

## **Statement of KfW (Germany)**

### **on the public consultation on a possible successor to the Competitiveness and Innovation Framework Programme (CIP)**

As a major intermediary of the Competitiveness and Innovation Framework Programme, KfW would like to express its view regarding the future programme and the best way of addressing the key challenges defined by the Commission.

Among the various initiatives launched by the EC, the CIP and, to an even greater extent, its predecessor MAP have been particularly attractive for various national SME financiers. Based on our experience and the input of our on-lending bank partners, we consider a guarantee instrument to be an extremely valuable contribution to the promotion of SMEs.

A successor programme aimed at supporting enterprises, in particular SMEs, will have to continue to focus on facilitating their access to finance. Especially small enterprises constantly complain that their loan applications are rejected and their ratings downgraded more often than those of larger enterprises. For banks, lending in this business segment is often considered uneconomical, due to the adverse cost/earnings ratio. With small loan amounts, credit risk assessment and approval processing, documentation and closure incur high fixed costs combined with low profits. Consequently, banks are reluctant to extend loans in the microfinance range, leaving the existing demand unsatisfied. Start-ups and young enterprises face even more difficulties in obtaining credit because, in addition to small loan amounts, they often lack collateral and a business history to judge their creditworthiness. However, young SMEs have a considerable potential to contribute to R&D and innovation as well as growth and jobs in the European Union. They typically carry out their own research and are a key component of the innovation system, facilitating the emergence of new products and markets.

The European Commission has designed the CIP financial instruments to respond to the mentioned market failures SMEs face. Because of the limited EU resources available for these financial instruments, leverage is needed to achieve noticeable effects for SMEs. The national and regional promotional institutions in Europe already make an important contribution to diminish the financing gap and facilitate access to finance for SMEs through guarantees, loans, mezzanine financing or equity. The intensity of support varies from member state to member state and from region to region but the funds they or their respective states or regions provide for this purpose are not to be seen in competition with EU funds but as leverage for limited EU resources. Likewise, a CIP successor guarantee instrument should make use of the substantial leverage provided by national funds channelled through promotional institutions and this should be the objective for the efficient utilisation of EU budget funds.

In our opinion guarantees are a valuable instrument for both VC and standard loans. A considerable portion of the target group are small SMEs and start-ups operating in the service sector. This group is different from the high tech oriented SMEs which are looking for venture capital and can be reached through equity provided to VC funds under the GIF programmes. It is also evident that the promotion of financing by venture capital requires private investors. Their commitment is generally volatile which implies that VC support is not an appropriate tool for counter cyclical interventions.

A successor CIP programme should employ the existing expertise and base future schemes on the user feedback regarding previous programmes to make sure that new programmes benefit from the practical know-how gained through operating some of the EU instruments. It should be acknowledged that applicants for the CIP guarantees typically are promotional institutions or financial intermediaries with a promotional mission not aiming at maximising their profits. Against this background the Commission is asked to review carefully the additionality

criterion as well as the reporting requirements which have become rather burdensome and even act as a deterrent for prospective applicants.

Basically we are of the opinion that a guarantee instrument can easily be introduced and implemented. The guarantees offered under MAP have been actively utilized. With regards to the lesser applications for guarantees under CIP, we suppose that this is especially due to the late start of the facility, coordination difficulties among various interfaces and the increased administrative burdens.

Generally, higher cap rates or the waiving of the minimum portfolio volume (possibly in exchange for a fee by the intermediary) in the guarantee instrument and less red tape in the application and implementation process could boost the popularity and demand for the guarantees.

We believe that a greater flexibility (for example regarding the definition of working capital) of the CIP successor programme should be considered in order to maximise the effects as well as the efficiency of the invested financial, human and other resources. More flexibility would, in all probability, enhance the attractiveness of the instrument and boost the number of users. The instruments should ideally be more sensitive to the possible variations in the environment they are implemented in. Even though a European perspective is to be expected in EU programs, they should allow for differences in the promotional landscape and leave scope for development on the part of the national institutions. In particular, gaps in financing identified by the national institutions and addressed by their individual approach should not be perceived as an area not in need of EU funds, but, on the contrary, as an indication of an existing demand deserving additional assistance.

Clear ex-ante requirements, especially with regard to the additionality criterion and the required portfolio volume, would help intermediaries in the application process, as well as a transparent allocation of resources and a shortened time-frame for the respective programme's coming into operation.

Regarding the scope of a future guarantee instrument we support the inclusion of a securitisation window, although there was no demand for it under CIP. However, we are positive that the recovery of the securitisation market after its slump would be greatly assisted by such a tool, provided that the conditions are not too demanding.

In addition it would also be desirable to put an even stronger emphasis onto the ecological impact of CIP since many governments in EU member states have not yet realised the importance and the need of promotional programmes to support investments in energy efficiency. This could be applied to support SMEs in exploiting their energy efficiency potential and thereby increasing their competitiveness. A more intense support seems necessary as KfW surveys show that SMEs simply do not have the financial resources, the capacities and the knowledge to deal with energy efficiency. In order to overcome these barriers, the combination of financing and energy-efficiency-advisory services for SMEs has proven to be successful. A small budget could be provided out of the CIP successor programme to offer subsidised consultancy services for SMEs in combination with financing.