

# »» Implementing EU financial instruments in a national context

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Bank aus Verantwortung

**KFW**

## »» Agenda

1

KfW at a glance

2

What is a financial instrument?

3

KfW's experience

4

Recommendations

# »» Introducing KfW

## 1 Financing with a public mission for more than 65 years

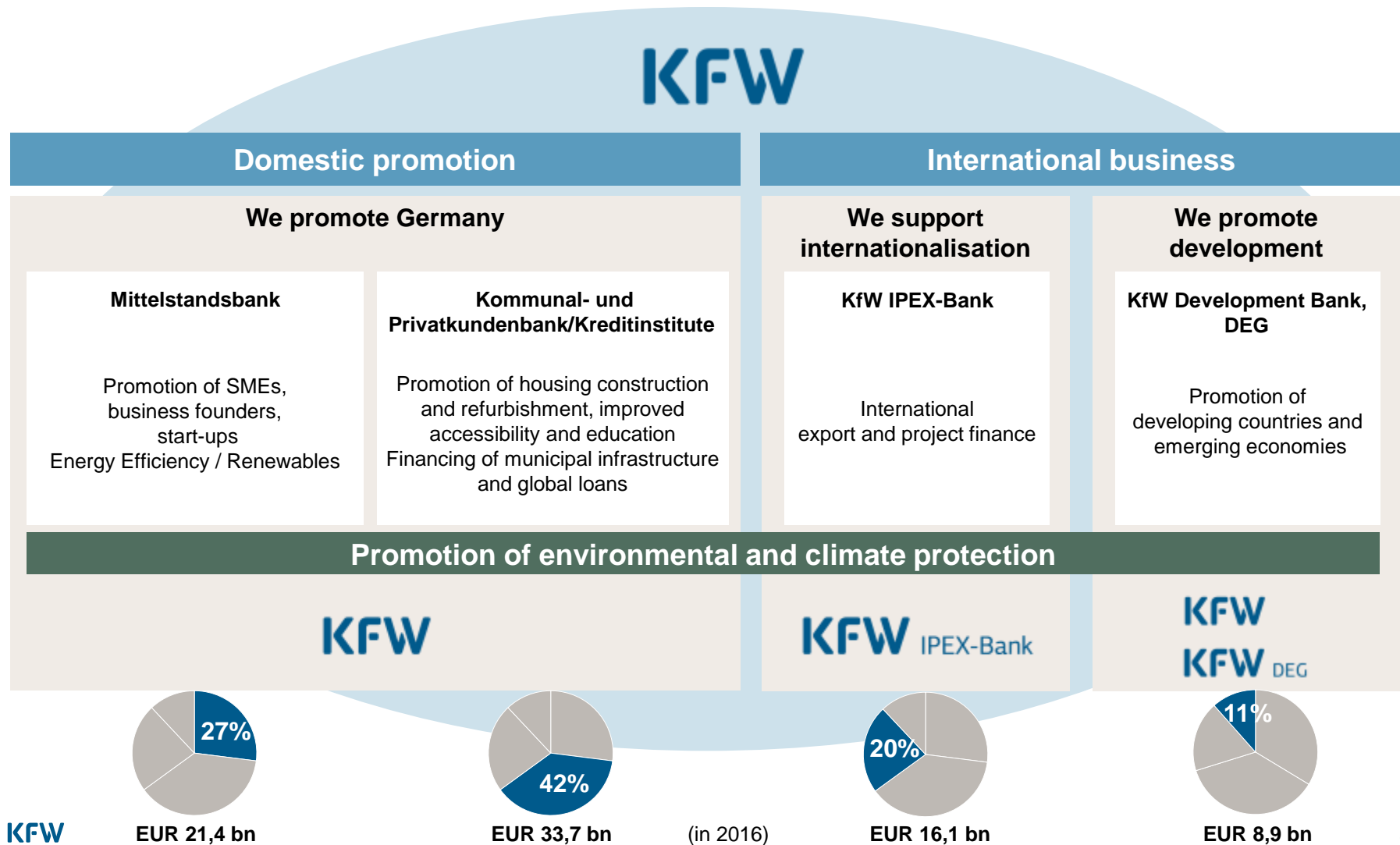


- › Promotional bank of the Federal Republic of Germany
- › Established in 1948 as Kreditanstalt für Wiederaufbau
- › Shareholders: 80% Federal Republic, 20% federal states
- › Headquarters: Frankfurt am Main  
Branches: Berlin, Bonn and Cologne
- › Representative offices: about 80 offices and representations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

<sup>1</sup> The average number of employees including temporary staff but without members of the Executive Board and trainees

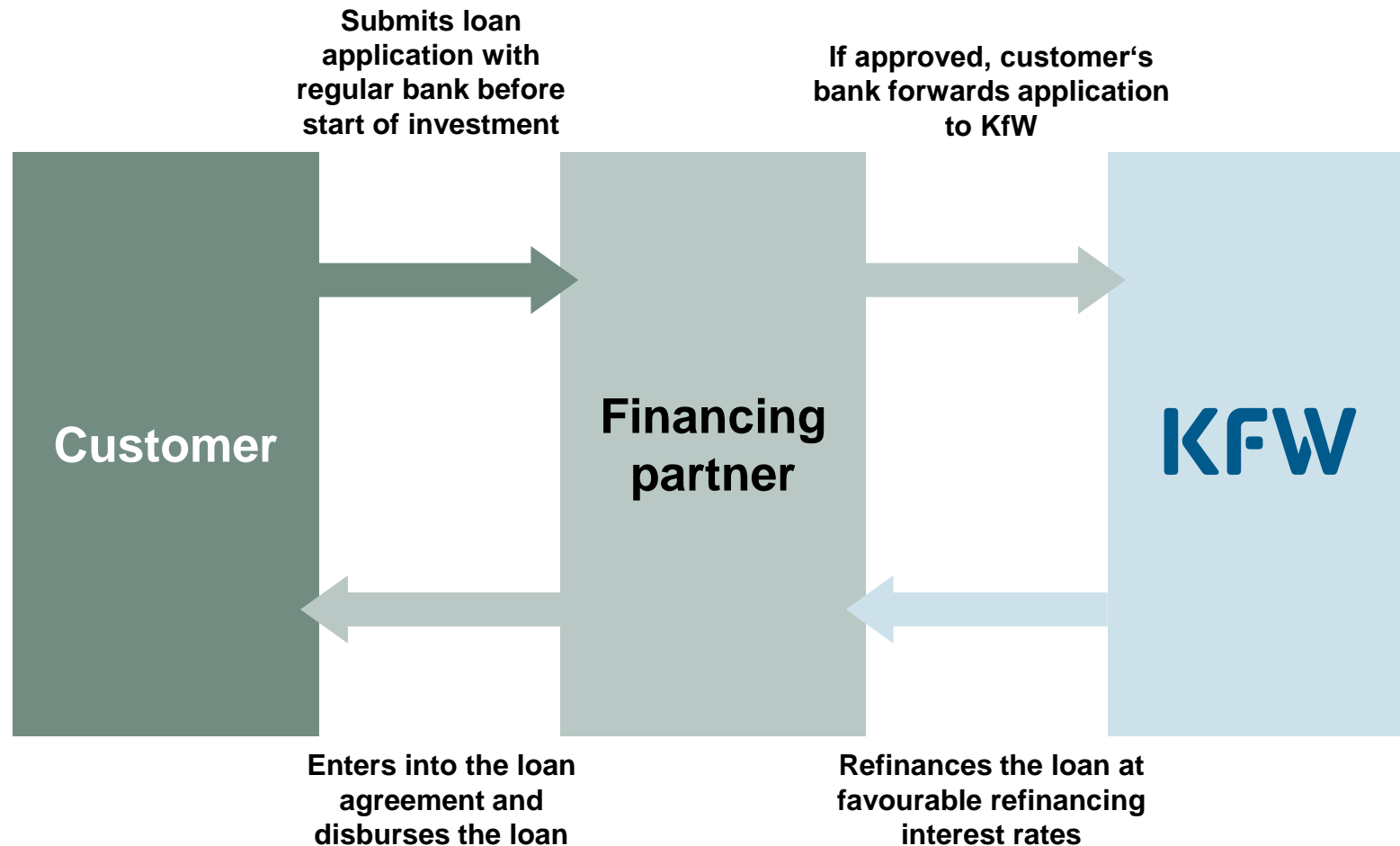
# »» A bank with a wide array of functions

## 1 KfW organizational structure and thematic focus



# »» Neutrality through on-lending principle in lending business

## 1 No branch network of our own

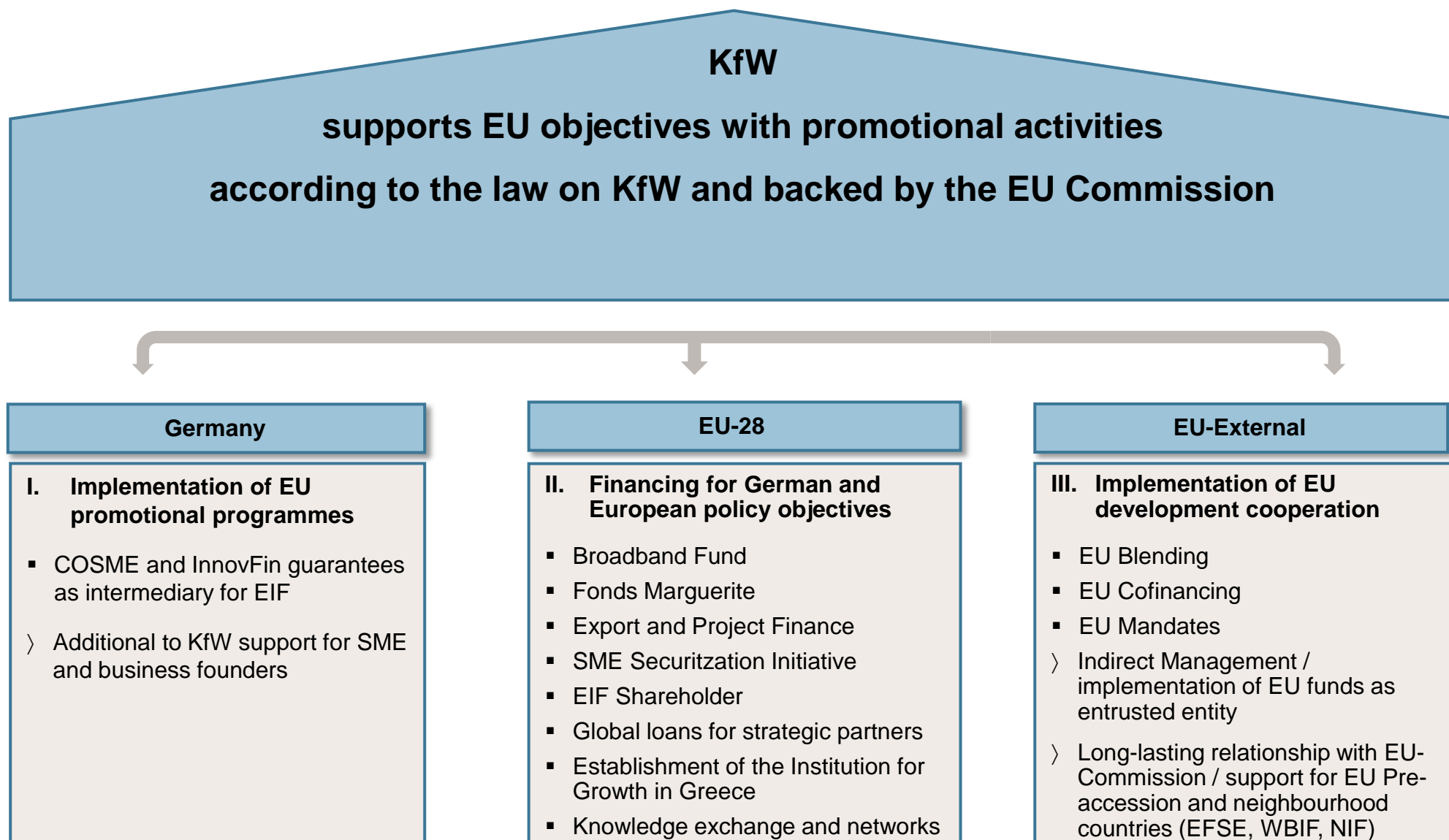


# »» What is a financial instrument?

## 2 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's experience with financial instruments

### 3 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**

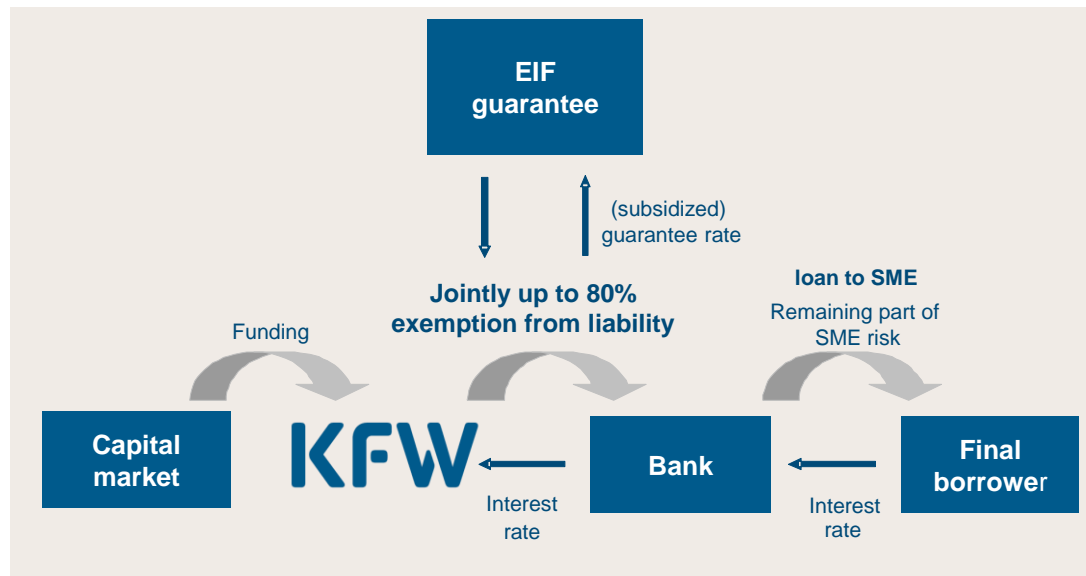


# »» EU Financial instruments in KfW´s programmes

## 3 How it works in practice.



- › KfW receives an EIF guarantee financed by EU budget.
- › The EIF guarantee is embedded in KfW´s on-lending 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

# »» KfW implementation of EU Financial Instruments

## 3 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)

## »» Recommendations (from a national perspective)

### 4 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 programmes and add-on to existing promotional programmes
- › 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**