Evaluierung der COVID-19-Investitionsprämie

Executive Summary English

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The global COVID-19 pandemic has had unprecedented negative economic and social effects. In order to stimulate important economic impulses - particularly investments - in the Austrian economy and to maintain the international competitiveness of Austria as an attractive business location, the Federal Ministry for Digitalisation and Economic Location (BMDW) introduced the COVID-19 investment premium as of 1 September 2020. With this investment premium, new investments by enterprises of any size are promoted through an investment grant, which is intended to trigger far-reaching investment, growth and employment impulses.

From 1.9.2020 to 28.02.2021, a total of 258,600 applications were submitted to the promotional bank of the Austrian federal government aws (Austria Wirtschaftsservice GmbH). Of these, 243,865 applications (from 122,194 companies) were approved by the aws (around 14,700 applications were rejected, cancelled, prematurely terminated or similar), representing a planned submitted investment volume of EUR 78.15 billion. The investment premium has encouraged particularly small and medium-sized enterprises (SMEs) to undertake investments in their current business activities.

The importance of investments, especially in exceptionally economically difficult situations such as the COVID-19 pandemic, experiences broad consent in a recent empirical survey. Almost all enterprises confirm the relevance of investing, regardless of their size. The investment premium addresses this necessity and thus facilitates an investment climate that will position Austria as an attractive location to do business.

Figure 1: Positive response to the investment premium as crisis instrument

With the investment premium, the Republic of Austria creates a good investment climate for Austria as location to do business.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>1: Totally agree</th>
<th>2: Rather agree</th>
<th>3: Rather disagree</th>
<th>4: Totally disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>44%</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>6%</td>
<td></td>
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</table>

Especially in exceptionally economically difficult situations such as the COVID-19 pandemic, it is important for companies to invest.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>1: Totally agree</th>
<th>2: Rather agree</th>
<th>3: Rather disagree</th>
<th>4: Totally disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>51%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>41%</td>
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<td></td>
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<tr>
<td>7%</td>
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</tbody>
</table>

Note: n=16,935 to 17,231. Question: Here are some general statements about the investment premium. Please rate how much you agree with these statements. (Please rate according to 1="Totally agree" to 4="Totally disagree")

Source: IWI/P-IC: Survey on the investment premium 2021.

1 aws data as of 27.06.2021
2 In the course of the present study, a multi-phase survey was conducted in parallel to the application period.
Focus areas

Around a quarter of the total investment volume promoted by the investment premium is accounted for by investments in the strategic focus area of *greening*. The focus lies on expenditures in the field of photovoltaic systems and electricity storage (45%) as well as e-mobility (35%), followed by investments aimed at reducing energy consumption (20%). The investment premium helps enterprises by making greening more affordable. The initiative thus has the effect of accelerating the transition to renewable energy sources and supports the national efforts towards climate protection and decarbonisation. In the light of a contemplated more restrictive pricing of emissions at EU level, companies could gain a competitive advantage at the same time.

The investment premium also favours an acceleration of the digital transformation with investments in the focus area of *digitalisation*, which account for around 10% of the total investment volume applied for. The majority (74%) will create or improve the digital infrastructure - an essential basis for the competitiveness of the Austrian economy and the digital transition. A significant share of the digital investments will be used for enabling new, more flexible forms of work (home office, mobile working), a criterion for the attractiveness of employers and an aspect of "New Work". The investment premium can thus be said to have an influence on the digital transition of the domestic corporate landscape.

In the focus area of *health/life science* (1% of the total investment amount requested), the investments are used for a diversified pallet of measures. One focus is on the development of domestic pharmaceutical production capacities in order to reduce existing dependencies on imports. In view of the bottlenecks arising in the course of the pandemic, the investments include not only medicine production but also facilities for the manufacture of other products that are of strategic importance in pandemics (e.g. protective masks, gloves, disinfectants) as well as in-house protective precautions and measures.

Corporate effects of the investment premium

According to their own assessment, the companies expect an increase in turnover of 4.2% per year on average in the five years following the completion of their investment activities. In the strategic focus areas, expectations are higher compared to generally eligible investments (4.0% per year): Companies with investments in the area of health/life sciences (5.2% per year) and digitalisation (4.6% per year) expect the largest increases in turnover.

Almost three-quarters of the companies would not have carried out the submitted investment projects at all, or only in a modified form, without support from the investment premium. With the help of the instrument, investments are undertaken earlier and at higher volumes, and thus their positive effects on economic recovery are successfully brought forward and increased. The selected focus areas have a positive influence on the qualitative nature of the investments: they are more sustainable, more digital and more innovative.
For every tenth company, the investment premium is the impetus for the submitted investment - without the premium, the expenditure would not have been affordable for most micro or small enterprises. 61% of the respondents would have implemented their investments in a quantitatively or qualitatively reduced form without the premium. Thus the investment premium also functions as a booster for business expenditures. The resulting increase in investment volume reflects the importance of this instrument for the domestic economy: as a result of the investment premium the investment sum of the individual projects is up to 20% higher than it would be without the promotion, as calculated stratified extrapolation weighted according to average investment volumes shows.

Notably smaller enterprises can increase their investment volumes through the investment premium. More than half of the respondent state that the investments are undertaken at an earlier stage because of the premium. Some large enterprises use the investment premium strategically for location-decisive investments. The investment is undertaken in Austria because of the investment premium provided. From various perspectives, the premium is an important stimulus for the economic recovery from the COVID-19 pandemic which furthermore has an effect on the domestic market: the expenditures promoted by the investment premium primarily boost domestic business, as the procurements are largely made from domestic suppliers.

**Expected subsidy requirement**

Due to various factors, it can be assumed that not all of the requested grant volume will actually be used by the companies throughout the period of the investment premium. For some enterprises it will not be possible to implement first measures by the 31.05.2021 which represents an eligibility criterion. A lower utilisation by applicants due to an overestimation of the ex-ante designated investment volume can also reduce the actual funding requirement. In the course of submission, enterprises commonly implement a precautionary buffer of between 20% and 30%, e.g. for unknown and incalculable costs.

Potential restrictions due to new mutations of the coronavirus or insufficient vaccination coverage can also have a negative impact on economic development and the investment behaviour of companies. Possible delayed insolvencies of companies can subsequently lead to the termination of approved investments as a result of market adjustments and thus to a further reduction in the total investment volume. Taking all factors into account, the potential subsidy requirement is estimated at a maximum of 70% of the total volume approved and thus at EUR 5.00 billion.
Macroeconomic effects of the investment premium

The overall economic impact of the estimated promoted investment volume of EUR 51.95 billion is illustrated by a macroeconomic input-output analysis - direct and indirect effects (effects via the value chain) as well as induced effects (consumption and investment effects) are generated by the investments promoted by the investment premium. A considerable part of this (up to 20% on average) can be directly attributed to the investment premium, as it either increases the originally earmarked investment volume or makes the investments possible in the first place.

Figure 2: Macroeconomic effects of the investment premium

<table>
<thead>
<tr>
<th>Macroeconomic effects of the investments promoted by the investment premium between the years 2020 to 2025</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>Total (55 months)</th>
<th>Total economic share</th>
<th>Investment multiplier (per million EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earmarked investment volume (in EUR million)</td>
<td>105</td>
<td>15.587</td>
<td>8.847</td>
<td>16.841</td>
<td>6.740</td>
<td>4.037</td>
<td>51.958</td>
<td>11.6%</td>
<td></td>
</tr>
<tr>
<td>Subsidy volume</td>
<td>10</td>
<td>1.500</td>
<td>851</td>
<td>1.601</td>
<td>649</td>
<td>389</td>
<td>5,000</td>
<td>(-)</td>
<td></td>
</tr>
<tr>
<td>Aggregated effects (direct, indirect, induced)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value added (in million EUR)</td>
<td>82</td>
<td>12.189</td>
<td>6.918</td>
<td>13.012</td>
<td>5.271</td>
<td>3.157</td>
<td>40.628</td>
<td>2.49%</td>
<td>0.78</td>
</tr>
<tr>
<td>Employment</td>
<td>1.073</td>
<td>158.845</td>
<td>90.156</td>
<td>169.578</td>
<td>68.690</td>
<td>41.142</td>
<td>529.485</td>
<td>2.40%</td>
<td>10.19</td>
</tr>
<tr>
<td>Full-time equivalent</td>
<td>909</td>
<td>134.505</td>
<td>76.340</td>
<td>143.593</td>
<td>58.164</td>
<td>34.838</td>
<td>448.349</td>
<td>2.47%</td>
<td>8.63</td>
</tr>
<tr>
<td>Compensation of employees (in million EUR)</td>
<td>44</td>
<td>6.460</td>
<td>3.666</td>
<td>6.896</td>
<td>2.793</td>
<td>1.673</td>
<td>21.533</td>
<td>2.44%</td>
<td>0.41</td>
</tr>
<tr>
<td>Fiscal and social contribution (in million EUR)</td>
<td>25</td>
<td>3.746</td>
<td>2.126</td>
<td>3.999</td>
<td>1.620</td>
<td>0.970</td>
<td>12.485</td>
<td>(-)</td>
<td>0.24</td>
</tr>
<tr>
<td>of which: additionally generated tax effects</td>
<td>5</td>
<td>745</td>
<td>423</td>
<td>795</td>
<td>322</td>
<td>193</td>
<td>2.483</td>
<td>(-)</td>
<td>(-)</td>
</tr>
</tbody>
</table>

Note: IWI end demand model; input-output tables 2016. Fiscal effects include wage tax, employer contributions to AFFB/FLAF, municipal tax as well as input and consumption-dependent taxes on goods (e.g. mineral oil tax, VAT); social contributions include social contributions for employees and employers.

Source: IWI calculations (2021) based on Statistics Austria, input-output tables, national accounts 2019 and aws data (as of 27.06.2021)
The investment volume promoted by the investment premium will generate an aggregated (direct, indirect and induced) production value of EUR 83.39 billion (arithmetically averaged: EUR 18.19 billion per year) in Austria during the entire funding period (01.08.2020 to 28.02.2025). Similarly, the earmarked investments generate an aggregated value added of EUR 40.63 billion (arithmetically averaged: EUR 8.86 billion per year). Thus, for every euro invested under the investment premium, EUR 0.78 of value added is generated in the national economy. The value added represents the contribution to Austria’s national income, which results from the production value minus intermediate inputs. Measured against the gross domestic product (GDP) of the year 2020, the share of value added attributable to investments promoted by the investment premium (arithmetic mean) is in the range of 2.3%.³

In total, an average of 115,500 annual jobs⁴ (arithmetically averaged) can be safeguarded during the investment period; this represents 97,800 full-time equivalents annually. Approximately 10 jobs are safeguarded for every EUR 1 million of investment promoted by the investment premium. The instrument thus makes a noticeable contribution to job security throughout Austria.

The compensation of employees paid out as a result sums up to EUR 21.53 billion in total (arithmetically averaged: EUR 4.70 billion per year). Additionally, tax effects are generated by the federal government’s subsidy and the lever of the investment premium. The total fiscal and social contribution culminates up to EUR 12.48 billion (arithmetically averaged: EUR 2.72 billion per year). Furthermore, the undertaken investments presumably result in an increase in competitiveness, from which the national economy benefits through improved entrepreneurial performance on the long-term.

**Satisfaction with the regulatory framework and submission procedure**

Overall, a positive picture of satisfaction can be drawn, both with regard to the regulatory framework and the submission procedure. On average, the respondents assigned good marks; in the case of the submission procedure, deterioration in satisfaction can be seen over time. However, it has to be considered that the approval of submission by the aws is dependent on the assurance of subsidies by the federal government. Thus, due to pending assurance for further subsidies, there was at times little room for manoeuvre.


⁴ In the case of annual jobs, the assumption is that the workload needed for an undertaking is assigned to the same number of jobs over the period of investigated years. According to the case that the investments covered by the funding/investment volume do not always cover the same jobs per year and the jobs are (partially) newly created every year, up to 529,500 jobs can be shown at the upper limit in total.
The regulatory framework of the investment premium, which ensures openness for all sectors and entrepreneurial sizes, is well received. Some of the micro and small enterprises expressed their wish for a reduction of the minimum volume as well as for a higher subsidy and a less bureaucratic, simplified submission process. The originally anticipated funding periods were assessed as challenging by the respondents. Accordingly, the adaptation of the implemented guidelines by the federal government, which provides for an extension of the funding period, is an improvement.

**International positioning of the investment premium**

The investment premium is accessible to all companies across all sectors and entrepreneurial sizes and therefore unique in international comparison. Direct subsidies to stimulate business investment in connection with the COVID-19 crisis were found to be set up in only three other countries (Luxembourg, Malta, Japan), but they are neither accessible to companies from all sectors nor all company sizes under the same conditions - as is the case with the investment premium.

Other states most commonly use indirect instruments for companies to support investments (e.g. loans, guarantees, warranties, etc.). The investment premium thus has positive effects on the relational competitiveness of Austria as a business location: (large) international enterprises will prefer investments here and it is easier to argue in favour of Austrian branches within the group. The investment premium poses a criterion for investment and location decisions when settling and expanding businesses.

The positive effect of the investment premium on the domestic economy is also supported by the forecasts of the Austrian Institute of Economic Research (WIFO), which confirm that the associated and increased investment dynamics will stimulate Austria’s economic upswing.5

**Case studies on the effects of the investment premium**

In the course of a qualitative analysis, 20 interviews were conducted with companies - from micro to large enterprises - that have applied for the investment premium. This study thus contains detailed company portraits, which should help to capture the potential impact of the investment premium not only on a macroeconomic but also on an entrepreneurial level. About half of these companies were severely affected by the COVID-19 crisis and recorded declines in turnover of between 15 and 40%. However, most of the companies’ perspective of the future is thought to be positive as they expect a normalisation and increase in turnover within the next few years.

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5 see WIFO Konjunkturprognose für 2021 und 2022: Kräftiger Konjunkturaufschwung in Österreich, 24.06.2021 sowie WIFO Monatsbericht April 2021.
In total, these 20 companies submitted investments amounting to EUR 120.1 million. Of these, 13 companies have submitted investments in the focus area of greening with a volume of EUR 31 million and are thus driving ecological change. The investments range from PV systems, electric vehicles, e-filling stations, LED conversions to thermal refurbishments, solar systems etc. For 15 companies, the investments (EUR 22.35 million) concern the focus area of digitalisation (e.g. software, servers, cloud systems, digital communication channels, home office equipment, Industry 4.0, etc.) and focus on accelerating digital transformation. Six companies have submitted investments in the focus area life sciences with a volume of EUR 23.5 million, for example for new production machines for biotechnological products and the purchase of pharmaceutical products. The extension of the implementation period, which gives more leeway for implementation of investments (e.g. for infrastructure and construction projects), is highlighted particularly positively.

The explorative part of this study underlines that many companies will make investments at higher expenditures than earmarked and others undertake investments mainly because of the investment premium (especially in digital infrastructure and greening). Personal interviews showed that the investment premium has positive effects on the competitiveness of companies, as it provides more financial leeway and makes investments more affordable. The investment premium also makes it possible to use the time of the crisis to carry out plant upgrades and investments that would otherwise have been postponed because of the crisis. In addition, the promoted investment projects contribute significantly to improving the quality and efficiency of work, among other things, and generally have a positive impact on entrepreneurial growth. Especially in the area of digitalisation, positive effects can be seen in improved corporate processes and sales due to the investments made.

**Conclusion**

The effects of the investment premium with regard to the competitiveness of Austria as a business location are positive for the companies in several respects. For example, the investment premium notably strengthens the regional economy and performance. The broad accessibility of the investment premium causes an actual investment boost and supports anti-cyclical action, whereby Austrian companies have a competitive advantage in the next two years over those (international) companies that have limited their investment activities due to the crisis. The priority topics of digitalisation and greening lead overall to a digitalisation boost in Austrian companies and drive the ecological transformation.

The current market situation, which is characterised by rising raw material and material prices, appears somewhat unfavourable. However, the reason for this is not to be found in Austria alone, but presumably can be traced back to a worldwide economic upswing. Nevertheless, higher price levels can have a negative impact on investment activities and volumes. The described investment premium’s volume lever of up to 20% can help to mitigate rising investment costs and secure current investment projects, which are an important factor for the value creation of tomorrow.