

Abstract

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## State special financing

The State Audit Office conducted an audit of state special financing. The audit focused on state-owned companies under the Ministry of Trade and Industry which engage in special financing, namely Finnvera plc and Finnish Industry Investment Ltd. The audit was limited to their parent companies and in Finnvera's case domestic financing.

The audit evaluated how well the companies have achieved the objectives set for them in legislation. The audit also evaluated the ownership and industrial objectives set for the companies.

Regulations concerning the focusing of Finnvera's financing activities are difficult to apply. Restrictions regarding branches of industry should be specified with sufficient clarity to avoid interpretation possibilities. Further restrictions regarding company size and financing products should likewise be stipulated more clearly in regulations.

Finnvera's business aid reports, which include a decision proposal and grounds, had been prepared quite systematically and thoroughly. The grounds for financing decisions should pay more attention to the effectiveness of financing as prescribed by regulations, however. The grounds should pay clearer attention to the regional location of projects and Finnvera's obligation to correct shortcomings in the supply of financing services.

The industrial and ownership policy objectives which the Ministry of Trade and Industry has set for Finnvera are mainly well grounded, clear and easy to measure. Objectives are conflicting, however, in that the company is supposed to provide market-supplementing risk financing for projects which cannot obtain financing elsewhere and at the same time should be self-supporting.

The Ministry of Trade and Industry set Finnvera the industrial objective in 2000, 2001 and 2002 of providing financing for regional support areas which is at least equal to the amount provided the previous year. The objective remained unchanged in 2000-2002. This practice cannot be considered adequate, The ministry should take a more active stance with regard to the setting of regional objectives.

Some of the objectives set by the Ministry of Trade and Industry remain somewhat remote in regional offices. Objectives should be set so that they can be taken into consideration better in regional offices' practical activities.

Finnish Industry Investment is mentioned in the government programme, which says that income from the sale of state assets will be directed to improving the company's operating conditions. The state invested about €27.8 million in the company in 1995-2001.

A total of €16.8 million of the company's capital (51.3% of the state's investment in the company) was invested (paid to funds or target companies) at the end of 2001. Unpaid investment commitments totalled €100.5 million and the amount not covered by investment commitments was €0.5 million. It is worth asking whether this pace of investment, in which only about half of capital has been paid to funds or target companies, corresponds to the objectives set for Finnish Industry Investment. In considering new infusions of capital into the company, its net financial need and alternate ways to reduce the amount of uninvested capital should be evaluated.

Regional funds account for over a tenth of Finnish Industry Investment's total investment commitments. Considering the industrial and regional priorities in the government programme, this seems small. The share of regional financing is increased by the fact that the company has invested in venture capital funds which have also acted as regional investors, however. Nearly half of the company's investment commitments concern these funds.

The Ministry of Trade and Industry's direction of Finnish Industry Investment cannot be considered adequate. Industrial objectives have been specified quite loosely. Finnish Industry Investment should also pay clearer attention in its operational plan to the positions taken by the Ministry of Trade and Industry.

Owing to the changes in the financing market, Finnish Industry Investment's role as a supplier of state special financing should be reevaluated. The need for state special financing in the form of direct investments should also be taken into account.

Although the division of labour between Finnvera and Finnish Industry Investment as suppliers of state special financing has been clearly defined, in practice Finnvera still plays a very significant role in regional capital investment activities either directly or through its holdings. Finnvera has investment commitments in funds in which Finnish Industry Investment also invests. Activities clearly overlap. The Ministry of Trade and Industry, Finnvera and Finnish Industry Investment have quite different views on what Finnvera's role should be in capital investment activities. This role should be clarified, including Finnvera's holdings in companies which engage in funds' investment activities.

Sitra (the Finnish National Fund for Research and Development) also invests in some funds in which Finnish Industry Investment and/or Finnvera participate. In order to ensure the effectiveness of public special financing, Sitra should be more closely involved in setting and implementing objectives for special financing.