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Nordland
COUNTY COUNCIL

Arctic Investment Platform (AIP)

Implementation project 2020-2022

FINAL REPORT

September 2022

AIP Steering Committee

Table of Contents

Executive Summary	4
1 Background: The AIP Feasibility Study 2018-2020	5
2 AIP Implementation Project 2020-2022	6
2.1 Major goals	6
2.2 Participating regions	7
2.3 Project organisation, timetable, and budget.....	7
2.4 Major activities	8
2.5 AIP fund-of-funds: status of the initiative as of June 2022	10
2.5.1 The EIF Market Study 2021-2022	10
2.5.2 Follow-up discussions on the EIF Market Study	12
3 Conclusions & lessons learned.....	14
4 AIP implementation project: Next steps	17
4.1 Rationale.....	17
4.2 AIP's next steps -developing the AIP Umbrella Project 2022-2024.....	18

4.2.1 AIP Business Plan 2023-2027.....	19
4.2.2 Updated NSPA SMEs needs analysis.....	19
4.2.3 AIP Communication and awareness building.....	20
4.2.4 AIP Capacity building scheme.....	20
4.3 Source of inspiration- collection of relevant links.....	22
APPENDIX.....	23

Executive Summary

This report describes the major activities and results of the Arctic Investment Platform (AIP) Implementation project 2020-2022. AIP is a funding cooperation mechanism to meet the common challenges of the Northern Sparsely Populated Areas (NSPA) of Finland, Sweden and Norway regarding access to finance. The major goal of the AIP is to strengthen the financial landscape of the Arctic regions by providing the mechanism that complements the existing financial instruments triggering new investors. The AIP Implementation project 2020-2022 focused on exploring the possibilities of establishing a cross-border investment fund of funds to contribute to the sustainable development and green transition of growth-oriented SMEs in the NSPA region.

The main activities of the AIP implementation project in 2020-2022 included cooperation and dialogue with the European Investment Fund (EIF) regarding the AIP fund-of-funds structure, as well as informing and preparing the AIP regions about the AIP and possible fund-of-funds structure. In 2021, the representatives of the EIF attended several meetings of the AIP Steering Committee (SC), and there was an ongoing dialogue between the EIF and the AIP Project Management throughout the AIP Implementation project.

The AIP Market Study was prepared by the EIF in 2021-2022 and launched at the NSPA Conference in Skellefteå in March 2022. Based on the AIP Market study, the EIF is not yet ready to deploy up to 60-100M equity investments in the NSPA region. The main concerns of the EIF include a perceived low level of deal flow in the NSPA region and an insufficient number of experienced fund managers located in the NSPA region. However, the EIF expressed a clear willingness to continue the dialogue with the NSPA region regarding possible future cooperation. Moreover, the NSPA regions see the anchor role of an established investor such as the EIF as a highly important element for the credibility of the cross-border fund-of-funds concept.

There are several major findings and lessons to be learned from the AIP Implementation study. Firstly, the AIP implementation project clearly contributed towards reaching the major goal of the AIP – but with a significant focus on exploring the cross-border fund-of-funds concept for the NSPA. Secondly, the dialogue with the EIF turned out to be very fruitful - despite the unreadiness to go for the 60-100 M fund-of-funds equity investment concept. Thirdly, the dialogue across and within the NSPA regions was useful and appreciated by the participating regions – but regional stakeholders outside the AIP core group also need to be broadly reached and provided with access to financial knowledge upgrade. Finally, the cross-border fund-of-funds concept has not yet been put to an empirical test. The advanced version of the AIP deserves to be introduced sufficiently regionally and at the Nordic national level.

A tentative list of key themes and work packages as proposals for the next steps of the AIP has been prepared (Note: subject to AIP SC discussion and decisions in August-September, 2022) :

- AIP Business Plan 2023-2027
- Updated needs analysis of the SMEs from the viewpoint of the AIP
- AIP communication and awareness building
- AIP capacity building scheme

1 Background: The AIP Feasibility Study 2018-2020

The AIP initiative was created in 2016-2017 to respond to the needs of the NSPA region regarding access to capital, especially from the viewpoint of growth-oriented SMEs. The major challenges that the NSPA area faces relate to weak access to capital and lack of critical mass but also information asymmetries: in the NSPA, these barriers are aggravated by the demanding geographical conditions (long distances, limited accessibility, harsh environment, etc.). In the year 2018, the cross-border financing cooperation in the Arctic started a new chapter, with the Regional Council of Lapland carrying out a pre-feasibility study for launching a structured long-term funding cooperation. That was followed by Interreg North project, involving the regional development organisations of Lapland, Oulu Region, Kainuu, North Karelia, Pohjois-Savo, South Savo, Västerbotten, Norrbotten, Nordland, Troms and Finnmark, and the city of Oulu. The project was coordinated by the Regional Council of Lapland.

The AIP preparation projects produced two main deliverables: 1) an AIP feasibility study with an analysis of the investment needs and suggestions for a funding model and support system, and 2) a road map presenting the required steps and resources for establishing the Arctic Investment Platform. The AIP preparation projects established a connection with the European Investment Bank (EIB)¹, which eventually led to a cooperation agreement in 2019 and was later transferred to contact with the European Investment Fund (EIF)². (*link to AIP Feasibility study Final report: <https://arcticsmartness.eu/arctic-investment-platform/>*)

¹ <https://www.eib.org/en/index.htm>

² <https://www.eif.org/>

2 AIP Implementation Project 2020-2022

2.1 Major goals

Following the AIP feasibility study and road map projects 2018-2020, the AIP Implementation Project was kicked off in October 2020 under the coordination of the Regional Council of Lapland. The work of the AIP Implementation project was decided to be done in close cooperation with regional development organisations of 9 regions in NSPA, which committed to financing the AIP Implementation project.

The point of departure for the AIP Implementation project 2020-2022 was to study the possibilities of developing the Arctic Investment Platform, including the launch of Arctic fund-of-funds in close cooperation with the EIF (see Figure 1). The AIP Platform (roof of the figure) is the overarching concept, or umbrella, under which the core instrument of Arctic Investment Fund is supported by the cooperation & information sharing unit Secretariat.

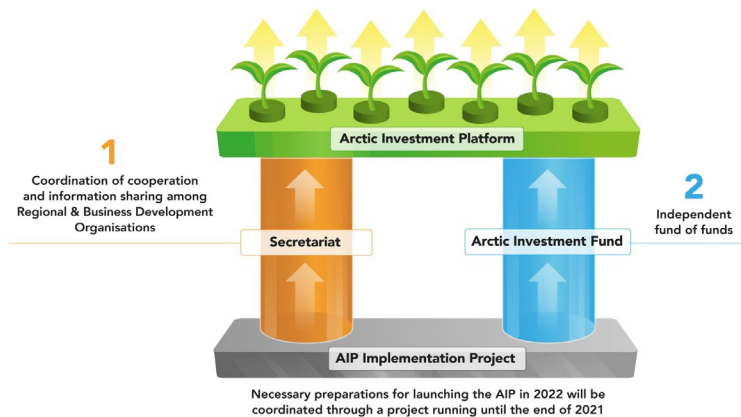


Figure1: Arctic Investment Platform concept

The major goal of the AIP initiative could be defined as follows: “AIP aims to activate regional SMEs’ investment landscape by providing the additional boost to successful micro-companies and SMEs expanding in the market. AIP will provide additional funding solutions supporting SMEs to overcome the particular market failures or investment gaps”.

The Arctic Investment Fund (fund-of-funds) concept was a core financial instrument to be explored during the AIP Implementation project, based on the preliminary work during the AIP Feasibility study and discussions, especially with the EIF. Figure 2 illustrates the core idea behind the fund-of-funds structure. The EIF, together with participating countries and their investors, provide capital to “Managed Account/Vehicle”, which then provides capital to “Fund”. The “Fund”, managed by selected professional (private) fund managers, invests in portfolio companies meeting the investment criteria.

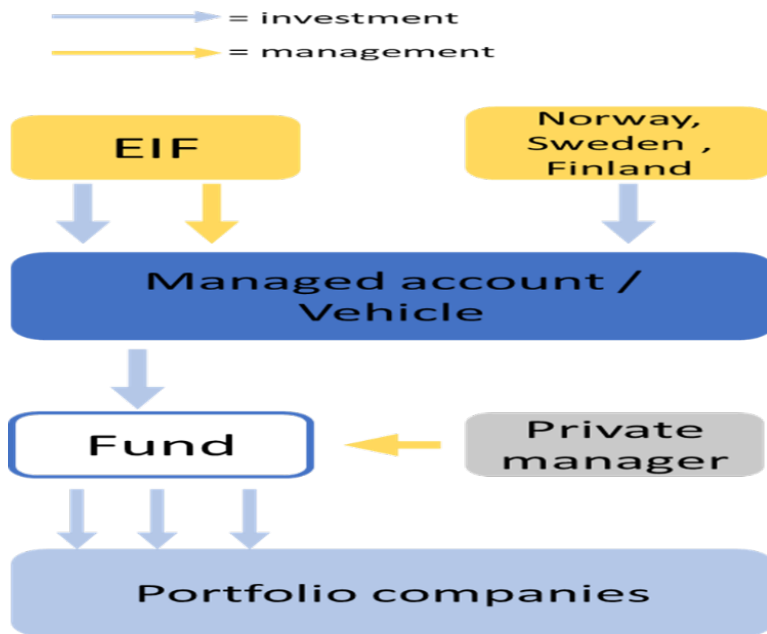


Figure: Fund-of-funds structure (source: EIF)

2.2 Participating regions

The participating regions (and their respective organisations) of the AIP implementation project 2020-2022 included:

- Lapland, Finland (Regional Council of Lapland)
- North Karelia, Finland (Regional Council of North Karelia) -
- Central Ostrobothnia, Finland (Regional Council of Central Ostrobothnia)
- Kainuu, Finland (Regional Council of Kainuu)
- Västerbotten, Sweden (Region Västerbotten)
- Västernorrland, Sweden (Region Västernorrland)
- Jämtland-Härjedalen, Sweden (Region Jämtland Härjedalen)
- Troms & Finnmark, Norway (Troms and Finnmark County Council)
- Nordland, Norway (Nordland County Council)

2.3 Project organisation, timetable, and budget

Steering Group: The Steering Group of the AIP Implementation project consisted of representatives of the participating regions. Additionally, a complementary group of stakeholders, including e.g. the representatives of the EU Brussels offices of North Finland, North Sweden, and North Norway, was invited to attend the SC meetings. For the list of AIP SC & stakeholder participants, see Appendix 2. Mika Riipi acted as the Chair of the AIP SC during the AIP Implementation project.

Management team: Johannes Lith (Regional Council of Lapland) acted as the project manager of the AIP Implementation project from October-December, 2020. The AIP SC transferred the shared responsibility of the

AIP Project Management from Johannes Lith to Jukka Teräs (Norrumb Oy) and Kristiina Jokelainen (SmartNorth Oy) for the period January 2021- December 2021 (later extended until June 15, 2022).

Administration: Regional Council of Lapland acted as the administrative body of the AIP Implementation project.

AIP Implementation Project Timetable: October 1, 2020-June 15, 2022

Budget: 86 500 Euros (funding by the participating regions)

2.4 Major activities

SC Meetings: The AIP Steering Group held one meetings in 2020, 7 meetings in 2021 and 4 meetings in 2022. Due to the covid-19 situation, the steering group meetings were held via Teams. In addition to the attendance of the nominated AIP SC members, the steering group meetings were attended by a complementary group of stakeholders from Finland, Sweden and Norway and representatives of the EU offices of North Finland, North Sweden, and North Norway. The steering group meetings served as an important information channel for the AIP and a forum for external presentations such es, e.g. the EIF. The following list summarises the major themes of the AIP SC meetings:

- 25.11.2020: Organising the AIP work, Action plan 2021
- 14.1.2021: Transfer of project management duties; EIF presentation /Minna Leisvuori, EIF
- 11.3.2021: EIF Fund-of-funds presentation / Minna Leisvuori, EIF; Project plan AIP 2021
- 12.5.2021: AIP regional meetings: presentation of main findings
- 11.8.2021: Communication, presentations of InvestEU, InterregAurora
- 15.10.2021:EIF/Baltic Investment Fund, presented by Pablo Millan & Minna Leisvuori /EIF
- 30.11.2021: Feedback /EIF Baltic Investment Fund -presentation, work plan 1-3 2022
- 20.12.2021: Revised work plan 2022
- 21.1.2022: Preparations for the NSPA Forum 2022 and AIP, national contacts
- 25.2.2022: AIP SC & EIF / Minna Leisvuori/Invest EU presentation
- 24.3.2022: Follow-up meeting of the NSPA Forum AIP Session
- 25.5.2022: Follow-up discussion on the EIF market study & planning for the next AIP steps

The SC meetings have been reported in detail to the SC members and stakeholders, including extensive additional information packages & support material related to the meetings.

Activities with the NSPA regions: During the 1st half of 2021, the AIP project organised information and negotiation events (via Teams) with the AIP Implementation project regions in Norway, Sweden and Finland. The regional meetings summarised the specific AIP needs and issues of the regions and informed the regions about the activities of the AIP project. The feedback from the regional meetings was presented to the members of the AIP steering group at the May 2021 meeting.

Based on the feedback from the AIP Implementation project regions in Finland, Sweden, and Norway, The AIP initiative has clearly gained momentum. At the same time, the current supply of funds for the SMEs is seen as fragmented, and finding (and communicating) a complementary niche for the AIP requires considerable effort. According to the response by the NSPA regions, the AIP initiative is not only about funds but also about smart

capital, or capital with relevant knowledge, to be provided to the regions. There is a clear need for AIP-related competence upgrades in the regions. It was stated by the participating NSPA regions that the AIP concept and the fund-of-funds structure must be communicated clearly and understandably to various stakeholders. The AIP country-specific information round needs to be complemented with AIP region-specific round, supported by additional communication. For a more detailed description of the regional AIP meetings, see Appendix 3: Country-specific AIP meetings April-May 2021 Reflections.

In Finland, the information about the AIP initiative was also provided to NSPA regions not participating in the AIP Implementation project (Northern Ostrobothnia, Etelä-Savo and Pohjois-Savo).

An AIP workshop focusing on fund-of-funds structure and the AIP communication issues was held on June 30, 2021, for the AIP SC and the complementary AIP stakeholder group.

Dialogue with the EIF and the AIP Market study: The main activities of the AIP implementation project included cooperation and dialogue with the European Investment Fund (EIF) on the possibilities to launch the AIP fund-of-funds financial instrument, as well as information providing and preparation for the AIP regions about the start-up phase of the Arctic Investment Fund. From the viewpoint of the EIF, the possible launch of the AIP Fund is subject to the results and findings of the AIP Market Study by the EIF, which will guide the future fund. In addition, the EIF provided information to the AIP regions in 2021 on the structure and conditions of fund-of-funds at the meetings organised by the AIP project management. In 2021, EIF representatives attended several meetings of the AIP Steering Committee. In addition, AIP project managers Teräs and Jokelainen held several working meetings with an EIF representative (Leisvuori) during the AIP Implementation project.

The detailed description of the AIP progress with the EIF regarding fund-of-funds and the Market Study is presented under section 2.5.

AIP implementation project and communication:

The AIP SC meetings, together with the complementary stakeholder groups, served as the major communication channel for the AIP Implementation project. Besides the AIP SC meetings, several regional communication & information events were held, and the regional meetings in Spring 2021 were among the major communication activities.

AIP Communication events:

- AIP project manager Jukka Teräs presented the AIP concept on 27 May 2021 at the “European Entrepreneurial Regions, Peer learning meetup Cross-border investments” event.
- AIP project manager Jukka Teräs presented the AIP concept on October 21, 2021, at the joint conference of the NSPA regions: “Northern Sparsely Populated being Up to date with the EU, Extended NSPA Steering Committee Open webinar.”
- AIP Project manager Jukka Teräs presented the AIP operating model on 12 November 2021 at a meeting of the North Karelia Business Association and the Regional Association.

- NSPA Forum in Skellefteå, March 2022, was an important communication event for the AIP, including a special session on AIP with the presentation of the EIF Market study by Minna Leisvuori, and commentary remarks by Jörgen Larsson, Inlandsinnovation. The NSPA session Included also Swedish radio podcast session with AIP as one topic (Mikael Janson, Tomas Norvoll, Richard Carstedt, Jukka Teräs)

The AIP website www.arcticinvestmentplatform.eu was opened for the project, providing information about the AIP initiative.

The fact that the EIF Market Study came out late in the project (March 2022) affected the communication activities of the AIP implementation. For example, many AIP regions preferred to wait for the outcome of the EIF Market study before taking further steps in regional AIP communication, including AIP info meetings. Moreover, the communication towards the national-level stakeholders was partly put on hold until the results of the EIF Market study were available.

2.5 AIP fund-of-funds: status of the initiative as of June 2022

2.5.1 The EIF Market Study 2021-2022

Market Study: Point of departure: The EIF prepared a Market Study on the AIP initiative in 2021-2022. Before starting the Market Study, the EIF informed the AIP SC about the goals, structure, and contents of the Market Study. A specific Q/A session was organised in March 20221 between the AIP SC and the EIF (represented by Minna Leisvuori). A summary of some key questions tackled at the Q/A session is presented here.

Question: The main contents and focus of the EIF Market study on AIP? “We at the EIF tend to look into the market to understand the bottom-up view before setting up the fund, just to understand the landscape and what it looks like from the financial intermediaries’ perspective. We do not look into individual SMEs, but we look to the potential of universities and sectors – not individual cases. The Market Study focuses on identifying existing private equity funds or other kinds of intermediaries, institutional investors and other kinds of intermediaries. The core of the study is to understand what kind of players there are already in the market and whether they could be suitable for these purposes.”

Question: Fund-of-funds: balance between Fi-Swe-No? National, regional funds? “The intention is to find - in this kind of multicountry initiative - the best combination and propose that to you which covers the gap the best possible way for you. It may mean that we find fund managers from all represented countries, as a base assumption - to cover in an optimal way the sectors and in terms of instruments - equity, mezzanine, debt - and to get private funding attracted to this fund-of-funds. We want to see what kind of quality the intermediaries have in their teams with the best possible investment ideas and which would be sustainable in a way to grow and offer jobs in these regions. This NSPA area is of growing importance for the EU, also from the EC, that is already highlighted in the 7-year multifinancial framework that all the member states have jointly negotiated, and NSPA is referred. EIF as policy-driven institution is interested to promote this area through our cooperation with you.”

Question: Typical size (range) of investment? “That is linked to the question of what kind of fund managers we have. If we have fund managers interested in early-stage companies, in those cases, the tickets may range from tens of thousands of euros up to perhaps one million euros during the lifetime. There will always be private capital attached, so if, e.g. 100.000 euros from the AIP, it will be matched with another 100,000 euros from the private investors to the same investment. If we talk about more mature companies, e.g. single investment of 5-10 M euros, the AIP portion would be, e.g. 50 %, and the other 50% from the private investors.”

During the course of the EIF Market Study, one more dialogue event between the AIP SC and EIF was held in Oct 2022 (Pablo Millan and Minna Leisvuori represented by the EIF).

Market Study: Results Minna Leisvuori presented the results of the EIF Market study at the NSPA Conference in March 2022, in Skellefteå (see also Appendix: AIP Market Study). The EIF Market Study is based on the assumption of exploring EUR 60-100m fund-of-fund, distributed as follows: EUR 30 million from participating countries and EUR 30 million from EIF, with NSPA as geographical focus (13 regions in Finland, Sweden, and Norway). Products: Private Equity, including quasi-equity & Venture Capital. The Market study included one financial intermediary with a local office (Spintop Investments Partners, Sweden) and 18 other financial intermediaries that have invested opportunistically in the NSPAs. The EIF’s own investment track record in the NSPA region includes total investments of EUR 185.4 million across 29 deals, out of which around 41% of deals were made in the Oulu region (Finland), 14% in North Savo (Finland) and 10% Norrbotten (Sweden). The EIF Market study identified around 1,000 deals into 700 SMEs in the NSPA since 2015.

The EIF had informants out of the following financial intermediaries: Armada Credit, Sentica Partners, Litorina Capital, Verso Ventures, Beechbrook Capital, Equip Capital, Juuri Partners, Scope Capital Partners, VNT Management, Creandum General Partner, Inventure, Claret Capital Partners, Epiqus, Prime Technologies Conor Ventures, Brightly Ventures, Spintop Investment Partners, Vendep Capital & Voima Ventures. Out of the market study informants, only one financial intermediary, venture capital fund manager Nordic Option (not currently in the EIF portfolio), was eager to make a hard commitment to investing in the NSPA.

The EIF Market Study states that the Arctic area/NSPA holds economic potential e.g. in green energy, clean-tech, life science and tourism, as well as urbanisation. According to the feedback from the financial intermediaries on NSPA that was presented at the Market study, the NSPA market is, however, too small and heterogeneous to have a dedicated team for the region. The perceived low level of deal flow is the key concern. The Market Study concluded that at the moment, EIF might not be ready yet to deploy up to EUR 60-100 million equity investments in the NSPA.

As proposals for the next steps, the EIF Market study suggests

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

2.5.2 Follow-up discussions on the EIF Market Study

Follow-up session with EIF: The AIP SC organised a follow-up session with EIF/Minna Leisvuori on April 29, 2022, on the results of the Market Study and follow-up actions. Minna Leisvuori confirmed that the perceived low level of deal flow in the NSPA is the key concern for financial intermediaries. She took up the importance of capacity building for the AIP and NSPA, with InvestEU as one channel to help would-be fund managers. *“EIF is ready and willing to act as a discussion partner for AIP in the future, too, and just feel free to convince us over with new facts.”*

Some of the comments stated by the AIP SC members at the follow-up session on April 29, 2022:

- the lack of NSPA located fund managers, which was clearly stated at the Market Study, is obvious
- the EIF Market Study had a big city perspective. An increase in the supply of Venture Capital (VC) increases the demand of VC - how to make this happen also in the NSPA area where the VC conditions have not really existed compared to e.g. the Nordic big cities?
- the track record of regional VC activities has been positive: North Sweden and North Norway mentioned at the meeting
- the challenge with providing loan guarantees is that they do not strengthen the SME balance sheets, and they do not attract private venture capital to join to co-invest
- we need to trigger action from outside to change the VC situation in the NSPA area
- it is of high importance that the EIF is willing to continue the AIP collaboration in the future, too!

AIP SC May 6, 2022 meeting: discussion on the EIF Market Study & next AIP steps :

The AIP SC meeting had a follow-up discussion on May 6, 2022, regarding the EIF Market Study and next steps to be taken with the AIP initiative. The following comments & suggestions could be highlighted.

The overall importance of the dialogue with the EIF to the AIP

The AIP SC stated that the dialogue with the EIF, including the Market Study, has been a highly valuable activity of the AIP Implementation project. Despite the no-go judgement by the EIF regarding the 60-100 M Euro Arctic fund, the AIP group and stakeholders have achieved a significantly better understanding of the problem and solutions regarding capital provision for the SMEs in the NSPA area, according to the AIP SC. The perceived low level of deal flow in the NSPA raises some discussion.

“For our region - a high value to build on. As an AIP group, we are now much more mature as dialogue partners towards the EIF”

“ We have established many important AIP results, which we need to show to our host regions, thanks to the EIF dialogue”

According to the AIP SC, the findings and observations of the Market Study especially regarding the perceived low deal flow in the NSPA and the insufficient number of fund managers need to be analyzed thoroughly: how could the situation be improved? The final goal of the AIP to go for the fund-of-fund structure is still possible to reach, but not without significant capacity building and competence development in the field of capital provision to the SMEs in the NSPA. Communicating the expertise and potential of the SMEs in the NSPA

and the overall branding of the NSPA region deserves further work from the viewpoint of attracting international investors, too.

Proposed actions to be taken

The AIP SC had a number of observations and proposals regarding further actions to be taken with the AIP. According to the AIP SC, it will be of crucial importance that the AIP is able to assemble a credible competence for the capital markets in our regions in the north. Fund managers need to be found, and trained. Moreover, the NSPA area needs to take advantage of existing, already available EU funding opportunities. How to integrate, how to utilise blending funding, for the purposes of capital provision for the SMEs?

“Raising capital is one challenge but collecting and upgrading fund manager capacity is another challenge. In my region, we cannot assemble alone this competence. But together with 10-15 NSPA regions, we can do it. It would also be an opening towards the EIB/EIF”

The future dialogue with the EIF is seen as a highly important element for the AIP next steps. The future EIF /AIP dialogue cooperation should be further deepened, perhaps by nominating a sub-group among the AIP SC & stakeholders for the work. Furthermore, the InvestEU and its possibilities to support the NSPA development from the viewpoint of the SMEs should be part of the future AIP work, too. Cooperation with the EU North offices in Brussels to prepare a brief explanatory document on Green Deal Investment plan and blending financing was proposed (as Annex to the AIP reporting). Improved connections with VC funds and fund-of-funds in Europe and in the Nordics was suggested, too.

“The EIF door is still very much open.”

“Important that the EIF is involved and knows what we are doing. EIF particularly is very important. We are, and we will stay on the table for EIF.”

“InvestEU is an interesting resource for regions”

“We need to do something else, too, than just attempts to raise the fund”

“European Guarantee Facility is now up and working, which helps a lot of actors in our regions (banks, companies). Work with both ways: extending loan guarantees and promoting Venture Capital.”

“Shift the pitch talk in the north: do not describe the Arctic with Polar Bears. We need to change the narrative”

Suggestions by the AIP SC regarding organising of the future AIP work include setting a clear goal and concrete plan for next steps before moving into a next AIP stage, as well as proper informing of the current AIP Implementation project partners about the findings and lessons learned by the AIP Implementation project. Importantly, the leadership issue of the AIP initiative has been taken up: how and with which resources should the AIP leadership structure be developed? The possible funding options of the future AIP were discussed, too, including the current option (collecting a budget from the participants) and/or external co-funding e.g. Interreg Aurora Programme.

The AIP SC finds it important to have the entire NSPA area involved in the future AIP development, as well as the EU North Brussels offices. More emphasis should be put on national level interaction, too, in Finland, Sweden, and Norway, to inform and communicate about the AIP.

3 Conclusions & lessons learned

AIP implementation project contributed towards reaching the major goal of the AIP – but with a significant focus on the cross-border fund-of-funds concept.

The Arctic Investment Platform initiative aims to strengthen the Arctic regions' financial landscape by providing the mechanism that complements the existing financial instruments triggering new investors. The AIP implementation project contributed positively to the AIP development (also appreciated by several SC members at the EIF Market Study follow-up discussions) but primarily focused on establishing a cross-border investment fund of funds (in cooperation with the European Investment Fund EIF) to contribute to the sustainable development and green transition of growth-oriented SMEs. Due to the interest shown by the EIF in 2021-2022 towards the AIP fund-of-funds concept, it was natural that the AIP Implementation project concentrated largely on the EIF and the fund-of-fund concept.

Lessons learned:

- ⇒ studying the fund-of-funds approach with the EIF was an obvious focus for the AIP implementation project – and deserves to be continued by studying additional mechanisms to trigger new investors to the NSPA.
- ⇒ the fund-of-funds concept needs to be opened and explained in the NSPA context, including the EC blending financing approach – mix financing and investment solutions

The dialogue with the EIF turned out to be very fruitful - despite the unreadiness to go for the 60-100 M fund-of-funds equity investment concept.

The cooperation and dialogue with the EIF during the AIP Implementation project resulted in an AIP Market Study by the EIF, launched in March 2022. Based on the Market study, the EIF is not yet ready to deploy up to 60-100M equity investments in the NSPA region. The main concerns of the EIF included a perceived low level of deal flow in the NSPA region and an insufficient number of experienced fund managers located in the NSPA region. However, the EIF expressed a clear willingness to continue the dialogue with the NSPA region regarding possible future cooperation. The anchor role of an established investor such as the EIF would be highly important in building up the credibility of the cross-border fund-of-funds concept.

Lessons learned:

- ⇒ the dialogue with the EIF throughout the AIP implementation project turned out to be very useful and deserves to be continued
- ⇒ we need to find/educate fund managers in the NSPA area to convince the EIF and the venture capital investment community about the financial skills inside the NSPA
- ⇒ overall fund-of-funds concept must be opened and discussed properly – the mix funding approach should be opened up and explained in a clear manner to attract the interest of the VC community

The dialogue across and within the NSPA regions was useful – but regional stakeholders need to be broadly reached, and with financial knowledge upgrade

The Steering Group of the AIP Implementation project became an important discussion forum and platform for joint transnational learning, appreciated by the participating NSPA regions. The digital working method (due to covid) contributed positively to the good attendance of SC members and stakeholders at the SC meetings.

The information about the AIP and the possible fund-of-funds structure has not yet been widely enough disseminated outside the AIP core group among the decision-makers in the NSPA region. The level of knowledge about providing additional funding to the SMEs varied considerably across and within the participating NSPA regions.

Lessons learned:

- ⇒ it is of high importance to systemically upgrade the Venture Capital related knowledge broadly within the NSPA region – with sufficient allocation of resources and time for the upgrade (NOTE! Not only venture capital specific knowledge, but also including overall knowledge about the financial landscape)
- ⇒ The deal flow of potential investments plays an important role for investors. It would be highly desirable to have all the NSPA regions with their deal flows onboard (critical mass)
- ⇒ knowledge upgrade on financial issues related to the SMEs in the NSPA regions is needed

The cross-border fund-of-funds concept has not yet been put to an empirical test.

The cross-border approach suggested by the AIP initiative raised significant international interest and could attract the EIF to prepare the market study. The real added value and effectiveness, as well as limitations, of the cross-border fund-of-funds approach proposed by the AIP with regions in Finland, Sweden, and Norway, have not yet been put to a practical test. Moreover, the potential superiority of the cross-border approach compared to other, already existing VC options remains untested. Several AIP SC members have expressed their interest in continuing the work towards a cross-border fund-of-fund structure in the NSPA also after the AIP Implementation project.

Lessons learned:

- ⇒ the value-added of the regional cross-border approach in the NSPA, proposed by the AIP, needs further clarification to convince the investor community – and the regional actors.
- ⇒ to open up the fund of funds concept – different funding-mix approaches should be introduced, too, to take advantage of a broad potential of funding opportunities

AIP has not yet been introduced sufficiently at the Nordic national level.

Only few national-level contacts on the AIP were taken in 2021-2022, mainly because of waiting for the outcome of the EIF Market Study.

The timing of the AIP initiative from the Swedish national viewpoint was perhaps not optimal as Sweden has lately decreased some VC activities operated at the regional level. In North Norway, however, there are currently several initiatives to strengthen the regional VC base. Moreover, the Norwegian national government is mirroring the EU funding programmes potentially available for AIP.

Lessons learned:

- ⇒ national-level venture capital community does not possess sufficient information about the deal flow and VC needs/conditions in the NSPA – especially considering the green shift invasion in the region
- ⇒ regions involved in the AIP have to take their own responsibility to communicate and explore the possibilities to increase the understanding and knowledge of the AIP initiative among the regional stakeholders

4 AIP implementation project: Next steps

4.1 Rationale

In the future, it will be crucial that the AIP can assemble a credible competence for the capital markets in our regions in the north. Regions must increase their competence in developing the investment platform and fund of funds approach. There is a need to exploit synergies with EU funding and national, regional & local initiatives to build the paths for developing complementary and blending funding streams for investments. The NSPA needs a systematic, comprehensive strategy to promote entrepreneurship and innovation, supported by a fitting and tested model for the current stage of the capital market, to provide most suitable funding instruments in cooperation with commercial banks and other financial actors with a solid regional presence, to the NSPA region. This could be reached by utilising the NSPA Green deal investment plan demonstrating good cases for the investments blending financing and capitalising the real mix-funding (equity, loans, loan guarantees, grants) with clear step-by-step guidance. The rationale for the next AIP steps consists of the following major issues:

- contributing to building up and strengthening a credible competence for the capital markets in the NSPA regions' work
- maintaining and strengthening the network created by the AIP work (e.g. the EIF cooperation)
- taking full advantage of the new financial possibilities opened, especially by the EU and related funding sources
- considering the dramatically changed geopolitical situation caused by the Russian invasion of Ukraine, and its consequences to SMEs and capital markets in the NSPA
- using AIP as a complementary tool to further strengthen the cross-border regional development and innovation promotion in the NSPA.

EU's Arctic Strategy - The EU as more robust EU engagement for a peaceful, sustainable and prosperous Arctic aims to stimulate an innovative region that can showcase future green transition and compatible job creation in innovative sectors, including e.g. green energy, hydrogen, sustainable extractive industries, e-based learning, e-health, connectivity and infrastructure, sustainable tourism, green technologies, fisheries and agriculture. The EU programmes operating in the Arctic will be supported by the InvestEU programme, which consists of the fund, the Advisory Hub and the web portal, and also applies to the Arctic. The EIB Group will play a key role in implementing InvestEU, alongside other implementing partners, including National promotional banks or International Financial Institutions, such as the Nordic Investment Bank. Existing and new EU programmes and organisations (the European Investment Bank Group) can support sustainable development in the European Arctic.

The next steps of AIP should capitalise on lessons learned from the AIP so far and use the EU Arctic strategic objective to justify the AIP development process:

- ⇒ to continue the dialogue with EIF and study additional mechanisms to attract new investors to the NSPA
- ⇒ the fund-of-funds concept needs to be opened and explained in the NSPA context, including the EC blending financing approach – mix financing and investment solutions
- ⇒ to find and educate fund managers in the NSPA area to convince the EIF and the venture capital investment community about the financial skills inside the NSPA

- ⇒ to systemically upgrade the Venture Capital related knowledge and overall understanding of the NSPA financial landscape - sufficient allocation of resources and time for the upgrade
- ⇒ the deal flow of potential investments plays an essential role for investors. It would be highly desirable to have all the NSPA regions with their deal flows onboard (critical mass)
- ⇒ knowledge upgrade on financial issues related to the SMEs in the NSPA regions is needed
- ⇒ to inspect the value-added of the regional cross-border approach in the NSPA, proposed by the AIP, needs further clarification to convince the investor community – and the regional actors
- ⇒ regions involved in the AIP have to take responsibility in their respective home regions to communicate and explore the possibilities to increase the understanding and knowledge of the AIP initiative among the regional stakeholders
- ⇒ to provide the national-level venture capital community with sufficient AIÅ-related information about the deal flow and VC needs/conditions in the NSPA – especially considering the green shift in the region

The dramatically changed geopolitical situation caused by the Russian invasion of Ukraine will have significant consequences to the development of the NSPA regions, too. In developing the capital markets of the NSPA, the geopolitical change needs to be taken into account. The AIP concept will play a significant role in cross-border cooperation in the field of capital markets in a changed geopolitical situation. The cross-border approach of the AIP, with its international and EU networks, provides a complementary tool to significantly increase and deepen the cooperation in the capital markets, and even more broadly, to further strengthen the regional development and innovation in the NSPA and the North Calotte region .

4.2 AIP's next steps -developing the AIP Umbrella Project 2022-2024

Based on the feedback from the AIP SC members, there is a clear interest in continuing the work within the AIP community to develop the AIP concept further. The project format applied during the AIP Implementation project could be utilised to continue the AIP work to the next level reflecting the changes in the operational environment.

The overall objective of the AIP Umbrella project 2022-2024 is to upgrade the AIP to become an umbrella initiative in the NSPA regions to promote financial cooperation, leveraging the regions' financing and investment ecosystem capacity. To launch and coordinate the funds of funds financing the sustainable development and green transition of growth-oriented SMEs. AIP will strengthen the financial landscape of the Arctic regions by providing a mechanism that complements the existing financial instruments and activates the regional investment landscape by providing an additional boost to successful SMEs expanding in the market. AIP will give the path to additional funding solutions supporting SMEs to overcome market failures or investment gaps. This helps share risk better, makes it easier to attract private investors and eventually unlocks financing for individual projects.

Based on the AIP Implementation Project work and the feedback by the AIP SC on the EIF Market Study, the following key themes are being suggested to be included in the next steps (Note: subject to AIP SC discussion & decisions in August-September, 2022) :

- AIP Business Plan 2023-2027
- Updated needs analysis of the SMEs from the viewpoint of the AIP
- AIP communication and awareness building
- AIP capacity building scheme

4.2.1 AIP Business Plan 2023-2027

Will set a clear goal, concrete next steps, and a plan of financing needed to build the AIP structure and organisation. That is supported by transparent leadership and a chain of command. Could be also seen as the NSPA Green deal investment plan.

This will also include the interpretation of the concept of the Investment platforms in the context of NSPA.

- A platform that can pool smaller and/or higher-risk projects by geographic location or sector
- A platform that can combine EU funds, national support and financing from private investors.
- A platform that can provide loans and/or equity to the underlying projects with specific needs
- A platform for sponsors or project promoters, which may be private stakeholders, public authorities, National Promotional Banks and Institutions, social sector players
- A platform with awareness raising of investment platform opportunities, structuring the combinations of EU funds with proper funding-mix, and supporting the development of underlying projects.

An investment platform can be launched based on the so-called fund of funds, a type of investment strategy where funds are invested in other funds. There are success story cases in the EU, where the fund-of-funds structure is contributed by the EU cohesion funds and recovery programme.

4.2.2 Updated NSPA SMEs needs analysis

The AIP initiative has developed considerably in recent years, including, e.g. cross-border actor network building, AIP feasibility study, and the EIF Market Study. At the same time, the participating AIP regions and stakeholders have witnessed significant changes in the last few years in the regional, national, and global context, including pandemics and the war situation in Ukraine. Also, related to the development of the growth-oriented SMEs in the NSPA, considerable changes can be identified, e.g. the green transition in the north.

The AIP initiative would need an update on the needs, alternatives, and available options of the SMEs to which the AIP initiative is mainly targeted. What do the NSPA growth-oriented SMEs really want and need in terms of financial assets in 2022? What kind of “niche” exists for the cross-border Arctic financial instrument proposed by the AIP? The update of the needs analysis would complement the EIF Market Study, which focused on the financial intermediaries in venture capitals. The needs analysis would also provide an additional evidence base for the AIP group to evaluate the perceived low level of deal flow in the NSPA presented at the Market Study.

4.2.3 AIP Communication and awareness building

AIP approach must become a familiar and potential approach at regional, national and international levels among all key stakeholders and important target groups. Therefore we need a systematic approach to communicating about the AIP and its potential.

The central message of awareness-building is communicated to its intended audience or audiences using a range of different techniques and approaches. It includes e.g. newsletters, social media, events, and meetings with stakeholders and target group representatives. The crucial matter is to understand the different stakeholders and target groups and to popularise the communication accordingly to create a community of interest regionally, nationally and internationally.

Regional, national, and international networking

- Provision of workshops, seminars, networking events and conferences in NSPA.
- Web platform and social media for communication purposes and sharing best practices,
- AIP help desks.

Continue the dialogue with the EIF

An active dialogue with the EIF is proposed as one critical future step:

- to continue the work in finding the “doable” fund-of-funds structure for the AIP
- to contribute to the capacity building of the AIP group
- to expand the international and EU network of the AIP together with the EIF and its stakeholders

4.2.4 AIP Capacity building scheme

The AIP capacity building scheme can be provided in the form of specific training or other types of capacity-building activity to promoters, financial and other intermediaries, including for the planning, development and implementation of investment projects (representatives of the AIP regions: regional and local authorities, financial organisations (local, regional), Intermediaries: cluster, business associations, chamber of commerce, development agencies etc., RDI & education providers,

Strengthening capacity and investment readiness of organisations

Providing training, seminars, workshops and networking events. Development of manuals, methodological guidance, factsheets, and e-learning. The exchange of expertise between NSPA regions and other EU investment platforms facilitates the study visits to learn from experiences. Share data, know-how and best practices to support project pipeline and sector development.

- Support in building institutional and administrative capacity in financial management, regulatory aspects and sector-related technical expertise
- Establishment of investment platforms and blending facilities: designing, structuring and setting up of investment platforms for aggregating projects, including cross-border and interregional investment platforms, support for the establishment of investment platforms that bundle small and medium-sized projects in NSPA, support in setting up blending facilities.
- Develop organisational capacity, skills and processes and accelerate investment readiness of organisations

- Mentoring for SMEs/micro-enterprises in terms of coaching and training in investment project delivery, Support for start-ups, including protecting their research and innovation investments by obtaining intellectual property titles when relevant
- Coaching and training in project identification and project preparation (Project identification/generation, Project preparation & development, Planning & implementation of investment projects, Financial structuring)

IV.2 AIP Sustainability structuring and impact assessments

Following the sustainability factors and Green deal criteria (setting SDGs)

IV.3 Procurement and compatibility with State aid rules

- Support with market analysis, developing tender documents and implementing procurement procedures related to investment projects
- Supervision on possible State aid implications, including the proportionality of the envisaged intervention to minimise market distortions, compliance with *de minimis* regulation, block exemption regulations, and notification procedures related to investment projects

Interreg Aurora Programme to support the AIP: The Interreg Aurora Programme has been taken up during the AIP Implementation Project as one option to raise funding for the AIP Next Steps. Interreg Aurora (<https://www.interregaurora.eu/about-us/>) encourages cross-border collaboration in the Programme area through social inclusion, digitalisation and green transition. Sub-area Aurora FINLAND: Lapland, North Ostrobothnia, Central Ostrobothnia, Ostrobothnia, South Ostrobothnia SWEDEN: Norrbotten, Västerbotten, Västernorrland NORWAY: Nordland, Troms and Finnmark. Interreg Aurora Programme is approximately 157 million Euros, including EU funding, Norwegian IR-funding and national co-funding. Capacity building & competence development are among the core themes of the Programme. Some NSPA regions are not eligible for the Interreg Aurora project. Despite that, it would be possible to build and implement the AIP umbrella project with Interreg Aurora funding and develop a complementary regional project that would enable regions not eligible to benefit from the Interreg Aurora.

Quotes from the Interreg Aurora Programme document:

- *“The counties in the programme area lag behind the rest of their respective countries regarding people with higher education. There is a large difference in the educational level between urban and intermediate municipalities, where institutions for higher education are located, and rural municipalities... **The region's business, public sector, labour market, education and integration stakeholders must thus work together to ensure that the right skills are available.**” (p.9)*
- *“Efforts are needed to create demand-driven commissioned education and training by companies and organisations aggregating their skills needed, for example, by cluster formations or other types of collaboration and networks. Different types of intermediate actors can carry out the training **at local and regional level for cross-border purposes.**” (p.56)*
- *“A way of developing the labour market and equipping people in micro and SMEs and other organisations with new skills or work could be by **creating capacity among the actors through collaborative projects and skills-enhancing initiatives within the programme.**” (p.57)*

Common relevant Interreg Aurora challenges from the viewpoint of the AIP

- need for dedicated cross-border strategies, which are based on reliable data for cross-border regions, which are politically supported, and which have undergone a comprehensive consultation with relevant stakeholders. **LINK to AIP:** AIP business plan with NSPA Green deal investment plan provides the operation guidance.
- the structure of the institutional capacity in the programme area is varied. **LINK to AIP:** plan to implement joint capacity building
- need for increased cooperation between regional and national authorities to achieve an accessible and attractive region. The Covid-19 pandemic has shown that we cannot fully make coherent decisive actions to deal with the crisis. **LINK to AIP:** we need a joint effort to increase investment potential and demonstrate the innovation ecosystem's potential.
- data and statistics are generally available at the national level; it is not always the case at regional and local levels and even less at the local cross-border level. In addition, the regional data available is seldom uniform and comparable between the cross-border regions. Harmonising data across borders is necessary for a well-functioning society in the broadest sense of that term. **LINK to AIP** – missing data on regional investment and financial environment

4.3 Source of inspiration- collection of relevant links

The following list contains relevant links to funds, programmes, and additional material to assist in navigating through the material on EU related funding sources, having in mind the next steps of the AIP .

Case examples of interest:

- Health InvestEU & Other Funds - Financing e-Guide <https://health-inequalities.eu/financing-e-guide/investeu-other-funds/>
- Invest EU Guarantees - Circular City Funding Guide <https://www.circularcityfundingguide.eu/funding-types-and-their-applicability/guarantees/public-guarantees/invest-eu-guarantees/>
- NIB becomes implementing partner to InvestEU <https://www.nib.int › releases › nib-is-...5.3.2022> — The programme ranges across four policy windows including sustainable infrastructure; research, innovation, and digitalisation; small and medium ... <https://www.nib.int/releases/nib-is-implementing-partner-to-investeu>
- European Commission and EIB Group sign InvestEU agreements unlocking billions for investment across the European Union (March 2022) https://www.eif.org/what_we_do/guarantees/news/2022/european-commission-and-eib-group-sign-investeu-agreements.htm
- Investing for Impact and Systemic Change: <https://conference.evpa.eu.com/colab-award/impact-innovation-fund-blended-finance-for-systemic-change/>, https://conference.evpa.eu.com/wp-content/uploads/2021/10/210514_01-IIF-Presentation_ENG.pdf
- Beyond investment: the power of capacity-building support: https://thegiin.org/assets/GIIN_issuebrief_capacitybuilding_finalwebfile_101217.pdf
- High Impact Innovation Fund, case Leeds: <https://www.the-lep.com/business-support/growth-support/connecting-innovation/high-impact-innovation-fund/>

Invest EU material: links to relevant material and attachments e.g. Minna Leisvuori presentation at the AIP SC, to be added

APPENDIX

Appendix 1: Market study: Analysis of the AIP initiative by the EIF (presented at the NSPA Conference on March 25, 2022)

Appendix 2: AIP SC Members and AIP SC Stakeholders (list)

Appendix 3: Country-specific AIP meetings April-May, 2021 Reflections