



**Finanzgruppe**

**Deutscher Sparkassen- und Giroverband**

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**Contribution by Deutscher Sparkassen- und Giroverband (DSGV) to the public consultation on a possible successor to the Competitiveness and Innovation Framework Programme (CIP) - Register of Interest Representatives No. 62379064909-15 -**

Deutscher Sparkassen- und Giroverband (DSGV) is the head association of the German Savings Banks Finance Group with its 430 savings banks - Sparkassen. DSGV's unit EuropaService works as affiliate partner of the Enterprise Europe Network, and was a member of its predecessor EIC network since 1989. In their 16,000 branches savings banks offer a broad variety of financial and advisory services to SMEs all over Germany, not only in big cities but also in rural and structurally weak areas. Decisions on loans and any other business are taken locally - which ensures proximity to customers as well as speed in action.

Savings banks are the most important financing partners for German enterprises. Together with the Landesbanken they have provided 42.6 percent of all outstanding loans to non-financial enterprises and self-employed people (as per year-end 2009). For refinancing their loan business they did not and do not rely on capital markets - national or international. Instead their being deeply rooted in the local economies ensures a stable liquidity and refinancing supply through private and other customers' deposits. Based on this, savings banks remain stable partners for the financing of enterprises even in these difficult economic times.

In 2010 savings banks committed 64.2 billion EUR of new loans to enterprises and self-employed people - 3.4 percent more than in the previous year which had already seen a rise by 5.5 percent compared to 2008. Savings banks provided 56.8 percent of the 5.600 "KfW-StartGeld" loans in the 1<sup>st</sup> to 3<sup>rd</sup> quarters 2010 (totalling 171 million EUR), the German promotional programme for start-ups and young enterprises which is supported by CIP and reaches many beneficiaries due to local implementation. As reliable financing partners, savings banks do not securitise their loans with the intention of placing these on the capital markets. They are aware of their responsibility towards their customers and keep the loans provided to these on their own balance sheets.

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The following statements and comments follow the structure of the online consultation questionnaires and touch on topics of major relevance for the savings banks as stakeholders in CIP. This document concentrates on items where we want to provide more extensive comments than the questionnaires allow. The text is therefore complementing our participation in the online consultations - including that on "Specific questions related to the financial instruments under future EU programmes in the field of Competitiveness and Innovation" (page 5f.).

## CIP PUBLIC CONSULTATION

### B - Designing a future EU programme for competitiveness and innovation

B.1. To what extent do you consider that there is a need for an EU programme targeting the creation of a favourable business environment including support for commercialisation of innovative products and services?

To some extent. There is specific need for an EU programme targeting the business environment when it has a clear EU dimension - such as with cross-border business or internationalisation. Support for commercialisation, however, should be limited to the minimum necessary and be demand-led. The quality of an innovation is based on its being fit for commercialisation. The background paper to the consultation claims that some innovations are not commercialised because of a lack of demand. It is, however, not an EU task to create demand for products or services for which there is none or too little.

B.2. How relevant would an EU programme targeting SMEs be?

An EU programme is "relevant" for certain aspects of SME development with an EU dimension, i.e. internationalisation and/or broader risk diversification. But we do not consider it "**very** relevant" because of the principle of subsidiarity and of the need for setting an EU framework for measures taken at levels closer to SMEs, which means regionally or at the most nationally.

A follow-up programme to the CIP should clearly concentrate on SMEs and **their** needs in gaining competitiveness and innovation. For cross-cutting political targets such as Research and Development, including the specific kind of innovation resulting from such efforts, there are other programmes such as FP7 with much higher budgets than CIP and which may also support larger enterprises.

For SMEs and their specific needs there must be a specific programme such as the CIP which for these reasons must remain under political management by DG Enterprise and Industry - in close cooperation with DGs Regio, Research and others in order to ensure coherence and avoidance of duplication between support programmes.

B.4. Please state the extent to which you agree with the following statements: A future EU programme in this area should . . .

- Provide better access to finance from local sources (venture capital and loans) for start-up and growth of SMEs and innovation - **strongly agree, in the sense of the EU using methods of transferring its support to the local level so that access to finance for SMEs may be improved where it is usually provided, and that is locally.**

### C. Questions related to possible areas/actions to be covered by a future programme for competitiveness and innovation

C.1.a. In your opinion, how relevant would a possible follow-up programme of the Entrepreneurship and Innovation Programme be in areas such as:

- Support for debt financing to facilitate access to finance for SMEs, eg. EU guarantee on a bank loan; risk sharing arrangements - **Very relevant, in the sense of EU support for national/regional measures designed close to clients.**
- Support for the internationalisation of SMEs, such as providing business services to EU companies entering in other EU or non-EU countries - **Very relevant, and not only through business services but also through making risk-bearing financial instruments applicable to the specific risks of SMEs entering new markets. Internationalisation is an area with a strong European dimension, and entering new markets is an innovation in the marketing process.**
- Support to clusters, e.g. through partnership agreement or through training of cluster managers - **Somewhat relevant, in the sense of encouraging networking and exchange between clusters and the Enterprise Europe Network. Support to clusters in the strict sense should, however, be left to regional and cohesion funds with their much higher budgets.**
- Support for the development of specific skills (such as eSkills, IPR skills, innovation management skills), e.g. through partnerships with industry - **Somewhat relevant, as a potential task for the Enterprise Europe Network coordinating local contacts and making them access EU programmes - outside CIP - available for the purpose.**
- Support for specific actions to promote all forms of innovation in SMEs, including non-technological innovation and design - **Very relevant, including non-technological innovation and start-ups as a key element of innovation. Care should, however, be taken not to duplicate efforts made for example in structural funds (smart specialisation strategies). The Enterprise Europe Network may serve as an instrument for communication in the regions.**

C.3.a. In your opinion, how relevant would each of the following types of action/support for eco-innovation under such a possible future programme be?

- Provision of venture capital - Very relevant, as investments into eco-innovation carry an extra element of long-term risk caused by the ecological aspect, and there should be specific support for bearing this risk. But CIP should support the provision of venture capital, not supply it directly; equity capital should be provided at the regional level close to SME clients.

C.3.b. What other type of measure would you suggest adopting under such a possible future programme, if any?

see C.5.b below

C.5.a. How relevant would a possible follow-up programme of the Intelligent Energy Europe be in areas such as:

- Leveraging significant investments in energy efficiency and renewable energy through flexible financial instruments in collaboration with financial institutions - Very relevant, with a stress on collaboration with financial institutions

C.5.b What other type of measure would you suggest adopting under such a possible future programme, if any?

merging Intelligent Energy Europe resp. resource efficiency into eco-innovation (cf. C.3.b)

The idea of “Intelligent Energy Europe” - promoting energy efficiency and the use of renewable energies - should be extended to cover scarce natural resources more generally - promoting resource efficiency, including energy, on one side and the recycling of resources as well as using renewable energies on the other side.

This aim being thematically close to eco-innovation, and in the sense of streamlining the EU support measures, within the CIP as framework programme there should be one integrated programme promoting eco-innovation including the intelligent use of resources of all kind.

## **Specific questions related to the financial instruments under future EU programmes in the field of Competitiveness and Innovation**

1. In a future programme, how relevant would you consider EU financial instruments in developing competitiveness and a single market in innovation as opposed to interventions at national or local level only?

EU financial instruments are “partially relevant” for the purpose - depending on the respective member states’ varying degrees of ability to provide finance nationally or locally and also on the specific character of the EU support.

2. Which area(s) of intervention should be primarily targeted in order to promote competitiveness and innovation under a follow-up programme?

Cross-border business/internationalisation and start-ups as such are major forms of innovation in SMEs and should be targeted by a follow-up programme to CIP. For cross-border business and/or internationalisation the EU is the adequate level for providing support as this form of innovation surpasses the national spheres.

Innovation in R&D should be left to the Framework Research Programme with its much higher budget.

3. To promote competitiveness and innovation, which type of enterprise would you see as relevant in a future follow-up programme?

a) Size of enterprise

A CIP follow-up programme should focus on SMEs and not target larger sized enterprises.

b) Innovation potential of enterprise

Any kind of enterprise may have innovation potential. Both categories - low/middle-growth enterprises and high-growth enterprises - may be “active in research and development” but they need not be active in R&D to be innovative. Innovation can occur in fields outside R&D, and it can also consist in implementing the results of R&D conducted by others.

4. Which type(s) of financial instruments would you consider relevant to promote competitiveness and innovation under a possible future programme?
5. In your view, which type of financial instrument and at what level (EU / national / regional) would be most relevant to promote competitiveness and innovation?

For SMEs all the relevant forms of finance are best provided in proximity to the clients which means at the regional or national level. The smaller an SME the more important it is that the provider of finance is close to the client and knows its conditions of conducting business. From that are derived the following distinctions in the usefulness of financial instruments on the regional/national levels and on the EU level:

- Loan finance is elementary in enabling SMEs' competitiveness but it needs not to be provided directly under a programme at EU level.
- What may be relevant at EU level is the sharing and diversifying between member states of risks taken nationally or regionally in the context of innovation; such risk sharing between decentralized financing actors and the EU may take the form of providing equity, hybrid instruments or guarantees.
- Risk-sharing between the European Commission and the EIB Group or other IFIs is not very relevant because it is not really targeted at SMEs (rather at larger enterprises with individual investments of at least 15 million EUR, if not 25 million EUR).
- Securitisation may be needed by banks which lack refinancing ability because they are not strongly rooted in the real economy; those are banks which usually do not really target SMEs as their clients so that supporting their refinancing through securitisation favours larger enterprises in comparison to SMEs - which should not be the purpose of a CIP follow-up programme.

6. Regarding Equity capital, how relevant is in your view EU financial instrument in the following fields?

An EU financial instrument to promote equity capital is "partially relevant" in the sense that it should only support regional or national actors in the fields mentioned (seed, start-up, expansion, technology transfer, business angels) - and only in situations where a gap in the national/regional support can be demonstrated. As long as it remains the case that national insufficiencies in the supply of equity capital are caused by the respective member state's legal and/or tax framework EU efforts should focus on that framework (i.e. exchange of best practices) rather than on offering an EU financial instrument to replace necessary national initiatives.