A year after setting up, technology firm Microcaps is hotly tipped for success having developed a novel method of producing microparticles for the healthcare, cosmetics and food industries. However, coronavirus has thrown an almighty spanner in the works for Microcaps and other Swiss start-ups.

Just like other companies, start-ups are faced with shrinking revenues, cancelled orders and mounting bills. But new entrants don’t have the cushion of a wide customer base, money in the bank and an established reputation. And neither, so it seems, do they have equal access to emergency bailout funds from the state.

The CHF20 billion (around $20.6 billion) state-backed facility grants interest-free loans to small and medium sized enterprises (SMEs). Loans are limited to 10% of a company’s revenues or a multiple of wage bills if they were incurred within the last year.

But most start-ups take a few years to build up a meaningful revenue stream and cannot afford large salaries in their early stages. When start-up incubator Venturelab asked 438 young firms if the bailout would help, 70% said the loan system was of no use for them.

Raising funds

In the start-up world, of Microcaps is in a relatively secure position. The spin-off enterprise from Zurich’s Federal Institute of Technology (ETHZ), with eight employees, has enough funds to pay the bills until the autumn, says CEO and co-founder Alessandro Ofner.

Expanding a customer base, however, will have to wait. Potential new clients are too busy keeping their own businesses afloat during the pandemic to see demonstrations of the new technology. Microcaps’s long-term future relies on its ability to raise a fresh round of funding from investors – a process that had been earmarked for the summer.

That might prove tricky, according to Swiss angel investor Daniel Gutenberg. “For new entrants, it will be all but impossible to raise funding in the next six months,” he told swissinfo.ch. “Even later stage start-ups might have difficulty.”
The pandemic has caused investors, like Gutenberg, difficulties of their own. Wealth tied up in company stakes has taken a battering with share prices crashing in recent weeks. Putting money into start-ups in the current volatile environment means taking on more risk than usual.

There may be some bargains to be had with young enterprises forced to offer a greater share of the company in exchange for funding. But Gutenberg says he needs to “keep his powder dry” to assist his current portfolio of start-ups should they run into financial difficulties.

**Long game**

Gutenberg is also concerned about the fate of many Swiss start-ups. “The government is quick to shout about Switzerland's record as the most innovative country in the world. But when the going gets tough it should not just be looking out for SMEs, it should look after start-ups too,” he said.

Concerned parliamentarians have launched a taskforce to take up the case with the government. One argument calls for start-ups to count money contributed by investors as revenues. The government said it is looking for a solution for start-ups but it is also inundated with appeals from many other sections of the economy – from taxi drivers to airlines to the self-employed.

In the meantime, several cantons have stepped in with extra funding, some of which is to cover companies that were rejected for federal loans.

Olaf Hannemann of CV Labs, which supports blockchain start-ups, says innovation that will benefit the economy in the long run should be preserved in times of stress.

“A significant number of start-ups are set to benefit from trends towards remote work, automation, online services and digital security. All are significant growth trends in their own right, which are likely to be further accelerated by the current uncertainty and long-term changes on the horizon.”

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**Coronavirus: the situation in Switzerland**

Switzerland is one of the countries most affected by the coronavirus, with more than 21,000 positive tests and more than 700 deaths.

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