

Private Equity (PE) / Venture Capital (VC) for the Austrian Innovation System

The Austrian Council has for several years emphasised the importance and relevance of an ambitious start-up and growth policy that includes both a functioning private-equity market and the selective promotion of research and technology-intensive start-ups (see Council Recommendation Concerning Start-up and Growth Financing, 8 July 2005).

The Austrian economy needs innovative businesses. Young companies in particular require more capital, a need that in many cases cannot be met from traditional sources of financing. Institutional risk capital can make a major contribution to meeting this need. The careful assessment and selection of the projects, the continuous monitoring and support of companies through the specialised management of the investment can reduce information problems so that some of those business segments affected by the failure of the traditional market can be profitably financed by the private sector.¹

At present, the national innovation system has a relatively low volume of PE/VC. There is a growing trend among Austrian funds to finance expansion and internationalisation projects, while early and high-risk phases are neglected (see Table). However, it is precisely in these early phases that there is a greater need for financing.

Against this background, the Council for Research and Technology Development formulated four recommendations for action that aim to strengthen Austria's position as a knowledge-based economy in international competition:

Development of VC/PE in Austria 2005/2006 ²				
	PE as a percentage of GDP	Fundraising	Investments	Seed and Start-up Investments
2005	0.058 %	EUR 217 mn.	EUR 143 mn.	~ 20 %
2006	0.062 %	EUR 279 mn.	EUR 158 mn.	~ 6 %

¹ Peneder, M. / Schwarz, G. (2007): Die Wirkung von Private Equity und Venture Capital auf Innovation und Wachstum der Unternehmen. WIFO on behalf of the BMWA.

1. Private Equity Law

The Austrian Council recommends the rapid implementation of a private equity law based on international standards for the purposes of creating suitable structural conditions for internationally attractive fund structures.

This PE law should meet the needs of investors and the holding companies and should not therefore be subject to any restrictions whatsoever of a geographical, investment or other nature. The venture capitalists should ideally join forces in the form of a limited partnership (Kommanditgesellschaft KG) and decide for themselves in which industries, company sizes and phases they wish to invest. With regard to the oversight and transparency of the funds, the Austrian Council recommends adopting investor relations guide lines 3 based on those of the industry. Appropriate transitional periods should be provided for the new PE law. Moreover, a PE law is a key prerequisite for all other measures and recommendations.

2. Implementation of a Fund Initiative for Early Phases with the Public Sector Holding a Minority Interest

The Austrian Council recommends a fund initiative, within the framework of which the public sector acts as a financier in funds that are geared especially to the needs of young, innovative companies in their early phases. The public sector investments should be made exclusively on customary market terms.

There must also be a strong focus on private sector principles such as a professional and independent fund management.

The necessary annual volume, of which no more than 30 percent should be provided by the state, must be established during the development of the concept. The individual funds should not fall short of a substantial volume (EUR 30 million as a reference value) in order to ensure adequate funding for subsequent rounds. Other sources of financing, besides federal government funds, are the Competitiveness and Innovation Programme (CIP), the EU's main funding programme for innovation and competitiveness, and the provinces. As the first step, those institutions should be identified that could take on the management of the investment for the public sector.

This type of fund initiative will lead to a multiplication of venture capital due to the incentive effect of the public funding.

3. AplusB Centres as Regional Contact Points for Financing-Enquiries

The Austrian Council recommends positioning the AplusB centres more strongly as PE/VC advisory bodies for new entrepreneurs and expanding their area of work in this regard to cover non-university start-ups and the related need for additional resources. To ensure a critical mass of start-up projects for investors, the centres should be networked to a greater extent through the existing Austria-wide AplusB platform.

To this end, financing consultancy services should focus above all on the start-ups' capacity for innovation, while the advisory services should be extended to cover non-university start-ups. Coordination with other advisory bodies must be continued.

Due to the essential importance of the AplusB centres for start-up dynamics in Austria, appropriate arrangements must be made to ensure their sustainable development in the future. The Austrian Council therefore wishes as a matter of urgency to examine the concept and draw up a recommendation for the AplusB centres.

4. Awareness-Raising Measures Regarding Venture Capital

The Austrian Council recommends drawing up a joint action plan to coordinate the current and planned awareness-raising measures of the responsible ministries (in particular the BMWA, BMVIT und BMF) both with one another and with those of organisations representing industry. In this connection, a joint, long-term and centrally coordinated approach by all stakeholders would be advisable.

To coordinate and harmonise existing measures, a joint campaign must be started that will provide information to both investors and companies. As well as improving acceptance of VC among new entrepreneurs, the investment readiness of existing and potential investors (such as business angels, foundations, pension funds as additional pillars of the private equity market) should be addressed.

In addition to a basic shared understanding – for example regarding the definition of high-tech or venture capital and private equity – other important elements of this type of awareness campaign include specific content such as information on advisory services and national success stories.