

»» Promotion of Innovations: No money, no ideas?

UNECE International Conference "Entrepreneurship and Innovation"

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Bank aus Verantwortung

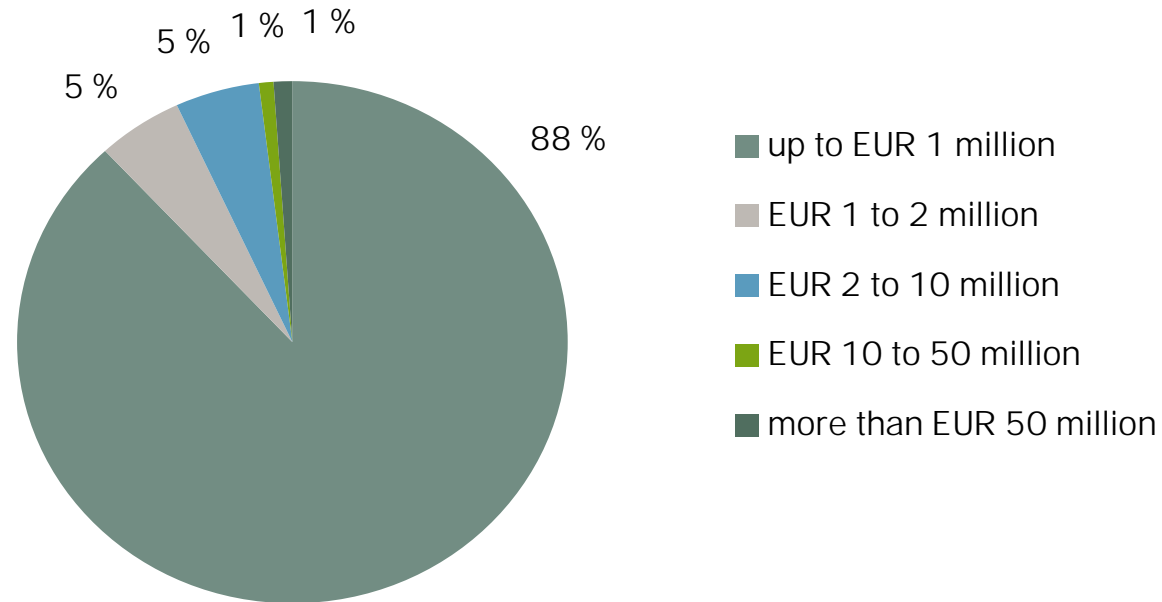
The logo for KfW Bankengruppe, consisting of the letters 'KFW' in a bold, blue, sans-serif font.

»» The German SME sector in 2011 – An overview

- › About 3.8 million SMEs in Germany (with an annual turnover of up to EUR 500 million)
- › SMEs account for 99.96 per cent of all enterprises
- › SMEs employ 29.1 million people (= 71 per cent of the total workforce in Germany)
- › SMEs train 1.2 million young people (= 85 per cent of all trainees)
- › SMEs are responsible for 56 per cent of the total corporate investments

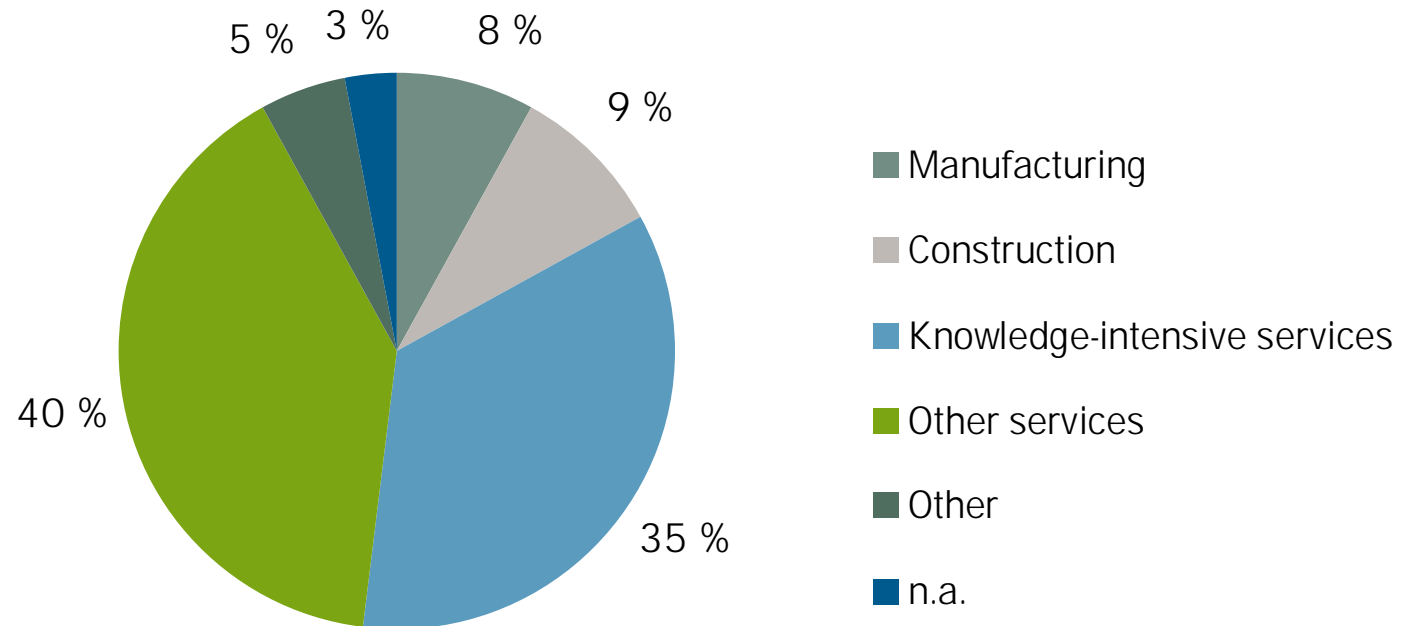
»» The vast majority of SMEs are small...

Scale distribution in the SME sector by turnover



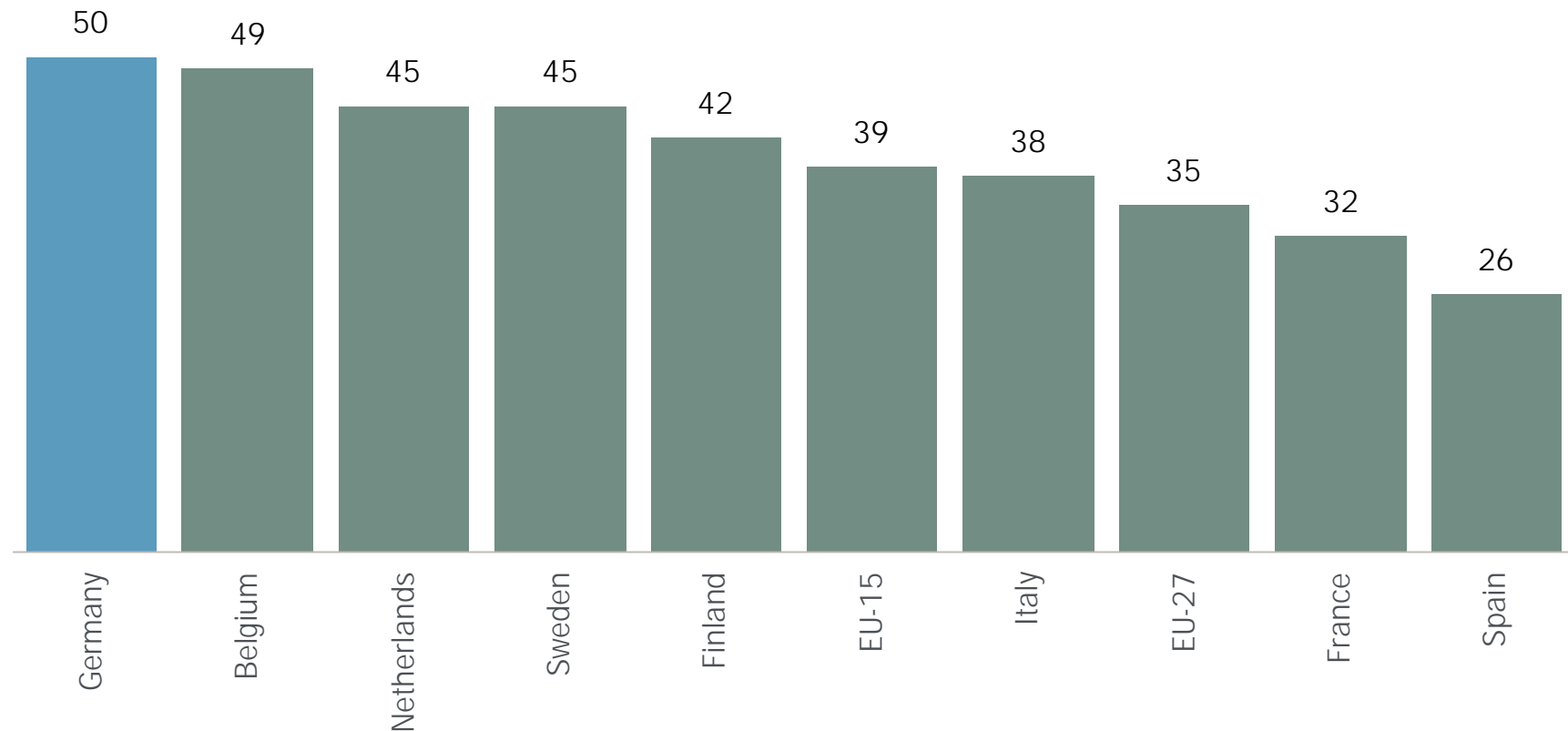
»» ...and service-oriented

Sectoral distribution in the SME sector



»» Share of innovators highest in the European Union

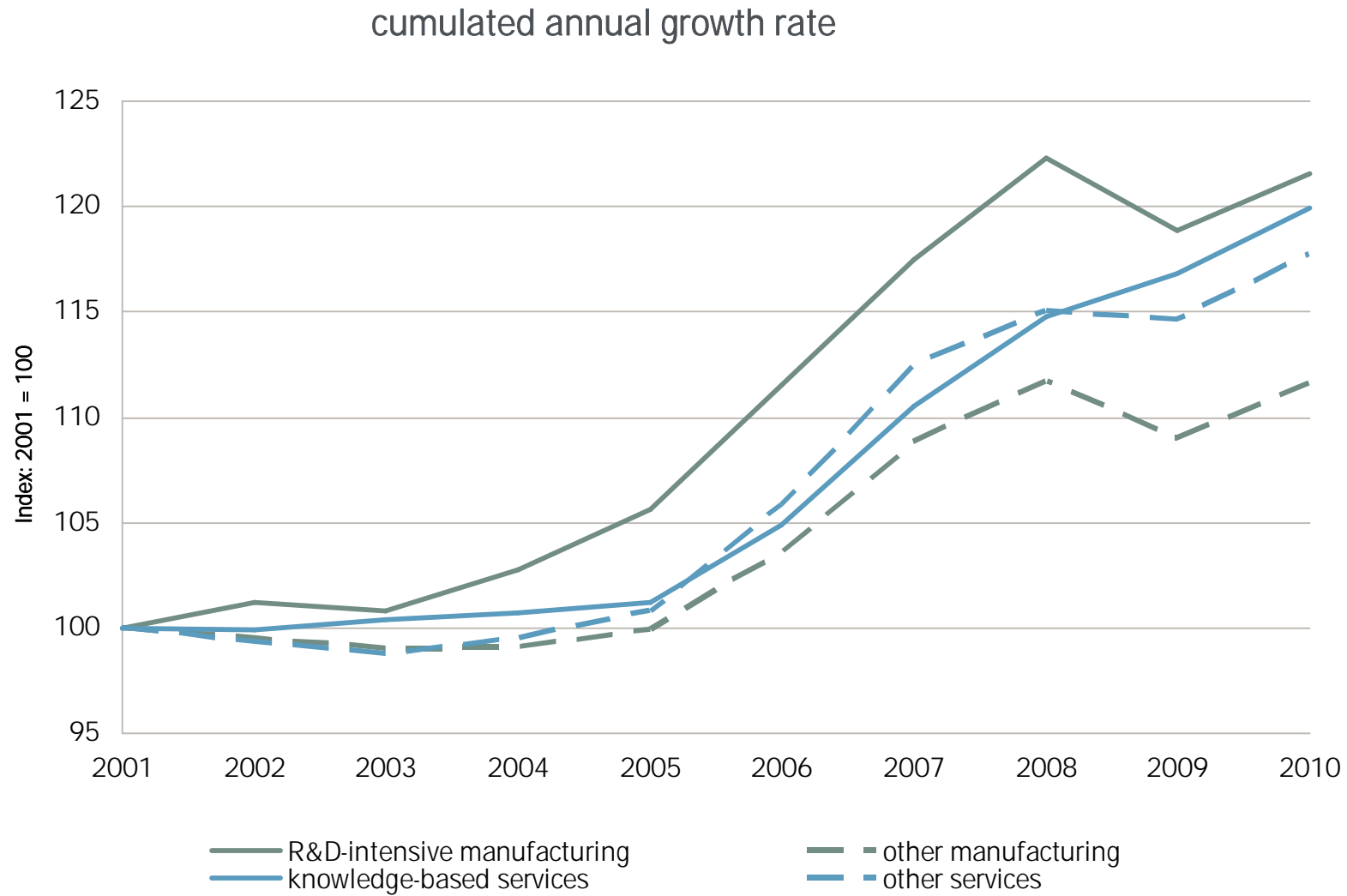
Share of SMEs with 10 or more employees that have introduced new products or processes (2006 to 2008) – in per cent



- › Small firms (< 50 employees) in particular are more often innovators than in other EU-countries (e.g. Germany: 45 % >> Italy: 35 % >> France: 27 % >> Spain: 22 %)

»» Innovations create jobs

Development of employees in the German SME sector





Innovation strategies in SME sector 2008-2010

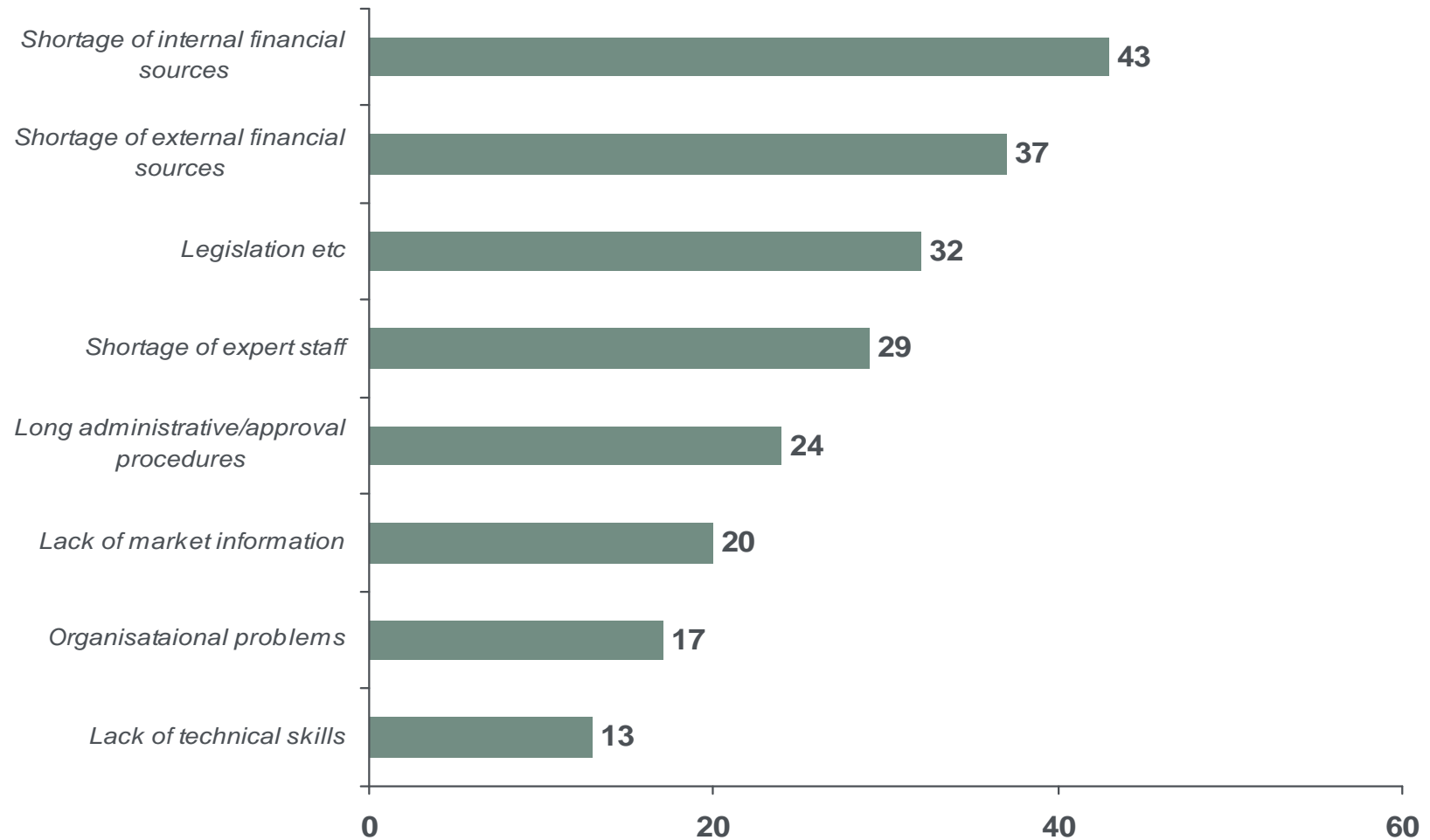
(share in %)





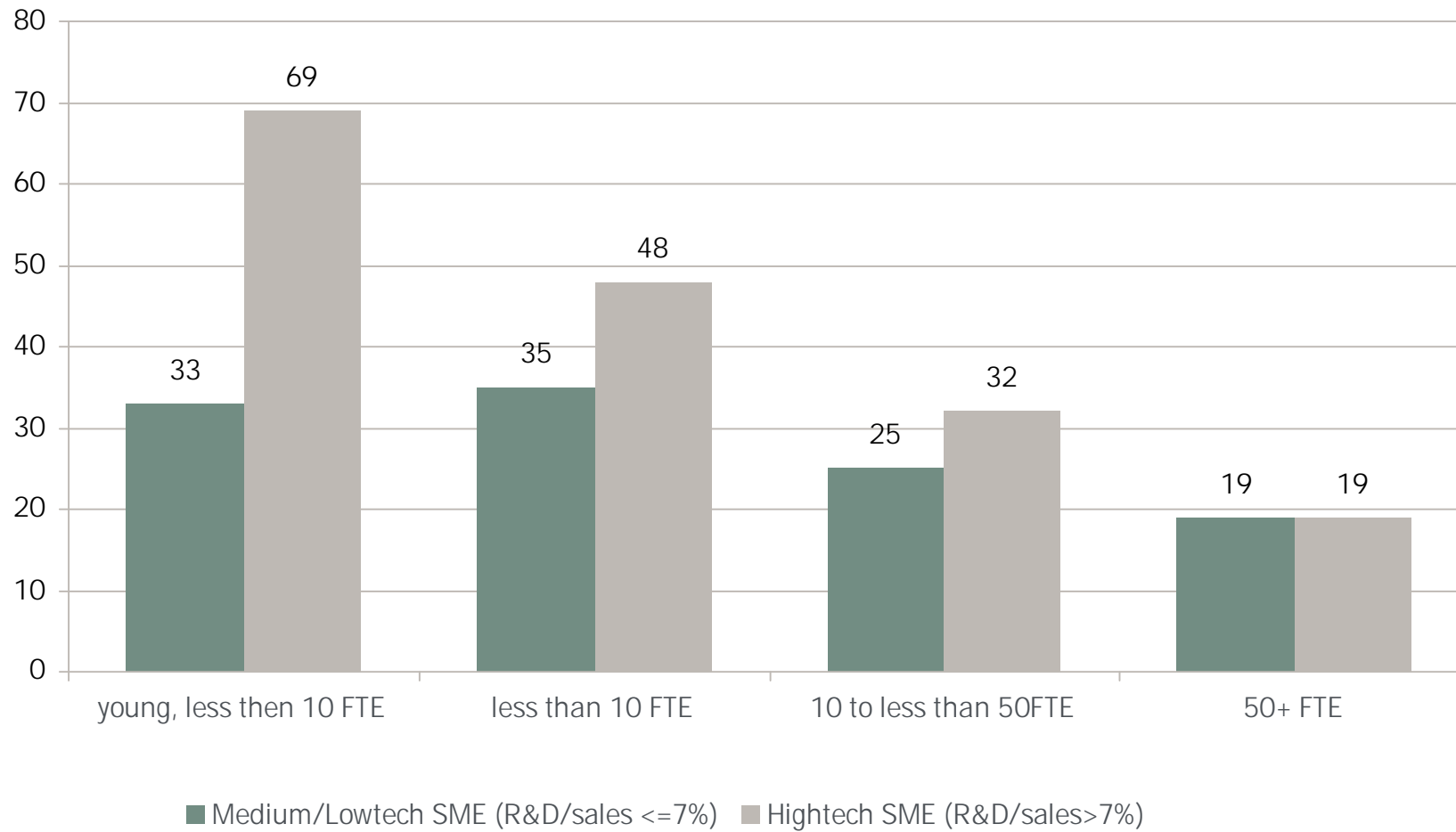
Obstacles for innovation at SMEs 2008-2010

(share in %)



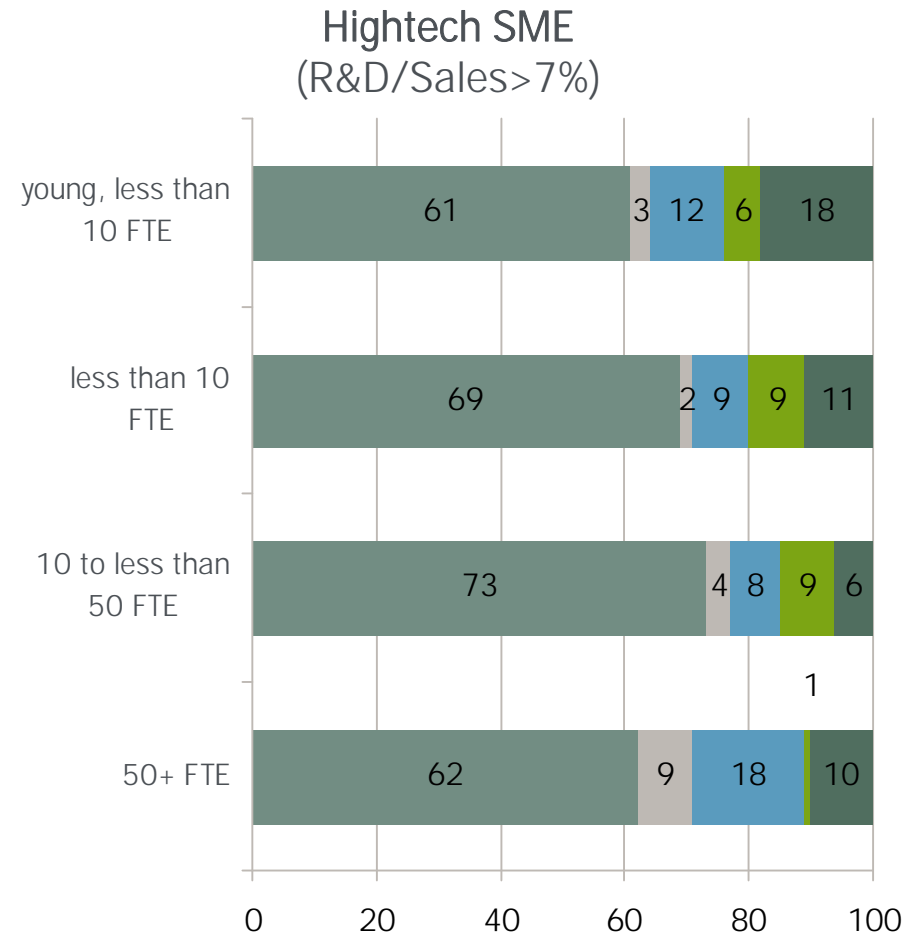
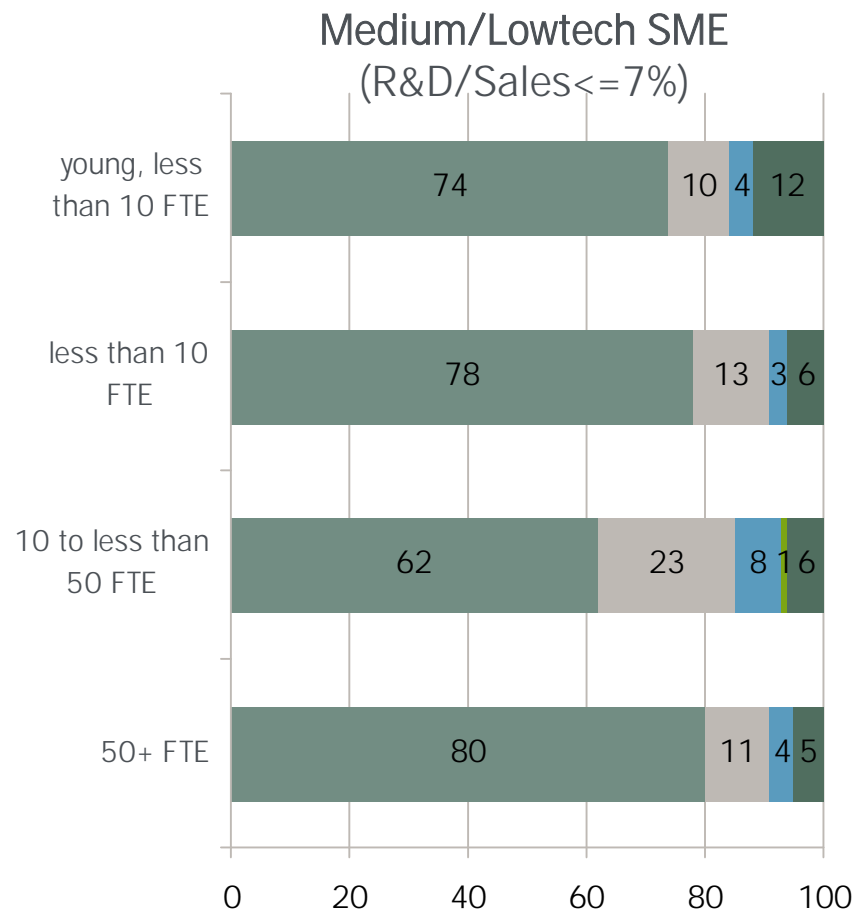
»» Shortage of external financial sources

By size and R&D-intensity (share in %)



»» Financing of innovation activities

By size and R&D-intensity (proportion by volume in %)



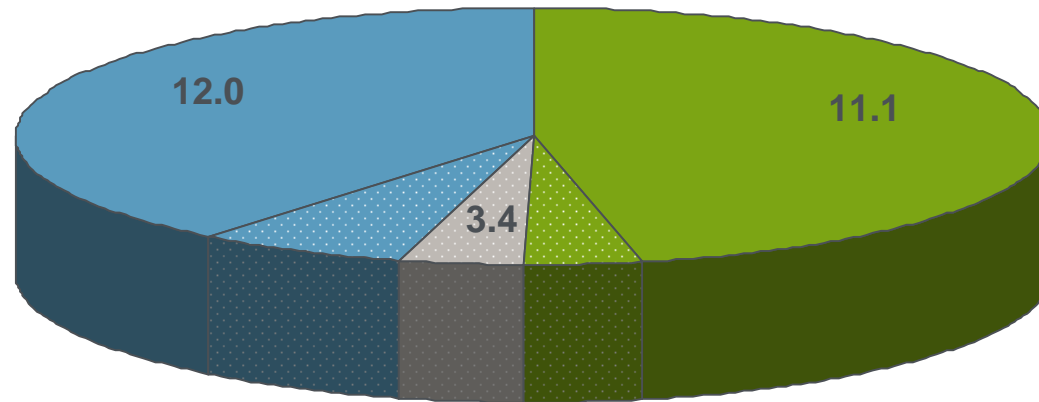
■ internal funds ■ bank loans ■ grants ■ venture capital ■ other

»» Business Area KfW Mittelstandsbank

Promotional activities in 2012

Environmental and
Climate Protection
(in EUR bn)

General SME Finance
and Start-ups
(in EUR bn)



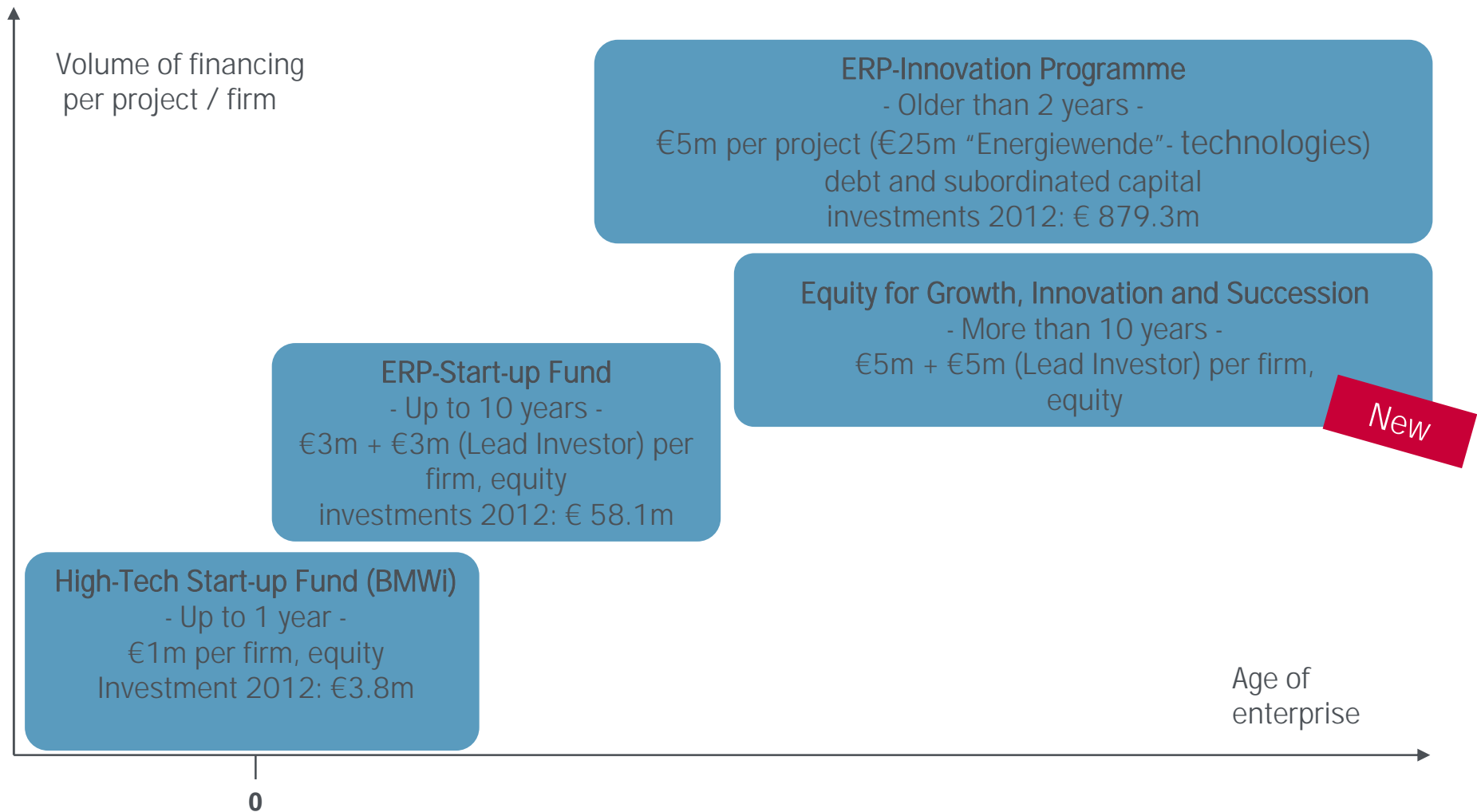
Innovation
(in EUR bn)

Total: EUR 24.1 bn



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Special programmes for innovation finance

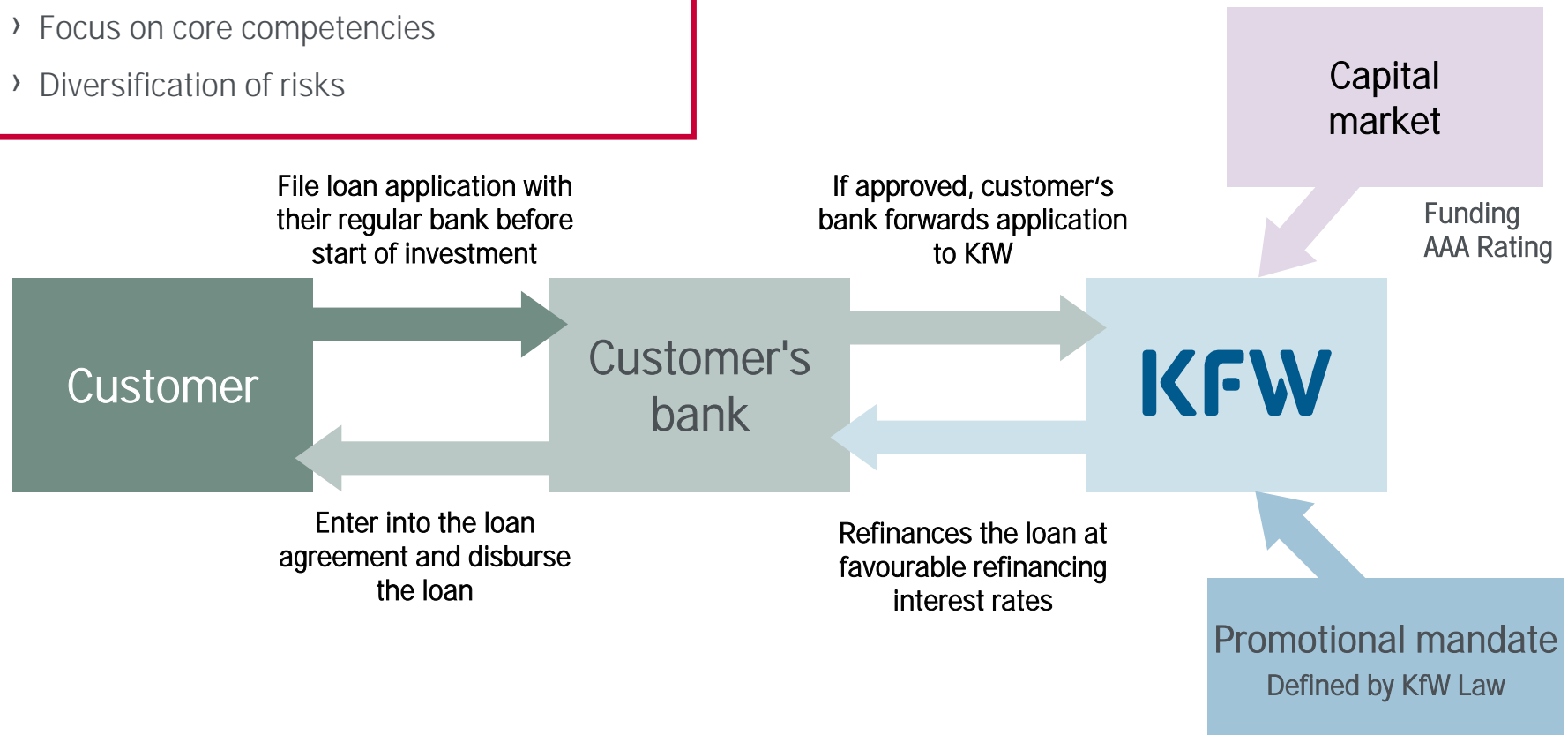


»» ERP-Innovation Programme

On-lending principle in loan business a proven and successful business model

Advantages:

- › Neutrality
- › Focus on core competencies
- › Diversification of risks



»» ERP-Innovation programme

Programme criteria

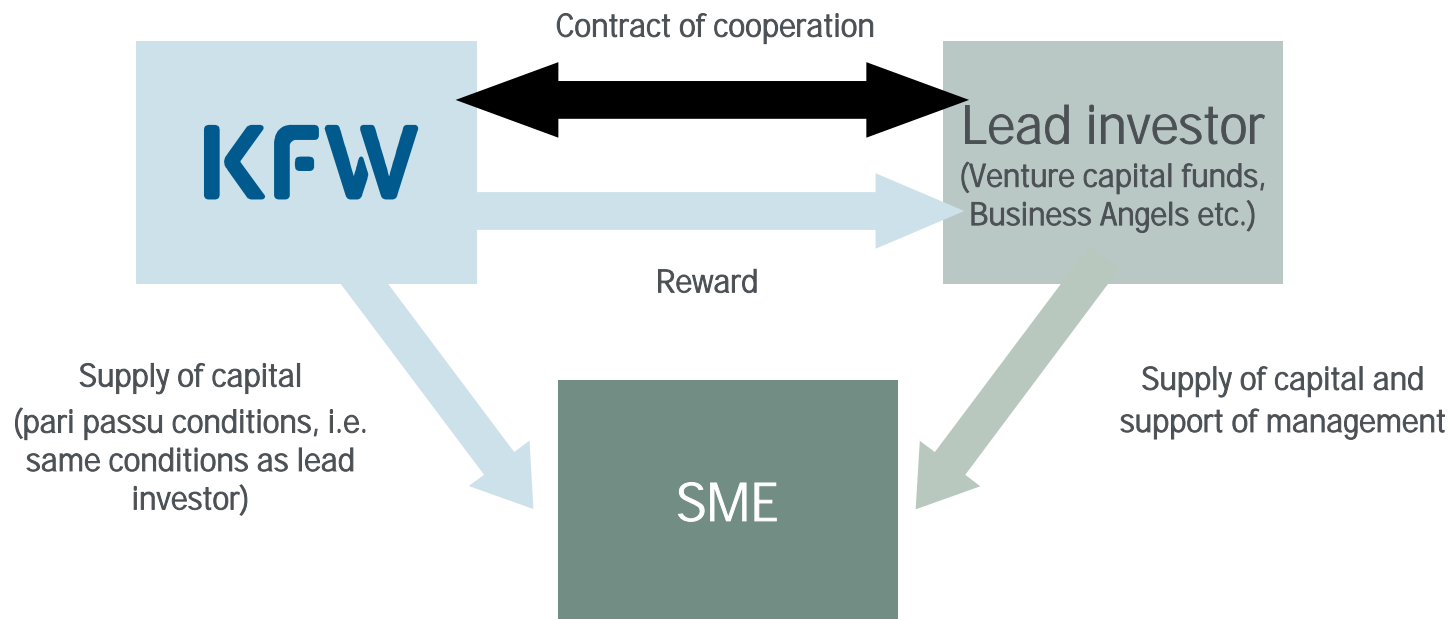
For whom?	<ul style="list-style-type: none">› Established SMEs› > 2 years, annual turnover of up to EUR 500m
For what?	<ul style="list-style-type: none">› For R&D-Projects / R&D Measures as well as Market introduction (MI)› Up to 100% of eligible costs (max. EUR 5m per project or max. EUR 25m per project for the development of new technologies to save, store, transmit or produce energy)<ul style="list-style-type: none">- Staff costs in the context of the R&D-project + overhead costs- Costs of material- IT costs
How?	<ul style="list-style-type: none">› Combination of senior debt tranche (on-lending bank carries liability) and subordinated debt tranche (KfW carries liability,)› senior debt tranche: 60% (up to EUR 50m annual sales) / 50% (more than EUR 50m annual sales) of financing package, no collateral› or 100% senior debt tranche (customer's bank carries liability)
<ul style="list-style-type: none">› The financing is strictly linked to an R&D project and› It operates under the "Aid Framework for Research, Development and Innovation"	

»» KfW equity financing

Co-Investment Model: ERP Start-up Fund, Equity for Growth, Innovation and Succession

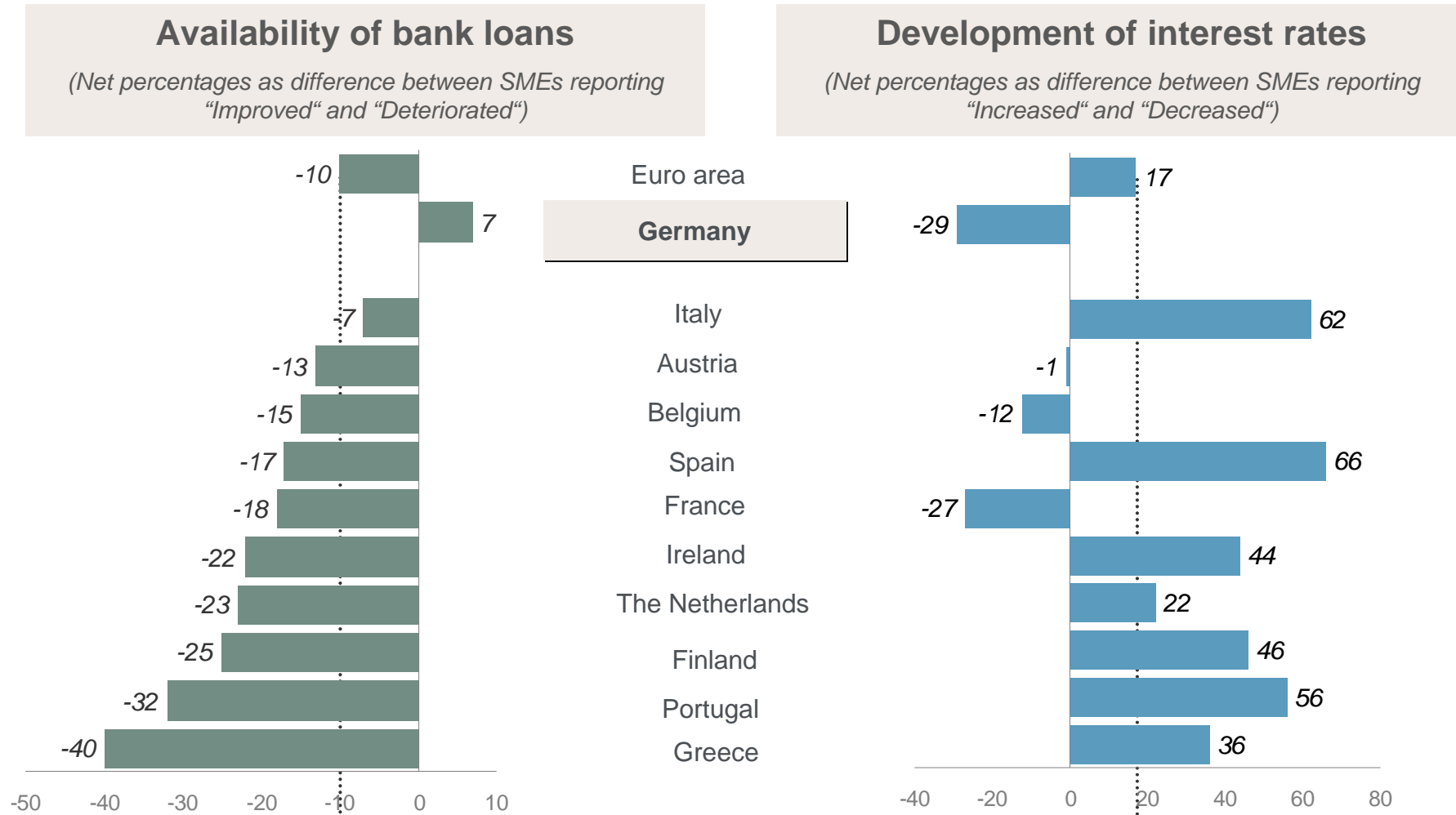
Advantages:

- › Neutrality
- › SME receives capital directly (without charge of management fee)
- › High leverage (duplicating private capital)



»» Access to finance for SMEs in the Euro area

Current assessments (in %) over the preceding 6 months



Source: ECB Survey on the access to finance for SMEs in the Euro area, April 2013.

»» Conclusions

- › SMEs are of outstanding relevance for the German economy
- › A special German feature: the few medium-sized industrial companies
- › Extensive R&D activities lead to strong innovation performance of German SMEs in general
- › Financing: SMEs are extremely dependent on bank loans but well prepared for future challenges

»» KfW Research

Most recent innovation & SME studies

- › **Brutscher, P. (2013)** You get what you pay for –The remuneration structure of VC funds and its consequences. Focus on Economics No. 18, March 2013
- › **Schwartz, M (2013)**, Loans for SMEs – Gap in Europe widens further. KfW Economic Research. Focus on Economics No. 16, Februar 2013
- › **Zimmermann, V. (2013)**, The innovation motor is sputtering. Innovation activities in the German SME sector, KfW Economic Research. Focus on Economics No. 13, January 2013.
- › **Zimmermann, V. (2012)**, To be the Leader of the pack? Innovation strategies in the German SME sector. KfW Economic Research, Focus on Economics No. 11, November 2012
- › **Zimmermann, V. (2012)**, Barriers to innovation in SMEs. KfW Economic Research. Focus on Economics No. 6, September 2012

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