



EU 2020 Consultation

KfW and OSEO, both major organisations involved in the support of SMEs, would like to take the opportunity to comment on the future EU 2020 Strategy.

As Germany's national promotional institution KfW supports the sustainable improvement of the economic, social and ecological conditions by supporting for example SMEs, business founders, environmental protection, housing, infrastructure, education. Furthermore KfW engages in project and export finance and finally foreign aid on behalf of the German Government. KfW uses a number of EU instruments (e.g. the CIP Guarantee in the Loan Guarantee Window for the KfW StartGeld geared at micro-enterprises) and is mandated by EU institutions to make available EU support to EU final beneficiaries (e.g. in the context of the SME Finance Facility of DG Enlargement). Finally KfW co-operates with the EU Commission in a number of joint financial platforms (e.g. the Neighbourhood Investment Facility – NIF).

OSEO was created in 2005 by the merger of four entities supporting SMEs. It has since demonstrated the success of its comprehensive approach which, in partnership with the other entities involved, facilitates companies' access to innovation, new technologies and financing to further their growth, nationally and abroad. OSEO uses a number of EU instruments (e.g. Eranet within FP7, PRO INNO and Entrepreneurship and Innovation Programme (EIP) within Commission's Competitiveness and Innovation Programme) and takes part in intergovernmental initiatives supported by the Commission such as Eureka.

OSEO and KfW agree that the promotional priorities which the EU Commission has defined in the EU 2020 Strategy paper are key to achieving the most crucial EU goals. In addition, KfW and OSEO share these promotional priorities, which define the scope of our institutions promotional activities mentioned above. In the following KfW and OSEO would like to comment on selected aspects of the document.

Analyzing the Lisbon Strategy and its results in sustaining innovation we would like to highlight the following four factors, where we see room for improvement, and which should therefore be considered in conceiving the future strategy:

- 1.1. The European Union should make better use of its continental size. Europe has for example reaped benefits from the GSM standard becoming a world wide standard, with European telephony-related companies (network equipment, handsets, etc.) becoming worldwide leaders, but in many fields fragmented markets and regulations hamper this development : few of the most prescribed medicines are of European origin and the European position is deteriorating in large part due to the fragmented nature of the European pharmaceutical markets.
- 1.2. Cooperation between universities and companies remains insufficient and needs to be strengthened. As an observation, the American Bayh Dole Act has successfully facilitated technology transfer from American universities, giving a priority to SMEs, with the consequence of both strengthening SMEs and reinforcing the collaboration between companies and universities.
- 1.3. Public support for technology transfer and start-ups remains insufficient and needs to be enhanced.
- 1.4. The complexity and unwieldiness of the European intervention processes has made coordination of national policies more difficult. Current state aid regulation with regards to risk capital limiting public support in an area where the market clearly fails might serve as an example in this context; the difficulty to find synergies and complementarities between FP7, CIP and Structural Funds could be another.

These observations lead KfW and OSEO to make the following recommendations for the European Union's 2020 strategy.

2. KfW and OSEO agree with the goal to develop a smarter, greener and more sustainable social market economy built upon knowledge, innovation and a better use of our resources

2.1. OSEO and KfW agree that from a **social point of view**, the EU must focus on supporting education, lifelong learning as well as the access to modern information and communication technologies. In addition we agree that well performing flexible labour markets and society's capacity to integrate immigrants and other minorities will be key to our overall prosperity and productivity. We also agree that the challenge of an aging society is one of our biggest constraints making it necessary to integrate a larger proportion of the population into the workforce and modernize our social security systems.

What needs to be done?

- a) KfW and OSEO would like to add that broad access to education and lifelong learning should be supported by making available adequate financing for this particular purpose where commercial banks so far have failed to make an adequate financing offer (e.g. low interest rate loans for university as well as advanced vocational training).
- b) OSEO and KfW would like to add that the individuals' investments in energy efficient housing, consumer products and transport are key elements of a generally necessary behavioural change towards a **greener society**. In some areas (housing) incentives need to be offered by the public sector to encourage individual homeowners to invest. In both Germany and France, it has proven to be effective to dedicate budget funds to subsidizing long term loans to individual house owners for energetic building rehabilitation. This way the budget funds generate substantial leverage. And they support economic growth at the same time by generating demand for construction services.
- c) KfW and OSEO would like to stress that the challenges of an aging society, in certain areas amplified by the workforce migrating away from disadvantaged areas towards economically strong regions, must be counteracted. It will be necessary for instance for the public sector to foster investments into the adaptation of the local and regional infrastructure as well as housing.

2.2. KfW and OSEO agree that from an **economic point of view** the industrial sector must undergo a substantial restructuring by reducing superfluous capacity. One of the primary goals of the Lisbon Strategy, i.e. to raise spending on research, development and innovation to 3% of GNP has not been reached. Therefore research, innovation and technology transfer must stay key promotional themes to help the industrial sector to undergo the necessary structural changes. This holds true especially for eco-innovation and clean technology. Companies must have incentives to invest in energy efficiency and clean technology. Support for the apparition and adoption of early technologies and innovation must also be enhanced.

What needs to be done?

- a) The EU should strive for a 'one stop' research, development and innovation policy. Currently several EU Commission Directorates are involved in conceiving the policy

and relevant initiatives. This leads to initiatives not perfectly complementing each other and relevant expertise not being pooled effectively at EU Commission level.

- b) KfW and OSEO agree that the EU needs to heavily invest in research infrastructure. Public funding is key in this regard. Private funding should be generated wherever possible (e.g. via PPPs).
- c) KfW and OSEO agree that the companies' access to financing for innovation must be improved. This holds true for debt as well as risk capital. We would like to stress that the public sector including the EU plays a key part in this.
- d) The criteria to be met for an innovation to receive public funding must be broadened to include product as well as process innovation. Innovation in services must also qualify in a society moving away from industrial production towards an economy dominated by services. New mechanisms for stimulating service innovation need to be put in place where unmet needs exist ; these new mechanisms would benefit from European support reinforcing the actions of the national promotional agencies. Innovations should be identified at a company level, not at EU level.
- e) The European Commission has appropriately widened state support possibilities during the economic crisis. These measures are applied within the framework of a competitive market, and allow companies to take on more risk, innovate and expand internationally. Some of these measures should be extended permanently which will be key to reaching a critical mass in terms of number of SMEs and volume of investment supported.
 - One example would be an increase in the *de minimis* threshold, which would be beneficial to spreading innovations widely within the EU, and help towards the goal of a reduction by 25% of bureaucratic burden ;
 - KfW and OSEO would like to point out that state aid rules regarding risk capital must be reformed to allow the public sector to fund higher amounts (>1,5 Mio. € in 12 months) and a higher share of the funding package in question (>50%) than in the past. 4.5 Mio. € per tranche and 70% in terms of share of funding (like foreseen in the Temporary Framework) respectively in our view would be appropriate figures.
- f) Promotion of innovation should not be restricted to certain sectors but should include all sectors. Together with the necessity for a broad support of innovation we would also like to stress that special efforts are required for green technology, primarily renewable energies and energy efficiency technology because of their huge potential for growth and employment. It is essential to take advantage of and to extend the technological lead many European countries currently already have.
- g) OSEO and KfW would like to point out that the availability of funding for technology transfer must be improved since the market fully fails in this area. Experience has shown that private investors are not ready to take the relevant risks. This implies that the public sector must bear a significant portion of the inherent risk and must provide a significant part of the capital required.
- h) The public sector must make available more equity funding for start-ups in their seed phase since experience has shown that the private sector is not ready to take the relevant risks in this area either.
- i) Patents are key to access to finance; in a knowledge-driven economy a lot of financing needs arise without the young companies disposing of adequate security. If progress were made as to the assessment of patents, they could serve as security for funding. Therefore the evaluation of patents by external experts should be promoted (development of best practice; support in terms of developing a methodology, criteria and standards).

Some specific actions for SMEs

- j) The complexity of policy setting is particularly damaging for SMEs. The dissemination of responsibilities among several EU Commission Directorates could be counterbalanced by a specific coordinating ombudsman / body.
- k) Innovative SMEs development can be efficiently promoted within clusters. By enhancing collaboration between universities and companies, by sharing best practices and information, clusters are both efficient and effective mechanisms. Active public support of efficient clusters needs to be enhanced and would benefit from EU support and financing.
- l) OSEO and KfW also agree that the internationalization of SMEs would be a prerequisite for them and for consumers to truly benefit from the EU as a single market. EU support for banks/ institutions providing promotional programmes fostering cross border investments would be an effective way to help SMEs to tap their internationalization potential. Furthermore, an efficient vector for this will be linkages established between clusters across the Union. These linkages will facilitate the exchange of ideas and people, benchmarking between companies, research/marketing collaborations and overall will lead to stronger SMEs. Public support for these linkages and personnel exchanges between clusters will be an effective policy.
- m) The SMEs' access to financial markets needs to be improved.
- n) OSEO and KfW, like a number of promotional agencies, run programmes that focus on SMEs in their diversity: the synergy between regional, national and European financing, as well as the convergence of national and regional tools across the EU could be strongly enhanced by delegated top-up mechanisms for programmes fitting appropriate requirements of the Commission. Such top-up mechanisms are already in place for some actions (e.g. Eurostars in CIP) and could be expanded to other programmes.

3. KfW and OSEO agree that subsidiarity and closer co-operation between EU and national promotional institutions is key to efficient and effective promotion

What needs to be done?

- a) KfW and OSEO would like to add that in order to foster subsidiarity national promotional institutions should receive additional EU funding for their promotional programmes fitting EU innovation policy for the following reasons:
 - they dispose of the relevant know-how of their regional markets;
 - EU initiatives can build on existing customer relations and distribution channels;
 - national promotional institutions can keep application and approval procedures for local and regional enterprises simple and rapid.

KfW and OSEO therefore would like to highlight that relevant initiatives should be designed to enable national promotional structures to better channel through EU funds as long as they have a product offer fitting the key EU promotional objectives. As an example, in order to alleviate bottle necks in innovation financing, national promotional institutions could play an active role in the forthcoming 8th Framework Programme within guidelines specified by the Commission. This will be made easier by the convergence of national research and innovation policies.

However, national specifications should also be possible to cater for country specific issues and shortcomings. Intermediaries should be able to apply EU budget funds equally to different financial instruments (guarantees, promotional loans, equity).

- b) OSEO, KfW and a number of promotional agencies run programmes that match the EUs intent: the synergy between regional, national and European financing could be based on a delegated top-up mechanism, for instance complemented by programmes allowing EIB funds to cover non-R&D expenses.
- c) OSEO and KfW would like to stress that EU initiatives competing with national initiatives should be avoided since this hinders an effective use of budget funds. Combined funding/ risk sharing mechanisms are an effective tool to support co-operation between national and international financial institutions. Financing platforms pooling resources from various promotional institutions in order to invest in pre-defined promotional areas is another way to co-operate closely while benefiting from existing customer relations and learning from each others' expertise.