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Year 2 – 2012

Task 1: Financial engineering

Austria

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METIS

A report to the European Commission
Directorate-General Regional Policy
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List of abbreviations

- AWS Austria Wirtschaftsservice GmbH
- AWS SME fund AWS-Mittelstandsfonds
- EEN Expert Evaluation Network
- FEI Financial Engineering Instrument
- OP Operational Programme
- PE Private Equity (in mature phases)
- RC Regional Competitiveness programmes
- VC Venture Capital (in early phases)
Executive summary

What was initially planned? What was the rationale?

In four out of the nine Austrian ERDF Convergence and Competitiveness programmes, Financial Engineering Instruments (FEIs) were planned in the 2007-2013 period (Burgenland, Oberösterreich, Kärnten, Wien).

Out of the wide spectrum of possible FEIs (equity, guarantees or loans) only the type venture capital (in early phases) and private equity (for mature enterprises) were targeted.

Concerning the share of the ERDF allocated to FEIs, FEIs represent between 4% (Oberösterreich) and 10% (Kärnten) of the ERDF funding in the programmes.

The Private Equity and Venture Capital funds (PE and VC) were introduced into the regional competitiveness programmes because a significant market failure was identified. The environment for fundraising for private equity and venture capital has got even worse recently on account of new regulatory demands and the economic crisis.

What is actually implemented?

The planned FEIs could only be realised in two programmes (Burgenland, Oberösterreich). For the regional PE and VC funds in Burgenland and Oberösterreich EUR 11.5 million ERDF was allocated, EUR 10.2 million committed (87% of allocated funds) and EUR 8.4 million disbursed (73% of allocated funds) which shows a good implementation path. The new funds have been implemented only recently and are – with the exception of the Burgenland ATHENA fund which was already founded in 2002 – in an early implementation phase.

Are FEIs effective?

Since the use of FEIs in the framework of ERDF programmes is still in a pilot phase, clear evidence is only available in the case of the ATHENA fund. Here, the fact that the full available fund volume was used seems to suggest that the instrument was well-targeted. The fund has invested in a total of 23 enterprises so far. The fund was however seriously hit by the economic crisis in 2008/2009.

The overall effect of the ERDF supported funds is to have made it possible to enhance the very narrow offer of PE and VC funds in Austria in rather adverse conditions. PE and VC funds are important complementary instruments which broaden the mix of instruments available for the support of innovative enterprises. These instruments should be further expanded but extensive reforms are needed in Austria beforehand.

Are FEIs a substitute for grants?

PE and VC funds are – in contrast to broadly applied FEIs such as subsidised loans and guarantees – a specific instrument for a very limited number of enterprises. Therefore PE and VC are no substitute but a very specific complement to grants.
1. Use of financial engineering instruments

Introduction to the Austrian context

Direct support to enterprises is one of the cornerstones of public support for economic development in Austria. Different types of instruments are used individually or in combination in the framework of a highly differentiated support system. These include awareness raising, advisory & information services, subsidised loans, guarantee mechanisms, equity financing or non-refundable and “conditional” refundable grants (a specific type of grant for seed financing high tech enterprises offered by the central agency Austria Wirtschaftsservice / AWS).

The European Commission’s State Aid Scoreboard shows the total state aid volume for enterprises in industry and services (i.e. less agriculture, fisheries and transport). In Austria in 2010 it came to roughly EUR 2,000 million or 0.7% of Austrian GDP which is above the EU-27 average of 0.5%. The structure and development of enterprise support in the period 1995 to 2010 is illustrated in the next figure.

Figure 1: Development and structure of Austria state aid to enterprises by horizontal objective in EUR million

![Figure 1: Development and structure of Austria state aid to enterprises by horizontal objective in EUR million](image)

Source: European Commission State aid Scoreboard, http://ec.europa.eu/competition/state_aid/; Tables: Non-crisis state aid by sector and objective, in million Euro (1992-2010); State aid for horizontal objectives of common interest; Note: State aid calculated for this section includes aid to industry and services and excludes aid to agriculture, fisheries and transport as well as financial crisis aid granted from 2008 to 2010. Also Community funds such as ERDF are excluded.

The highest amount of state aid is spent on the support for the environment and energy saving. This has grown substantially since the year 1995 and amounted to approximately EUR 1,000 million, half of all state aid, in 2010. The second largest block of state aid, amounting to approximately EUR 500 million, is spent on Research and Development. At EUR 221 million in total, support for small and medium-sized enterprise policy (including start-up support) and for regional development related enterprise seems rather modest in comparison to the gross investments of the approximately 300,000 Austrian enterprises which amounts to EUR 35,000 million a year (Knoll 2012a, Statistik Austria, Leistungs- und Strukturerhebung).
Support for risk capital has been recorded in the scoreboard since 2007 and amounts to only approximately EUR 11 million per year (due to the usual market conditions applied, the actual cash value of the public support is very low).

**Which mix of financial instruments is applied?**

With respect to SME and regional development related enterprise support, mainly subsidised loans and guarantees are used in Austria. Non refundable grants are used sparingly. In this respect, the financial instruments used in national economic development are very different from those used in the ERDF programmes. The latter almost exclusively use non repayable grants in the framework of specific measure types.

If, for example, one looks at the allocation of funding of the largest agency in the field of business development at national level, the AWS, one can observe the following distribution. Grants in a volume of EUR 50 to 150 million are allocated by the AWS. In contrast, the low-interest ERP (European Recovery Programme) loans amount to approximately EUR 500-600 million and liabilities and guarantees have a spectrum of EUR 250-350 million. The pure cash value of the guarantee instruments is only worth approximately EUR 20-40 million (Knoll 2012a).

FEIs are also applied at the regional level. According to a study by Steiner (2012), 10 of the 20 regional development agencies operating in Austria use subsidized loans and guarantees in addition to grants in the framework of their financial support (e.g. used by WIBAK, SFG, KWF, EcoPlus).

Moreover, public equity and – to a lesser extent – risk capital funds have been created by public bodies at national and regional level in Austria. However, these remain on the fringe and are mostly home-made Austrian solutions ("Insellösungen") which do not fulfil international standards (Peneder 2008, p. 469). Examples for PE and VC funds are the AWS SME fund at national level and the tecnet fund at regional level (neither are co-financed through the ERDF).

The AWS SME fund ("AWS-Mittelstandsfonds") is the biggest Austrian fund for dormant equity holding, but also for equity. It has a financial volume of EUR 80 million in total until 2025. Investments of the AWS SME fund in enterprises are tied to the following conditions: the enterprise must be at least two years old and it must have a minimum turnover of EUR two million. Newly created regional funds start below the AWS SME fund thus filling the gap below. For the very small target group of young, growth oriented enterprises from the high tech sector, venture capital is a highly attractive – because often the only available – substantial source of funding. In this manner – as one example, the tecnet equity fund was created at regional level in Niederösterreich in 2002. The government of Niederösterreich decided to pay particular attention to technology-oriented high-growth companies with a need for funding in the early stages of development. For this purpose, the government provides venture capital via the tecnet equity funds with a volume of EUR 38.3 million.

It should be noted that PE and VC funds are – in contrast to broadly applied FEIs such as subsidised loans and guarantees – a specific instrument for a very limited number of enterprises. In 2006 – a year with very high holding activities – a total of 190 investments in enterprises were made in Austria (Marchart, 2008, p.15).
For which types of measures are financial engineering instruments suitable?

A wide range of innovation measures are applied in the framework of innovation policy. FEIs are only suitable for a small part of potential measures (see table below). Above all, subsidised loans or guarantee mechanisms or equity financing are used in the funding of innovative companies. However, for funding research projects grants are only awarded which cover a percentage of business R&D costs. Therefore FEI are no substitute but a very specific complement to innovation policies.

Table 1: FEI as specific finance instruments for specific measures

<table>
<thead>
<tr>
<th>Type of innovation measure</th>
<th>Advice</th>
<th>Grants</th>
<th>Subsidised loans or guarantee mechanism</th>
<th>Equity financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding of joint science-industry projects involving enterprises and research</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding of basic or applied research institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding of incubators, business innovation centres</td>
<td>X</td>
<td></td>
<td>X for capital investments</td>
<td></td>
</tr>
<tr>
<td>Funding of innovative companies</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X early stage venture capital funds, subordinated loans, seed capital...</td>
</tr>
<tr>
<td>Funding of clusters</td>
<td>X</td>
<td>X</td>
<td>X for infrastructure investments</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Technopolis Group & MIOIR, 2012, own adaption*

Also with respect to the administrative costs (management costs and fees) there are substantial differences between the finance instruments (see Knoll/AWS, 2012b). Grants represent the type of support instrument with the lowest possible administrative effort and good scalability and often best meet the clients’ expectations. Grants can be combined easily with other products and services. On the contrary, subsidized loans and guarantees are longer term (often 6 to 12 years). Information needs often persist over the whole project duration which contributes to high administrative costs. Equity financing is also long term and requires highly skilled staff (usually expensive external management units) to build up and manage a portfolio of investments. Moreover, exit costs (intended or unintended) have to be taken into account (exit costs consist of management fees to cover the various methods of exiting an investment in the course of the liquidation of holdings).

Use of financial engineering instruments in ERDF programmes

In two out of a total of nine Austrian ERDF Convergence and Competitiveness programmes FEIs are used: in the phasing-out programme Burgenland 2007-2013 and the regional competitiveness programme Oberösterreich 2007-2013.

Out of the wide spectrum of possible FEIs (equity, guarantees or loans) only the type venture capital (in early phases) and private equity (for mature enterprises) are used. These two funds

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1 Legal framework of the use of FEIs for enterprises in ERDF programmes is Article 44 of Regulation No 1083/2006. Provisions on state aid to promote financial engineering support in SME is provided by the Community Guidelines 2006/C 194/02.
significantly increase the narrow offer in the field of PE and VC at regional level (for further details see section 4).

In Austria, FEIs are not used for investments in urban development, energy efficiency and renewable energies.

In the 2000-2006 programming period, only the Objective 1 programme Burgenland used FEIs; FEIs are new in the Oberösterreich programme (experience with the Burgenland fund which was created in 2002 are described in section 4).

For the regional PE and VC funds in Burgenland and Oberösterreich EUR 11.5 million ERDF finance are allocated, EUR 10.2 EUR million committed (87% of allocated funds) and EUR 8.4 million disbursed (73% of allocated funds) which shows a good implementation path (see table 2).

The EUR 11.5 million ERDF devoted to FEI represents about 2% of all ERDF finance allocated for the support of the enterprise environment (an ERDF volume of EUR 552 million ERDF are allocated for the enterprise environment for the 2007-2013 programming period, status 07/2011).

Concerning the share of the ERDF allocated to FEIs, FEIs represent 4% of the ERDF funding in the Oberösterreich programme and 6% of ERDF funding in the Burgenland programme.

In two other programmes (RC Kärnten and RC Wien), FEIs are foreseen in the operational programmes but cannot be implemented. The initial share of FEIs was 10% in the Kärnten programme and 7% in the Wien programme. The reasons for not using FEIs in those two programmes are explained in section 5. The non-implementation of 2 out of 4 planned FEIs means the use of FEIs in Austrian programmes has been significantly below that which was planned at the beginning of the programming period.

**Table 2: Use of FEI in Austrian ERDF programmes**

<table>
<thead>
<tr>
<th>Programme</th>
<th>ERDF allocation for FEIs (EUR million)</th>
<th>ERDF Commitment (EUR million)</th>
<th>ERDF Disbursement (EUR million)</th>
<th>Committed total volume of funds = ERDF + national public funds + private funds (EUR million)</th>
<th>Total ERDF alloc. (EUR million)</th>
<th>Share of FEIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convergence PH-out Burgenland</td>
<td>7.5</td>
<td>7.5</td>
<td>5.6</td>
<td>15.7</td>
<td>125.0</td>
<td>6%</td>
</tr>
<tr>
<td>RC Oberösterreich</td>
<td>4.0</td>
<td>2.8</td>
<td>2.8</td>
<td>11.1</td>
<td>95.5</td>
<td>4%</td>
</tr>
<tr>
<td>RC Kärnten</td>
<td>6.7 (2007)</td>
<td>Not implemented</td>
<td>67.4</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RC Wien</td>
<td>1.75 (2007)</td>
<td>Not implemented</td>
<td>25.1</td>
<td>7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: E. Kober, ATMOS Monitoring, status March 2012, own calculation*
2. Rationale for using financial engineering instruments

In the **convergence programme phasing out Burgenland 2007–2013**, ERDF PE and VC funds are supported under the Action 1.6: Strengthening capital resources. The reason for using PE and VC for enterprise support is referenced in general terms to market failure.

The case of market failure is also mentioned in the **regional competitiveness programme Wien 2007-2013** where the creation of a PE and VC fund for Viennese Small Enterprises (KU-Fonds Wien) was planned under activity 1.4 because small enterprises are confronted with the situation that - in spite of satisfactory business results - they cannot find the necessary funding for projects and growth oriented activities.

The **regional competitiveness programme Oberösterreich 2007-2013** supports the development of a PE and VC fund under the activity 1.5: Development of risk capital financing and improvement of access to risk capital for quickly growing companies and for company takeovers. According to the fund directive, there is – in line with the market failure logic – a lack of private investors in the early stages and growth phases of company development and the fund tries to fill this gap with public investments in order to promote the development of technology oriented SMEs in Upper Austria.

In Austria, private equity and venture capital funds were introduced into the regional competitiveness programmes as specific FEIs on a small scale because a clear deficit in these forms of financing were identified. Loans and guarantees were not included in the programmes as enough public and private offers were available on the national market.

A significant market failure can however be identified in the field of PE and VC. In the EU ranking, Austria is among those Member States with the lowest proportion of PE and VC in its GDP. In the year 2000, Austria brought up the rear of all EU Member States in the ranking (Peneder, 2002, p. 5). Institutional investors are reluctant to invest in VC as the legal basis is lacking and there is very little transparency concerning the expected returns on investments (Marchart et al 2008, p. 54). The environment for fundraising for PE and VC has got even worse through the new regulatory demands such as Basel III, Solvency II. The financial gap for start ups has got bigger and not smaller (Source: Managing Authority Oberösterreich).

Economic development agencies have a strong interest in developing functioning PE and VC offers. The creation of new structures for VC funds which conform to international best practice is also recommended by the OECD in its economic surveys for Austria (2005, 2009).

Private Equity and Venture Capital as financing instruments complement enterprise support which, in the framework of the regional competitiveness programmes, is almost exclusively based on non-refundable grants. They do not substitute them. Grants allow the broad support of different types of enterprise and projects and not just the small segment of high-growth enterprises which are targeted by the PE and VC funds.

PE and VC are however not in all the nine RC programmes because the establishment of funds which are compatible with the EU standards with the necessary private participation is very complex and time-consuming. It is also not clear if the creation of a large number of low-volume funds at regional level is particularly effective.
3. The effectiveness of financial engineering instruments: selected examples Burgenland and Oberösterreich

The funds under review are both the risk capital funds in the Burgenland (Athena Burgenland Fonds, BRM Burgenländische Risikokapital Beteiligungen AG) and the risk capital fund in Oberösterreich (OÖ Hightech Fonds GmbH).

In the Burgenland the regional development agency WIBAK initiated two risk capital funds with a focus on the regional SMEs in the Burgenland which are supported by the ERDF.

The Athena Burgenland Funds (www.athena-bgld.at) was created in 2002 in the 2000-2006 programming period. It has a volume of EUR 30 million and is managed externally by the BRM Burgenländische Risikokapital Management AG. The investors in the fund are the regional development agency WIBAG (which contributes ERDF money) and a consortium of banks. The investments range from EUR 200,000 to EUR 1.5 million. Capital is provided for start-up enterprises with high growth potential but also expansion and growth funding for companies in traditional sectors. The fund does not only concentrate on early stage financing but also targets more mature enterprises to minimize risks through broad diversification. A pure focus on early phases would not be accepted by private investors due to higher failure rates and would require public guarantees (which were reduced in the last years by the AWS) in order to secure the investments. The timescale of investments is between five and seven years. Possible exit forms are trade sale, buy back or initial public offering. The backflow of funds should be used for new investments. At the moment, 14 companies are in the portfolio (cut-off date 30.04.2012), which is a higher number than originally expected. The fund has invested in a total of 23 enterprises so far. According to the management, no other Austrian VC fund has as many holdings.

The ATHENA Burgenland Beteiligungen AG was audited in 2011 by the Burgenländischen Landes-Rechnungshof (Burgenland Court of Auditors). The report mentions the difficult economic situation of the fund which has been affected by write-offs and value adjustments against the background of the negative economic environment. In the business year 2011 the economic situation was however consolidated and a profit (return) achieved. The fund currently consists of a third of underperforming enterprises, a third of performers and a third of overachievers which are able to multiply the capital investments. According to the management, a number of the enterprises may not have survived the economic crisis in 2009 without the external equity partner.

The managing authority for the Burgenland programme has outsourced the administration and control of the fund to the intermediary body WiBAG. Furthermore an external funds management was contracted which costs have been limited in the set up of the contract. That means the managing authority is not involved in the operative business to manage, administer and control the fund. The external management collects outcome indicators such as new or safeguarded jobs and induced external finance to be reported to the managing authority.

Overall, the Athena fund managed to fulfil the original expectations as the whole volume of EUR 30 million was used. However, it took longer than planned to gain access to companies. It transpired that it is very useful to have a fund management structure locally (and not in Vienna) in order to be able to actively work the market.
The BRM Burgenländische Risikokapital Management AG also manages a new risk capital fund, the **BRM Burgenländische Risikokapital Beteiligungen AG** (www.brb-ag.at) which has EUR 15.7 million of its own and offers mezzanine capital for small and medium sized enterprises in the growth phase. The fund first started its operative business at the end of 2010. Investments range from EUR 200,000 to EUR 2.5 million. The fund is supplied by the regional development agency WIBAG (with ERDF funds) and private investors. At the moment, 5 companies are in the portfolio (cut off date 30.04.2012). In total about 10-20 holdings are envisaged.

Both risk capital funds offer enterprises active investment management, i.e. co-decision-making in strategic questions, support in business concerns, or a position on the advisory board. Active investment management is considered as a key success factor in private equity business and creates a value added for the entrepreneurs to better exploit and commercialize their innovative potential.

The regional competitiveness programme Oberösterreich 2007-2013 supports the development of a risk capital fund. The **OÖ HighTechFonds** (www.hightechfonds.at/) could only be finalised at the beginning of 2011. Regional banks in Oberösterreich founded the regional funds in 2011 with a capital of EUR 5.5 million. The government of Oberösterreich also provided a loan of a similar volume. This loan is 50% co-funded by the ERDF (EUR 2.75 million respectively are contributed from the Land and from the ERDF). In this manner, a start-up capital fund of 11 million is available. Later returns (provided by the supported enterprises) – minus the management costs – can be used for SME development or to pay back the loan received from the Land.

The fund is oriented towards the seed-/start up financing of technology and growth oriented SMEs from the manufacturing and service sectors. It is foreseen for the start-up financing of innovative young entrepreneurs (VC) but can also be used by established enterprises in Oberösterreich (PE) especially in structurally weak regions which are aiming to expand. Investments range from a minimum of EUR 250,000 to a maximum of EUR 1.5 million and last for a maximum of ten years. The fund is managed by an independent fund manager (tech2b) which is supported by a pool of experts (due diligence, advisory services for the enterprises). The enterprises are offered business know-how as well as investments and the management of the investments. The intensive follow-up of the companies is usually in the form of monthly reporting and the introduction of management tools such as the Balanced Scorecard. The costs for the fund management (executive board) are low at 1.65% of the assets of the fund on a yearly basis. The decision to invest is taken only after a thorough ex ante assessment of the company (due-diligence-assessment). The prerequisite is that the investment undertaken by the company is plausibly future and profit-oriented (which can be a problem with high risk undertakings and requires a thorough risk management). The number of enterprises which benefit is small on account of the small volume of the fund. At the moment, one company is in the portfolio with an equity holding of EUR 1 million (cut off date 7.05.2012). The reason for this is the rigid selection process: the fund management pre-tested 45 enterprises and undertook an in-depth due diligence assessment on 10 of them. Only one company was selected in the end.
The managing authority of the Oberösterreich programme is part of the "selection board" (the fund specific body which decides on the selection of enterprises) and has therefore direct control over the fund.

According to the fund management, the performance of the newly established fund to date corresponds to the plan and there is awareness of the need and demand for such a fund in future.

4. **Main problems in using financial engineering instruments**

The [regional competitiveness programme Wien 2007-2013](#) planned the creation of a risk capital fund for Viennese Small Enterprises (KU-Fonds Wien) under activity 1.4. Through the foundation of an investment fund (KU-Fonds) small enterprises with potential should be given access to funding. In the interest of a return on investments, the provision of funds through the KU-Fonds should be granted on a purely business basis. The long-term aim is to get private capital on board and to withdraw public funding as soon as the perceived market failure has been dealt with and there are enough funds available from private investors. In the first five years, a purely public fund was planned which would be funded with capital from the Wirtschaftsagentur Wien and the ERDF. It was planned to introduce private investment in addition to the public funds after a period of five years.

In the year 2006 – the year of the planned setting up of the fund – the then new SME guidelines for risk capital came into force. They stipulated a 50% investment of private investors. The EU competition authorities in Brussels demanded a more or less immediate investment of private investors from the beginning (and not, as planned, after five years). The Wirtschaftsagentur Wien could not find the necessary private investors due to the low returns on investment of approximately 8% and the fund could not be created.

To sum it up, in Vienna it turned out that the main problem consists in a lack of interest on the part of private investors due to low expected returns. In addition, there is a lack of harmonisation between European Guidelines on FEI and national interests and legislation frameworks leading to difficulties in the implementation of FEIs. Vienna intended to have a fund with lower private participation which was not compatible with European provisions.

The [regional competitiveness programme Kärnten 2007 - 2013](#) planned a risk capital fund under measure 2.4 (Innovative forms of finance).

It was intended to set up together with the BABEG- Kärntner Betriebsansiedlungs- und Beteiligungsgesellschaft m.b.H. a risk capital fund for early stage financing with private investors and with an external management with EUR 6.7 million ERDF co-funding.

The main problem was getting national co-funding which, in the end, was not possible. In addition, the complex implementation structures were responsible for the fund not being established. It will not be possible to set it up in the current programming period 2007-2013.

In the Oberösterreich programme which managed to set up a funds, the main challenges lie in the finding of private participation (from seven regional banks in Oberösterreich) and in the

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2 Based on the information provided by Wirtschaftsagentur Wien, Mr DI Pauger
complex and time-consuming development of the thematic priorities, guidelines and implementing structures of the funds.

In the Burgenland programme, which has the longest experience of using PE and VC funds, the following challenges have been noted: private investors require additional guarantee instruments for the preservation of their investments. Such guarantees have been reduced in recent years by the central agency AWS. There are also insufficient legal provisions for VC funds in Austria. In order for VC funds to spread further in Austria basic reforms would need to be carried out.

5. Evaluation of financial engineering instruments

Evaluations of FEIs were undertaken independently of the ERDF-programmes.

The impact of venture capital financing on innovation behaviour and firm growth was assessed by Peneder (2010). The paper tests the impact by applying a sophisticated counterfactual analysis (two-stage propensity score matching) on Austrian micro-data (166 venture capital financed companies in Austria have been compared to a control group of about 33,000 companies using a database of the leading Austrian credit rating agency).

The empirical findings confirmed that VC backed firms are constrained in their ability to obtain financing through traditional channels. Therefore the specific financing function of VC is shown for firms operating at the margins. The data show that on average VC financed firms are more innovative and grow faster in terms of employment and sales revenues than other firms in the control group. The observed differences are linked to two factors. Firstly, the selection effect since VC-equity targets firms with particularly high growth potential which means that resources are allocated to more innovative firms fostering structural change. Secondly, the value adding function of informed and active investors boosts the capacity to commercialise innovation and growth. However, VC is not a substitute for public innovation support since there is no causal impact of venture capitalists on the innovation capacity of firms. Despite this limitation it is finally concluded that VC remain an important complementing element of effective innovation systems.

6. Concluding remarks

The use of FEI in the framework of ERDF programmes in Austria is still in a pilot phase. The development of new financial instruments – with focus on PE and VC funds – was aimed at a number of programmes (Oberösterreich, Wien, Burgenland, Kärnten), but turned out to be extremely difficult to implement in practise. Only in Burgenland and Oberösterreich could relatively small PE and VC funds for the support of a small number of enterprises be created. The new funds with a very specific financing function have been implemented only recently and are - with the exception of the Burgenland ATHENA fund which was already founded in 2002 – not yet fully operational.

The operational capability of the Burgenland ATHENA fund instrument seems to be proven at this stage by the fact that the full available fund volume could be utilized. The fund seems to be well-targeted and the take up is good. The fund however was seriously hit by the economic crisis 2008/2009 and did not achieve a profit until 2011.
The ERDF supported funds made it possible to enhance the very narrow offer of PE and VC funds in Austria in rather adverse conditions. PE and VC funds are important complementary instruments to broaden the mix of instruments which is available for the support of innovative enterprises. These instruments should be further expanded but extensive reforms are needed in Austria beforehand. The question of whether it is efficient for each Bundesland – as is usual in a federal system – to have its own small venture capital fund needs to be clarified. It would be much more effective to set up a better risk management within larger funds. This would also strengthen the acceptance of private investors. If the size of the regional fund is not big enough, public guarantees would have to be established.

At the moment a shift towards a greater role for FEIs and conversely a smaller role for grants in the Austrian ERDF programmes cannot be expected. Subsidized loans and guarantee schemes are fully developed in the national system; there is only a need in the framework of ERDF programmes to enhance the existing offer with specific financial instruments e.g. filling funding gaps through publically financed VC funds. The ERDF can support that development – as one of a number of measures in the framework of regional innovation policy – in order to create functional and high-performing investment markets. However, we are talking about very specific instruments for a very small group of enterprises which need consistent funding in very early phases of enterprise development.

Concerning the assessment of the performance of FEIs in the framework of ERDF programmes there is still room for significant improvements. In the development of an impact monitoring system for financial instruments in the framework of EU programmes (which does not yet exist), the specific character of new FEIs should be taken into account. While indicators for non repayable grants tend to address mainly the effects of project support, indicators for loans, guarantees and equity finance should be developed to address the latter’s impact on the financial structure of the whole enterprise. An extension of the indicators to cover the project and enterprise levels is therefore necessary. At enterprise level, the improvement of the financial structure could be measured through the risk assessment of the company over time (rising/staying the same/sinking).
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- www.athena-bgld.at
- www.awsg.at
- www.avco.at
- www.brbr-ag.at
- http://ec.europa.eu/competition/state_aid/
- www.tech2b.at
- www.wibag.at
- www.wkbg.at

Interviews

- ÖROK, Mag. Andreas Maier
- Land Oberösterreich, Wirtschaftsförderung, Mag. Eva Zsigo (written feedback)
- Land Kärnten, KWF, Dr. Karl Hren (written feedback)
- Land Burgenland, WIBAG, Mag. Sigrid Hajek (written feedback)
- Land Wien, Wirtschaftsagentur Wien, DI Walter Pauger (written feedback)
- AWS, austria wirtschaftsservice | erp-fonds, Mag., MSc Norbert Knoll
- E-mail contacts with ERDF monitoring representative Mag. Elfriede Kober