned mortgage-backed bank loans, companies can also lend money independent to the investment in a ship by taking advantage of corporate loans (Giannakoulis, 2016).

Bonds on the other side are very expensive for most shipping companies because of their bad investment grade rating following their performance in the Global Financial Crisis and are therefore less used than loans. When granted, they use bonds for long-term liquidity and flexibility to deal with volatile cash-flows. Finally, ships can also be acquired by leasing (OECD, 2019).

Another option to obtain new ships is to merge with or acquire other companies. This could also decrease financial risks and increase market shares (OECD, 2019).

Such a financial risk could be the suspending or even the cancellation of the contract by the buyer. Therefore, better access to additional equity could be a slight competitive advantage for state-owned shipyards compared to private shipyards. (PwC, 2011). That is why state-owned shipyards will probably get easier past the Corona crisis.

This crisis has shown again how important ECAs are for the maritime industry. While the capital market and some banks struggled during the Global Financial Crisis, ECAs were stable, reliable and jumped in to save the industry (Gallo, 2014).

4. Government support measures for Finnish companies

To mitigate the impact of Covid-19 on the Finnish economy, the government has taken various measures as well as adjusting existing instruments. Most of these actions support small and medium-sized enterprises in particular. According to several interviews, the majority of measures are not industry-specific but broadly diversified to cover all economic sectors.

This chapter serves to provide an overview of the measures implemented. In the beginning, the different institutions involved are introduced and basic financial support measures for companies are described. This is followed by an overview of specific measures for exporters. Finally, measures specifically for the maritime sector are presented.

4.1 Financial measures in general

On March 26, 2020, the Finnish government adopted the first of four supplementary budgets. In total, the sum of all measures attributed to Covid-19 amounts to approximately € 15 billion (Finnish Government, 2020a).

Aid is mainly granted by state institutions. The main distributors are Finnvera, Business Finland, Finnish Industry Investment Ltd. (Tesi) and the Centers for economic development, transport and the environment (ELY Centres). ELY Centres provide development grants to small businesses affected by the negative effects of the coronavirus. As ELY subsidies are only aimed at companies with up to 5 employees, this paper will not discuss this issue any further (Centre for Economic Development, Transport and the Environment, 2020). Furthermore, the government decided to introduce new support to cover operating costs. The aid will be provided by the State Treasury, further details are to be announced soon (Ministry of Economic Affairs and Employment of Finland, 2020b).

4.1.1 Finnvera

Finnvera is Finland's official Export Credit Agency. It is a state-owned financing company to support the competitiveness of Finnish companies. In addition to providing security and support in the processing of export transactions, its primary objective is to secure financing for Finnish companies. This includes the foundation, growth and internationalization of SMEs and midcaps, as well as large corporations. Therefore, Finnvera provides a variety of different guarantees, as well as the possibility to grant direct loans (Finnvera, n.d.c).

In order to meet the financial needs, Finnvera's financing mandate has been increased from € 4.2 billion to € 12 billion, making Finnvera the most important institution in combating the economic consequences of the pandemic (Finnish Government, 2020b).

By implementing the COVID-19 specific measures, Finnvera has not created new instruments but has adapted its existing portfolio. This involves three types of guarantees. The "Start Guarantee", the "SME Guarantee" and the "Finnvera Guarantee". They differ in their target group and the amount covered.

These guarantees are offered to support the authorization of loans, to secure SME's working capital requirements due to the consequences of the pandemic. Companies wishing to take advantage of a guarantee must contact their bank. The banks can then apply to Finnvera for the loan's guarantee (Finnvera, n.d.a).

	Start Guarantee	SME Guarantee	Finnvera Guarantee
Who is Eligible	Companies that have been in business for a maximum of three years	Companies that have been in business for more than three years	If neither the Start Guarantee nor the SME Guarantee is suitable (e.g. due to the amount required)
Guarantee Coverage	Up to 80%	80% covered	80% covered
Loan from the Bank	Minimum: € 12,500 Maximum: € 100,000	Minimum: € 12,500 Maximum: € 150,000	Minimum: € 150,000 Maximum: € 1,000,000
Amount Covered	Minimum: € 10,000 Maximum: € 80,000	Minimum: € 10,000 Maximum: € 120,000	Minimum: € 120,00 Maximum: € 800,000
Collateral	The main shareholders have to provide security for 25% of the guaranteed amount (at least € 3,000)	No collateral required At least B-rated (Soumen Asiaskastiето)	No collateral required At least A-rated (Soumen Asiaskastiето)
Charges	Commission: 1.75% p.a. Service fee: 0.1%	Commission based on company's rating, between 0.95% and 1.75% p.a. Service fee: 0.1%	Commission: 1.75% p.a. Service fee: approx. € 400
Additional Infos	In total, a maximum amount of € 160,000 can be granted per company There must be at least two months between the decision on an application and the submission of a further one	In total, a maximum amount of € 240,000 can be granted per company There must be at least two months between the decision on an application and the submission of a further one	"Fast-track procedure": simplified process and accelerated processing Maximum period is 5 years, a maximum of two years may be instalment free

Figure 3: Finnvera's guarantees to secure working capital (Source: own representation based on Finnvera, n.d.b; Finnvera, n.d.d; Finnvera n.d.e)

The table (Figure 3) indicates which companies are qualified for the guarantees. It contains information on the volume and coverage ratio, collateral required, fees charged, as well as other conditions and information.

All guarantees apply to SMEs according to the definition of the EU. Not eligible are agriculture and forestry, construction companies, the use for M&A purposes or the purchase of real estate and cars. Furthermore, the loan cannot be used to redeem overdue loans. To benefit from the guarantees, the creditworthiness of the company and the persons liable for it is required (Finnvera, n.d.b; Finnvera n.d.d; Finnvera n.d.e).

Another new feature is that in special cases a 90% guarantee coverage can be given if the bank would reject a loan with a lower guarantee coverage. (Finnvera, 2020c).

In addition to SMEs, large corporations must be financed during the crisis as well. Finnvera can provide guarantees for working capital loans up to € 30 million, with a maximum guarantee coverage of 80%. However, Finnvera must not become the main financier (Finnvera, 2020d). Finnvera indicates that this is not often used, as large corporates are usually financed through the capital market and therefore have no problem in obtaining loans.

Also, Finnvera allowed the banks to suspend the payment of installments for 6 months on loans guaranteed by themselves. This will further strengthen the liquidity of Finnish companies (Finnvera, n.d.a).

4.1.2 Business Finland

The government organisation Business Finland supports Finnish SMEs and midcaps in their growth. This is primarily achieved by supporting and financing innovation (Business Finland, n.d.a).

At the beginning of the pandemic, two new types of financing were created under the name "funding for business development in disruptive circumstances". These are grants totalling € 800 million, which can be requested by SMEs and midcaps in almost all industries (Ministry of Economic Affairs and Employment of Finland, 2020d).

	Provisional funding	Development funding
Aim	To identify new business opportunities, in particular, the analysis of alternative subcontracting chains and the reorganization of production	To implement development plans in order to be better placed during and after the crisis (e.g. identified business opportunities)
Project Costs	Maximum: € 12,500	Maximum: € 125,000
Grant	80% of project costs Maximum: € 10,000	80% of project costs Maximum: € 100,000
Terms	Up to 70% can be paid in advance The remaining amount will be paid after the project is completed and the final report is submitted	

Figure 4: Funding for business development in disruptive circumstances (Source: own representation based on Business Finland, n.d.b; Business Finland, n.d.d)

The table (Figure 4) illustrates the key data of the two funding programmes.

It is important to note that the grants are ‘de minimis aid’ and can therefore only be granted if the company has not yet reached the maximum de minimis amount of € 200,000 (Business Finland, n.d.b).

Qualified companies were able to apply for these grants until 8 June. According to Business Finland, the offer was, with about 30,000 requests, extremely well received. (Business Finland, 2020).

Business Finland has also adapted the granting of RDI loans. Companies can apply until the end of October. In total, loans worth € 300 million can be granted. In order to obtain a loan, the applicant must demonstrate how they intend to master the challenges arising from COVID-19 through development measures (Business Finland, n.d.e).

The intended development project must have a minimum size of € 150,000. The loan covers 70% of the project costs, with a maximum of € 500,000 for companies operating in Finland only. If the goal is to achieve international growth, the upper limit can be negotiated individually. The term is usually seven to ten years, with the possibility of starting repayment after three years. The difference to standard RDI funding is that there is no need to achieve an international competitive advantage (Business Finland, n.d.e).

4.1.3 Tesi

Like Finnvera and Business Finland, Tesi is a state-owned company. ‘Tesi is a venture capital and private equity company that accelerates companies’ success stories by investing in them, both directly and via funds’ (Tesi, n.d.).

On April 14, 2020, Tesi started the "stability programme". The aim is to invest in medium-sized companies that are in financial difficulties due to the effects of COVID-19 but have the potential to survive the crisis if they receive further funding (Ministry of Economic Affairs and Employment of Finland, 2020a).

According to Tesi, the size of the programme was € 150 million in the beginning. The volume was later increased by € 250 million to a total of € 400 million. The possible investment range is between one and ten million euros per company. To be eligible, the company must have had at least ten million euros in net sales in 2019, employ over 50 people in Finland and have been profitable in recent years. The investments are made either in the form of share purchases or a convertible bond (Tesi, 2020).

4.1.4 Further measures

The government has also made legislative changes to labour law and introduced tax measures.

Until the end of the year, it will be easier for employers to temporarily lay off employees. This applies regardless of whether the employment contract is a fixed-term or permanent one. The notice period for temporary layoffs was shortened from 14 to five days (Ministry of Economic Affairs and Employment of Finland, 2020c).

As part of the tax measures, VAT already paid in 2020 can be reclaimed in the form of a loan. The interest rate is 2.5% as of the original due date (Finnish Tax Authority, 2020). Business tax payments can be deferred. The interest rate for business tax due from the 1st of March 2020 has been reduced from 7% to 4%. The regulations contribute to keep companies solvent during the crisis (European Commission, 2020a).

4.2 Specific export-related measures

Under normal circumstances, Finnvera is, due to EU regulations, not allowed to grant short term guarantees for so-called 'countries with marketable risk'. Short term means that the production and repayment period is less than 2 years. These include countries such as France, Germany, Switzerland and the USA (Finnvera, 2020b). Due to the global uncertainty and the 'Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak', Finnvera can grant short term guarantees for the marketable risk countries until the end of 2020 (Finnvera, 2020b).

Furthermore, it is to be said that the measures listed under point 4.1 to cover liquidity needs are, of course, also used by exporters. The remaining export guarantees will continue to be offered. As this paper focuses on the changes and new instruments, these will not be addressed further at this point.

4.3 Specific measures for the maritime sector

As already mentioned in point 2.3, the financing of new cruise ships is usually secured by export credit guarantees.

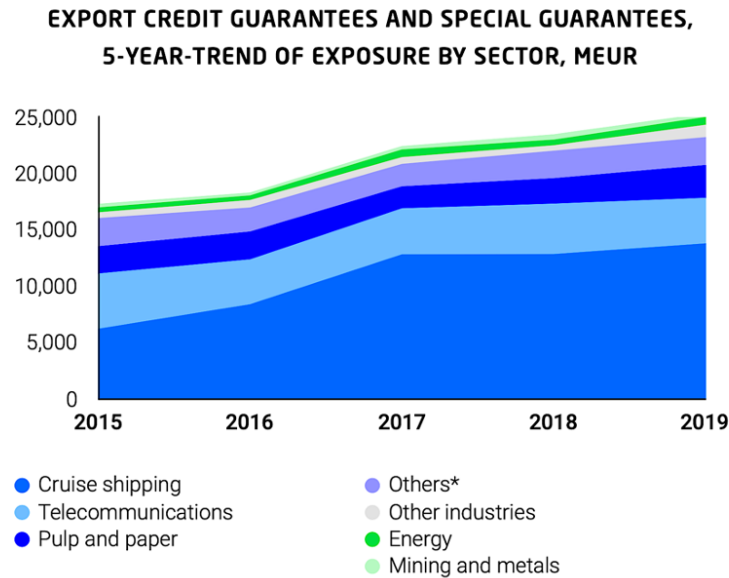


Figure 5: Export Credit Guarantees and Special Guarantees, 5-Year-trend of exposure by sector (adopted from Finnvera, 2019, p.25)

Figure 5 shows the development of Finnvera’s export credit guarantees and special guarantees since 2015. The sector ‘cruise shipping’ clearly stands out. This sector has more than doubled in the past five years, while the others only show slight changes. The enormous share of 54% of the total volume (Figure 6) underlines both the relevance of the sector for the Finnish economy and the importance of this instrument for shipbuilding.

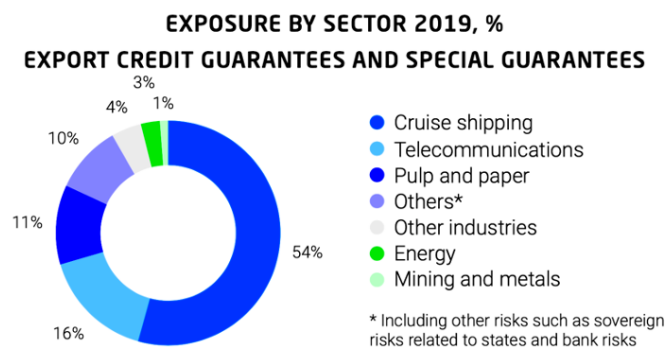


Figure 6: Distribution by Sector in percent (adopted from Finnvera, 2019, p.25)

To secure the liquidity of cruise shipping companies, several European governments have collectively created the possibility of suspending the repayment of debts of cruise ships, which were financed by state export credit guarantees, for one year. This is also intended to prevent negative effects on the entire maritime sector, especially on shipbuilders and their suppliers (Bundesministerium für Wirtschaft und Energie, 2020).

Another important point of support for the maritime sector was the European Commission's approval of the Finnish 'aid scheme to support maritime companies' in the amount of 600 million euros. 'Under the scheme, the public support will take the form of State guarantees on working capital loans' (European Commission, 2020b). This is intended to preserve jobs and maintain operations. Support is provided primarily to companies that are crucial for the supply of essential goods to Finland (European Commission, 2020b).

Since 2018, Business Finland is offering the possibility to apply for 'innovation aid for shipbuilding'. The aid, with a maximum amount of € 10 million per project, is intended for the development of innovation in shipbuilding. Finland is known for being a pioneer in the fields of Arctic ships, green technologies and autonomous shipping (Schwarzer & Hoyer, 2019). The programme aims to defend and extend this leading position (Business Finland, n.d.c). Therefore, innovations in these areas are indispensable.

Although Innovation aid for shipbuilding is not a COVID-19 specific measure, companies can apply for such aid at present. Business Finland mentioned that given the current situation, companies in the maritime sector may focus on other activities, especially on the development of new technologies.

5. Summary and Conclusion

The Finnish economy is home to many SMEs and fewer large corporations. An export share of 42.16% indicates that the Finnish economy depends on export. The importance of the maritime sector should be emphasised. Although the cruise industry has been criticised for years due to its high environmental impact, it has grown strongly in the last decade. This also benefitted the maritime sector, especially the shipbuilding industry.

The entire Finnish economy was hit hard by the coronavirus outbreak. Currently, the shipbuilders' order books are (still) well filled, but this may change because of the current situation and the dependence on the cruise ship industry.

Therefore, the Finnish government reacted quickly and introduced comprehensive measures to counteract the negative effects of the pandemic. The liquidity of many companies has been secured with a wide range of grants, loans and guarantees. This applies to both SMEs and large corporations. Exporters are mainly supported by the adjustment of short term guarantees for marketable risk countries. Specific measures were also introduced for the maritime sector. Of particular importance is the adjustment of repayment of export credits, in order to relieve the severely affected cruise industry. It is questionable when normal operations will be restored. One of the reasons for this is that there are no consistent rules on reopening so far. First operators such as TUI Cruises and Hapag-Lloyd Cruises intend to resume operations in a slimmed-down form at the end of July (Blinda, 2020). It remains to be seen how the offer will be received by the customers. The uncertainty is huge. Yet, this also offers companies the opportunity to concentrate on R&D, for example in the field of propulsion technology.

In conclusion, the right instruments have been found to help struggling businesses. The measures in place are rather broad than industry-specific, allowing companies from all sectors to benefit. However, given its importance for the economy, the maritime sector calls for further

action (Buitendijk, 2020). Due to the dependency of shipbuilders on the cruise industry, the development of this sector is essential.

In the end, the future of the Finnish economy depends on the course of the COVID-19 crisis. A recovery is predicted for 2021 (Franken et al., 2020). Nevertheless, in the absence of a vaccine, the situation remains uncertain and the measures may need to be adjusted in the further course of time.

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