

What Can the Public Sector Contribute to Increasing the Dynamics in Risk Financing Development in Austria ?

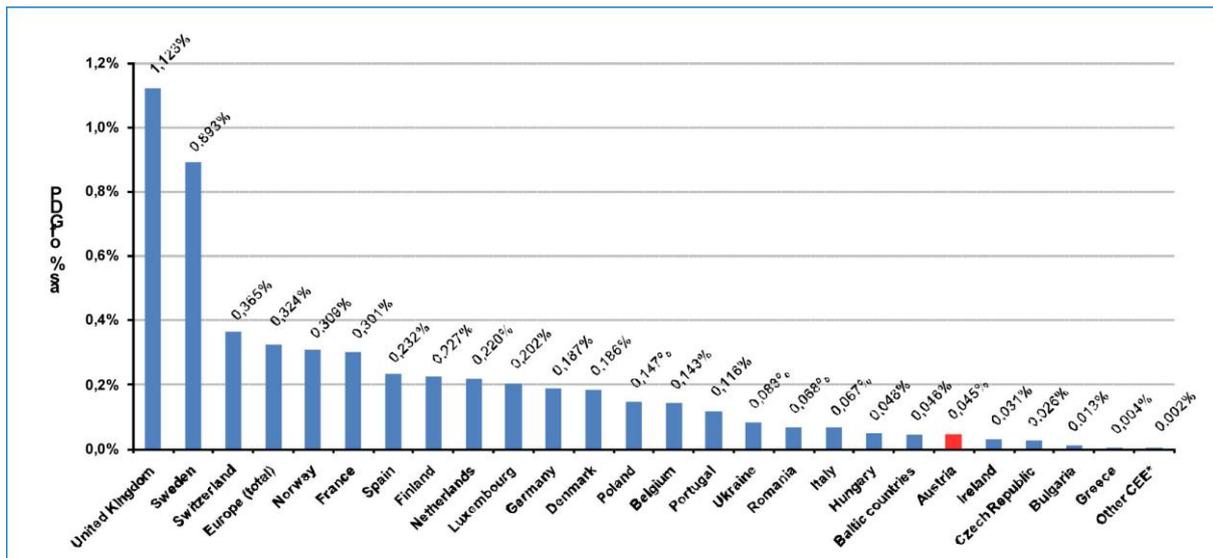
Risk capital financing instruments are a form of financing for growth-oriented, innovative enterprises and are primarily aimed at young research and technology-oriented enterprises in their start-up or growth phase. In Austria, like in other European countries, this field of risk financing is at a relatively low level compared to non-European economies (e.g. the U.S.). Risk capital investments have plunged all over Europe since 2007 and have only begun to recover since the year 2009. In Austria, however, there is no upward trend for raising capital, but a decline by nearly one third of the initial volume of 2009.

Background

Risk capital plays an important role above all when financing innovative, growth and technology-oriented SMEs. In these cases, banks frequently do not grant traditional loan financing, due to the increased risk. The capital requirement during this growth phase is very high, and existing funding instruments are often insufficient.

A study carried out by order of the Federal Ministry of Economy¹ describes the risk capital market as being inhomogeneous in general. Venture capital providers focus above all on the early growth phase of start-ups. Private equity providers tend to invest in rather more mature growth enterprises. Figure 1 shows Austria to be in 20th position for equity investment in Europe.

Fig. 1. Private equity investments (% of GDP in Europe) in 2010



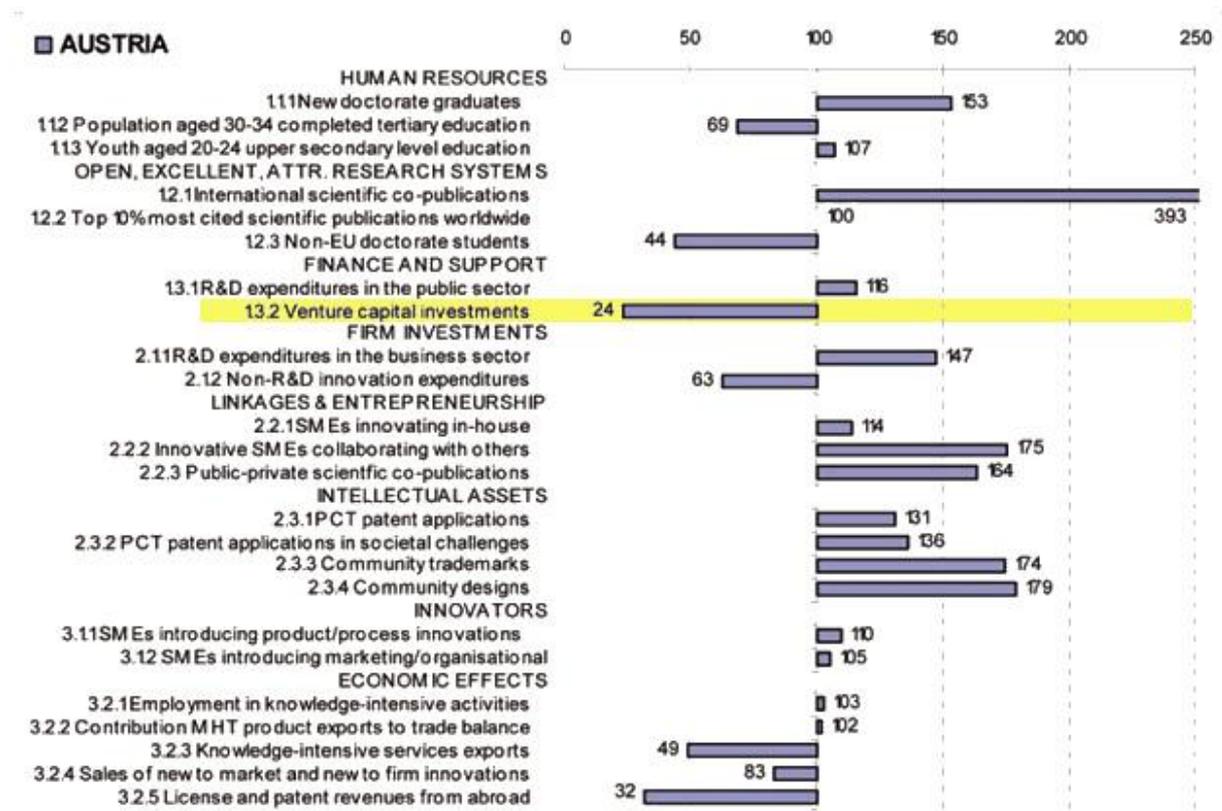
Source: EVCA, 2011

Above all, the default of banks and insurances as investors into funds is making itself felt. In addition, there is relatively little interest in the Austrian market by international investors. Most of the Austrian risk capital funds are below euro 100 million, which is the limit for international commitment. In addition, there is a tendency to invest in rather more mature enterprises.

The development of venture capital investments (1.3.2.) is one indicator of the dynamics of the emergence of young enterprises. An EU comparison shows Austria as being below average.

¹ KPMG, WIFO, AVCO, IMPROVEO: „Risikokapital in Österreich: Angebots- und Nachfrageseitige Erklärungsfaktoren für die geringe Ausprägung“ [Risk Capital in Austria: Supply-side and Demand-side Factors for Explaining Its Low Intensity“], Vienna, 2012.

Fig.2 – Values of indicators compared to the EU 27 average (= 100)



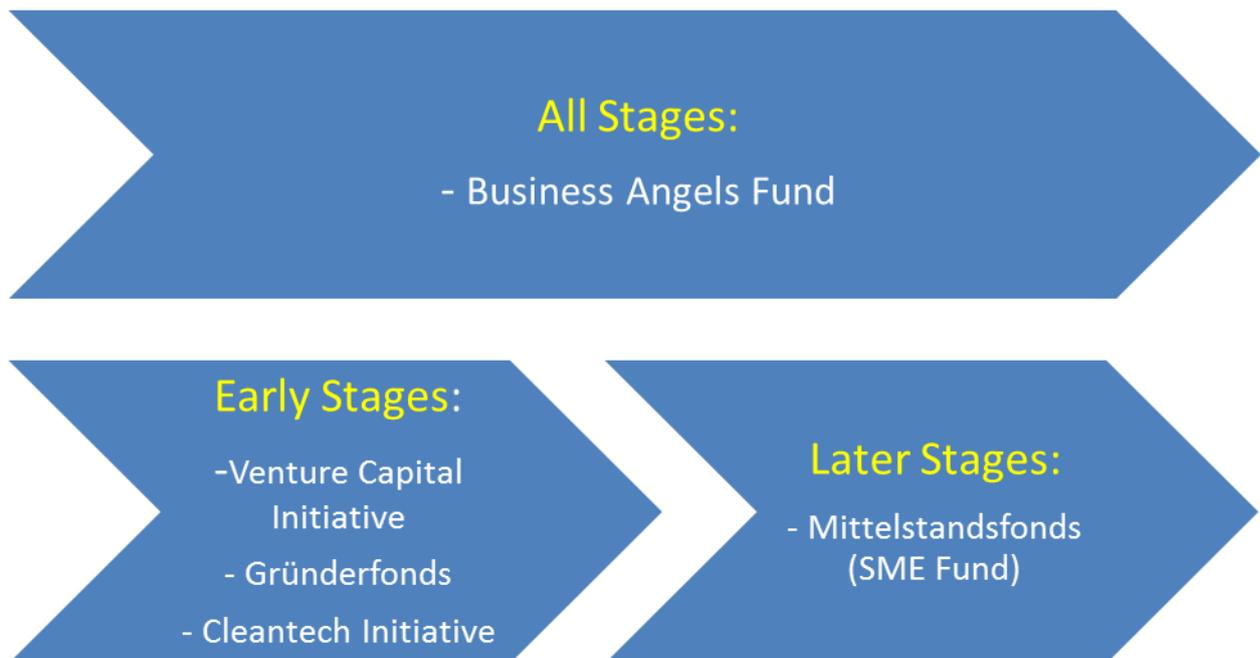
Source: Innovation Union Scoreboard 2013, European Commission 2013

The public sector and international institutions such as e.g. the European Investment Fund (EIF) have therefore taken measures in order to compensate partly for this default. At European level, for instance, a new “Risk Sharing Instrument (RSI)” was launched in 2012. It is intended to encourage banks to grant more loans to innovative small and medium-sized enterprises on a risk-sharing basis. RSI is part of the Risk Sharing Finance Facility which was introduced earlier and which addresses mainly large enterprises and mid-caps.

The regulatory framework conditions of risk financing are a further decisive factor. Different national, administrative, regulatory and tax rules make cross-border investment costly and time-consuming. To work towards an integrated European venture capital market, a “Regulation on European Venture Capital Funds” was proposed and adopted by the European Commission in 2012.

Public Sector Approaches – Initiatives in Austria

Fig. 3 – AT Initiatives by Stages



- **Business Angels Fund**

Business angels are individual investors, usually with business experience, who provide risk capital for start-ups. The objective of the Business Angels Fund is to double the risk capital brought into young Austrian enterprises by business angels. This fund is a joint initiative of the European Investment Fund (EIF) and the *Austria Wirtschaftsservice GmbH* (AWS) by order of the Federal Ministry of Economy, Family and Youth as well as the Federal Ministry of Finance. The initiative is endowed with a funding volume of EUR 22.5 million and supports the financial power of business angels – and thus the financing of innovative enterprises – by means of co-investments. Together with the investments of the business angels, this amounts to a financing volume of up to EUR 45 million.

This initiative implements the concept of the European Angels Funds (EAF) of the EIF in Austria. The European Angels Fund was first started successfully in Germany in March 2012 and should be gradually expanded to further European countries.

- **Venture Capital Initiative**

The Venture Capital Initiative supports research and technology-oriented enterprises in implementing innovative ideas. It mobilises private risk capital for financing the early stages and closes financing gaps towards traditional instruments, e.g. credits.

- ***Gründerfonds (Start-up Fund)***

The *Gründerfonds* (start-up fund) provides equity participation for young enterprises which have a high growth potential but are unable to raise the required funds for their business model e.g. through bank loans, and invests in the start-up phase and the first growth phase of commercial enterprises located in Austria.

The *Gründerfonds* offers long-term (up to 10 years) growth capital in the form of active / dormant equity holdings. Its structure is typical of the industry, it works under market conditions and it is open to co-investments. The investment volume amounts to between EUR 100,000.– and EUR 1 million. Return flows to the fund are available for further investments. The fund is endowed with EUR 65 million and has a term of 15 years.

- **Cleantech Initiative**

Within the framework of this initiative, the AWS invests in funds which in turn invest in clean-tech enterprises in their start-up or growth phase with a regional focus in Austria. There is a particular focus on enterprises which develop and market products, services or processes in the field of renewable energy sources.

- ***Mittelstandsfonds (Fund for Small and Medium-sized Enterprises)***

The *Mittelstandsfonds* (fund for small and medium-sized enterprises) of the *Austria Wirtschaftsservice*, the Austrian funding bank AWS, invests equity capital or quasi-equity funding in growth projects of small and medium-sized enterprises.

Summary

Since 2007 there has been a Europe-wide slump in risk capital financing. The public sector has therefore intensified its measures over the past few years. Recovery in Europe started in 2009, but there has been no upward trend in Austria so far, on the contrary: Investments in

Austria have declined by around one third. After having analysed the recent reports and studies, the recommendations for reversing this trend would be as follows:

- Further expansion of the support measures for financing in the growth phase.
- Adaptation of the regulatory framework conditions under consideration of the new European standards.

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Sources:

KPMG, WIFO, AVCO, IMPROVEO: „*Risikokapital in Österreich: Angebots- und nachfrageseitige Erklärungsfaktoren für die geringe Ausprägung*“ [Risk Capital in Austria: Supply-side and Demand-side Factors for Explaining Its Low Intensity“], Vienna, 2012.

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