



Future of manufacturing  
**FINEST SpA –**  
**Internationalisation policy measure**  
**(Italy)**

*Born globals and their value chains*

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## 1. Context

### 1.1. Circumstances in which the measure was introduced, rationale, and relevance

The ‘Società Finanziaria di Promozione della Cooperazione Economica con i paesi dell'est Europeo’ (‘Finance Company for the Economic Cooperation with Eastern European Countries’), commonly known as FINEST SpA., was created with the objective to facilitate the development of economic activities and international cooperation for companies located in the area of North-East Italy (namely in Friuli Venezia Giulia region, Veneto region and the autonomous province of Trento – the *Triveneto area*). FINEST was created in the aftermath of the fall of the Berlin Wall, in a time when economies were changing radically, to promote investments and encourage cooperation agreements with countries of the former Soviet bloc and especially those bordering countries of the former Yugoslav Republic.

FINEST is a public-private partnership with the majority of its equity owned by the three above-mentioned regions and with minor participations from local banks.

### 1.2. The process of developing the measure

FINEST was established by [Law 19/1991](#) and it is fully operative since 1993. Its foundation was the result of an initiative of the Italian central government to support the development of economic activities and international cooperation of Friuli-Venezia Giulia region (one of five autonomous regions with special statute in Italy), the province of Belluno and the surrounding areas. The initiative was also sponsored by the government of Friuli Venezia Giulia itself, in lights of its geographical location and in order to foster cooperation with the bordering countries.

### 1.3. Changes in policy context over time

Law 19/1991 channelled public funds destined to the regions of Friuli Venezia Giulia, Veneto and the province of Trento specifically for the creation of FINEST. The three public administrations had always been the major shareholders of the company until the presidency of Mr. Riccardo Illy (2003-2008), when the participation of Friuli Venezia Giulia was restructured: FINEST used to be a ‘stand-alone instrument’, but in this restructuring process the shares of Friuli Venezia Giulia were transferred to Friulia SpA (regional-owned finance development company) and following this political decision, FINEST became *de facto* part of a set of measures for the regional economic development of Friuli.

In addition, since 2014, FINEST’s geographic areas of intervention have been expanded covering also countries bordering the Mediterranean Sea (MED-Countries) in a logic of territorial continuity and taking into account the evolution of the political and economic context (the enlargement of the EU towards East increased the inclination to consider these countries as ‘domestic markets’).

Nowadays, FINEST is active in 44 countries located in Central Eastern Europe, the Balkans, Commonwealth of Independent States (CIS) countries and Mediterranean countries.

Specifically, these include:

- Central and Eastern Europe, Balkan States, Russia and CIS Countries: Albania, Armenia, Austria, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, FYROM – Macedonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Kosovo, Latvia, Lithuania, Moldova, Montenegro, Poland, Romania, Russian Federation, Slovakia, Serbia, Slovenia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan;
- Mediterranean Countries: Algeria, Cyprus, Egypt, France, Greece, Israel, Lebanon, Libya, Malta, Morocco, Syria, Spain, Tunisia, and Turkey.

## 1.4. Evidence of complementarity and/or overlap between the measure and other policy measures

In addition to its core activities, FINEST coordinates *Sprint FVG*, a ‘one-stop shop’ for internationalisation of firms based in the Friuli Venezia Giulia region (the head office of *Sprint FVG* is hosted at FINEST’s premises in Pordenone) which wants to invest in foreign countries other than those 44 envisaged in FINEST’s core business, exploiting knowledge transfer and synergies related to different core markets. FINEST is also partner-promoter of the project ‘*Bridge To Russia*’, a network of professionals who have pooled their expertise to provide support to Italian firms that wish to expand their business activities in Russia and the CIS countries.

As regards potential overlaps, it could be argued that FINEST’s objectives, mission and activities are similar to SIMEST (national development finance agency, literally ‘*Società Italiana per le Imprese Miste all’Estero*’), belonging to SACE, the Italian export credit agency (*Cassa Depositi e Prestiti group*). Similarly to FINEST, SIMEST is a finance company and equity partner established by the Italian government ([Law 100/90](#) about the promotion of public-private partnership on enterprises abroad – ‘*Norme sulla promozione della partecipazione a società ed imprese miste all’estero*’). However, the two measures differ in terms of target and geographical scope:

- Even though SIMEST and FINEST work with companies of all size, SIMEST’s portfolio consists (mainly) of Italian companies in the large corporate segment from all over the peninsula, whereas FINEST’s portfolio consists (mainly) of SMEs from the North-East of Italy reflecting the business demography of the *Triveneto* area;
- FINEST’s core market is represented by the 44 above-listed countries, whereas SIMEST has (almost) worldwide geographical coverage.

Coordination and cooperation is also ensured by the fact that SIMEST is minority shareholder of FINEST.

## 2. Content

### 2.1. Objectives of the measure

FINEST’s outreach includes the Friuli Venezia Giulia, Veneto and Trentino-Alto Adige regions of Italy and it is aimed at promoting greater internationalisation.

Specifically, FINEST’s ultimate objective is to generate long-term sustainable economic value within these regions, providing support to local firms with an export vocation, oriented toward innovation, and that have demonstrated to be key players in terms of quality and research.

FINEST acts as joint investor and assists in defining strategies for business expansion, and provides targeted consultancies and networking opportunities in its areas of competence. Indirectly, FINEST also supports the economic development in the markets of intervention, something that should result by its day-to-day activities, rather than a set specific objective.

From an operational prospective, FINEST should not make any accounting loss and any profit generated is to be re-invested back in its activities.

### 2.2. General description of the measure

FINEST’s support consists of two main instruments:

- Financial products; and
- Consulting services.

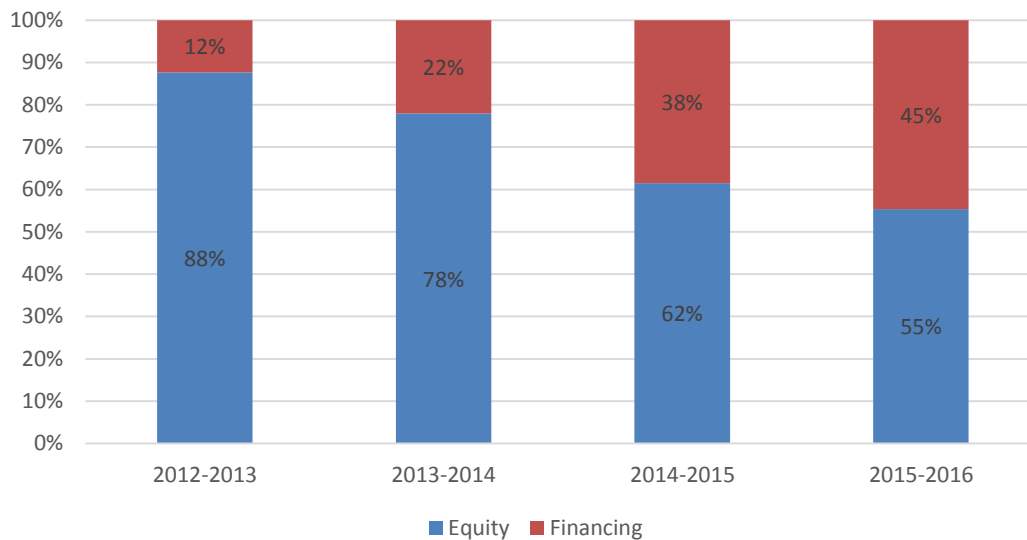
In terms of *financial products*, FINEST provides:

- *Equity-partner and corporate shareholdings*: For periods of up to eight years (maximum) FINEST holds up to 49% of the shares of foreign firms operating under partnership

agreements with firms based in north-east Italy. As shareholder, FINEST may keep seats in the management board<sup>1</sup> and become also active partner participating in the day-to-day activity of the foreign company.

- *Direct financing*: FINEST can provide foreign subsidiaries with direct financing, such as loans.
- *Other subsidised loan instruments*: Thanks to the partnership with FINEST, firms based in north-east Italy can access subsidised loan instruments granted by other policy measures. These include, for instance, the financing set forth in Law 100/90 (*‘Norme sulla promozione della partecipazione a società ed imprese miste all'estero’*) entailing partial reimbursement of interest payments provided by the Italian banking system for the purposes of equity participation in foreign firms located in non-EU countries. In addition, on behalf of Italy’s Ministry of Economic Development, FINEST manages a fund for the Balkan area in order to encourage investments in Albania, Macedonia, Serbia, Montenegro, and Bosnia and Herzegovina. FINEST also facilitates access to foreign venture capital funds in its core countries.

Figure 1: Relative weight of equity and financing as FINEST’s financial investment operations for the 2012-2016 period<sup>2</sup>



Source: Adaptation from Finest financial statement 2015-2016

In terms of *consulting services*, FINEST provides tailored managerial consultancy to its business partners<sup>3</sup> for investment projects and strategies for business expansion at all project stages. In detail, FINEST can provide:

- strategic analysis for international investments;
- feasibility studies;
- project development assistance;
- legal consulting;

<sup>1</sup> This does not always happen: this option is discussed with the business partners in the negotiation phase at the beginning of the cooperation.

<sup>2</sup> The investment operations depend on the needs of the business partners.

<sup>3</sup> The business partners are Italian firms, as FINEST’s outreach includes the Friuli Venezia Giulia, Veneto and Trentino-Alto Adige regions of Italy.

- advice for the best financial resources available in Italy and for accessing the complementary financial support available from the national government, the European Union and the other countries.

### **2.3. Available budget**

Public funds represented the initial funding of FINEST. Nowadays, FINEST is self-financing, reinvesting the returns from its investment operations.

In the 2015-2016 period, FINEST invested €15,386 million, of which:

- €8,521 million in equity; and
- €6,865 million in other financial products.

FINEST experienced a growth rate of approximately 34% compared to the 2014-2015 period.

According to the latest figure available (February 2017), FINEST's current portfolio counts 77 joint ventures for a total value of €100 million. In 25 years of activities, FINEST has allocated around €300 million.

### **2.4. Target groups of the measure**

There are two categories of stakeholders which benefit directly from FINEST's services:

- SMEs from the Friuli Venezia Giulia region, the Veneto region and the autonomous province of Trento (*Triveneto* area); and
- Their subsidiaries/branches located in another Member State of the EU.

## **3. Relevance of the measure to SMEs/born globals and internationalisation**

### **3.1. Relevance in relation to different types and stages of internationalisation**

FINEST's activities have a relevant direct impact in the first stages of the internationalisation process representing an important source of financing. That being said, in its role of equity partner and if foreseen in the contractual agreement among the parties, the organisation may actively participate in the day-to-day management of the foreign subsidiaries, keeping FINEST representatives in the management board, and providing a constant on-going support until the exit date.

### **3.2. Support for cooperation between SMEs/born globals and wider international collaboration**

Thanks to its experience gained in many years within various markets and its institutional role, FINEST also offers the opportunity to companies to get access to its network of international operators, professionals, banks, financial institutions and other economic operators in the geographical areas of competencies and thus facilitating the internationalisation development. FINEST can assist firms by providing the links, contacts, references within the country in which Italian companies from the north-east have decided to invest. Nonetheless, it is important to stress that this is not one of its core activities.

### **3.3. Contribution of the measure to tackle SMEs'/born globals' internationalisation support needs**

FINEST supports *Triveneto* SMEs' needs in terms of:

- Financing;
- Consulting and advisory in their expansion strategies.

Thanks to its extensive experience it can guide business decisions and support the implementation and development of international projects. FINEST is a full partner for joint assessments of business plans and of the business risks, working jointly with the entrepreneurs.

## 4. The operation of the measure

### 4.1. Promotion of the measure to internationalising businesses

FINEST promotes its activities via two main channels:

- *Marketing*: Entrepreneurs get informed about FINEST through the promotional activities carried out by the organisation itself, such as: the distribution of ‘general informative materials to companies’ in its website, interviews of FINEST management distributed in local press, participation to events organised by local chambers of commerce or other Italian institutions (like the events organised by [Italian Trade Agency Roadshow for Internationalisation](#)) (and other activities of brand awareness in social media, such as the launch of ‘#BUSINEST’ in 2014. Promotional activities represented 35% of the total activities conducted in the 2015-2016 period.
- *Business development*: FINEST has its own business development unit that scouts the *Triveneto* area for potential opportunities, sending representatives to participate at conferences and/or business networking events.

Other intermediaries, such as local Chambers of Commerce, also play a role in promoting FINEST. FINEST has 34 cooperation agreements with other associations in place, of which (according to the latest financial report) four were signed in 2016 with<sup>4</sup>:

- Agenzia Investimenti FVG (‘Agency for Investments in FVG’);
- AIK - Agencija za investicije i konkurentnost (‘Agency for Investments and Competitiveness in Croatia’);
- Confindustria Verona (‘Association of entrepreneurs in Verona’);
- ‘[Sistema aperto](#)’ (organisation including Associations of entrepreneurs in Padova, Vicenza and Treviso).

These agreements have the objectives to promote the activities of FINEST and foster potential partnerships with the members of these associations.

### 4.2. The process of application and assessment of applications

Companies that wish to cooperate with FINEST must submit:

- A business plan of the international project;
- Information about their financial status;
- Information about their governance structure.

Projects are evaluated on a rolling basis (no specific calls). FINEST makes its own evaluation and if the investments are assessed to generate net positive returns and are coherent with the Multi-annual Industrial Plan<sup>5</sup>, the parties involved will negotiate a potential partnership agreement. No pre-set selection criteria are established, the administrators decide on a case-by-case basis whether the potential business partner is to be supported or not.

Mere speculative investments (for example real estate) are out of scope of FINEST, as incompatible with its ultimate mission to generate long-term sustainable economic value for the North-East area.

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<sup>4</sup> That sum up to the additional 30 cooperation agreements signed in the past.

<sup>5</sup> Document defining the multi-annual strategy of FINEST (not publicly available).



### 4.3. Delivery mechanism of the measure

The cooperation between FINEST and its partner companies can assume different forms. Therefore, there is not a standard procedure and it is linked to the business plans. The most common typologies of investment abroad as equity partner are:

- Generation of newco (new company);
- Take-over of existing business;
- Participation through capital increase; and
- Mergers and acquisitions.

All of them require different strategies tailored to different countries and legal contexts. After almost 25 years of experience, FINEST has built up the in-house capacity to operate in its core markets, but it also makes use of a network of law firms and legal advisors to support its operations<sup>6</sup>. If new expertise needs to be acquired, a call for consulting services is usually launched on its website.

In contrast to the entry strategy, the exit strategy of FINEST is standard and pre-determined with the partner. As already mentioned, FINEST participates as minority shareholder with an agreement that the partner will purchase the FINEST participation within a pre-established deadline. The purchasing price is established in the contractual agreement and determined within a range of values. In the event that the business partner is not able to meet the contractual agreements, the case is transferred to the *litigation unit* which is in charge to recoup the credit. The *litigation unit* operates in cooperation with the network of law firms present in the countries of FINEST's core markets, in order to cope with the different local legislation.

### 4.4. Administration of the measure

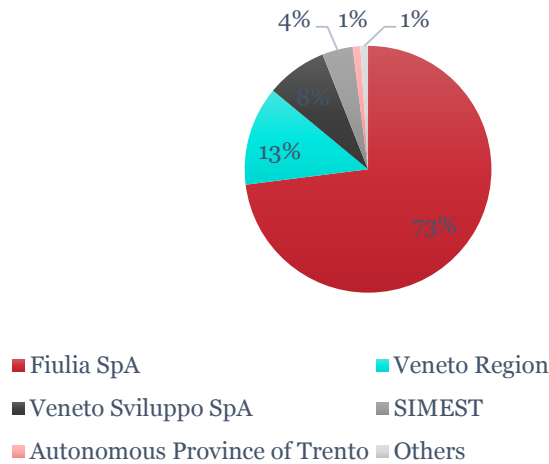
FINEST's shareholders are:

1. Friulia Group (the financial institution of the regional authority Region Friuli Venezia Giulia) – 73.22%;
2. The Veneto region - 12.68%;
3. Veneto Sviluppo (the financial institution of the regional authority, Region Veneto) – 7.75%;
4. SIMEST S.p.A. (Cassa depositi e prestiti group) – 3.91%;
5. Provincia Autonoma di Trento (Trento provincial authority) – 1.17%;
6. Banco Popolare (private banking institution) – 0.43%;
7. Cassa di Risparmio del Veneto (private banking institution) – 0.52%;
8. Intesa Sanpaolo (private banking institution) – 0.11%;
9. Banca di Credito Cooperativo del Nord-Est (private banking institution) – 0.11%;
10. Banca Sella (private banking institution) – 0.04%.

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<sup>6</sup> <http://www.finet.it/it/societa-trasparente/consulenti-e-collaboratori>

Figure 2: FINEST shareholders' composition



Source: FINEST's website

Note: FINEST has operating offices in Pordenone (Italy), Padua (Italy) and Moscow (Russia).

## 5. Monitoring and evaluation

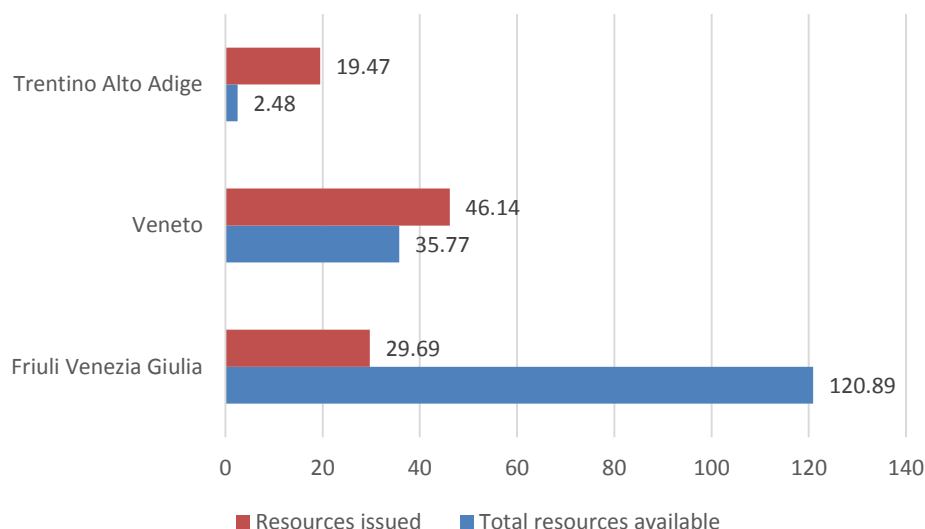
### 5.1. Monitoring of the implementation and take-up of the measure

FINEST is a public-private company and has limited liability legal form. As foreseen by the Italian tax legislation, it is subjected to the accounting reporting duties linked to its legal status. Thus, FINEST draws up its balance sheet and financial statement at the end of each year. The documents are publicly available and can be consulted online.<sup>7</sup>

According to these documents, the greatest development of FINEST's activities have occurred in the Veneto region. The uptake is measured considering equity funds made originally available by individual regions plus the pro-quota increase as result of the profits re-investment policy. This sum is compared to the total value of the equity participation and loans outstanding for each company in each region. The following graph shows FINEST's total exposure by region in million euros:

<sup>7</sup> <http://www.finest.it/it/societa-trasparente/bilanci>

Figure 3: FINEST total exposure by region (million €)



Source: Adaptation from Finest financial statement 2015-2016

From the graph above, it follows that the Veneto region realised a gap between the reserved resources and the volume of investments; a similar gap is also found for Trentino-Alto Adige (FINEST, 2016). In contrast, the situation for Friuli Venezia Giulia is the opposite: greater amount of funds but limited uptake. There is no information available on the reason why these different development paths were realised.

Monitoring is conducted also in relation to the risks associated to the day-to-day activity of FINEST. According to its financial report, the main risks that may hamper its business are:

- *Counterpart risk*: that happens in the event that the business partner cannot meet its contractual obligations;
- *Market risk*: losses due to factors that affect the overall performance of the markets (such as recessions, political turmoil, natural disasters, etc.);
- *Operational risk*: the specific risks within a given field or industry;
- *Concentration risk*: probability of loss arising from heavy exposure to a particular group of counterparties;
- *Liquidity risk*: the risk that FINEST is unable to meet its short-term financial demands;
- *Interest rate risk*: the risk that an investment's value will change due to change in the interest rate;
- *Compliance risk*: risk of fines/sanctions due to incompliance with the local legal requirements.

In order to mitigate the potential negative effects of these risks, FINEST has in place three 'levels' of risk management in order to minimise its exposures. In detail:

1. *First level of controls*: compliance of the day-to-day activities with the internal procedures;
2. *Second level of controls*: analysis of degree of exposure to the abovementioned risks. These analyses are conducted in-house by the dedicated units and are reported to the two supervisory committees: the Internal Evaluation Committee (*Comitato Interno di Valutazione*), formed by the management board and the directors of the operational unit that evaluates the coherence of the investments with the Multi-annual Industrial Plan, and the Internal Risk Committee (*Comitato Interno di Rischio*), formed by the management board and directors of the investment units that evaluate the overall risk of the investment portfolio;
3. *Third level of controls*: internal audit conducted by the *internal audit unit*.

## **5.2. Evaluation of the measure: methods and contents**

FINEST does not conduct monitoring and evaluation from a public policy perspective.

However, the Board of Directors defines a Multi-Annual Industrial Plan according to which FINEST should operate. This document is not publicly available. In the 2016 final report, it is stated that ‘*the qualitative and quantitative targets referred to therein have been substantially achieved*’ for the 2015-2016 period, meaning that the company has operated according to the guidelines established by the Board of Directors.

## **5.3. Any changes to the content or delivery of the measure following monitoring and evaluation**

The company stated that savings on operating costs, increasing services for businesses and reaching higher investment volumes are the cornerstones for the future development of FINEST (FINEST, 2016).

However, uncertainties related to the attractiveness of FINEST’s core markets and the decreased ability of companies in the *Triveneto* area to invest in internationalisation projects may undermine the possibilities to expand its assets in the next years (FINEST, 2016).

## **6. Evidence of outcomes and impact**

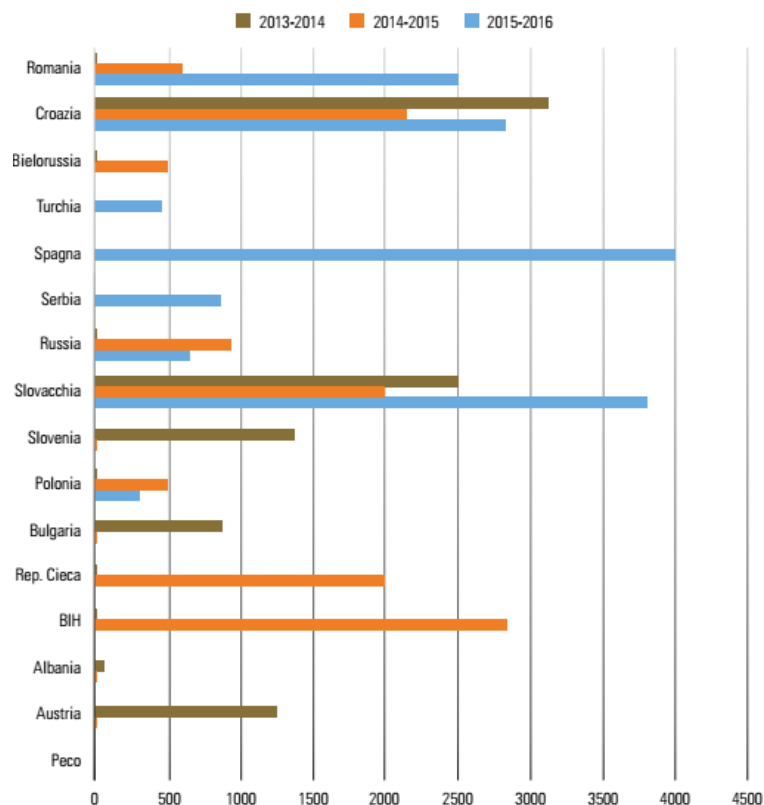
### **6.1. Evolution of the measure’s spending**

In 25 years, FINEST has been involved in about 500 international projects, for total amount of €300 million invested that have generated return for around € 2 billion (FINEST, 2016). In the 2012-2016 period, FINEST experienced a C.A.G.R. (*Compound Annual Growth Rate*) of 16.9%.

Summing up all the investment operations in the last three years (2013-2016), it is possible to notice that FINEST has carried out investment mainly in 15 countries.

During the fiscal year 2015-2016, the investments made by FINEST in the ‘new’ MED countries amounted to € 4,447 million and correspond to 28.9% of the entire newly generated assets. FINEST commented that this result is in line with the trend of companies seeking a direct presence in more markets than the ones mainly serviced in the past (FINEST, 2016).

Figure 4: Number of investments per country, 2013-2016



Source: Finest financial statement 2015-2016

## 6.2. The quantitative and qualitative outcomes of the measure

According to the 2016 financial report, 48% of the total investment portfolio is linked to operations carried out with companies from the Veneto region, 29% from Friuli Venezia Giulia and 23% from Trentino-Alto Adige.

According to the latest data publicly available (2009), the breakdown of the total portfolio in terms of industries and countries shows that:

- Romania and Croatia are the top two destinations of FINEST investments;
- Companies belonging to the construction industry and to the wood products/furniture industry are the main partners of FINEST.

Table 1: FINEST portfolio breakdown

<p><i>Top three geographical investment destinations by number:</i></p> <ol style="list-style-type: none"> <li>1. Romania (27%);</li> <li>2. Croatia (14%);</li> <li>3. Poland (8%).</li> </ol>	<p><i>Top three industries by number of investments:</i></p> <ol style="list-style-type: none"> <li>1. Wood products/furniture;</li> <li>2. Mechanical/electromechanical industry;</li> <li>3. Construction industry.</li> </ol>
<p><i>Top three geographical investment destinations by amount:</i></p> <ol style="list-style-type: none"> <li>1. Romania (24%)</li> <li>2. Croatia (18%)</li> <li>3. Serbia (11%)</li> </ol>	<p><i>Top three industries by amount:</i></p> <ol style="list-style-type: none"> <li>1. Construction industry;</li> <li>2. Metallurgical industry;</li> <li>3. Wood products/furniture.</li> </ol>

Source: FINEST (2009)

Examples of successful cases are:

- *Askoll SpA* is a multinational company producing mechanical components for domestic appliances with headquarters in Vicenza. FINEST is equity partner of Askoll in its subsidiary in Slovakia;
- *Rigoni d'Asiago SpA* is a company active in the agrifood industry located in the province of Vicenza. FINEST supported Rigoni d'Asiago SpA to establish two subsidiaries in Bulgaria through equity participation and granting long-medium term financing.

### **6.3. Impact of the measure on its beneficiaries and other actors**

The ultimate objectives of each project consist in value generation, skill development and growth for the firms located in North-East Italy. However, as FINEST does not attempt to systematically conduct an evaluation from a public policy perspective of its activities, study on its impacts are not available and can only be assessed through the experience of the beneficiaries (please refer to the section above).

### **6.4 Evidence of economic and employment impact**

There are no quantitative data of FINEST's direct/indirect impacts in generating employment and/or economic development, however a qualitative assessment can be inferred just considering the above-mentioned examples.

For instance, the two companies opened subsidiaries/branches. The fact that a new company is established has by definition an impact in terms of generating new jobs. In addition, a branch/subsidiary in a foreign country may allow to reach new customers in new markets. An expansion strategy can have direct impacts on the company in terms of greater turnover and have indirect positive value along the supply chain (higher sales, higher demands of inputs).

## **7. Strengths and weaknesses of the measure**

### **7.1. Strengths of the measure**

FINEST is a public-private partnership and aims at integrating the strengths of both forms:

- FINEST is established by an Italian law that confers an institutional role to the organisation providing governmental and diplomatic support to businesses in international trade relations and enabling networking opportunities in foreign countries;
- The private component of FINEST requires that the organisation is profit-oriented and flexible to adapt to the new market challenges<sup>8</sup> in order to maintain its competitive edge.

In addition, some stakeholders believe that its regional dimension represents a strength as it allows to better understand the needs of its beneficiaries.

### **7.2. Weaknesses of the measure**

When FINEST enters in partnership, it imposes high standard audits and strict reporting obligations to the partners.

This sometimes contrasts with the culture of some companies, especially small companies, which perceive the administrative burdens to be too high.

Some stakeholders also commented that its regional dimension is also a weakness, as FINEST offers fewer services compared to other more 'universal' measures available in Italy.

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<sup>8</sup> As demonstrated by geographical coverage expansion, different types of financial products offered, flexibility in the decision to invest, risk monitoring, etc.

### 7.3. Evidence of policy learning over time

FINEST is as good example of a private-public institutional investor and provider of long-term capital/financing for SMEs that wish to expand their activities abroad.

The long duration of liabilities allows (at least in principle) to make investments in long-term productive assets and the long-time horizons enable FINEST to behave in a ‘counter-cyclical’ manner, restraining the problem of ‘short-termism’ typical of private capital markets.

In addition, FINEST has proven to be able to adapt to the new markets challenges and to the different needs of its beneficiaries by expanding its geographical coverage.

There are no preconditions that would impede the creation of a similar form of private-public initiative in another country but clearly the success of this type of measure depends on key success factors that apply to any private investment company:

- People: the need of a right mix of skills in order to cover 44 markets and the staff must have an entrepreneurial mind-set;
- Market: the level of entrepreneurship activity in the area(s) to be served and the attractiveness of the core markets influence the uptake of the measure;
- Strategy: how to maintain the competitive edge compared to other potential substitute products offered by the public and private sectors;
- Product: how to best tailor the product/service in order to properly meet the needs of the beneficiaries.

However, it is worth to point out that what is best for SMEs in the north-east of Italy, is not necessarily best for SMEs located in other EU areas. A feasibility check at an early stage is needed to understand how the industry would respond in order to reduce the risk of bad decision making.

## 8. Recommendations

As results of the interviews conducted, stakeholders are generally satisfied with FINEST and its supporting role in the internationalisation of SMEs.

Nevertheless, some politicians (Batic, 2015) from Friuli Venezia Giulia advocated more coordination between FINEST and Friulia SpA and it was also recommended to explore potential future cooperation with Informest (Agency for the International Development and Cooperation – literally ‘*Agenzia per lo Sviluppo e la Cooperazione Economica Internazionale*’) to avoid any potential overlap and better define the respective competencies among the three regional organisations.

## References

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