Summary

The Capital Access Commission was appointed by the Norwegian Government on 31 March 2017 as a follow-up to the white paper *A greener, smarter and more innovative industry* (Report to the Storting No 27 (2016–2017)), to consider Norwegian businesses' access to capital. The main reason given for the Commission's mandate was that an efficient capital market is a precondition for growth and restructuring in business and industry, and therefore for the Norwegian economy and welfare at large. The mandate also reflected the fact that overall macroeconomic assessments do not necessarily account for inefficiencies in particular parts of the capital market.

The Commission's mandate was to shed light on how the access to capital through the Norwegian capital market functions. A well-functioning capital market provides financing for value-creating companies and projects. Value-creating companies and projects create added value only after they have generated the necessary return on the capital that financed them. The requirement for such a return must reflect both the risk and duration of the investment. Moreover, the capital market helps to redistribute capital to where it yields the highest profit. Daily stock market pricing, acquisitions, mergers and liquidations are therefore important elements in an efficient capital market. On this basis, the Commission has taken a closer look at various topics related to the supply side, the demand side and in the actual capital market where the market participants meet.

The Commission's overall conclusion is that the Norwegian capital market mainly works well. Most companies and projects that are expected to be profitable have access to financing at a cost that reflects their risk, there is competition on the supply side and the authorities have largely set framework conditions that are balanced.

After having considered previous reports, current statistics, relevant research, the market participants' input and the Commission's own experience, the Commission chose to study some areas where there may be a potential for improvement.

Empirical analyses in this field are hampered by a lack of data on marginal but presumably profitable projects that have not received financing or received ineffective financing. Norwegian register data from Statistics Norway, the Register of Company Accounts and the Norwegian Tax Administration are among the best in the world, but are primarily based on reporting by capital suppliers in the capital market. Finding and analysing relevant data for the composition of total financing of relevant, marginal projects is demanding. In this context, marginal projects are projects that are expected to create value that do not receive financing or that receive ineffective financing due to capital market failure.

In the Commission's assessment, the report provides both relevant information about the capital market in general and in particular about the parts of the market that the Commission considers to function less efficiently. The report also contains discussions of how and why efficiency challenges arise, and the Commission's assessments and recommendations for measures and further studies.

To collect information about current inefficiencies in the capital market, the Commission chose to obtain input from a number of market participants, as well as acquire two external reports. The input was mainly received through regional and industry-based input meetings, in addition to written input. It is important to receive input from active participants in different parts of the capital market, especially with a view to identifying potential problem areas.

The external reports concerned the equity market and the corporate banking market, respectively. The analysis of the equity market, conducted by Menon Economics, indicates that the infusion of new equity is evenly distributed between companies across age, industry and geography. The analysis also shows that other investor sectors apart from investment funds are important sources of new equity.

Moreover, the report finds that growth companies are much more likely to raise new equity. The analysis of the corporate banking market was conducted by the Centre for Applied Research at the Norwegian School of Economics (NHH). The

report presents a breakdown of all bank loans and new bank loans by industry, age, size, geography and over time. It also analyses changes in the access to new bank loans for marginal companies during and after the financial crisis, where they find indications of a slightly reduced access. Both analyses are useful for improving our understanding of how relevant categories of companies gain access to capital.

The Commission's report starts with an introduction to the capital market and a review of how financial assets are invested in Norway, as well as information about local and regional variations in the capital market. This forms the basis for the topics that the Commission focuses on in the report. The topics reflect the Commission's assessment of which parts of the capital market that may function less efficiently.

The report is divided into chapters on access to equity, access to debt capital, information asymmetry and digitalisation, start-up, growth and public policy instruments, and concludes with a review of how the tax system affects the access to capital. It also includes a review of financial and administrative consequences. Below are some brief excerpts from the Commission's most important assessments and recommendations, organised in the same order as in the report. The summary provides a compact overview. Reference is made to the relevant sub-chapters of the report for a complete overview of the Commission's arguments, assessments and recommendations.

The equity market

The Commission considers the Norwegian equity market to be largely well-functioning. The importance of the petroleum sector and related industries, and beneficial tax treatment of investments in real estate, have however weakened access to capital for other sectors. Measures that can contribute to reduced beneficial tax treatment for real estate may lead to increased access to capital in other industries. The number of new, large growth companies has been limited in recent years. At the same time, the need for developing such growth companies has become more pressing. Access to capital for smaller businesses with capital needs of up to NOK 20 million is seen as particularly challenging.

In the Commission's assessment, a substantial proportion of pension assets are not optimally invested considering the objective of maximising the long-term risk-adjusted expected return on the pension savers' funds. The Commission therefore recommends measures to ensure that a larger proportion of pension assets, in both defined benefit and defined contribution schemes, can be invested more long-term and to a greater extent also in less liquid investments. This can both yield a higher return and strengthen the access to capital for business and industry, while at the same time safeguarding pension savers' guarantees and other rights.

The Commission is concerned about the low proportion of direct private ownership in listed companies, and that the State and foreign owners hold dominant positions. The authorities must fully appreciate the considerable costs for the capital market of spreading uncertainty about partly state-owned companies' ability to create shareholder value. The State should also endeavour to achieve a more dynamic ownership policy.

The Commission is also of the view that municipal ownership should be better systemised based on its purposes, especially in companies that municipalities own together with, or that compete with, private investors.

The debt capital market

The Committee believes it is important that effects of bank regulation be considered with regard to both gains and costs, for both the banks and for the financing of Norwegian business and industry. The competitiveness of Norwegian banks in local markets must also be considered. Particular justification should be given for regulations that deviate from EEA practices.

The Commission considers that the Norwegian bond and certificate market works well. The Commission is nonetheless of the view that the ban on shadow rating is negative, especially for small borrowers.

In the Commission's opinion, it should be considered whether to change the Norwegian practice of covered bonds, to bring it more in line with practices in, for example, Sweden and Denmark.

The Commission is of the view that Norway should follow regulatory developments in the EU and ensure that rules related to securitisation are quickly and effectively introduced in Norway.

Furthermore, the Commission recommends a closer look into the consequences of making bond ownership open to the public, and that the Ministry of Finance consider issuing Norwegian government bonds with a maturity of more than 10 years.

Information asymmetry and digitalisation

The Commission believes it is important that Norwegian regulations enable Norwegian companies to take part in the development of FinTech solutions, both as suppliers and seekers of capital, while also taking financial stability and security into consideration.

The Commission sees it as desirable that regulations related to crowdfunding be further clarified. In general, unintended obstacles for the establishment and running of crowdfunding platforms, for the purposes of both equity and loans, should be removed.

The Committee believes that different types of meeting places can play an important role in connecting seekers and suppliers of capital for unlisted companies. Meeting places also contribute to competence development and training, particularly complementary competence in commercialisation and financing.

The Commission believes it is positive that a working group will be appointed to look into the establishment of a central credit register in Norway, also for loans to companies.

The Commission considers it positive that information about owners, of both private and public limited liability companies, is generally available to everyone. From a capital access perspective, this will contribute to ensuring that potential investors have access to information. In many cases, this is absolutely vital for investment decision to take place.

The Commission endorses the proposals for amendments set out in the review of the rules related to debt settlement proceedings in the Bankruptcy Act. It will also be positive to consider restructuring negotiations at an earlier point than what is currently the case.

Access to venture capital

The Commission sees it as particularly demanding to secure financing in the early development phase for potential growth companies. These challenges are particularly relevant to companies that expect many years of capital-intensive development before any commercial income can be expected, for example in the case of commercialisation of research results. At the same time, these companies may have the potential for considerable value-creating growth after a successful development process, but they may find it challenging to get financing in the Norwegian capital market.

In the Commission's view, there has been a reduction in the number of investors that are able and willing to undertake venture investments in Norway. In a ten-year perspective, extensive capital has been raised for private equity investments in Norway, the second highest figure in Europe as a proportion of GDP, but the number of early-stage venture investments in Norwegian companies has been modest. The Norwegian industry structure, projects of low quality and low expected returns may be part of the reason for this.

The Commission sees good reasons for the State to facilitate early-stage investments in order to secure access to long-term competent capital and competent owners. This can be justified on the grounds of particularly uncertain risk, the fact that network effects between investors are important, that such investments often come with long time horizons and that there are special requirements with regard to the competence of managers and owners.

Based on analyses and input, the Commission's assessment is that the amount of equity capital being channelled to promising early-stage companies is inadequate. Such companies are both in need of venture capital and, in particular, relevant competence on the owner side. The Commission therefore recommends that the State allocate NOK 1 billion to a new, flexible fund of funds venture mandate, to be invested over a three-year period.

The Commission further recommends giving seed capital funds national and flexible mandates, facilitating more stable access to capital for relevant portfolio companies, and transferring the responsibility for following this up from Innovation Norway to a professional investment management community.

The Commission recognises that Argentum has been, and still is, important to the development of the private equity market in Norway, and that the achieved return on investments has been stable and good. In the Commission's opinion, there is a need for more competent management communities in venture and early-stage capital. Argentum has contributed to this within its mandate, but further efforts and more communities are nonetheless considered necessary.

The Commission believes that, going forward, Investinor should prioritise investing indirectly through other managers, and that it should be given responsibility for the State's fund of funds venture mandate. Investinor should also take over the management of seed capital schemes from Innovation Norway.

The Commission recommends that Fornybar AS's organisational structure be based on best practice of established investment managers, and that arrangements be made to enable good evaluations of both returns and the achievement of climate effects.

The Commission recommends strengthening the incentives for university and university college staff, for example by letting them retain a higher ownership interest in new companies.

Public grants and support schemes

The Commissions recommends that the number of public agencies that administer public grants, loans or equity, should be limited. Establishment of overlapping schemes for the same purposes should be curtailed. Measures ought to be evaluated regularly and systematically, and funds should be actively moved from schemes with low goal attainment to better schemes.

The Commission recommends continuing the work on concentrating Innovation Norway's role and mandate. Particular focus should be given to companies that can create jobs and future growth.

The Commission recommends that an evaluation be conducted of Enova's importance for access to capital, and for mobilisation of private capital to achieve the tasks which the enterprise has been assigned.

In the Commission's assessment, the export financing schemes should come across as more uniform and coordinated for the users, and it should be considered whether these schemes should be made more available and relevant to the SME segment.

Overall assessment of public policy instruments

Government policy measures should be effective, targeted and measurable. The Committee recommends carrying out an overall review of this area, where all existing policy measures are seen in conjunction. It should be considered whether policy measures and the agencies implementing them can be made more accessible and whether their effectiveness and overall goal attainment can be improved.

The tax system

At the overriding level, effective and neutral taxation is the most important factor for business and industry's access to capital.

A lower formal tax rate will reduce the capital costs for investment projects in Norway. The Commission recommends that changes be considered to allow for a more equal treatment of debt and equity in the corporation tax.

The Commission sees several problematic issues with the wealth tax from a capital access perspective. The Commission therefore recommends that the wealth tax be abolished, and alternatively replaced by other taxes that have a less negative impact on business and industry's access to capital, while at the same time taking into account considerations of redistribution and a reasonable allocation of the tax burden, for example with an increased and improved tax on property.

If the wealth tax is nevertheless upheld, the Commission considers that the valuation of assets should be made far more uniform, so that the relative disadvantage of levying tax on other assets than the primary property is eliminated.

The Commission endorses previous assessments stating that real property is a good tax base, and believes that there are good reasons for gradually reducing the tax benefits for housing and holiday properties. The Commission recommends a property tax reform to ensure more uniform practices and greater predictability and to prevent unfortunate shifts in the regional access to capital.

The Commission recommends a review of whether foundations should be treated more equally for tax purposes, including how foundations' contributions to the public benefit can be upheld, regardless of how their capital is managed. From the perspective of ensuring access to capital, the Commission believes that choosing foundation as the form of incorporation should come with no particular tax benefits or disadvantages, and the review should also take this into account. At the same time, the framework for the tax treatment of foundations' capital management should be clarified.

The Commission recommends making the scheme for deferred taxation of options benefits in employment relationships significantly more attractive in order to promote restructuring and growth in Norwegian business and industry, and to secure the competence required to develop Norwegian growth companies.

The Commission takes a positive view of the establishment of a share savings account scheme, but recommends an assessment of whether such a scheme could also include unlisted shares.