



Report on **EIB operations**
Inside the EU 2015

With the
three pillar
Assessment methodology

SMEs

Employment and growth

1 **SMEs and Midcaps finance**

SMEs and Midcaps are vital to the wellbeing of Europe's economy. Europe's 22.3 million SMEs account for two-thirds of employment and generate nearly 60% of total value-added (EUR 3.7 trillion). The growth of SMEs and Midcaps is inhibited by financial institutions' difficulty in assessing project risk and the relatively high cost of providing small loans. The EIB addresses these issues through dedicated, innovative SME products delivered via financial intermediaries.

SMEs and Midcaps finance

- Highlights of expected results from a selection of projects with first contract signed in 2015

EUR 18.3 billion
to SMEs and Midcaps

At least EUR 39.7 billion
of leveraged SME finance

242,000 sub-loans sustaining
5 million jobs

The EIB's largest public policy objective is to help SMEs and Midcaps access finance. In 2015 the EIB's new SME and Midcap finance operations amounted to EUR 18.3bn (including loans to Midcaps of EUR 3.8bn), representing 28.4% of new EIB volume.

The EIB provides finance to SMEs through intermediated loans and a range of innovative instruments, either on its own risk or leveraging on the risk-taking capacity of third parties. The EIB's financing assistance is complemented by the European Investment Fund's (EIF) specialised products for SMEs, including risk-sharing through guarantees, credit enhancement, intermediated equity, venture and growth capital, mezzanine finance, microfinance and social impact finance, leveraging, wherever possible, additional funding from the EC and member states.

The EIB Group's support to SMEs and Midcaps benefits from the substantial risk-bearing resources provided by the EC under the Investment Plan for Europe's EFSI.

1.1 **Expected results from access to finance to SMEs and Midcaps**

Figure 11. Expected results from new SME operations in 2015

	Outputs	Outcomes
SMEs and Midcaps	EUR 18.3 billion financing SMEs and Midcaps in the EU expected to leverage at least EUR 39.7 billion of SME finance	242,000 sub-loans expected over the next two years, leveraging at least EUR 39.7 billion of SME finance and sustaining 5 billion jobs
Key new initiatives and pilots for SMEs and Midcaps	SME Initiative launched providing a guarantee capacity of more than EUR 1.4 billion. 6 operations signed with a total value of EUR 91 million	The SME initiative will catalyse private investment and foster job creation
	InnovFin Midcap Guarantee (EUR 150m), Midcap Growth Finance (EUR 214m) launch of InnovFin Energy Demo Projects and InnovFin Infectious Diseases	The new InnovFin windows will deliver renewable energy and hydrogen and fuel cell projects that help to bridge the gap between demonstration and commercialisation and stimulate investment in research into infectious diseases
	The European Export Funding Platform pilot is providing a credit line of EUR 50 million to an EU export buyers' platform	Support to export orientated SMEs and their internationalisation process outside the EU

1.2 Project highlights

The financial crisis exacerbated the problems faced by SMEs in accessing finance. Banks, the main providers of loans to SMEs, have become more risk-averse as a result of an increase in loan defaults and tightened regulation. Although access to finance for European SMEs is improving, this is still a major barrier for firms in several countries, including Greece.

Liquidity for the Greek financial system to support SMEs

The EIB is providing a loan of EUR 500 million to support new activities of Greek SMEs in the industry, tourism and services sectors. Supporting SMEs is vital to the recovery of the Greek economy. SMEs employ 70% Greece's workforce and account for 99.9% of all enterprises. They have been hard hit by the economic crisis and face serious survival problems. EIB's support will address the liquidity problem faced by the banks which support Greece's SMEs. The long-term loan provides these banks with their sole source of new liquidity to support and develop their business base.

The EIB continued to support the underdeveloped European Securities market via participation in securitisations targeting the SME sector. This creates a secondary market for SME loans enabling banks to obtain more liquidity and free regulatory capital, thereby enabling them to lend more readily to SMEs. The EIB's investment in over EUR 800m in SME Asset-Backed Securities (ABS) in 2015 was complemented by the EIF, which provided guarantees for investors in SME-backed ABS. This year's activity included the EIB group's first public SME ABS operation in Poland (Raiffeisen-Leasing Polska S.A. - RLPL ABS IV).

European SMEs export-funding platform

EIB is addressing a market gap in providing small-scale export buyer credit through a loan of EUR 120 million to Northstar Europe, an export buyers platform located in Luxembourg. The funding will enable European machinery and equipment manufacturers to offer small-scale credit of between EUR 500,000 to EUR 5 million to non-European customers. The loan and credit is offered through a financial intermediary without recourse to the exporting firms. This enables the exporters to offer credit without affecting their own borrowing ability for production expansion or R&D investment. This is the first such facility from the EIB. It will boost the sales of SME and Midcap exporters, improving competitiveness and creating employment in the EU. The loans will target customers mainly in emerging countries such as Turkey, Africa, Indonesia and Latin America, enabling these firms to benefit from attractive, low cost financing.

In 2015 EIB enhanced its operational cooperation between EIB and public promotional institutions (for example with regional promotional institutions in Germany) in the EU. EIB signatures for SMEs with public counterparties amounted to EUR 6 bn, of which EUR 3.4 bn was signed with public promotional institutions and EUR 2.6 bn with public authorities in nine EU Member States (Croatia, Cyprus, Greece, Hungary, Latvia, Lithuania, Malta, Slovakia and Spain).

Enhanced cooperation with public promotional institutions for SMEs in Germany

Through a EUR 400 m loan with Landwirtschaftliche Rentenbank, the German national promotional institution for the agricultural sector, the EIB will support funding to SMEs, particularly to micro-enterprises active in the sector. The EIB also signed a EUR 400 m loan with NRW.BANK, the promotional financing institution of Bundesland Nordrhein-Westfalen, aimed at supporting sustainable economic development, enabling the creation of new employment opportunities in the region. These public promotional institutions work with other financial intermediaries, enabling the EIB to further decentralise its financing and reach an even greater number of German SMEs.

Portuguese agricultural SMEs and Midcaps access to low cost finance

An EIB loan of EUR 50 million to the Portuguese bank Banco BPI SA is helping local agricultural SMEs and Midcaps access the credit and liquidity they need to develop. The operation is dedicated to agri-food SMEs, Midcaps and projects in rural areas along the entire value chain. It is expected to contribute to the sustainable growth of the Portuguese agriculture sector and rural economy, thus having a positive impact on the national economy and on employment. Less developed regions will benefit from this operation. SMEs and Midcaps will benefit from lower interest rates.

Support for Spain's agricultural economy

Agriculture is a big part of the Spanish economy, providing jobs and significant export income. The EIB is providing a EUR 650 million loan via intermediary financial institutions to help small and medium-sized Spanish agricultural enterprises overcome their difficulties accessing finance and providing a boost to the local economy. The project will support over 8,650 enterprises involved in food and feed production and processing, forestry, fisheries and aquaculture and related transformational industries, as well as those in storage and distribution.

Energy efficiency help for Czech firms

Through the Private Finance for Energy Efficiency instrument, the EIB is providing a loan of EUR 150 million to the financial intermediary Komerční Bank, to help firms in the Czech Republic improve energy efficiency. The project gives access to finance to improve buildings' energy performance, industrial and technological process efficiency and power and heat distribution. Firms can install waste-heat recovery systems and cogeneration or renewable energy generation units. The project also supports public lighting and district heating schemes. The Czech Republic consumes 50% more energy per unit of GDP than the average EU country and relies heavily on coal. By reducing carbon emissions and energy consumption the project will help the Czech Republic to meet EU targets on energy efficiency and reduce energy use to that of comparable economies in the EU.

Rabobank Impact Loan for SMEs – Sustainability

The EIB signed a EUR 50 m loan with Rabobank to provide finance to Dutch SMEs, which are front-runners in social responsibility and sustainable development. Through discounted loan pricing to SMEs, Rabobank incentivises business owners with demonstrable corporate social responsibility practices to fund sustainable investments. SMEs will be selected because they meet sustainability requirements in areas such as environmental impact, fair trade and animal welfare. This pilot operation could lead to further EIB initiatives in the area of social responsibility across Europe.

Capital markets access for Italian SMEs and Midcaps

An EIB loan of EUR 175 million is helping the Italian Export Credit Agency establish a debt fund targeting Italian SMEs and Midcaps.

The fund will enable selected export-oriented firms to issue mini-bonds and so access the mid-to long-term finance that they may have difficulty obtaining from a banking system that faces credit deterioration, capital constraints and stricter regulation. The project will benefit around 70 firms, supporting employment and economic growth in Italy.

CASE STUDY: SME AND MIDCAP FINANCE

Asset-leasing to SMEs and Midcaps in the Czech Republic and Slovakia

Sector: All sectors	Sponsor: SG Equipment Finance Czech Republic SRO (SGEF CZ), Czech Republic
Total cost: EUR 400 million	EIB finance: EUR 200 million
Objectives:	
<ul style="list-style-type: none">• To support economic development in the Czech Republic and Slovakia by supporting asset leasing to SMEs and Midcaps through a loan to an asset leasing company.• To address youth employment by partly targeting firms that hire or train young people.	
Expected results:	
<ul style="list-style-type: none">• Provision of an additional 5,000 loans of total value of EUR 400 million to Czech and Slovak SMEs and Midcaps, focusing on the transport and storage, manufacturing and construction sectors.• An increase in youth employment.	

Motivation

SMEs and Midcaps are the backbone of the Czech and Slovak economy, driving employment and economic growth. Leasing is a popular asset financing option for SMEs and Midcaps, but in recent years leasing firms have faced slowing demand for new leasing contracts, increasing financing costs and a deteriorating quality of lease assets. As a result, they have had to re-price their new operations, increase their credit provisioning and be more selective in their lending. This has resulted in a credit crunch for SMEs and Midcaps.

This project offers medium and long term finance to a leasing company targeting SMEs and Midcaps specialising in the Transport, Industrial Equipment and High Tech sectors in the Czech Republic and Slovakia.

EIB contribution

EIB's key contribution is to diversify SGEF CZ's funding sources and to provide access to relatively low cost, long term financing, which will be passed on to the final loan beneficiaries.

Benefits

Each EIB loan will provide direct financial benefits to recipients in terms of the loans' favourable pricing and maturity structure. The financial value added (FVA) will be transferred to SMEs and Midcaps in terms of reduced pricing of sub-loans. The project guarantees this benefit to firms by defining a minimum level of FVA.

The SME loan project is intended to enhance SME and Midcap access to finance, and to contribute to sustainable

growth and employment in the Czech Republic and Slovakia. It will contribute to reducing youth unemployment by partly targeting SMEs which employ or train young people. Based on the performance of similar previous EIB loans, the transport and storage, manufacturing and construction sectors are likely to benefit the most from the project.

Policy links

By supporting SME and Midcaps in the Czech Republic and Slovakia, this project makes a positive contribution to the EIB's COP objectives of growth and employment. Its provision of loans to firms directly addresses EIB's key public policy objective area of SMEs and Midcaps finance.

With the exception of Prague, the entire Czech Republic is classed as an EU convergence region so the funding will also contribute to the EIB's transversal convergence objective.

This project also contributes to the Jobs for Youth initiative (JfY), under which the EIB incentivises financial intermediaries to target their lending to those SMEs which contribute to an increase in youth employment. It also complies with the EU-28 programme 'Loan for SMEs and Midcaps'.

1.3 **New initiatives for SMEs and Midcaps**

The EIB launched new initiatives in 2015 to support SMEs and Midcaps, the most relevant ones being the SME Initiative and a further development of InnovFin.

The SME Initiative is a joint financial instrument of the European Commission, the EIB Group and Member States. It aims to stimulate SME financing by providing partial risk cover for SME loan portfolios originated by financial institutions. Alongside European Structural and Investment Fund (ESIF) resources contributed by Member States, the SME Initiative is co-funded by the EU budget through Horizon 2020 and/or COSME resources as well as EIB Group resources. The SME Initiative covers two products:

- (i) an uncapped portfolio guarantee for new SME loans/leases/guarantees (Option 1) and
- (ii) the participation in securitisations—either through ABS investments or via guarantees—of new or existing SME loans/leases with an obligation of the originator to build up new (de-linked) SME portfolios meeting a minimum leverage factor on ESIF resources (Option 2).

The EIF is the entity entrusted by the adhering Member States with implementing the SME Initiative with the EIB. The EIB provides senior risk cover, whereas EIF provides risk cover at upper mezzanine level. Option 1 was signed with Spain and Malta in 2015 and is being deployed further in 2016 in Bulgaria, Romania and Finland. Deployment of Option 2 is also expected in Italy in 2016.

CASE STUDY: SME AND MIDCAP FINANCE - New initiatives

Spanish SME's access to finance

Sector: All sectors

Sponsor: The Kingdom of Spain

Total cost: EUR 5.7bn

EIB finance: EUR 2bn

Objectives:

- To support economic development in Spain by increasing the provision of favourable condition loans to SMEs through a joint initiative between the EIB, European Investment Fund (EIF), European Commission (EC) and the Kingdom of Spain.
- To demonstrate the effectiveness of this new SME Initiative in order to encourage participation by other Member States.

Expected results:

- An additional EUR 5.7bn in loans to more than 88,000 Spanish SMEs with favourable interest rates and terms.
- A financial benefit of up to 250 basis points on the guaranteed portion of loans.
- Sustaining 825,000 jobs across a broad range of sectors.

Motivation

SMEs employ around three-quarters of Europe's workforce and play a major role in Europe's economy. However these organisations have been heavily affected by the current economic crisis. A key factor for SMEs and their ability to contribute to economic recovery is access to finance. Demand for loan financing by SMEs is increasing whilst, at the same time, banks' increasing risk adversity and tightening financial regulation is reducing the availability of these loans.

The SME Initiative (SMEI) is a new joint initiative between the EIB, EIF, EC, and Member States (MS), which facilitates lending by banks to SMEs (including innovative and more risky SMEs) through a risk sharing instrument. The initiative comprises two options: uncapped SME portfolio guarantees and a securitisation instrument. In both cases, MS funds cover the majority of junior risk with the remaining risk tranches covered through a combination of resources from MS, the EC, EIB and EIF.

The SMEI is being rolled out first in 15 regions in Spain, which jointly account for 96% of Spanish GDP. It is anticipated that other EU countries will follow suit once the SMEI is successfully launched in Spain.

EIB contribution

EIB's financial contribution to this project is expected to generate positive effects in terms of financing costs and the availability of liquidity or long term funding to Spanish SMEs. EIB's participation also enables funding from the European Structural Investment Fund (ESIF) to be leveraged, acting as a first loss buffer.

EIB, together with the EIF, has made a significant technical contribution by advising the EC, the Spanish Government and regions in the design and implementation of the structure.

Benefits

The initiative is intended to provide EUR 5.7 billion of credit over a period of five years to Spanish SMEs. More than 88,000 SMEs are expected to benefit from the initiative which will reduce the price of the guaranteed portion of the loan substantially.

The structure is expected to sustain projects undertaken by SMEs operating in different sectors of industry and services. It may help to increase the productivity of SMEs, promote a more rational use of energy and diversification of energy resources and private initiatives in the areas of energy and health.

As a result there will be significant economic benefits to the local economies of the 15 participating regions, potentially safeguarding 825,000 jobs.

Policy links

The SMEI initiative is fully consistent with the EU's objectives as well as the EIB's priority objective for SMEs. By increasing the volume of attractive loans offered to Spanish SMEs it directly addresses the EIB's high level public policy objective of SMEs and Midcaps finance. It also addresses the Bank's transversal 'cohesion' policy objective by supporting the economic development of SMEs in Spain where 51% of the territory consists of less developed and transition regions.

The participation of EU Horizon 2020 funds means that the project will support research, development and innovation projects carried out by SMEs in line with the Horizon 2020 criteria.