

**Supporting small and medium-sized enterprises  
in 2012**

*A joint report of the European Commission  
and the European Investment Bank Group*



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**Foreword**

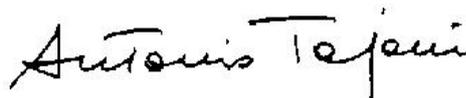
*The European Commission and the European Investment Bank Group support small and medium-sized enterprises (SMEs), recognising their key role as the engine of economic growth in Europe. SMEs provide more than two thirds of private sector jobs across Europe. They rapidly exploit new business opportunities and grow quicker than larger firms, making them an important source of new jobs.*

*Speaking of SMEs means speaking about millions of businesses and millions of EU citizens, who step by step build the image and the competitiveness of the European economy, but unfortunately, speaking of SME finance means thinking, more often than ever, about lost expectations and failure.*

*SMEs are particularly vulnerable in times of crisis as accessing finance in adverse economic circumstances can be even more challenging. This situation calls for our action. The energy and efforts of European entrepreneurs must be matched with appropriate public support.*

*Today we are jointly presenting this report on the activities facilitating access to finance for SMEs in 2012. It summarises the numerous measures implemented by the EIB Group (the European Investment Bank and the European Investment Fund) as well as the measures provided within the framework of the European Commission's initiatives, such as the Competitiveness and Innovation Programme (CIP), the European Progress Microfinance Facility, The Risk Sharing Instrument Facility (RSI) or the Joint European Resources for Micro to Medium Enterprises (JEREMIE).*

*We share the belief that the activities, described below, underpin our joint commitment to help SMEs find the finance they need at every stage of their development. We are determined to continue our cooperation in future, with the aim of making life for SMEs easier and helping the European economy to flourish. Together we will do whatever we can to support SMEs - and thus Europe - on its way to smart, sustainable and inclusive growth.*



Antonio Tajani  
Vice-President of the European Commission



Dario Scannapieco  
Vice-President of the European Investment Bank



Richard Pelly  
Chief Executive of the European Investment Fund

## **1 Making finance for SMEs truly available - a joint response by the European Commission and the EIB Group**

Entrepreneurs running micro, small and medium-sized firms often struggle to finance their businesses, even at the time of prosperity. SMEs are often too small, too young and too risky to gain the trust of a bank or other loan institution. And, as a result, too often they hear a 'no' while applying for a loan or a guarantee. The continuing economic crisis has amplified this challenge and prevents SMEs from getting sufficient finance they need to operate, develop or grow.

More than ever, SMEs in Europe need a lifeline to help them raise the capital they need to keep their market position innovate or explore new business opportunities. The European institutions are here to support them and will not stand on the sidelines.

The financial instruments of **the Competitiveness and Innovation Framework Programme (CIP)**, implemented by **the European Investment Fund** on behalf of **the European Commission**, together with various measures implemented by the **European Investment Bank Group**, have already proven to be such a lifeline to tens of thousands of businesses. These instruments constitute an efficient tool to fight the overwhelming reluctance of the market to SME lending. They facilitate credit conditions and stimulate the provision of finance - a prerequisite for the development of SME-friendly environment in Europe.

## **2 The EIB Group activities to support SMEs**

The EIB Group (the European Investment Bank and the European Investment Fund) provides targeted products – loans, equity and guarantees – which support the entire life cycle of enterprise creation, from the earliest stages until the later development stages. This helps entrepreneurs to invest in new opportunities, secure and create new employment and expand economic activity across the European Union.

## **2.1 The EIB loans for SMEs**

Support for financing SMEs is a key priority for the EIB Group. It represents over 20% of the Bank's activity.

Ensuring the availability of dedicated funding for SMEs helps the real economy in three main ways:

- increasing the amount of funding available, including requiring that additional funding is provided by local partner banks,
- reducing the cost of borrowing by small companies through lower interest rates,
- providing longer-term loans.

EIB loans for SMEs are managed locally by commercial partner banks. At the end of 2012, the EIB had dedicated SME funding programmes with more than 230 financial institutions across 24 Member States. The EIB also makes credit lines available outside Europe where it provides financial support to EU development policy.

## **2.2 The European Investment Fund**

The European Investment Fund (EIF) is the specialist arm for SME risk financing within the EIB Group. The EIF delivers a broad range of innovative financing solutions for micro, small and medium-sized enterprises throughout Europe. These solutions include Venture and Growth Capital, guarantees, credit enhancement and microfinance and are delivered through financial intermediaries such as funds, commercial banks, guarantee institutions, leasing companies and microfinance institutions.

The EIF provides **equity** and **debt** throughout the entire value chain of enterprise creation, from the earliest stages of intellectual property development through to mid- and later growth stages of businesses.

The EIF is a prime provider of guarantees and credit enhancement to catalyse SME lending. By offering these financing solutions, EIF protects its financial

intermediaries` capital by sharing the risk taken, with a view to stimulating and increasing the volumes of loans they grant to SMEs. The guarantee activity encompasses the so-called "mandate" transactions where EIF manages and distributes the resources allocated by the European Commission and/or the EIB, and own risk transactions where EIF deploys its own capital. **The following belong to EIF`s mandate guarantee business which is managed on behalf of the European Commission:**

### **2.2.1 Competitiveness and Innovation Programme Guarantee (CIP – SME Guarantee Facility)**

- Beneficiaries: all SMEs (via Financial Intermediaries)
- Eligible countries: EU Member States, Norway, Iceland, Liechtenstein, and countries acceding or candidates to the EU that have concluded CIP participation agreements with the European Commission (currently Turkey, Croatia, Serbia, Montenegro, Former Yugoslav Republic of Macedonia)
- EIF financing structures: First loss portfolio guarantees covering new SME financing, or counter- guarantees for guarantees covering SME financing.  
Three products:
  - Loan Guarantee Window: targets mid- long-term SME financing for long-term business development
  - Micro-Credit Guarantee Window: targets micro-enterprises, especially start-ups
  - Equity Guarantee Window: mainly targets hybrid debt products, such as convertible, subordinated, and/or participating instruments
- Key requirement: Additional SME risk taken by the intermediary (e.g. substantial reduction of collateral requirements)
- Pricing: Free-of-charge guarantee
- SME financing supported: Loans, leases, micro-credits, and hybrid debt products, subject to tailor-made additional risk taking
- Amount: Max loan amount of EUR 3m based on 50% guarantee rate (Micro-credit Window: up to EUR 25 000)

### **2.2.2 Risk-Sharing Instrument (RSI)**

- Beneficiaries: Innovative SMEs and Small Mid-Caps (companies with less than 500 employees) which meet one of the following criteria:
  - ✓ They invest in producing or developing innovative products, processes and/or services that present a risk of technological or industrial failure; or
  - ✓ They are innovation-driven "fast growing enterprises", i.e. their workforce or turnover has increased by at least 20% p.a. over the last 3 years; or
  - ✓ They are "innovative" enterprises, i.e. satisfying at least one "innovation criterion" out of a set of pre-defined eligibility criteria.
- Eligible Countries: EU Member States and FP7 Associated Countries
- Financing Products: Senior un-/secured loans or leases
- Financing Structures: Guarantee to banks and leasing companies

- Amount: At least EUR 25 000 up to a maximum of EUR 7.5 million

The European Investment Fund is the cornerstone investor of European venture and growth capital. The provision of equity to venture and growth capital funds is a means for EIF to foster innovation, entrepreneurship and economic growth. As a cornerstone investor, in addition to investments into funds, the EIF is also managing a number of funds of funds and has developed innovative products to target Business Angels and corporate investors:

### **2.2.3 Fund-of-Funds**

- Beneficiaries: Venture Capital Funds investing in innovative high-tech SMEs in their early and growth phases.
- Stage Focus: Stage range targeted by EIF covers the full range from technology transfer activities of universities, to seed and early stage funding of technology SMEs, to growth and expansion stage capital of technology companies.
- Amounts invested: EIF takes typically stakes between 15% and 40% in initial closings of VC funds.
- Financing Products: Pari-passu investment alongside private sector investors
- Financing structures: Closed-end private equity funds with lifetimes adapted to the target beneficiaries 10-15 years.
- Sector focus: EIF's investment mandates target technology companies in ICT, life sciences, cleantech sectors.
- Geographic focus: EU Member States, Accession Countries and Candidate Countries.
- Type of Intermediaries: Venture capital funds managed by professional VC investment teams with the appropriate skillset for their investment focus. EIF backs established investment teams as well as first-time teams, which have developed a credible investment and portfolio strategy for their target market.

### **2.2.4 European Angels Fund (EAF)**

- Beneficiaries: Non-institutional investors (Business Angels and Family Offices) who meet the following criteria:
  - ✓ Invest in innovative companies in the seed/ early stage to growth segment;
  - ✓ Have the financial capacity to invest EUR 250k to EUR 5m over 5 – 10 years;
  - ✓ Provide strong visibility with respect to their deal flow and are able to conduct a number of investments (typically > 3) over the lifetime of the contractual agreement;
  - ✓ Able to show relevant investment activity in the past with a relevant track record.
- Eligible Countries: EU Member States, investments through different compartments targeting single countries under a European umbrella structure.
- Financing Products: Equity co-investments alongside the selected non-institutional investor.

- Financing Structures: Contractual agreement (co-investment framework agreement) with the selected non-institutional investor. Co-investments are conducted on a pari-passu basis.
- Amount: 100% matching by the EIF with investment of at least EUR 250k and up to EUR 5m in total per each selected non-institutional investor.

### **3 Going forward: doing more and better for SMEs**

Today's market conditions in Europe have adversely impacted the financing available to SMEs. The current financial environment will continue to require heightened action, particularly through the counter-cyclical role of public finance institutions active in SME financing at both the European and national levels and their ability to mobilise other sources of finance and engage with new counterparts.

The EIB Group will maximise the impact of the EUR 10 billion capital increase paid in by its shareholders, the 27 EU Member States, including new measures to support EU SME growth and innovation over the next three years. These will enhance provision of financing to smaller and more innovative SMEs, and will also maintain access to finance for viable SMEs by widening the range of counterparts for EIB lending, and through an expansion of the scope and activities of EIF to benefit SMEs across Europe.

Already in 2013, the EIB Group intends to further expand its support for SMEs in Europe within the framework of the SME Access to Finance Initiative. Challenging targets have been set to increase support, and to broaden the range of distribution channels employed. To meet these challenges, the EIB Group will continue to refine and develop its product offer to ensure that its support reaches SMEs despite contracting bank balance sheets. Specific initiatives that will include measures to enhance combined EIB loans and EIF guarantees and, where appropriate, with the support of EU funds, will in particular contribute to inciting entrepreneurs to invest, innovate and create new jobs.

**EIB Group's highlights for 2012:**

In 2012, the **EIB Group's support** for small and medium-sized enterprises reached **EUR 13 billion**.

In difficult market conditions, the **EIB lent EUR 11 billion to SMEs**. The estimated leveraged impact of 2012 EIB SME financing was at least EUR 21.4 billion.

Approvals of loans for SMEs increased 14% over 2011 to EUR 14.0 billion of which EUR 12.6 billion was in the EU (an 18% increase on 2011):

- Signatures of loans for SMEs were EUR 12.1 billion (a 18% increase on 2011), of which EUR 10.5 billion was in the EU (a 14% increase on 2011);
- Financial intermediaries allocated EUR 10.7 billion through sub-loans to 79 000 SMEs and MidCaps– of which EUR 9.3 billion through 74 819 sub loans was to SMEs and MidCaps was within the EU.

*The numbers of allocations to SMEs was 14% higher than in 2011 and a new record.*

The EIF committed a record volume of equity of EUR 1.4 billion in 63 new funds, exceeding the 2011 figure by 20% and catalysing over EUR 7 billion from other investors.

**The European Investment Fund:**

- guarantees to 43 financial intermediaries to stimulate new loan portfolios of EUR 1.2 billion and mobilising over EUR 5 billion of additional resources;

-EUR 40 million in Microfinance commitments mobilising a total of EUR 114m;

-committing over EUR 600 million of Structural Funds for the benefit of SMEs to financial intermediaries across 14 JEREMIE Holding Funds, with an absorption rate of 24%.

*Innovative financing measures to support Greece have been brought together by the EIB, the Hellenic Republic and the European Commission. Signatures of EUR 290 million for SMEs were achieved in 2012, with eventual EIB loans for SMEs totalling up to EUR 1 billion. A specific anti-crisis measure to alleviate shortages of trade finance for Greek SMEs was approved by the EIB's Board of Directors in December 2012.*

## **4 CIP Financial Instruments– innovative solutions to support SMEs at the time of budgetary constraints**

### **4.1 Difficult credit market for SMEs**

Surveys show that EU SMEs to a very large extent are dependent on bank loans for their external financing and that they practically have very few alternatives: 30% of companies are using bank loans and 40% bank credit lines or overdraft facilities. For 63% of SMEs, bank loans are also the most preferable external financing solution to realise firms' growth ambitions. Yet, SMEs loans generally create specific difficulties. First of all, management costs for the provider of funds can be significant as loans are small in size. Also, the access to information on the enterprise can be difficult, as SMEs can operate on niche and local markets, and, unlike their larger peers, are not subject to external ratings and extensive disclosure requirements. On top of that, the central importance of management quality in SMEs creates additional complexity for appraising risks, making the automation of the credit process for SMEs more difficult.

### **4.2 CIP programme – enhanced access to finance for SMEs**

The aim of the EU Competitiveness and Innovation Framework Programme (CIP) - which the European Investment Fund manages on behalf of the European Commission - is to give a helping hand to the broadest possible group of SMEs. Regardless the sector or the stage of their development, SMEs in 23 Member States, could have already taken advantage of the EU support.

CIP aims at making funding for SMEs easier through the development of the most relevant channel for SME external finance: a bank loan. This is of paramount importance for the vast majority of small and medium-sized enterprises. But the programme provides also the measures focused on the particular needs of SMEs with high growth potential, for which equity investments can be a more suitable source of finance.

CIP offers several schemes to support small businesses at different stage of development.

The CIP financial instruments are managed by the European Investment Fund through national and regional financial intermediaries (e.g. banks and venture capital funds) in the Member States of the European Union. A complete listing of these intermediaries can be found at: [www.access2eufinance.ec.europa.eu](http://www.access2eufinance.ec.europa.eu)

### **4.3 CIP guarantee schemes - loan application shoulder to shoulder with the EU**

Younger and smaller firms are more likely to get only some of the finance they requested from the lending institution (financial intermediary), and, in many cases, to be rejected outright. Here comes the support in form of loans backed (guaranteed) by the European Union. This support is channelled through financial intermediaries with whom the European Investment Fund has partnered up.

Loan guarantees are used in cases where the entrepreneur or the small enterprise does not have sufficient collateral to offer and the bank would normally not provide a loan.

#### **Liquidity for SMEs – risk sharing with banks**

CIP guarantees focus on risk-sharing with financial intermediaries rather than providing liquidity to the financial institutions. Guarantees and counter-guarantees are offered only to financial intermediaries that create new SME loan portfolios and are ready to support categories of enterprises usually perceived as more risky.

The architecture of the programme mobilises financial institutions to provide – under favourable conditions - additional finance to SMEs.

### **4.4 Equity finance - sharing risk and the passion for business**

Every business project involves risk, but small-scale innovative companies involve a category of risk which is often not accepted by traditional finance providers. This means that many promising businesses and projects, with a significant potential to create new jobs, have not even got a chance to start.

While a traditional loan is not available, a solution can be finding a business partner or a shareholder willing to provide finance in return for a share in the company. Such a shareholder can be an equity fund – a professional investor ready to take on the higher risk and to invest in a growing company.

Half of the CIP resources devoted to SME access to finance are invested by the European Investment Fund in venture capital funds that, in turn, invest in start-ups and SMEs with high growth potential.

***CIP Financial Instruments (2007-2012) – highlights***

**More than EUR 15 billion of finance for SMEs**

Between 2007 and 2012, CIP has benefited nearly **220 000 SMEs** across Europe;

Thanks to its guarantee schemes, CIP has already helped SMEs to access over **EUR 13.3 billion** in loans. CIP-funded investments in venture capital funds supported fast growing SMEs for **EUR 2.3 billion**;

In **2012** only, EUR 0.1 billion of CIP guarantees mobilised **EUR 1.7 billion of additional capital for SMEs**.

***CIP Financial Instruments – a multiplying effect on the EU budget:***

Each euro dedicated to CIP guarantees has a power to stimulate - on average - EUR 30 in bank loans.

As a result, with a limited budget of EUR 1.1 billion, CIP was able to stimulate so far the provision of more than EUR 15 billion of loans and equity for SMEs.

During the whole programme period (2007-2013), the CIP financial instruments should enable financial institutions to provide about **EUR 30 billion of new finance** for more than **315 000 SMEs** and create or maintain directly about **380 000 jobs**.

### **SME guarantee facility (SMEG) - highlights**

*CIP guarantees schemes encourage more lending to SMEs.*

**More than 200 000 SMEs have already obtained finance, including vital working capital, during a period when lenders were increasingly risk-averse.**

Various types of guarantees to financial intermediaries providing different types of SME finance have already helped to introduce several measures benefiting SMEs:

- loan guarantees - guarantees for loans to SMEs with growth potential,
- microcredit - guarantees for loans of up to EUR 25 000 to micro-enterprises with up to nine employees, particularly entrepreneurs starting a business,
- equity and quasi-equity guarantees - guarantees to existing equity guarantee schemes and providers of mezzanine finance to support investments in businesses with up to 249 employees,
- securitisation - guarantees to support securitisation structures to assist financial intermediaries in mobilising debt finance for SMEs.

### **The high growth and innovative SME facility (GIF) - highlights**

The high growth and innovative SME facility (GIF) provides risk capital – usually in the order of millions of euros – for innovative SMEs in different stages of development.

The high growth and innovative SME facility (GIF) provides risk capital for innovative SMEs in their early stages (GIF1) and supports SMEs with high growth potential in their expansion phase (GIF2).

Since the beginning of the CIP programme, GIF schemes provided **EUR 2.3 billion** in equity investments.

## 5 Looking beyond

### **Tailored EU support for SMEs: the COSME programme**

Facilitating access to finance for SMEs is top priority to get Europe out of the crisis. The European Commission has put forward its proposals for the next generation of financial instruments for SMEs that will continue under the next EU multiannual financial framework 2014-2020. The EU financial instruments have proven their worthiness and - through the leverage effects involved - they assure a more efficient use of the limited EU budgetary resources.

**The Programme for the Competitiveness of Enterprises and SMEs (COSME)**, a landmark initiative, specifically created for small and medium-sized businesses, will be a funding instrument which will largely continue the activities under the current Competitiveness and Innovation Framework programme (CIP), but will even better respond to SME needs.

Its equity facility for growth-phase investment will provide SMEs with commercially-oriented reimbursable equity financing, primarily in the form of venture capital through financial intermediaries. Second, a loan facility will provide SMEs with direct or other risk-sharing arrangements with financial intermediaries to cover loans. The COSME instruments will be complemented by financing for research- and innovation- driven enterprises under the Programme Horizon 2020. We believe that both programmes will again help to bridge the market gaps in the provision of SME financing.