>>> Implementing EU financial instruments in a national context

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>>> Agenda

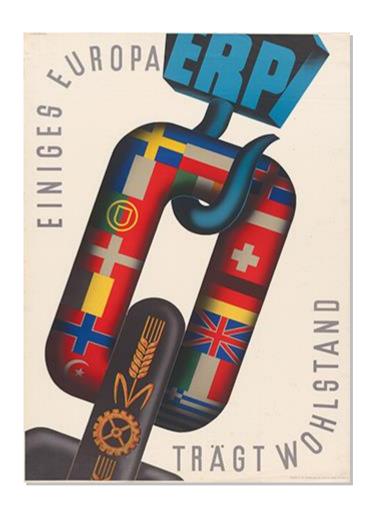
- 1 KfW at a glance
- What is a financial instrument?
- 3 KfW's experience
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Introducing KfW



Financing with a public mission for more than 65 years



- Promotional bank of the Federal Republic of Germany
- Established in 1948 as Kreditanstalt für Wiederaufbau
- Shareholders: 80% Federal Republic, 20% federal states
- Headquarters: Frankfurt am Main Branches: Berlin, Bonn and Cologne
- Representative offices: about 80 offices and representations worldwide
- > Balance sheet total 2016: EUR 507.0 billion
- > Financing volume 2016: EUR 81.0 billion
- > 5,944 employees (2016) 1
- > Best long-term rating: Aaa/AAA/AAA

¹⁾ The average number of employees including temporary staff but without members of the Executive Board and trainees

A bank with a wide array of functions

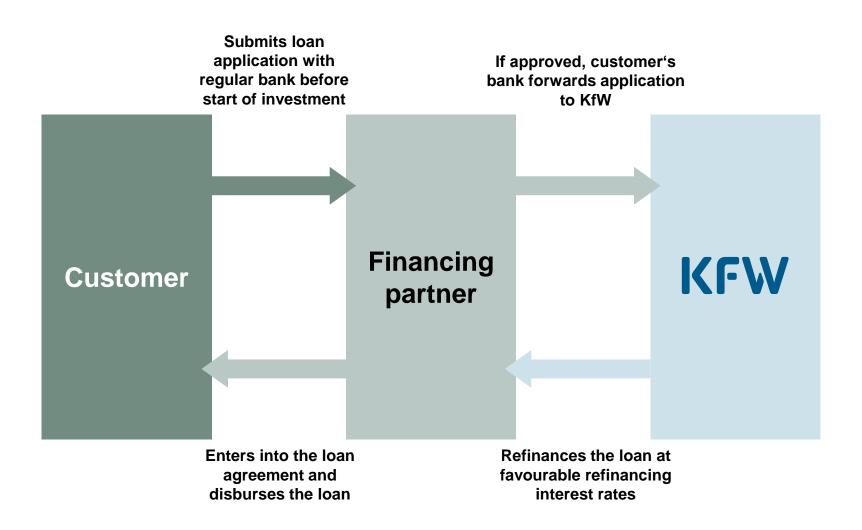
KfW organizational structure and thematic focus



International business Domestic promotion We promote Germany We promote We support internationalisation development Mittelstandsbank Kommunal- und KfW IPEX-Bank KfW Development Bank, Privatkundenbank/Kreditinstitute **DEG** Promotion of housing construction Promotion of SMEs, Promotion of and refurbishment, improved business founders. International developing countries and accessibility and education export and project finance start-ups emerging economies Financing of municipal infrastructure Energy Efficiency / Renewables and global loans Promotion of environmental and climate protection **KFW** KFW IPEX-Bank **KFW** KFW DEG 42% **KFW** EUR 21,4 bn EUR 33,7 bn (in 2016) EUR 16,1 bn

>>> Neutrality through on-lending principle in lending business

No branch network of our own



>>> What is a financial instrument?

Perspective of final recipients

- > We consider all EU budgetary funds in support of a promotional loan, guarantee, equity investment, mezzanine etc. to be a EU financial instrument. This includes grants and grant-like instruments in a single or parallel contractual agreements.
- > Financial Instruments are generally suitable for all enterprises and / or projects with possible cash-flow generation
- No dichotomy "grants vs financial instruments"
 - ⇒ blending allows adjustable combination according to needs

>>> KfWs areas of EU activities

KfW

supports EU objectives with promotional activities according to the law on KfW and backed by the EU Commission

Germany

- I. Implementation of EU promotional programmes
- COSME and InnovFin guarantees as intermediary for EIF
- Additional to KfW support for SME and business founders

EU-28

- II. Financing for German and European policy objectives
- Broadband Fund
- Fonds Marguerite
- Export and Project Finance
- SME Securitzation Initiative
- EIF Shareholder
- Global loans for strategic partners
- Establishment of the Institution for Growth in Greece
- Knowledge exchange and networks

EU-External

- III. Implementation of EU development cooperation
- EU Blending
- EU Cofinancing
- EU Mandates
- Indirect Management / implementation of EU funds as entrusted entity
- Long-lasting relationship with EU-Commission / support for EU Preaccession and neighbourhood countries (EFSE, WBIF, NIF)

XfW's experience with financial instruments

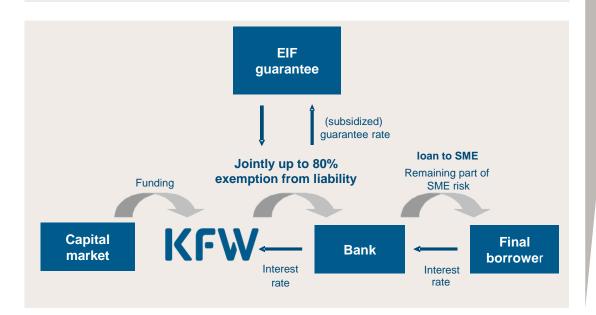
Focus on centrally managed FI (but not shared management under ESIF)

- > Role as intermediary in Germany for centrally management EU funds and as entrusted entity in EU development cooperation:
 - EU FI should define framework but not compartmentalize for single objectives
 - Flexible use allows adjustment to needs (either in single contract or in parallel)
 - Trade-off between leverage and additionality (higher promotional effects require smarter use of EU funds but not striving for maximum leverage)
- Advantages of financial instruments:
 - a. Leverage and synergies in combination with national and private funds
 - b. Higher incentive for efficient use due to repayable nature
 - c. Reducing free-rider effect
- > Wish list for EU financial instruments: ⇒ simple flexible reliable

EU Financial instruments in KfW 's programmes How it works in practice.



- KfW receives an EIF guarantee financed by EU budget.
- The EIF guarantee is embedded in KfW's onlending system.
- Guarantee used to share default risk by final beneficiary between on-lending bank, KfW and EIF.



Advantages

- Without risk sharing instrument in place the final beneficiary would not get a loan.
- Lower interest rates through KfW's favourable refinancing conditions and interest rate subsidy plus subsidized guarantee rate.
- Coverage of the entire German market through on-lending.

Result

KfW financed more than 5.200 companies supported by EU guarantees in 2016

Yellow Michael Mich

Loans for start-ups and innovative enterprises



COSME

ERP-StartUp-Loan StartGeld

- Long-lasting cooperation between EIF and KfW to promote start-up activities since start of the programme in 2004.
- Latest guarantee extension under COSME / EFSI signed 09/2015:
 - > First COSME / EFSI Agreement in Germany.
 - > EUR 1 billion of loans to up to 15.000 start-ups and young small enterprises until 5 years after establishment (3 years prior to EFSI-support).
 - Availability period until 05/2018.

InnovFin

KfW-Entrepreneur Loan Plus

- Extension of cooperation between EIF and KfW under RSI to promote innovative SME and Small Mid-Caps.
- InnovFin/EFSI guarantee signed 01/2016:
 - > EUR 500 million of loans available until 12/2017.

KfW is the largest EFSI-partner in Germany with over EUR 1.5 billion commitment

Advantages of working with NPBIs

- 3 10 reasons
 - Additionality and Complementarity
 - Alignment of interests and no profit maximisation
 - Leverage and higher added value due to combination with national funds
 - Knowledge of national markets
 - Existing distribution networks and promotional programs allow for fast and flexible approach
 - Non-discrimination broadest possible outreach
 - In line with state-aid rules
 - Transparency and accountability
 - > EU visibility ensured
 - Fostering European cooperation in NPBI networks (e.g. ELTI and NEFI)

Pecommendations (from a national perspective)

for improved financial instruments using EU funds

I. Better synergies between EU and national level

- Complementarity with existing promotional structures and programmes
- > Ensure additionality and avoid duplication
- Joining forces for shared objectives

II. More Trust and Reliance with Member State Organisation

- National Promotional Banks and Institutions as entrusted and experienced partners in delegated implementation of EU funds
- KfW is EU "pillar assessed" institution since 2008 with implementation experience for EU funds since 1990s

III. Flexibility for adapted approach and most efficient use

- Enable adjustments to national context in EU programms and add-on to existing promotional programms
- > Room for manoeuvre in delegation agreements with EIF for EU-wide support

IV. Predictability with stable regulation and lean procedures

keep continuity and trust with implementation partners and beneficiaries

>>> Thank you for your attention

KFW