

Criteria and Classification Models for Innovation Projects

aws | Austria | Roswitha Mosburger

10.06.2010 | TTT-Seminar in Skopje/FYROM

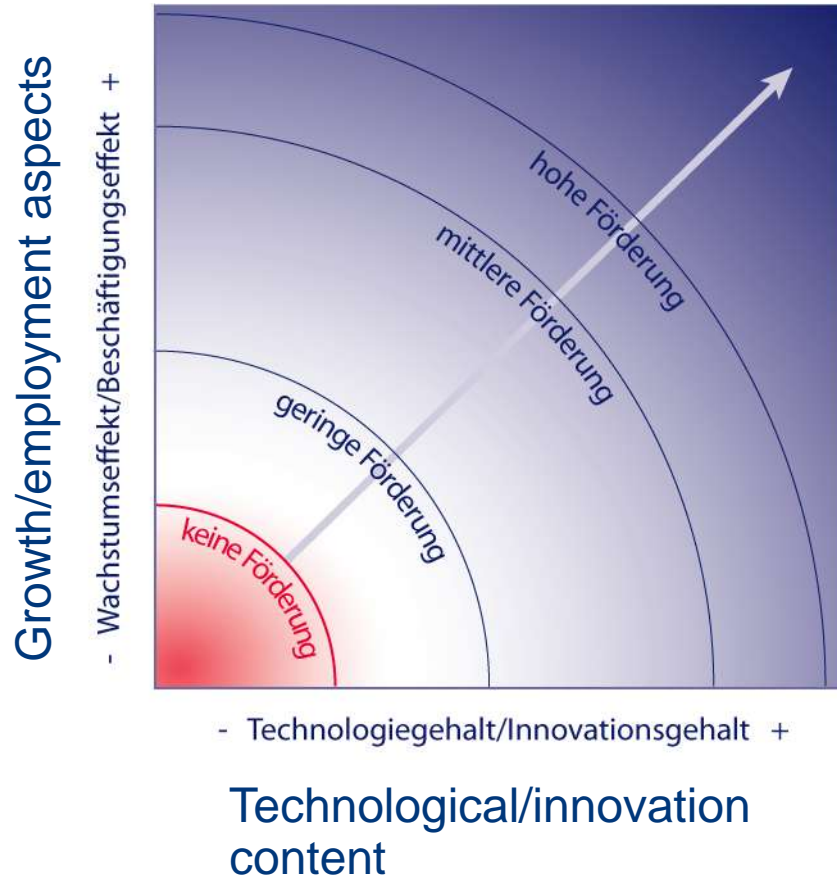
Criteria, Classifications and Schemes for aws Innovation Instruments:

- ERP (Technology) Loans
- Guarantees
- Grants

Excurs:

Other Schemes - COIN of Austria Research Promotion Agency

Evaluation of Projects – General Approach



Company

Project

Product, Market,
Technology

Special Aspects

Classification and Criteria for ERP (Technology) Loans

Evaluation Scheme – aws/ERP Technology Loans

ERP Technology Loans

Determination of adequate intensity of support per

- **Classification of (possible) support:** low, medium, high – according to fulfillment of criteria
- **Levels of fulfillment of criteria:**
 - does not apply
 - applies
 - does especially apply

-

Evaluation Scheme – aws/ERP Technology Loans/Criteria

- 1. CONTENTS OF TECHNOLOGY and INNOVATION:**
 - Technical innovation of project
 - Improvement of infrastructure for T&I
 - Organizational innovation
- 1. GROWTH AND EMPLOYMENT**
- 2. EXCLUSION CRITERIA**

Evaluation Scheme – aws/ERP Technology Loans/Criteria

Ad 1.

Technical innovation of project:

- Input/Adjustment/Production:
eco-, energy- or resource efficient procedure, products and services (if this applies especially = total score + 1 level)
- New functions of products
- Use of new kinds of materials
- Dimensioning (Enlargement/Minimalization)
- Dimensional accuracy, process control
- advanced construction and production technology
- Technology leap (SME)
- Transformation/implementation of own R&D within the project

Evaluation Scheme – aws/ERP Technology Loans/3

Ad 1.

Improvement of infrastructure for T&I

Organizational innovation

- Development co-operations,
- Clustering
- Regional integration
- Integration of e-business in business procedures

Evaluation Scheme – aws/ERP Technology Loans/4

2. GROWTH AND EMPLOYMENT

- Contribution of project to sustainable growth
- Expansion of market potential (opening of new markets)
- Improved level of qualification
- Significant increase in employment
- Regional pioneer, model for region or sector
- Cooperation for distribution and/or sellings

Evaluation Scheme – aws/ERP Technology Loans/5

3. EXCLUSION CRITERIA

- Strategic windfalls (depr./amort., cash flow, available cash)
- Economically not feasible
- No project can be identified
- other exclusion criteria (eligibility of sector, management not capable etc.)
- sensitive sectors (EU)
- sensitive industries (Austria)
- Sustainability not given

Example for Template

Gebrüder Eder Ges.m.b.H., 9900 Lienz		20. Juni 2002	
Erweiterung des Standortes Leisach: Bau einer Produktionshalle mit angeschlossenem Labor und technischem Büro		BEWERTUNGSSHEMA zur Festlegung des angemessenen Gesamtförderungsbarwertes nach den Kategorien niedrig, mittel, hoch	
TECHNOLOGIE und INNOVATIONSGEHALT:		trifft zu = x	trifft im beson- deren Maße zu
Technischer Innovationsgehalt des Projektes:			x
Einsatz/Umstellung/Erzeugung: öko-, energie- bzw ressourceneffiziente Verfahren, Produkte und Dienstleistungen (trifft im besonderen Maße zu = Gesamtbewertung + 1 Stufe)			
neue Funktionalität von Produkten	x		
Einsatz neuartiger Materialien			
Dimensionierung (Vergrößerung/Miniaturisierung)			
Maßgenauigkeit, Prozessbeherrschung			
avancierte Konstruktions- und Fertigungstechnologie	x		
Technologiesprung (KMU)			
Umsetzung eigener F&E im Rahmen des Projektes	x		
Stärkung der Infrastruktur für FTE – Tätigkeit	x		
Organisatorische Innovation Entwicklungskooperation, Clusterbildung, regionale Vernetzung, Integration von e-business in Geschäftsprozesse			

WACHSTUM und BESCHÄFTIGUNG (Dynamik der Entwicklung):			
Beitrag des Projektes zu nachhaltigem Wachstum	x		
Erweiterung des Marktpotentials (Erschließung neuer Märkte)	x		
Anhebung Qualifikationsniveau			
wesentliche Erhöhung der Beschäftigtenzahl	x		
regionaler Leitbetrieb / Leitbildcharakter des Projektes für Region / Branche			
Kooperation im Absatz / Vertrieb			

AUSSCHLUSSKRITERIEN:	trifft nicht zu	trifft zu
Mitnahmeeffekt (AfA, Cash Flow, Barmittelbestand)	x	
wirtschaftlich nicht bewältigbar	x	
kein Projektcharakter erkennbar	x	
sonstige Ausschlusskriterien	x	
EU-Stahl Rahmen (früher EGKS)	x	
sensible Branchen (EU)	x	
sensible Branchen (Österreich)	x	
natürliche Standortgebundenheit	x	

Determination of Intensity of Support for ERP-Technology Loans

Evaluation Matrix

Growth/Employment	high	medium	high	maximum
	medium	low	medium	high
	low	rejection	low	medium
		low	medium	high
		Technology / Innovation		

ECO-Bonus possible

Criteria: aws Guarantees and Grants for Dynamic SME

Grants

- macro economic targets, innovation, growth, employment

Guarantees (loans)

- Risk policy, improved financial situation for start-up-enterprises/SME, innovation
- Rating of company obligatory (aws own rating system)

Criteria – Grants/Subsidies

5 Criteria (--, -, +, ++)

- Track record (ex-post- analysis of growth-rate): growth rate during the last 3 years (employment, exports, sales)
- Employment effect of the project: effect of the investment on the number of employees (within the next 2 years)
- Investment volume: in relation to the overall investment volume of the SME (depreciation, costs of leased assets)
- Innovation: what is new for the SME (new customers, procedures)
- Regional aspects: regional aid areas

Criteria - Guarantees

6 Categories (similar to rating cat.)

- Management: experience, success story, references, teambuilding, relation to owners
- Market: risks and opportunities, competition, fixed orders, dependencies
- Product, Service: USP, competitive products or services, product life cycle
- Production: equipment, machinery, building, staff
- Financial Analysis: Annual Reports an Business-Planning (Rating)
- Collateral: statement of liability, collateral, personal creditworthiness

Management/Owner:

- Experience
- Success
- References
- Team
- Relation to owner
- Personal creditworthiness

Product/Service:

- USP
- Usability
- Competitive products/services
- Life cycle
- Own know how
- Property rights

Market/Competition/Sales:

- Market development
- Regional aspects
- Sector development
- Competitors
- Existing orders/contracts
- Dependencies
- Restrictions

Production:

- Equipment
- Real estate (rent)
- Staff
- Visit to the company

Financials:

- Balance sheet, profit & loss account
- Forecasts (business plan)
- Ratios

Ratios (as used in aws):

- Cash-flow: $\text{income/loss} + \text{depreciation} + \text{provisions}$
- Repayment period:
$$\frac{\text{liabilities} - \text{cash}}{\text{cash} - \text{flow}}$$
- Current Ratio:
$$\frac{\text{current assets} \times 100}{\text{short term liabilities}}$$
- Return on assets:
$$\frac{(\text{income/loss} + \text{interest}) \times 100}{\text{balancesheet total}}$$
- Equity Ratio:
$$\frac{\text{equity} \times 100}{\text{balancesheet total}}$$

Collateral:

- Current statement of liabilities
- Collateral offered
- Collateral used for other types of financing
- Personal guarantee

Other Schemes – Example „COIN“

Targets of the program „Cooperations and Networks“

- Set-up and development of co-operations and networks of companies for application-oriented innovation projects
- Increasing investment of participating SME (if possible also their project partners)
- Strengthening the co-operation skills of SME
- Efficient transfer of know how and technologie for the benefit of SME
- Integration of intermediaries in networks
- Improvement of the economic utilization of innovative products, procedures and/or services

Types of Co-operation

- Development of new project-orientierter R&D&I co-operations and networks
 - Networks of companies
 - Involvement of research institutes/intermediaries
- Support of innovative projects of already established networks(e.g. existing clusters)
 - Leverage of innovative outputs for all participating SME
 - Clear structures, competent management

Eligibility

Applicant or partner of the project:

- Company
- Co-operating R&D institutions (universities and others)
- Intermediaries for technology transfer

Pre-conditions:

- Min. 3 companies, whereof 2 SMEs

Type of Support/Financing and Own Funds

- max. 60% grant of eligible costs
- max. EUR 500.000
 - max. 70% R&D institutes
 - max. 60% SE, intermediaries
 - max. 50% ME
 - max. 40% BE
- Own funds: either cash and/or in-kind-contributions
- Minimum project size: EUR 100.000
- External costs max. 40% of total eligible costs

Terms: min. 1 year, max. 3 y. - usually 2 y.

-

Evaluation Criteria of the Jury/1

1. Quality of project (supported by a professional expertise), 2 questions:
 - innovative content (with regard to initial situation)
 - quality of planning

2. Relevance for the objective of the program, 3 questions:
 - Access of SME to R&D&I-Expertise (technology transfer)
 - Structure and quality of the cooperation
 - Improvement of innovation level/skills

3. Qualification of applicant, 2 questions:
 - Management skills, capacity of applicant
 - Technical competence of partnership

Evaluation Criteria of the Jury/2

4. Economic potential and possibility for realization (supported by professional expertise), 2 questions:
 - Economic potential and realization
 - Benefit of project results for SME

5. Innovative service, 1 question:
 - Does the project fulfil the criteria for innovative services?

(Criteria: new services; technological innovation; organizational innovation; new concepts for services; new business models)

Total Value: Each criteria is evaluated verbally and by points (0-4)

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aws Instruments for Supporting Innovative Projects - I

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Contents

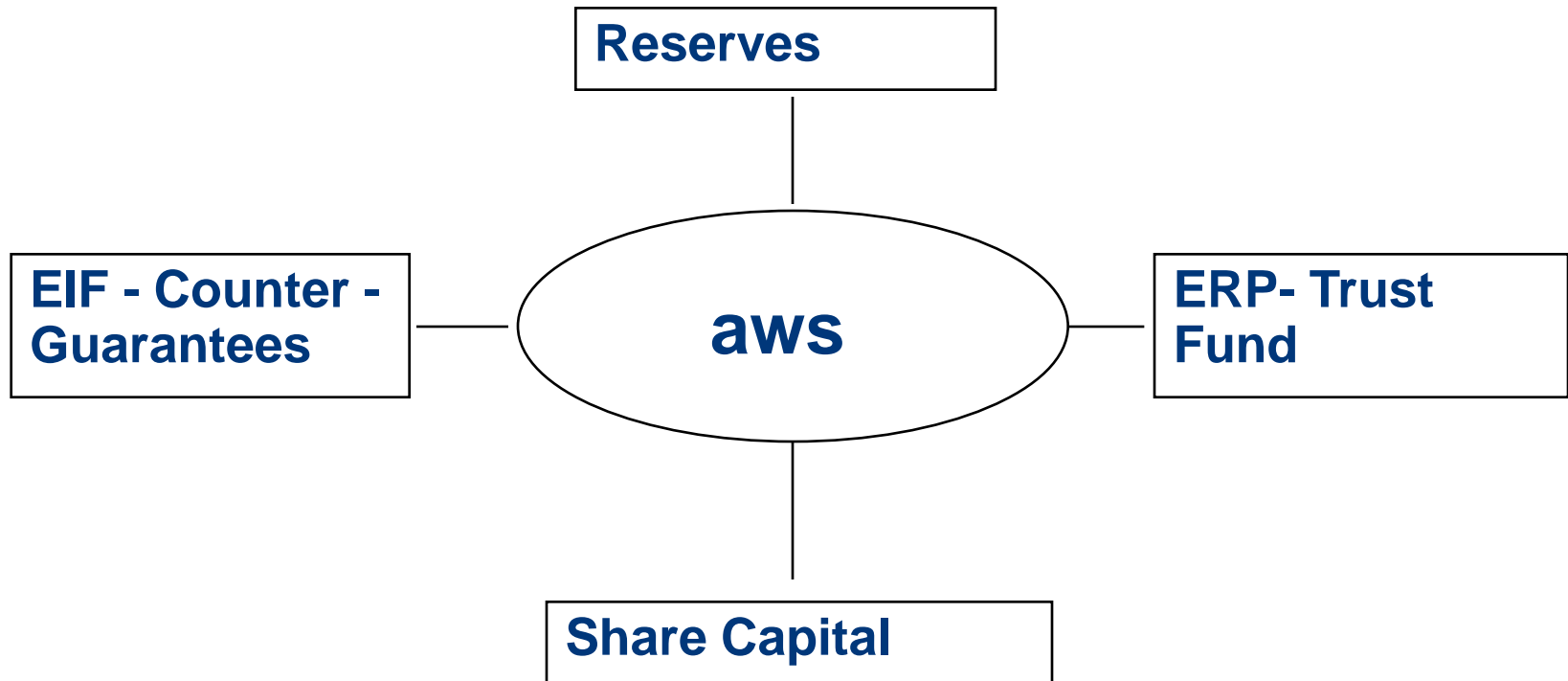
- **aws background**
- **aws guarantees and grants for innovation projects**
- **ERP Loans and ERP Technology loans**

- 100 % owned by the Republic of Austria („AAA“)
- Limited liability company (GmbH)
- Status as a bank
- Special law
- Collaboration with all commercial banks (without specific contracts)
- Instruments: Guarantees (for debt and equity capital), subsidies, loans and consulting services



- 2 managing directors
- Supervisory board with 10 members
- About 200 employees

- **Fund model, no membership system**
- **Funding by:**
 - Equity capital
 - Provisions (reserves) built of fees
 - Counter guarantees
 - Trust money (ERP)
 - Residual: coverage of losses by the state



Increase

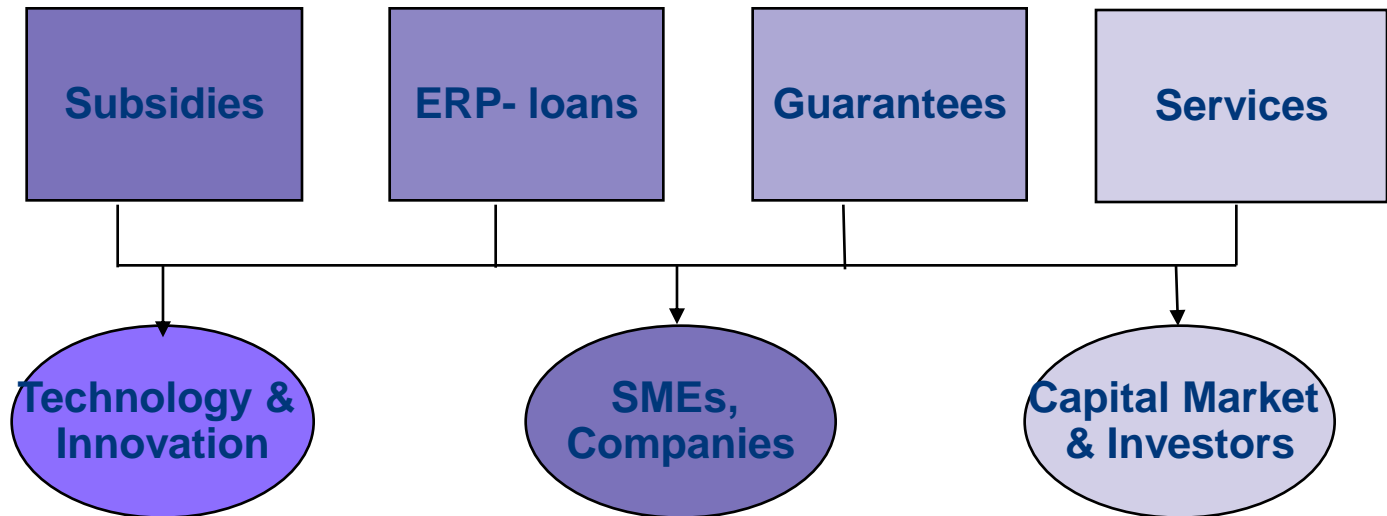
- **Competitiveness of companies** by setting incentives for investment in
 - company (market) growth
 - technology
 - innovation
 - FDI (market development)
 - development of clusters
 - capital basis of companies, equity investments
- **Employment**
- **Start ups** (private sector development)
- **Environmental and clean energy related investments**

Eligible Companies

- SME: all sectors. Exceptions: agriculture, financial services, sensitive sectors (drugs, gambling etc.)
 - Start ups
 - Technology and environmental oriented companies
 - Regional target areas
 - Venture capital companies (private equity funds)
- **Bias to higher risk companies**

- **EU SME definition (1.1.2005)**
 - less than 250 employees
 - max. 50 Mio EUR turnover or
 - max. 43 Mio EUR balance sheet total
- **No member of a group of big companies (max. 25 % ownership)**

Instruments and Targets of Support



Guarantees for

A) Debt capital (credit guarantees)

B) Equity capital, mezzanin finance

Types of finance:

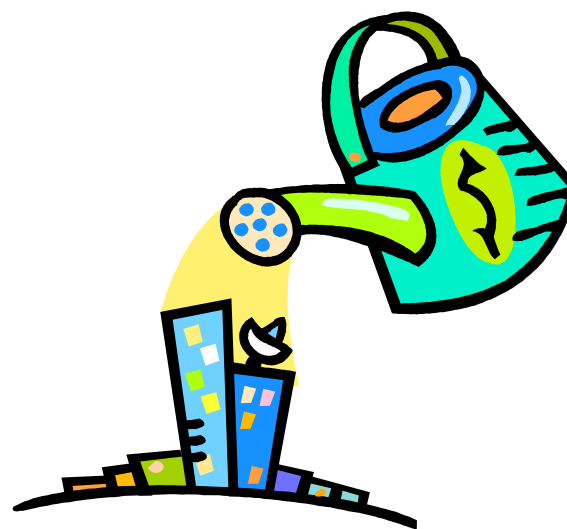
- Investment loans (incl. Leasing)
- Working capital
- Technology finance
- Patent loans

Type of company/subject of finance:

- Start ups
- Existing SME
- Company takeovers
- Company restructuring

aws Guarantees and Grants for Innovation Projects

- 50 years of experience
- adjusted and improved
 - volume
 - quality



- **Target: interesting projects should not be rejected because of financing problems (e.g. lack of collateral)**

SME – Dynamic Enterprises

SME (existing or new)



innovative and „growth“ oriented investments

Premiums (grants)

- 5% of max.EUR 750.000
- plus 10% if high potential
 - for innovation
 - for growth



Guarantees

- 80% guarantee
- max. 2.5 mill. investment
- max. 1 mill. working cap.
- guarantee fee
- interest rate ceiling
- Longterm financing (5-20 y)

No Guarantees

- Existing loans (old debt)
- Insolvency
- Bad prospects
- Risk sharing is not adequate
- No interest rate ceiling

Terms

- Interest (fixed, floating)
- Guarantee term: max. 20 years (working capital 5 years)
- Waiver of collateral (up to certain amount)
- Various types of loans/credits/guarantees
- Foreign currency
- Lease financing

Criteria for Decision Making

- **Subsidies**

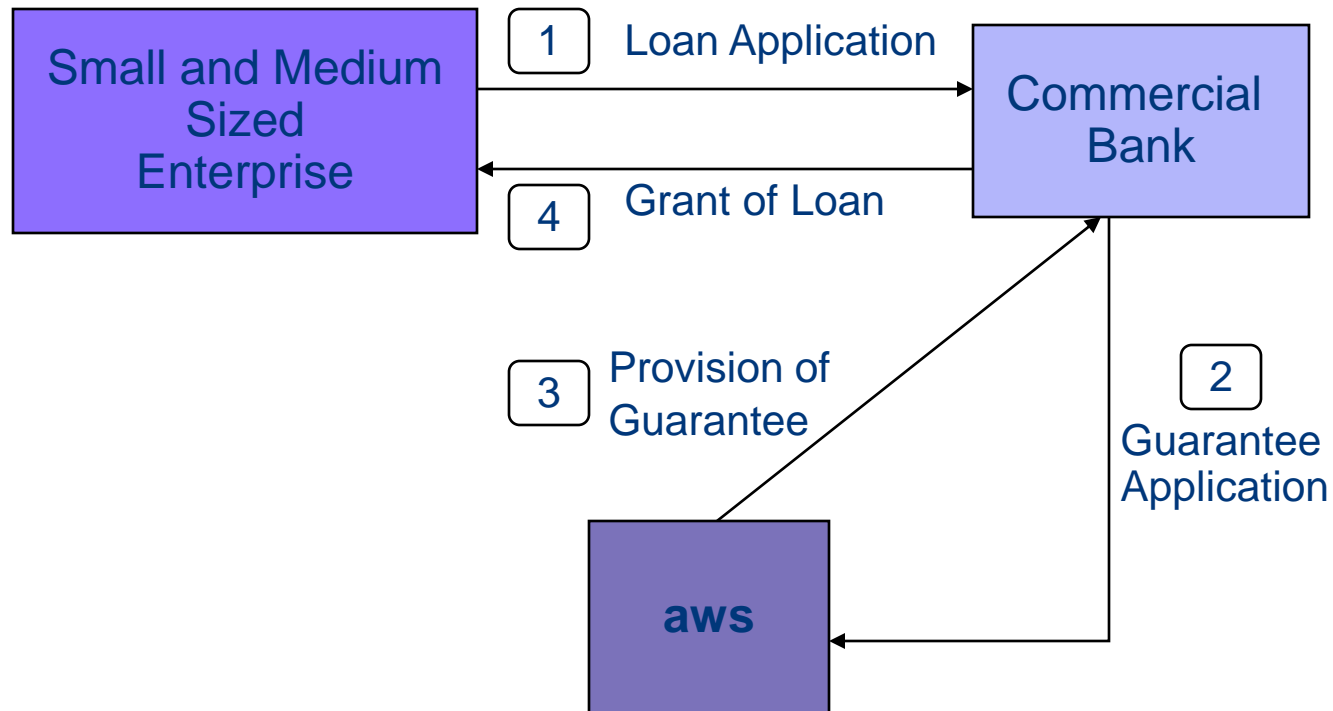
Macro economic targets, innovation, growth, employment

- **Guarantees**

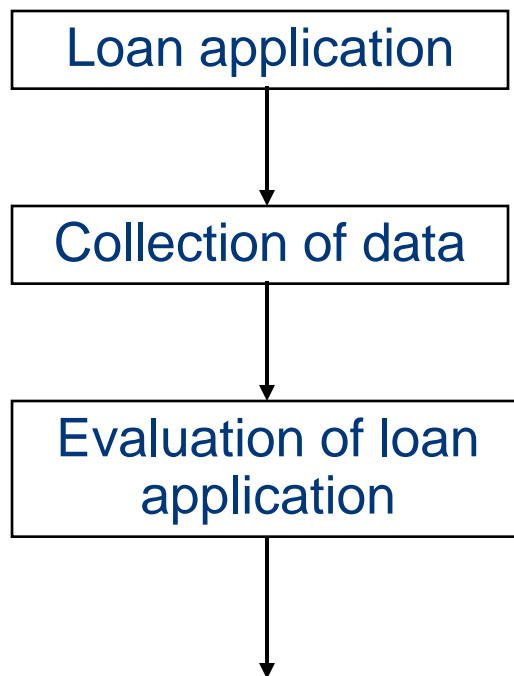
Risk policy, improved financing situation for start-up-enterprises, SME, innovation, internationalization



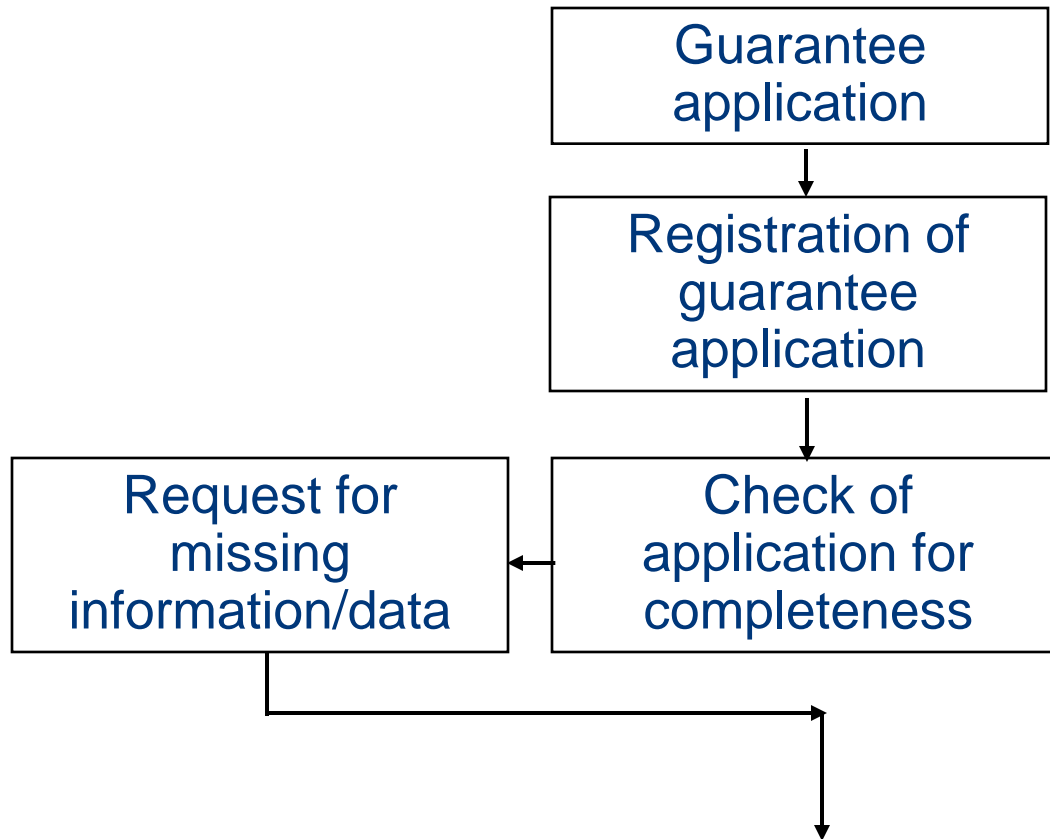
Procedure of Guarantees for SME

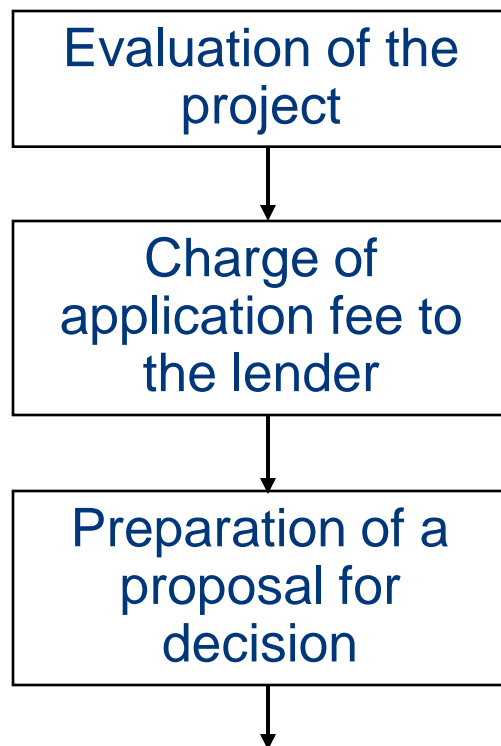


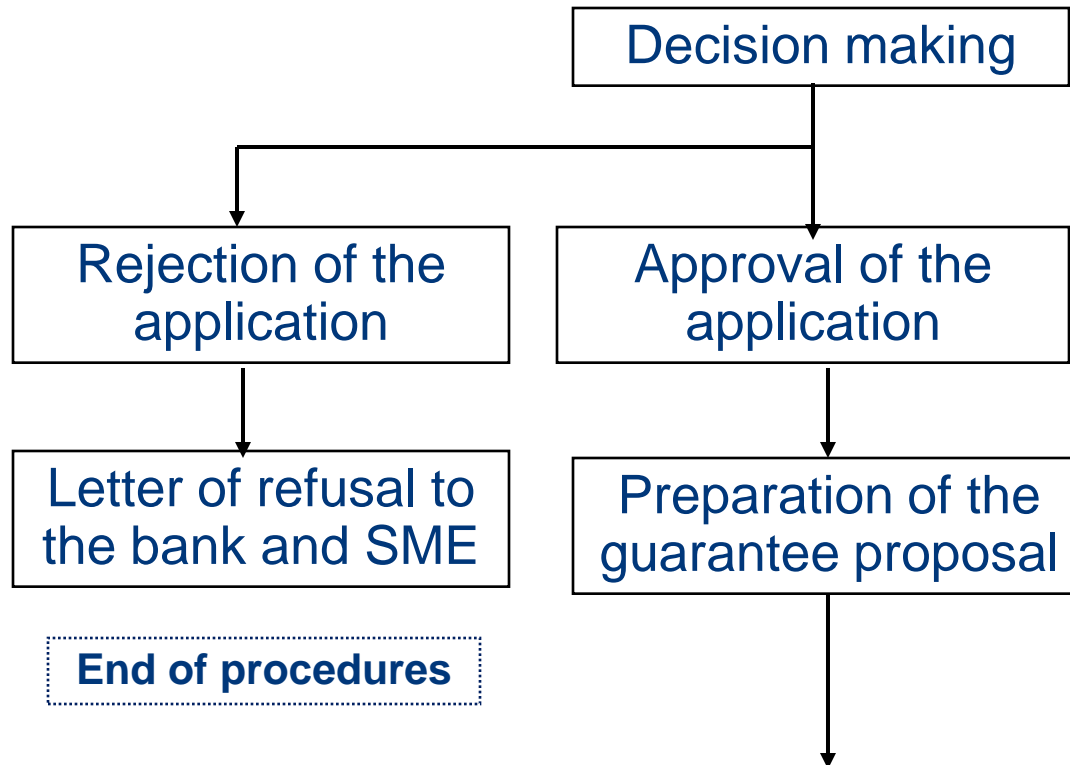
1. Loan Application



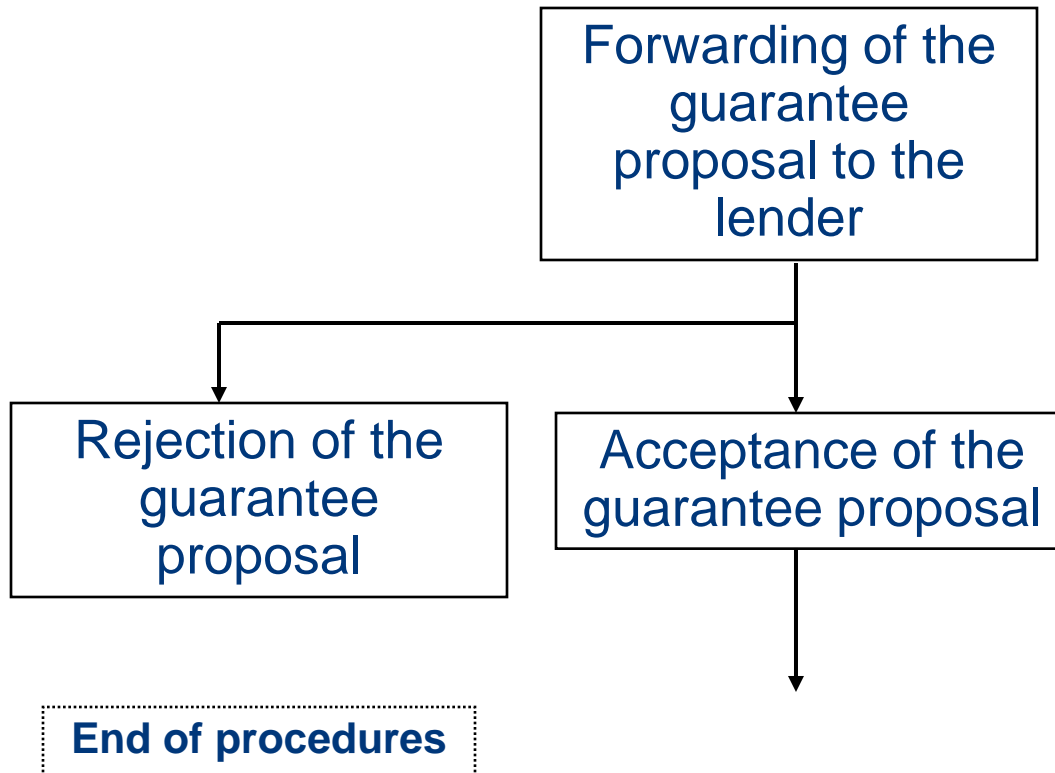
2. Guarantee Application + Evaluation



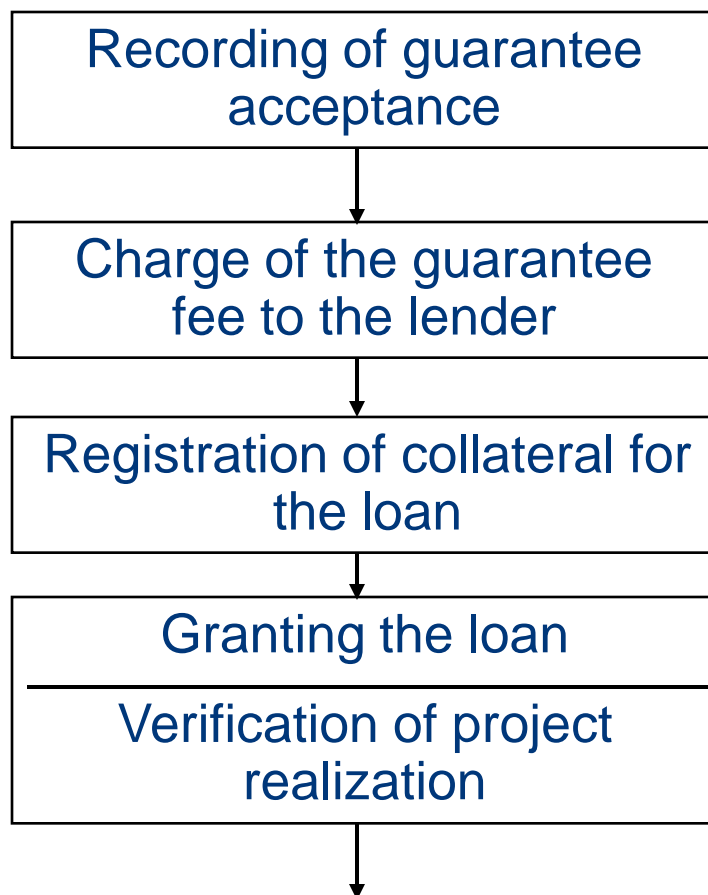




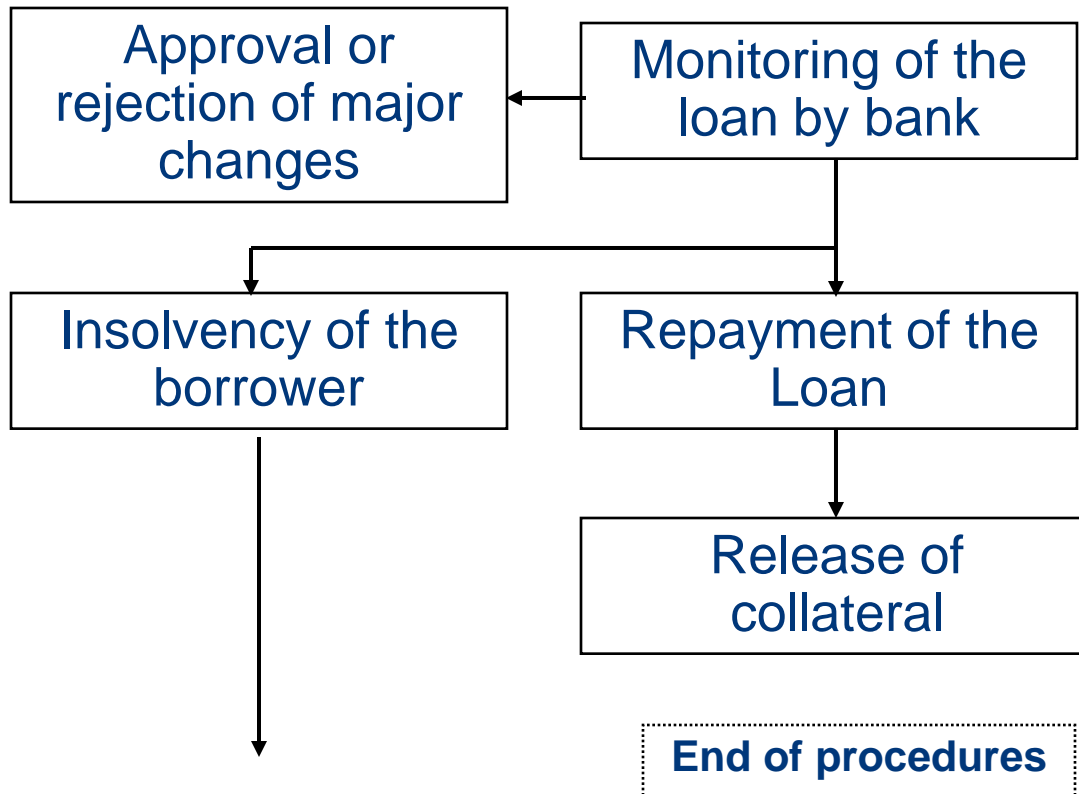
3. Guarantee Provision



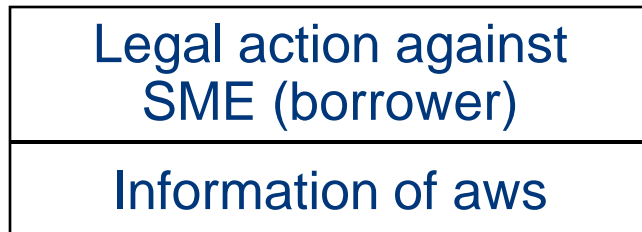
4. Registration of Collateral + verification of project



5. Monitoring of the Loan



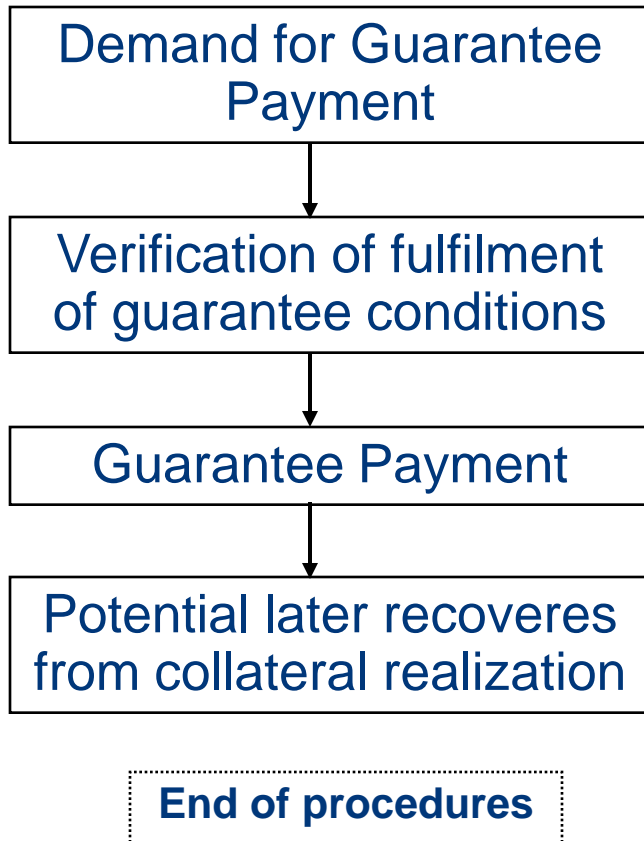
6. Insolvency of the SME (borrower)



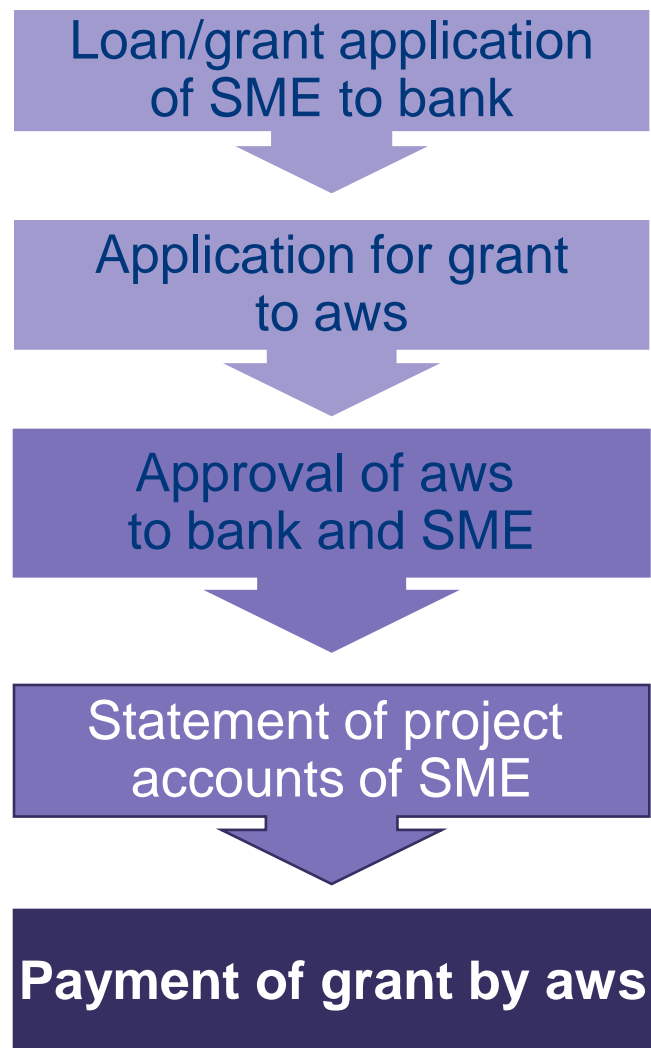
7. Collateral Realization



8. Guarantee Payment



Procedure of Grants for SME



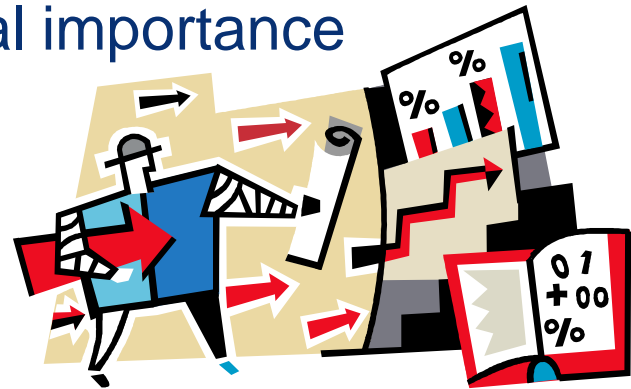
ERP Loans for

- SME
- Regional Development
- Technology
- Infrastructure
- ...

ERP Technology Loans

Targets:

- Support for R&D&I with focus on transfer of research into production.
- Besides the technology of the project the direct capacity for solutions of the SME is of crucial importance



Eligible Projects:

Projects for research and experimental development with focus on implementing new or essentially improved products, processes and procedures or services – no real upper limit

- Future technologies
- Operative R&D infrastructure

Eligible Costs:

Personnel costs of involved staff

Costs used for the R&D project:

- Instruments and equipment, buildings (excluding depr.)
- Costs for contract research, licenses etc.,
- Consultants,
- Material costs etc.,
- Direct overhead costs

Maximal support (according to EU state aid rules):

Industrial research – max. 50%

Experimental development (including prototypes and pilot projects, products, processes, services) – max. 25%

Plus

10% for medium sized companies

20% for small companies

15% for co-operations between companies and research institutes

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aws Instruments for Support of Innovative Projects - II

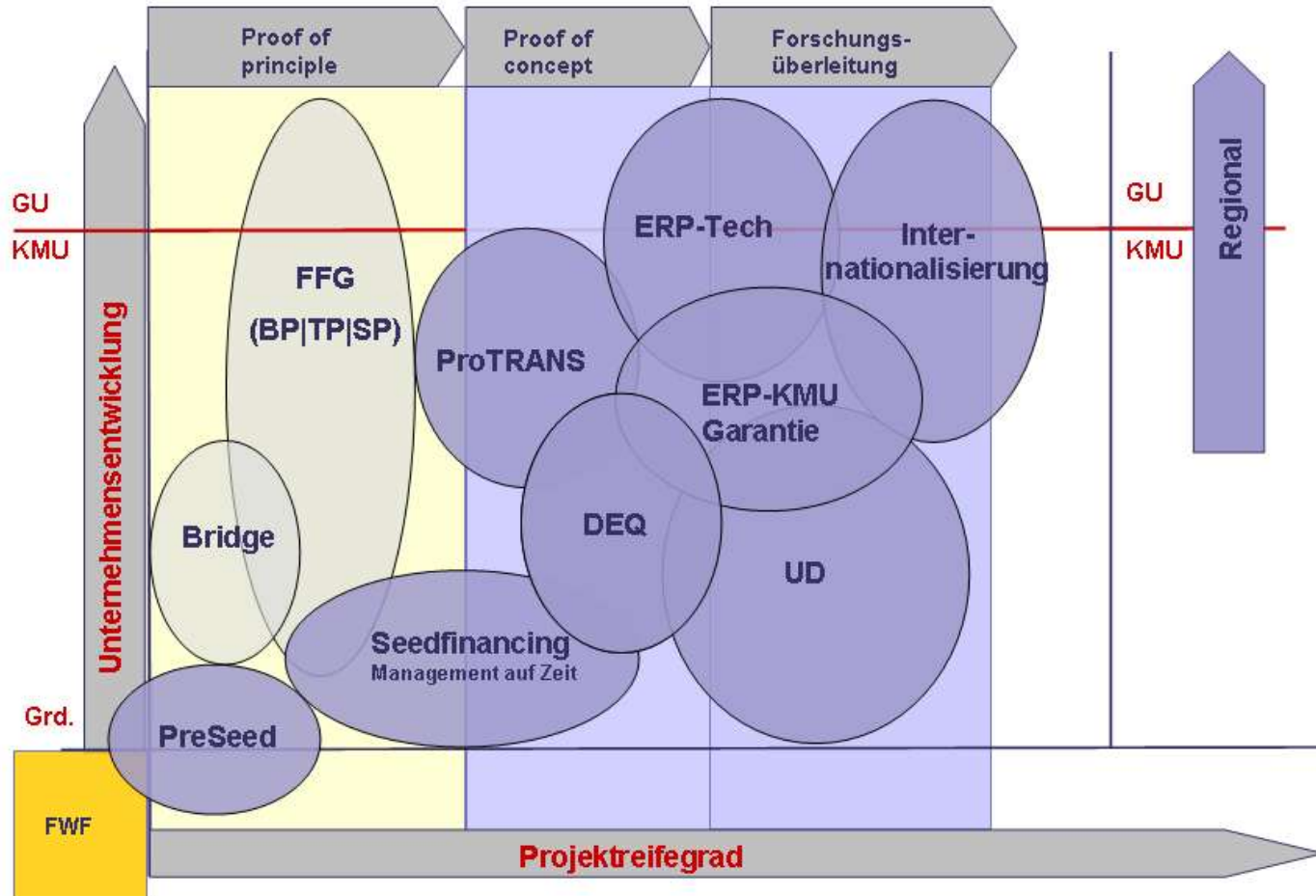
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Contents

- **Purpose and types of support**
- **Seed Financing**
- **PreSeed**
- **Technology Transfer**
- **Other Support**

Company Stages – Project Stages



Instruments of technology & innovation of aws are especially measured for:

- Individuals (scientists and inventors) whose core competence lies in the innovative technology field and who are interested in economic exploitation of their discoveries
- Universities and other research institutes interested in the implementation of their research findings
- Potential young entrepreneurs in the high technology field
- Ventures with particularly innovative products or services and high growth potential

Targets of Support

- Preparation for start-ups in high technology fields
- Company co-operations in high technology field
- Support for innovative technology ventures
- Implementation of research findings and know-how
- Investment premiums in later stages



Instruments include:

- Consulting services on many technological and economic matters for potential entrepreneurs as well as start-ups already in operation
- Project preparation and processing, especially for start-ups and commercial projects, in team with project operators
- Marketing of patents, trade marks and technologies on behalf of their developers
- Subsidies in the pre-start-up phase for financing „proof-of-concept studies“ as well as during the start-up phase
- Loans or credits for financing of start-ups and company growth
- Guarantees for equity and outside capital of high tech companies

Non-cash promotion services include:

- Procuring international contacts in specific fields
- Research and analysis of opportunities and market potential
- Procurement of partners and financiers for technological projects
- Education and training in specific fields
- Awareness programs and awards: “Innovative Youth”, “Federal Award for Innovation”, “Best of Biotech”, e.g.

Financial Support – Seed Financing

Rationale of the Program - Problems

- Innovative SME' s are increasingly important for economic growth, job creation and regional and local development.
- The „Equity gap“: very little Venture capital is available during the seed phase (2% of VC in Austria provided for seed investments)
- Financing innovative SME' s is very risky and uncertain, making it difficult for these SME' s to obtain financing.

Seed Financing as a public aid scheme

- **Active involvement of informed intermediaries** focussing on reducing the asymmetry of information between entrepreneurs and providers of financing
- Increasing the pool of **available capital**, as an important part of providing financing for SME' s.

The program is supported by the Ministry of Transport, Innovation and Technology and the Ministry of Economics and Labor.

Program Objectives

General Objective

To strengthen Austria's competitive position and to increase the number of high-tech companies, products and jobs

Specific Objectives

- To increase the number of new High-tech start ups
- To support innovative technology-based companies with high market- and growth potential by providing „soft public money“. Thus combining seed financing capital with coaching/consulting of the founders and projects
- To support these companies in their task to secure first round financing (e.g. Venture capital) and therefore to increase the pool of available capital, as an important part of providing financing for SME

Instruments: Capital and Coaching

Capital: Mezzanine – capital

- Risk capital: no securities necessary
- No shares taken
- Average of € 500.000 per project, milestone dependent
- Duration of the profit oriented loan: approx.10 years
- Payback : capital as well as interest is paid back only in case of profit
- Interest rate capped at 8.5%

and active involvement

- Coaching/Consulting by Investment managers with strong technological background and industry experience as well as financial expertise to increase and ease access to financing

Selection Criteria

Innovative „High-Tech“-Start-Ups in the seed phase

- company holds patents and has R&D-collaborations with universities.
- innovative technology (e.g. ITC-technologies, Life Sciences, Nano - technology), not me too-products
- high potential for growth (product USP, market, entrepreneurial management)
- small companies in Austria
 - Less than 25 employees and
 - either an annual turn over not exceeding €7 Mio.,
 - or a balance-sheet total not exceeding € 5 Mio.,

SEED-Financing Investment Procedures

- Evaluation of the project/business plan by the investment managers
- Coaching and discussion of the business proposal together with the entrepreneurial team
- Selection of promising business proposals
- Presentation of business proposal at a technology specific advisory board; acceptance or refusal of the proposal
- Formal financing decision by Ministry
- Coaching and Consulting of the business and entrepreneurial team by the Investment managers during a period of approx. 3 years. Active support in raising further capital.
- Milestone payments after fulfilling the mandatory milestones
- Company reports on a quarterly schedule.

Advantages for Private Investors

Incentives for Private Capital

- Pre-selected investments providing first proof of concept
 - Proposals reviewed annually 100 - 150
 - Proposals financed annually 10 - 15
- Leverage effect for the private sector financing
- No shares taken from the public intermediary
- Payback of the loan only in case of profit

SEED-Financing - Results

- The program was evaluated by the Management institute St. Gallen in June 2004 and has proven to be successful and effective in reaching the proposed goals
- The program therefore continued to provide seed financing
- The new program initiative „Pre-Seed money“ of about € 100.000 was opened to promising ideas, enabling them to finish some data necessary for a proof of concept.

PreSeed

Challenge

- Sustainable increase of the Austrian economy
- Financial gap: early stage of high-tech companies with potential

Objective

- Increase start-ups of high tech in Austria

Target group

- ICT & Physical Sciences / Life Sciences
- Entrepreneurs: academic and non academic

Support

- Support for high tech (!) start ups
- Subsidy up to EUR 100.000,-
- Milestones
- Max. 2 years term
- Permanent monitoring and evaluation

Eligible Costs

After approval:

- (Scientific) verification of feasibility
- Preparation of commercialisation
- Investments (with restrictions)
- Personnel costs

Criteria

- Intensity of technology and innovation
 - technological milestone
 - no „me-too“ & no 10-20% improvement
- High market potential
- High chances for implementation and commercialization
- Engaged founders with awareness of risk
- Pre-start-phase

Technology Transfer – ProTrans Programs

- Enterprises in the pre-start phase will be promoted
- Objective: to use external know-how and intensification of R&D within SME's
- A clearly defined R&D-project should be in the background
- eligible costs are comparable to „ordinary“ R&D-projects
- co-operation with a know-how-intensive enterprise or a university or technology-oriented institution is necessary
- open call
- up to 50% of eligible costs can be granted

- Finding new products
- Improvement of innovation management
- Gaining expertise in marketing of IPR
- Projects should have parts regarding development as well as implementation
- innovation management tools should be designed for SME's primarily
- Open call, volume up to € 5 Mio.

Other Types of aws Support

aws Non-cash promotion services include:

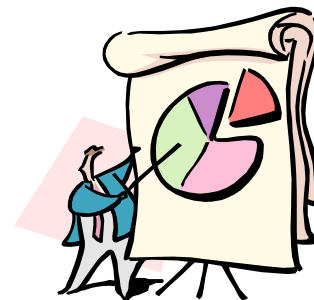
- Procuring international contacts in specific fields
- Research and analysis of opportunities and market potential
- Procurement of partners and financiers for technological projects
- Education and training in specific fields

**Patent- and License
Management**



**International Consulting
for Know-how Transfer**

Market Research, Rating



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Other Financial Instruments and Financing Sources for Innovation Projects

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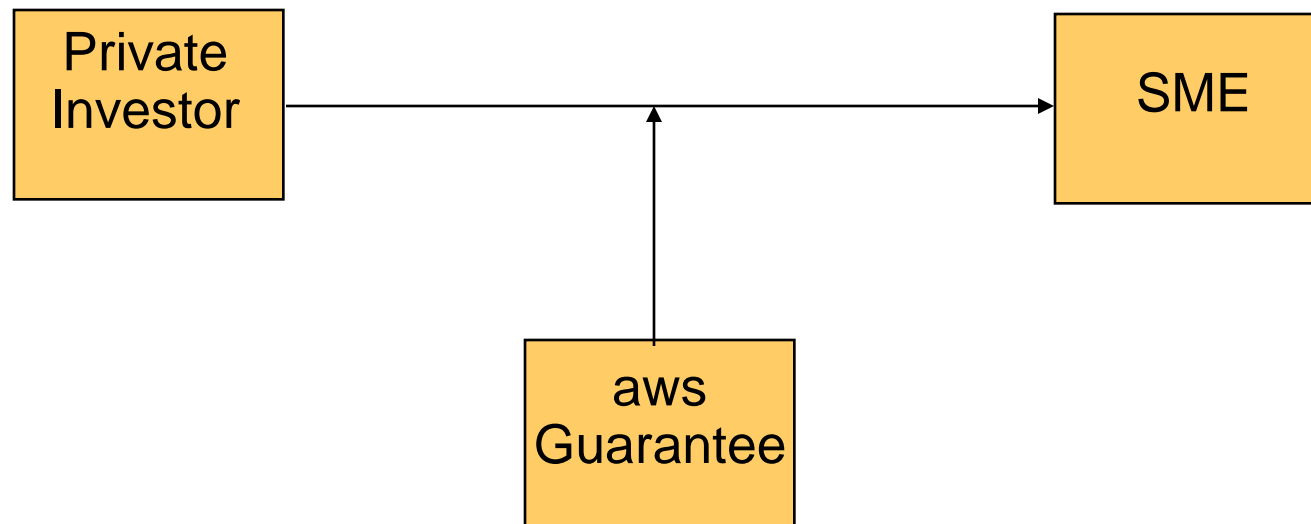
Contents

- **Equity Guarantees**
- **Business Angels Network**

Equity Guarantees

Purpose

- Promote raising of equity financing for SMEs through private investors



Eligibility Criteria

Target group: SMEs (startup/existing) of all sectors of industry (except tourism)

Private Investors are:

- Individuals (e.g. Business Angels, Friends, Family)
- Companies
- Institutional Investors (e.g. Funds, Banks)

NOT Eligible for Guarantee

- Majority Owner (“Entrepreneur”)
- Management
and close relatives (e.g. spouse, children, parents)

Equity Investments are:

- Additional Cash
- Minority Share
(less than 50 % of voting equity)
- Quasi-Equity, if:
 - Subordinated
 - Term at least 10 Years
 - Return depends on the profit of the SME

Equity-Guarantee

- Covers the risk of loss of the equity invested in case of insolvency of the SME for
- Max. Guarantee Volume/Project: EUR 1 mio
- Max. Term of the Guarantee: 10 Years
- Profit-related guarantee fee

Advantages for SMEs

- Strengthening of the Equity Basis of the Company
- Equity may be used as Leverage for additional Loan Financing
- Experienced Investors contribute to the Business Development
- No fixed Costs of Capital

Other Capital Market Instruments

- Double Equity Guarantees
- Guarantees for Private Equity (Venture Capital) Funds

aws Business Angels Network „i²“

- Data base of potential investors
- Service for investors: meetings, member area, trainings
- Service for entrepreneurs: company of aws at meetings with investors, provision of infrastructure, co-ordination

Results of „i²“ 2009

- 38 projects out of 373 requests
- 3 placements with a total of EUR 332.000
- 11 negotiations ongoing
- 16 new investors registered (of a total of 120)

Possibilities for FYROM?

Discussion

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