



Trend Chart on Innovation in Europe

DE 10

General presentation of the measure/scheme/action/regulation

Country

Germany

Geographical coverage, national or regional (state region)

(National)

Title of the measure

ERP - Innovation Programme

Information Source/Reference

www.kfw.de

Overview (nature, main goals)

The programme provides financing of market-oriented research and development for new products, new processes or new services, including the introduction of innovations to the market. Special attention is paid to the promotion of SMEs and to the promotion of R&D co-operation with research institutions. Financing is offered either via a loan (distributed via the home bank of the enterprise) or via an equity investment.

Action Plan objective addressed by measure

II.5. Financing
III.2. Strengthening Company Research
III.5. Absorption of Technologies by SMEs

Administering agency

Kreditanstalt für Wiederaufbau - KfW
Palmengartenstraße 5-9, Germany
Phone: 49 69 7431-0
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Name of the manager(s) responsible for the implementation of this measure with address, fax, phone

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Description of Scheme

General Information

Reference to legal basis (e.g. act, public document, ...)

ERP-Wirtschaftsplangesetz BAnz Nr. 65, April 2, 1996; ERP-Programme, amendment 9; BAnz Nr. 246, December 31, 1998; sheet of the KfW, January 2001

Does the measure receive central funding or regional funding?

Central

Start date

1996

Expected date of completion

indefinite

Previous measure (name, date, links with the current measure)

KfW - Innovation Programme and R&D Loan Programme 1994 to 1996 with mainly the same structure as the current programme. Before 1994, other KfW-programmes using European Recovery Programme (ERP) funds provided similar support.

Reasons for launching/modifying the new measure

Innovative enterprises face specific difficulties in financing: - The technical and the market risk are often very high and difficult to assess for banks and even for the enterprises themselves. - Possibilities of providing security are often limited. R&D investments consist largely of personnel costs and thus do not create any basis for real security. KfW's innovation finance via the ERP Innovation Programme is tailored to meet these problems. KfW finances the development and improvement of products, processes and services and their market introduction with long-term loans at favourable interest rates.

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The borrower can rely on attractive financing on a lasting basis. In addition, KfW releases the intermediate banks from part of their liability for the loans they onlend, thus improving their propensity to take risks. In many cases this is what makes the financing of innovative projects possible in the first place. The provision of equity investment is based on the following rationale: Technology-based and innovative enterprises particularly need equity as they operate in markets characterized by short product life cycles and intense competition. Other enterprises also encounter situations in which equity capital can be a suitable instrument of financing (growth, consolidation, succession). KfW addresses three major constraints - KfW provides equity investors with long-term financing at favourable conditions. The funds are invested as a capital holding, a dormant holding or a subordinate loan in an enterprise seeking capital and is thus transformed into equity. - KfW assumes part of the default risk, thus improving equity investors' propensity to take risks. KfW offers a new information service to bring enterprises seeking capital and potential investors together easily, fast and at little cost. This information service is provided by KfW together with Deutsche Börse AG. KfW offers different participation programmes tailored to meet the different needs of enterprises seeking capital. This increases the volume and range of equity capital available in the market.

Have any of the main features of the measure/scheme/action/regulation changed during its implementation

In 1999, the provision of equity investment was introduced after the start of the program in order to increase flexibility of financing and to provide more adequate financing options for innovative firms.

What is the predominant role of the government?

Funding source

Target Group

Who are the target groups of the measure?

Large Companies/Large Industrial Companies

SMEs/Industrial SMEs

Individuals

Organisation and Implementation

Organisation and Structure

The programme serves to supplement existing opportunities of investment financing through either granting a loan with favourable stable interests to companies and self-employed or rising the incentives to obtain venture capital through equity investment and attractive refinancing schemes. Thereby, innovative products can be developed more easily and enter the market in a shorter timeframe while companies safeguard their competitiveness. Applications for financing via the ERP Innovation Programme have to be sent to an intermediate bank which gives financial advice and evaluates the credit-worthiness and securities of the applicant. In case of positive evaluation, an approval is sent to KfW which checks the eligibility of the applicant and the project. The refinancing commitment is sent to the intermediate bank. To facilitate companies' access to KfW loans, KfW releases the intermediate bank from part of its liability. Thus, the bank is no longer fully liable for the repayment of the loan. The programme is handled in an unbureaucratic way; documents to be submitted are limited to a minimum. The technical department of KfW assists with appraising the projects. Items of financing are: - R&D including contracts to other firms and research organisations - Investment costs in the course of the R&D project - Costs for further development of products, processes and services - Costs for quality securing in the course of R&D activities - Costs for consulting services, qualification, market research and market information as far as these costs concern the market introduction of a new product, process or service - Costs for investment in the course of the introduction of a new product or process. The loan variants of the programme distinguish two stages: R&D stage and market introduction stage. Both stages may be financed independently from each other.

What are the criteria for eligibility?

Annual turnover of firms may not exceed Euro 125 mill. (some exceptions allowed in the case of high R&D intensity), and projects must be innovative and new for the firm applying for support.

What is the mode of delivery of the measure?

State Loans: Long-term loans with favourable interests and the first two years (max.) without repayment. In stage I (R&D), up to 100 % of costs up to a maximum of Euro 5 mill. may be financed. In stage II (market introduction), up to 50 % of costs (new Länder: 80 % up to a maximum of Euro 1 mill. (new Länder: 2.5 mill.) may be financed. Equity investment: refinancing loan of up to 75 % of the KfW-investment (new Länder: 85 %), up to a maximum of Euro 5 mill. may be provided, term of the loan: 10 years maximum, interests are below market rates.

Financing : Overall budget allocated to the measure

The total amount of committed loans from 1996 to 1999 is 2.773 bill. Euro.

Financing : expenditure per year

In 1998, 820 mill. Euro of loans have been committed, in 1999 the amount raised up to 6 mill. Euro (63 mill. Euro for refinancing of equity investments).

Financing : other budgetary sources (additional financing)

Supplementary programmes by the Deutsche Ausgleichsbank (BTU-equity programme), volume: 1.7 bill. Euro, (see DE_11 and DE_12)

Results

Result Measurement

What are the main indicators for the measurement of the results ?

No indicators mentioned.

Where an evaluation has taken place, what were the main results achieved?

There was no evaluation of this programme so far. The previous measures (R&D loan programme, KfW Innovation programme) have been evaluated by Fraunhofer Institute for Systems Technique and Innovation Research (FhG-ISI), the report is published as: M. Kulicke, U. Bross, U. Gundrum: Innovationsdarlehen als Instrument zur Förderung klein und mittlerer Unternehmen. Heidelberg: Physica 1997

If no official evaluation has been undertaken, have there been any indicators of success?

The programme is well known among the target group, information about the programme is disseminated via the commercial bank sector to firms. The number of commitments in 1999 was: 737 projects, since the start of the programme: 2.100 firms.

Observations

Which mechanisms seem to function well in the measure?

The loan variant of the programme is well established and a major financing instrument for innovations in SMEs. The equity investment variant is not used very intensively so far.

Which mechanisms seem to be less successful in the measure?

Decline in demand by firms in the new Länder, though the total volume is still relatively high compared to the old Länder.

Are there any other measures planned or in operation as a follow up to this measure? Direction of the planned measures? Objectives? Target groups?

no

