



Federal Ministry
for Economic Affairs
and Energy

Market Economy in Germany and the role of KfW

Den Haag, 5. April 2016
Duitsland Instituut Amsterdam 14:00-17:30

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Agenda

Introduction

- I. **Economic Order in Germany
("Ordnungspolitik")**

 - II. **Goals of "Mittelstand" policy**

 - III. **KfW and Funding programmes**
- ## Conclusion
-



Introduction - KfW: public funding mission for more than 60 years



- ▶ Promotional bank of the Federal Republic
- ▶ Founded in 1948 as Reconstruction Loan Corporation
- ▶ Shareholders: the Federal Government with 80% and the States (Länder) with 20%
- ▶ The headquarters is located in Frankfurt/Main
Branch offices: Berlin, Bonn and Cologne
- ▶ Balance sheet total in 2014: €489.1 billion
- ▶ Volume of funding in 2015: €79.3 billion
- ▶ 5.518 members of staff (in 2014)
- ▶ Best rating: AAA/Aaa/AAA



I. Economic Order in Germany (“Ordnungspolitik”)

- Key factors for economic success since 1948
 - Market economy
 - Focussed promotional policies
 - Significance of the “Mittelstand” for Germany
 - Long tradition of family-owned companies (focus on the long term)
 - Financing from regionally-organised banks (long-term customer relations)
 - “Dual” vocational training system
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SMEs = small and medium-sized enterprises

What is the definition of an SME?



< 500 employees

< €50 million in turnover



< 250 employees

< €50 million in turnover
or

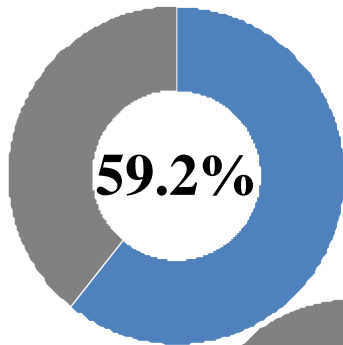
< €43 million balance
sheet total

+ independent of corporate structures



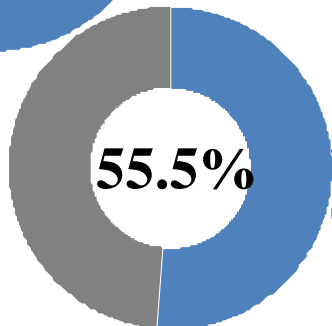
SMEs are the backbone of the German economy

- 3.64 million SMEs in Germany
- 99.6% of all companies



SMEs are the largest employer

- More than 16 million employees
- Almost 60% of all employees



SMEs boost economic strength

- *SMEs account for 55% of GDP



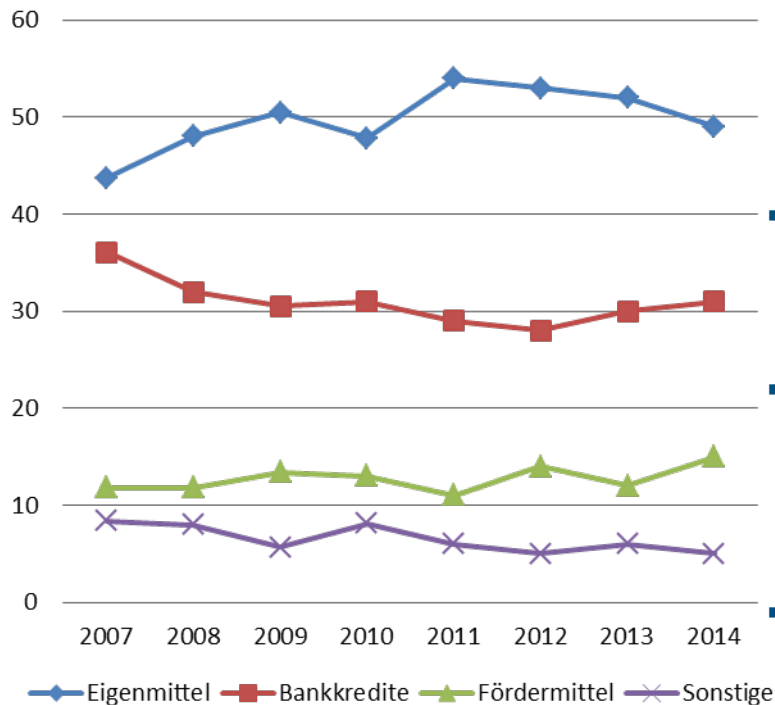
The German Mittelstand – main driving force for job creation

- 324,000 new jobs in 2015 (compared to the last year)
- Estimated 200,000 new jobs in 2016
- SMEs account for more than 90% of job offers.
- 1,52 million apprentices (81,8% of all apprentices) are employed with SMEs.



Access to financing – SMEs require external financing

Sources of finance for the Mittelstand
as % of volume of investment



- In 2014, most of the German Mittelstand's financing came from its own equity (49%) and bank loans (31%).
- In 2014 15% of the investment was financed via public-sector assistance.
- Alternative forms of financing (e.g. mezzanine financing or venture capital) are less common: only 5% in 2014.
- The equity ratio of the German Mittelstand has risen continuously since 2005, reaching 25.5% in 2014.



II. Goals of “Mittelstand” policy in Germany

- Compensating SMEs for disadvantages relating to the size of the company

Focus on:

- Improving the start-up environment
 - Promoting innovations
-



Creating a level playing field





Disadvantages for SMEs relating to the size of the company

Difficulties with rating

(less transparency compared to large companies,
relatively high costs for credit rating)

- Higher risks for creditors

(one single investment can make up a major part of the balance sheet,
often not possible to offset risks)

- Access to capital markets is often unavailable

Financing research and development projects is especially difficult.

State funding is needed

What is important here: funding programmes should support the market.



Principles of SME funding

- **Market conformity**
 - **Subsidiarity**
 - **Market neutrality**
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Public-sector funding in Germany:

- Federal Government
- the States (Länder)

Public-sector bodies:

- Federal and State Ministries
- KfW promotional bank
- State guarantee banks
- State promotional banks

How do SMEs benefit?

- loans
 - guarantees
 - grants
 - advice
-



Funding of SMEs

1. Loan guarantees

- Confirmed guarantee volume in 2014: €1.06 billion.

2. Low-interest loans help SMEs and start-ups with financing

- ERP funding programmes: €5.1 billion in 2015
- KfW funding programmes: €15.6 billion in 2015

3. Advice and initiatives

- Advice to companies with financial difficulties (no financial state aid, no distortion of competition).
-



III. KfW and Funding Programmes

KfW

Domestic business

International business

Funding in Germany

International business

Development aid

**Business area
SMEs**

**Business area
Private Customers**

**Business area
Municipalities**

**Business area
Export and Project Finance**

**Business area
KfW Development Bank/DEG**

Funding of SMEs and
start-ups

Funding of residential
housing construction and
refurbishment as well as
student loans

Funding of municipal
infrastructure projects
and global loans

International project funding
and export funding

Funding for development
countries and countries in
transition

Promoting environmental and climate protection

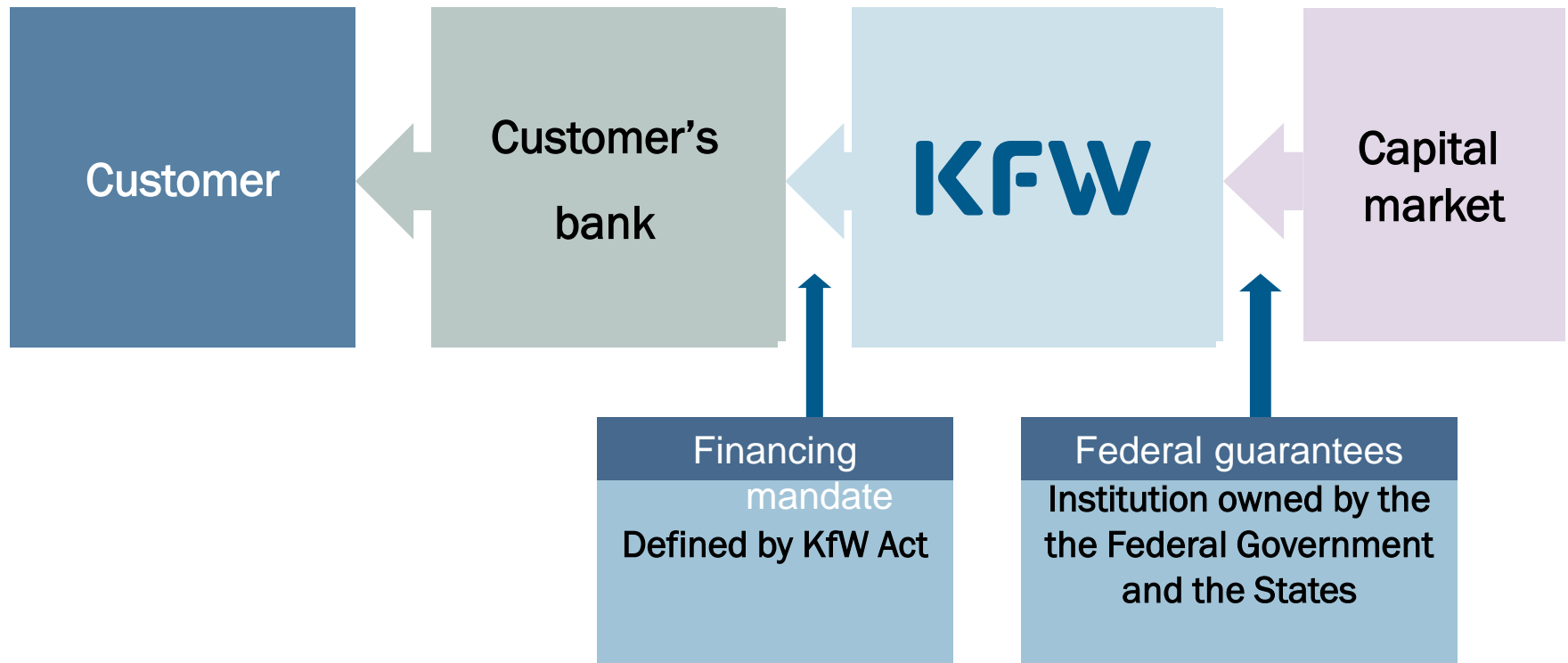
KfW

KfW IPEX-Bank

KfW
KfW DEG

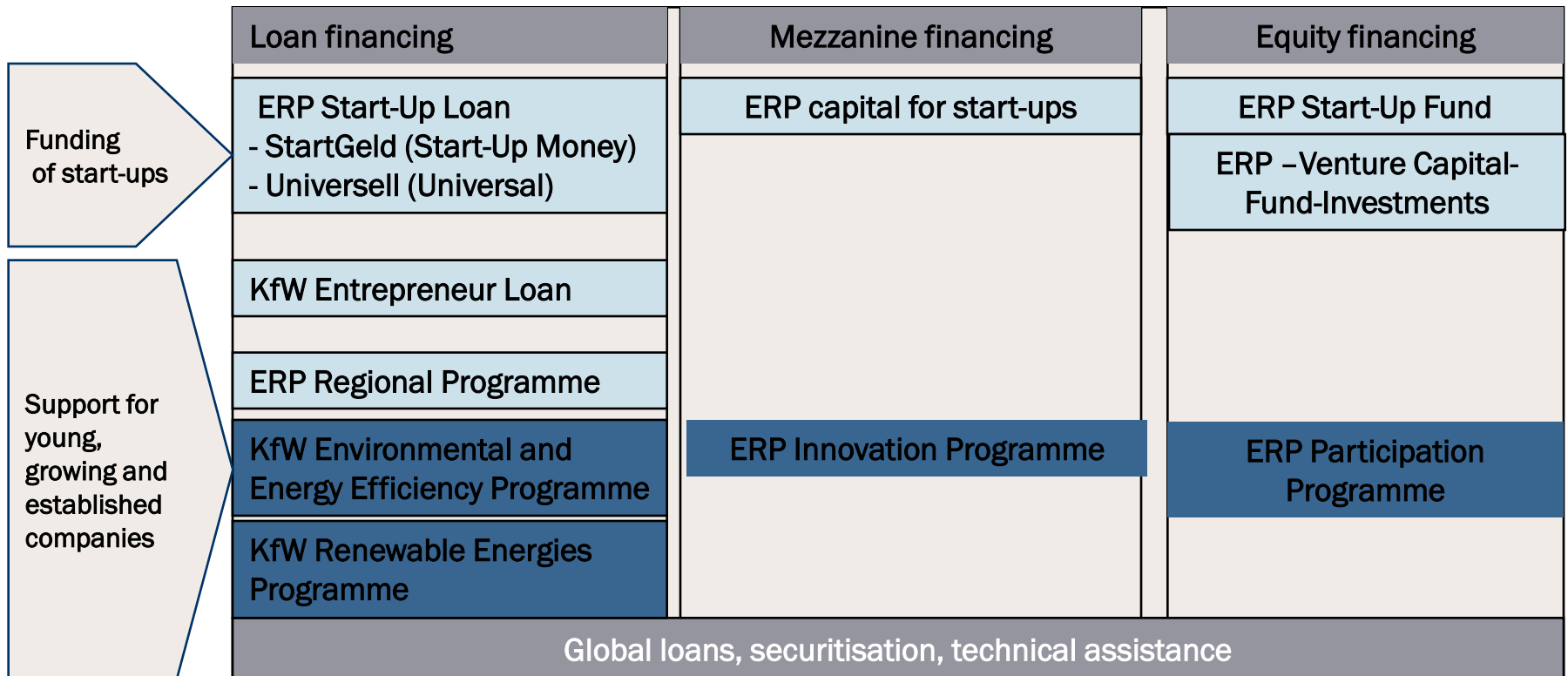


Tried and tested successful business model





KFW





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Thank you for your attention.

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