

# **Supporting growth strategies through export promotion and beyond: Instrument choice in and complementarities between policies**

# Main questions to be addressed

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- What are the overriding **dynamic** policy goals of business support programmes?
- Does the choice of particular **types of instruments** matter?
- Is there a **common logic of intervention** growth- and productivity-oriented policies should follow?

# Why do we support corporate R&D, investments in plants and machinery, export activities etc.?

## Growth Policy: The overriding long-term policy goals

*Long-term objectives of support measures:*

*Supported companies / projects improve structure & stimulate dynamics of economic activities (regionally, overall economy)*

**Employment opportunities in the corporate sector**

Level of employment

Structure of employment (qualification, income)

**Competitiveness of domestic companies under conditions of international division of labor**

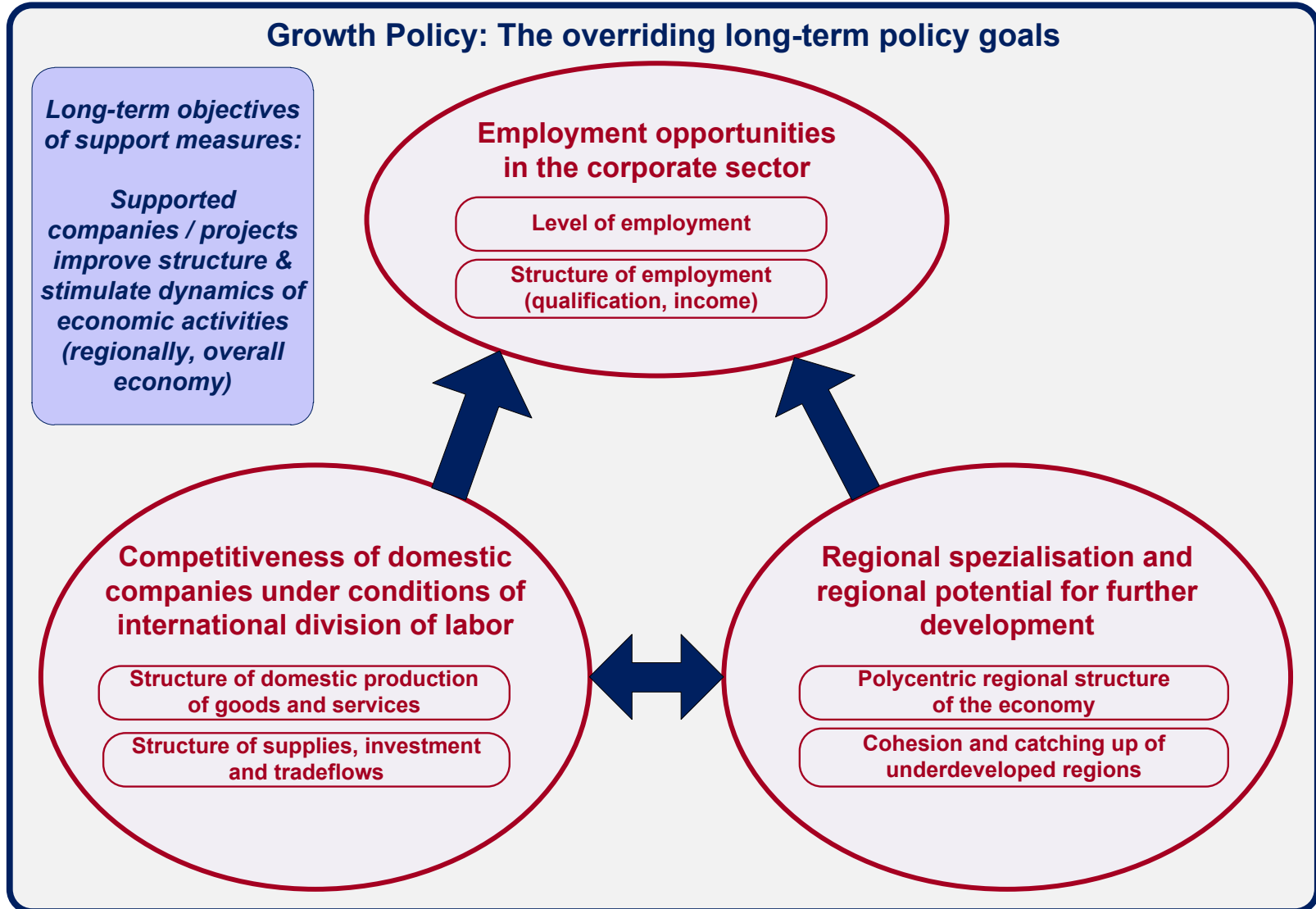
Structure of domestic production of goods and services

Structure of supplies, investment and tradeflows

**Regional specialisation and regional potential for further development**

Polycentric regional structure of the economy

Cohesion and catching up of underdeveloped regions



# Not all types of instruments are suited for achieving particular effects

## Main effects of support with respect to financial needs by type of instrument

(Source: AWS/ERP-Fonds)

	Improving the knowledge base for project planning	Enabling access to (external) sources of finance	Diminishing or redistributing risk of project failure	Improving structure of corporate finance	Reducing costs of financing
Awareness, Advisory & Information Services (AAS)	Stand-alone products or side-effect of (intensive) examination of applications	Specific products enabling the matching between companies and investors/financial institutions	Specific information/ advisory services (markets, technologies) conceivable	Specific information/ advisory services conceivable e.g. signaling to investors)	Specific information/ advisory services conceivable e.g. signaling to investors
Guarantees	Information generated by intensive screening of projects might improve planing and risk evaluation	Access to external sources of finance (mostly loans) is the central effect of guarantees	Risk of investors granting loans or providing equity is definitively reduced by guarantees	Guarantees allow for a better long-term financing mix (matching maturities)	Due to reduced risk investors allow for lower rates of return; guarantee fees have to be taken into account
Soft Loans	Positive side-effects possible, if project screening is sufficiently intensive and generates relevant information	Side-effects, indirect effects possible (e.g. loan covers a stable/ substantial share of fin. requirements)	Side-effects, indirect effects possible (e.g. loan covers a stable/ substantial share of fin. requirements)	Substantial effects on long-term financing mix (matching maturities)	Because of structural improvements the effect goes beyond the numeric monetary value
Grants	Positive side-effects possible, if terms for provision of grants include specific planning requirements (e.g. business plan...)	Indirect effects, depending on intensity of support (IS), i.e. the grant's share of overall project costs	Effects depending on IS, i.e. negligible if small grants are provided and vice versa	Grant reduces requirements for other external sources of finance; IS is the decisive parameter	IS is the decisive parameter whether substantial reductions in financing costs can be reached
Equity	As with guarantees and soft loans, positive side-effects possible due to screening and examination of projects	In addition to immediate effects of fresh equity, indirect effects (signal / leverage for additional debt)	Positive effects: Improvement of capital and liquidity ratios	Substantial positive effects (e.g. matching maturities, liquidity, access to further external funding)	Equity itself is usually quite costly (investors expect high rates of return to compensate for high risk)

# One logic for export promotion and complementary channels of public support?

## Public support programmes and the main levels of their logic of intervention

(Source: AWS/ERP-Fonds)

### Programme objectives

#### Objectives with respect to financial needs of the supported company

improve information base for project decisions

facilitate access to finance

improve structure of corporate finance

reduce costs of finance

diminish or redistribute risk of project failure

#### Objectives with respect to the conduct of the supported project

enable viability of the project

improve quality of planning and conduct

enlarge project size, prevention of cost cutting

bring forward the start and reduce duration of project

generate financial scope for project-related activities

### Overriding strategic goals of companies conducting supported projects

*Outcome: Increase competitiveness & realise potential for growth*

#### Capacity to supply goods and services

extend capacities

modernise capacities

reduce unit costs

#### Competencies & product portfolio

augment portfolio with innovative products, components and services (new to market, new to firm, of high quality)

specialisation and technological leadership in particular market segments

repositioning along the value chain

#### Structure of customers & markets

attract new customers and enrich the business portfolio

open up new, international markets and consolidation of position in existing export markets

### Parameters of overriding policy goals

*Impact: Supported companies/projects improve structure & stimulate dynamics of economic activities (regionally, overall economy)*

#### Employment opportunities in the corporate sector

Level of employment

Structure of employment (qualification, income)

#### Competitiveness of domestic corporate sector under conditions of international division of labor

Structure of domestic production of goods and services

Structure of supplies, investment and trade-flows

#### Regional specialisation and regional potential for further development

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