

**2014**

**SME Report**



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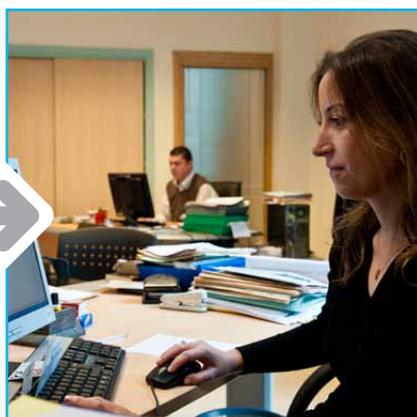
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## Foreword

### by the EIB Vice-President and EIF Chief Executive

2014 was yet another year in which the EIB Group provided support to a record number of small and medium-sized enterprises (SMEs), the pillars of the economy and drivers of employment and value added.

Through our network of over 900 financial intermediaries, we made available an increasingly wide range of intermediated debt-financing, risk-sharing products and private equity instruments aimed at improving financing conditions and enabling continued access to finance for SMEs.

Highlights for 2014 include our contribution to the revitalisation of the European SME-based securitisation market and the preparation of the Joint SME Initiative, which leverages Member States, EU and EIB Group resources. Moreover, with EUR 13bn signed in favour of our Skills and Jobs – Investing for Youth programme, it is clear that we are making a significant contribution to supporting youth employment, helping to address one of the EU's most pressing problems.

Over the course of 2014, we intensified collaboration with our partners at the European Com-

mission, launching a new generation of financial instruments in favour of SMEs and midcaps, including InnovFin – EU Finance for Innovators and risk-sharing products under Competitiveness of Enterprises and SMEs (COSME).

Outside the EU, SME finance remained a key activity for the Bank, underpinning wider private sector development objectives. In addition to supporting access to finance for SMEs, we provided advice and technical assistance for the development of local private enterprise.

We at the EIB Group are committed to stepping up our engagement in support of productive investment for growth and employment. The Investment Plan for Europe announced by the European Commission in late 2014 provides a further opportunity for us to do exactly this. With our management of the European Fund for Strategic Investments (EFSI), we are building on our partnerships with the European Commission, Member States, public promotional institutions and public authorities, in a common bid to catalyse private sector investment and support Europe's SMEs.

Dario Scannapieco  
EIB Vice-President

Pier Luigi Gilbert  
EIF Chief Executive

# EIB Group support for SMEs in 2014

EIB GROUP  
EUR **28.1bn**



supports around  
**290 000**  
SMEs

**3.9** helps sustain some  
million jobs  
globally

is helping small  
businesses, which  
employed or trained

**500 000**  
young people  
in 2013-2014





# Supporting SMEs in the EU

SMEs account for 99% of businesses in the EU and employ two thirds of the active working population. Some 21.6 million SMEs in the non-financial business sector employ 88.8 million people and generate almost 60% of the EU's value added, amounting to EUR 3.7 trillion.

**SMEs are the backbone of the EU economy** and contribute to job creation and economic growth. According to the latest EC Annual Report on SMEs<sup>1</sup>, **21.6 million SMEs in the EU**, accounting for 99% of all non-financial enterprises, employed 88.8 million people and generated almost EUR 3.7tn in added value for our economy.

**SMEs have been severely affected by the economic crisis**, facing the triple challenge of:

- limited access to finance;
- the relatively high cost of finance;
- the low risk-taking capacity of banks.

**Of these, access to finance remains the most pressing challenge for Europe's SMEs.** Large national disparities persist, with access to finance reported to be much more restricted in countries such as Greece, Ireland, Italy, the Netherlands, Portugal and Spain, where SMEs contribute most to growth and employment.

## Revitalising SME growth

Access to finance for SMEs can be strengthened through instruments that either enhance banks' ability to lend or provide complementary sources of financing.

The EIB Group is specialised in a wide range of financing solutions that can address access to finance constraints:

- **intermediated lending**, providing complementary access to finance on improved terms;
- **credit guarantees**, widely used to alleviate market failures in SME financing;
- **SME securitisation**, effectively creating a secondary market for SME loans and enhancing the ability of banks to lend to SMEs;
- **microfinance and social impact finance**, serving both economic and social objectives;
- **investments in venture capital and growth capital funds**, supporting in particular young innovative companies;
- targeted intermediated loans and tailor-made initiatives, **supporting SMEs' internationalisation**.

The EIB Group aims to provide targeted support to improve the conditions for and enhance SME access to finance, helping to mitigate the cyclical and structural bottlenecks in SME financing.

<sup>1</sup> EC (2014), "Annual Report on European SMEs 2013/2014 – A Partial and Fragile Recovery", [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2014/annual-report-smes-2014\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2014/annual-report-smes-2014_en.pdf)



## EIB Group response: record levels of SME finance

In 2014, the EIB Group delivered record levels of SME finance, while addressing specific SME needs.

In order to support the fragile economic recovery in the EU, the EIB Group delivered record levels of SME finance in 2014 via an extensive network of financial intermediaries.

As well as increasing financing volumes, we also broadened our product offering to enhance intermediaries' ability to finance SMEs.

The EIB Group also intensified collaboration with our partners at the European Commission (EC). Together we **launched a new generation of financial instruments in favour of SMEs and midcaps**. They include Horizon 2020 **InnovFin** – EU Finance for Innovators, managed by the EIB and EIF, and risk-sharing products under Competitiveness of Enterprises and SMEs (COSME), implemented by the EIF.



### The Joint SME Initiative for stimulating SME finance

The SME Initiative is a joint EIB Group-EC financial instrument that aims to stimulate new debt finance for SMEs from financial intermediaries in the participating Member States. The initiative blends the Member States' European Structural and Investment Funds (ESIF) and EU budget resources with EIB Group financing. The EIF acts as the implementing agent.

The SME Initiative Spain was signed in January 2015, with Malta expected to follow later in the year.

At the launch event, **EIB Vice-President Román Escolano** said that

*“the launch of the SME initiative in Spain is a sign of the EIB Group's firm commitment to supporting Europe's SMEs as the drivers of economic recovery and job creation. This pioneering initiative represents clear progress towards using the structural funds more efficiently and will ensure that funding reaches a greater number of small and medium-sized businesses on highly favourable terms”.*



## The EIB and SMEs

Support for some **110 000 SMEs**, mainly through intermediated loans. These enterprises **employ 3 million people**

Financial intermediaries **allocated** a record **EUR 15.2 bn** to SMEs

Increased cooperation with **public promotional institutions** and authorities (**signed EUR 6.1 bn** in new operations).

**EUR 22.2 bn** of new operations **signed**, with expected leverage impact of at least **EUR 44.4bn.**

### The EIB's main achievements in the EU in 2014

- We supported 110 000 SMEs, employing 3 million people.
- We enhanced cooperation with EU Member States and their public promotional institutions and authorities for the establishment of tailor-made financing facilities for SMEs, accounting for over a quarter of 2014 signatures in the EU.
- Jointly with the EIF, we contributed to the revitalisation of the European SME-based securitisation market, investing EUR 1.9bn in ABSs, with the EIF providing guarantees for third party investors.
- Together with the EIF, we prepared the Joint SME Initiative, leveraging resources from Member States, the EU and the EIB Group. The Joint SME Initiative is a flagship example of enhanced cooperation with the EC and Member States.
- We launched InnovFin – EU Finance for Innovators together with the EIF under Horizon 2020, the EU's research and innovation programme. InnovFin is providing debt, guarantees and advisory services to innovative enterprises.
- Financial intermediaries allocated EUR 10bn to SMEs in regions with high youth unemployment through the Skills and Jobs – Investing for Youth programme.

## EIB support for SMEs inside the EU: Key highlights

In 2014, the EIB provided a record amount of finance to EU SMEs: EUR 22.2bn, accounting for more than 30% of signatures in the EU.

**W**e aim to improve financing conditions and enhance access to finance for SMEs. To reach a large number of SME final beneficiaries efficiently, we **work with a wide network of financial intermediaries through our main funding product, the 'Loan for SMEs'**.

- The EIB increased SME activity levels in EU Member States by more than 30%, reflecting market conditions, SME demand, the importance of SMEs in the EU as well as the enhanced public support for this segment of the economy.
- The main three SME sectors to benefit from EIB financing were manufacturing, followed by wholesale and retail trade, and transportation and storage.
- The average loan allocation size for SMEs in the EU was EUR 113 000.
- Around 60% of the number of loan allocations involved micro-enterprises with fewer than 10 employees.
- Half of the loan allocations to SMEs were for less than EUR 24 000, i.e. microloans.

### Croatia: Investing in the improvement of food quality and safety

Small businesses have been ensuring success by expanding their service offering. The EIB has witnessed precisely this in the newest EU Member State. INSEPCTO Ltd has just launched a new marketing campaign to present its new services. This small company has been making sure that food is of the highest quality since 1998. INSEPCTO Ltd provides quality control services for goods and raw materials, including testing and laboratory analysis of agricultural products, grains, oilseed, food, animal feed, sugar beet, soil and fertilisers. A EUR 65 200 loan via Privredna Banka Zagreb, an EIB partner bank, enabled the company to **purchase state-of-the-art laboratory equipment** to expand its service offering whilst keeping human health as a top priority, as it uses only water-based liquids. Also thanks to the loan the company hired three new employees, who are continuously learning in the course of their everyday work.





## Latvia: Unlocking doors to new markets in Europe

EIB loans for SMEs offer companies the possibility to export and expand their businesses to other markets. In Latvia, the family-owned company Liva AB Nord is one of the country's leading door manufacturers. In 2009, with some 30 years of experience in the carpentry industry, Dzintars Abele decided to found his own company, initially as a subcontractor working closely with large local construction companies on ambitious projects. The production took place in relatively small buildings, which prevented the growing company from meeting the increasing demand for its products. Thanks to a EUR 200 000 loan from the EIB and partner bank ALTUM the company has been able to **purchase new buildings to expand its production process**, and its 40 employees now enjoy improved working conditions. To build on further growth opportunities, Liva AB Nord is exploring export possibilities and trying to take its first steps into other markets in western and northern Europe.

## Constant renewal for Spanish midcaps

Belief in yourself, taking the right steps and a good dose of decisiveness are the keys to starting up your own business. This is the philosophy championed by Gerardo Gutiérrez, entrepreneur by vocation and restless by nature. According to the President of Gadea Group Pharmaceuticals, experience can give you a leg up in the business world but it must always go hand-in-hand with innovation. "The pharmaceutical sector requires significant investment given that it must renew itself constantly and continuously search for new possibilities." A EUR 4m EIB loan via our partner bank Santander was decisive in the group's growth and renewal process. Gadea is using the EIB loan to finance its strategy of vertical growth. The Group is completing the clinical development of active ingredients within one of its companies, Crystal Pharma, while using another one, Gadea Biopharma, to develop sterile suspensions (droppers, vials, prefilled syringes). By completing the product development cycle they ensure that their active ingredients reach the end market.



## Enhancing cooperation with public promotional institutions and public authorities

2014 was a year in which we enhanced our cooperation with the EU's public promotional institutions and authorities. Financing small businesses is the primary aim of many of these entities, which are long-standing EIB partners in terms of funding, risk sharing, funds of funds, co-investment and knowledge sharing.

2014 loans for SMEs via public promotional institutions & public authorities = **EUR 6.1bn**

Examples are the increased amounts of funding to Instituto de Credito Oficial (ICO) for supporting SMEs in Spain, consolidation of the relationship with institutions such as Cassa Depositi e Prestiti (CDP) in Italy or Hrvatska Banka za Obnovu i Razvitak (HBOR) in Croatia, and the financial and advisory support provided for the setting up of the new Strategic Banking Corporation of Ireland (SBCI).



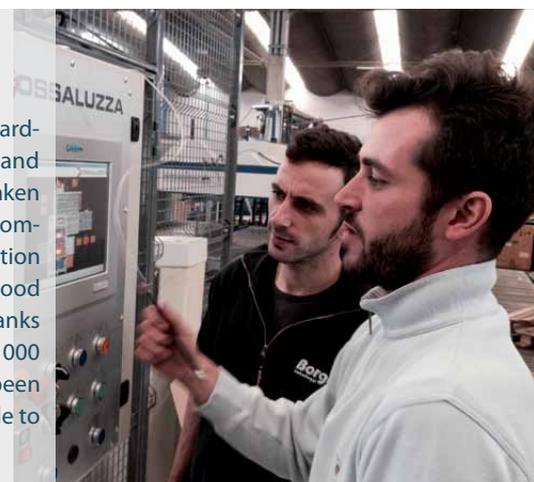
### Support for the newly launched Strategic Banking Corporation of Ireland

At the launch of the SBCI,  
**EIB President Werner Hoyer said:**

*"Growth of companies in countries across Europe is hindered by continued limited access to finance. Concerted action, such as the creation of the Strategic Banking Corporation of Ireland, plays a critical role and I am sure that other countries in Europe will closely follow this model. The European Investment Bank is pleased to provide EUR 400m for SBCI. This will enable the new institution to improve access to finance for Irish companies through attractively priced funding, which is essential for investment, creating jobs and exploiting new business opportunities. SBCI will provide a highly effective complementary channel to ensure that finance reaches final beneficiaries and the real economy faster."*

### Italy: SMEs bringing strength in Emilia-Romagna

Borgi Imballaggi Srl has been active for some 40 years in the sector of corrugated cardboard packaging, building its brand on the values of respect for the environment and innovation. As with many other businesses in the Emilia-Romagna region, it was shaken by the 2012 earthquake, which damaged its business properties. But like other local companies, Borgi was determined to contribute to the recovery by prioritising innovation and growth to rebuild the community. The family business has put EIB finance to good use to underscore its values at a time of economic hardship. One of our partner banks in the region, Banca Popolare dell'Emilia Romagna, provided Borgi with a EUR 550 000 loan for a state-of-the-art third production line. The impact on the company has been significant. Three new workers have been hired, and Borgi Imballaggi has been able to purchase a new building to replace properties damaged by the earthquake.



# Jobs for Youth

In 2013, we launched our 'Skills and Jobs – Investing for Youth' programme in response to a European Council request for the Bank to contribute to the EU-wide effort to support youth employment. The programme's goal is twofold: (i) to boost 'Jobs for Youth' across the EU by improving access to finance for SMEs and (ii) to enhance employability via 'Investment in Skills', targeting projects focused on education, vocational training and student finance.

## 2014 loans for Skills and Jobs – Investing for Youth totalled EUR 13bn, of which:

- **EUR 10bn** that reached SMEs in 2014 – spread across 18 EU countries with high youth unemployment – under the Jobs for Youth pillar
- **EUR 3bn** – under the Investing in Skills pillar.



## Creating jobs for Poland's young people

The EIB signed with its partner banks some EUR 0.8bn of dedicated Loans for SMEs linked to new employment or training opportunities. During 2014, these lines already resulted in over 5 500 new jobs in Cyprus, Italy and Poland.

Since 1994, ALSPAW in Poland has been a world leader in the production of aluminium stage systems. With the help of finance to the tune of EUR 65 000 from Polish leasing company EFL, the company has been able to purchase new machinery to improve product quality. This expansion has also created employment within the company. Eighteen young people aged 16-24 were hired within the following six months, four of whom are engaged in handling the new technologies purchased with the investment. The company is now channelling its energies into the development of these new employees, capitalising on their willingness to learn and help the business succeed.

## Targeting financing gaps

The Bank continued to **diversify the sectors benefiting from loans for SMEs, addressing specific market needs**. Agricultural SMEs received a boost from EIB financing in Spain and Germany, trade abilities were strengthened and the Bank's focus on specific midcap finance continued.

### Loans for agricultural SMEs in Spain and Germany

**Spain:** In cooperation with the Spanish Ministry of Agriculture, Food and Environment, the EIB provided a EUR 750m loan to Instituto de Credito Oficial (ICO) and private sector financial institutions to support Spanish SMEs active in the agricultural sector. This is the second EIB loan dedicated exclusively to agricultural SMEs in the country.

**Germany:** The Bank signed a EUR 200m loan with Landwirtschaftliche Rentenbank, which will onlend the proceeds to small and medium-sized farming businesses under agricultural support programmes for SMEs, contributing to rural development in Germany.



### Luxembourg: Boosting international expansion

Luxembourg has a long tradition of steel production, and this sector made a major contribution to the country's GDP until the 1960s. The EIB is helping to encourage the development of small businesses and keep the traditional Luxembourg steel industry alive. The steel trading company MCM Import Export Sàrl is one of the businesses that has benefited from EIB support to pursue its expansion. Created in 1998, this small company's activity is based on the sale and purchase of materials for industry such as columns, plates and coils, as well as the transformation of steel to meet customers' specifications. Thanks to the EIB loan and partner bank ING's support the company has optimised its processes and now has the means to boost its international expansion. MCM Import Export Sàrl achieved this by creating an efficient platform for its business with providers in Turkey, India and all over the world.



## The EIF and SMEs

Support for **175 000 SMEs** employing over **630 000 people** through a range of financial instruments provided to SME-focused intermediaries

**Joint operations** and complementary instruments **with the EIB** were increased for enhanced impact and improved access to finance for SMEs

**EUR 1.6 bn** of guarantees, committed to financial intermediaries, stimulating new loan portfolios and mobilising additional resources, leveraging EUR 5.6bn

A record volume of **EUR 1.7bn in equity commitments**, creating market traction and leveraging EUR 8.2bn

**EUR 189 m** of Structural Funds were committed to financial intermediaries for the benefit of SMEs across JEREMIE Holding Funds

**EUR 51 m** for microfinance operations, mobilising EUR 135m in additional support for micro-entrepreneurs

### The EIF's main achievements in 2014

- Our financing benefited **175 000 companies employing over 630 000 people**.
- We provided **long-term finance to the private equity market** by investing a record EUR 1.7bn in 74 SME-focused funds, attracting over EUR 8.2bn of additional resources from the private sector.
- We guaranteed portfolios of SME loans and leases and **supported the revival of the European SME securitisation market** with guarantee commitments of over EUR 1.6bn in 60 different transactions, which will generate EUR 5.6bn of new loans for SMEs.
- We launched the **EC Competitiveness of Enterprises and SMEs (COSME) and InnovFin – EU Finance for Innovators** programmes, as a means to boost European businesses' innovation, increase their competitiveness and enhance their access to finance.
- We promoted social inclusion and job creation, **supporting micro-entrepreneurs** and social enterprises with EUR 51m, generating a loan volume for them in the order of EUR 135m.
- EIF shareholders approved the EIF **capital increase**, giving extensive scope to develop operations, strengthen our financial offering and increase transaction volumes.

## The EIF in 2014: Key figures

In 2014, the EIF committed EUR 3.3bn in support of EU SMEs and mobilised EUR 14bn of capital to enhance access to finance and contribute to boosting entrepreneurship and innovation in Europe.

Some 175 000 companies benefited from EIF financing in 2014. We at the EIF committed **EUR 3.3bn** in support of European SMEs and mobilised **EUR 14bn** of capital to enhance access to finance and contribute to boosting entrepreneurship and innovation in Europe.

A **record EUR 1.7bn** in support for the European private equity sector, via **74 SME and midcap-focused funds**, mobilising **EUR 8.2bn** of capital from other market players.

### Equity activity

#### Technology transfer: Highlights

In 2014, the EIF continued to develop technology transfer activity.

Technology transfer activities brought to new markets, including Portugal.

Launch of the Technology Transfer Accelerator Turkey Fund, an initiative co-financed by the EU and the Republic of Turkey and managed by the EIF.

#### Venture capital: Highlights

Supporting funds which invest in young, riskier start-ups and very early-stage companies remained a priority for the EIF.

Support for the life sciences sector in areas such as pharmaceutical manufacturing, medical biotechnology, medical devices, agricultural chemicals and cosmetics.

Continuation of work with business angels: to date 19 agreements signed in Germany, Spain and Austria under the European Angels Fund (EAF), of which nine in 2014.



#### Making venture capital work in Greece

The EIF has also made a lasting difference to the ability of SMEs to access finance in Greece. In the words of Nicos Moraitakis, Founder and CEO of Workable, a hiring software company, "Through the capital made available to us by the JEREMIE Open Fund II team backed by the EIF, we were able to take our company to the next level. It is difficult for start-ups like us to find venture capital firms that are willing to help not only to start but also support further establishment and growth." Workable started life as two recruiters became convinced that hiring software should be as agile as the fast-growing companies employing them. Initially the founders were not planning to seek funding, but traction in the markets presented itself as an opportunity to accelerate growth. 18 months later, with 20 talented employees, over 300 customers, 60% of whom are based in the US, and 30% revenue growth month-on-month, it is clear that Workable made the right choice by reaching out to available financing opportunities at a time when seed funding was hard to come by.

## Growth capital/mezzanine: Highlights

The EIF provided alternative sources of long-term finance to established businesses and later-stage technology with its core mid-market products – equity, hybrid debt/equity and mezzanine for SMEs and midcaps.

18% increase in growth capital commitments on 2013.

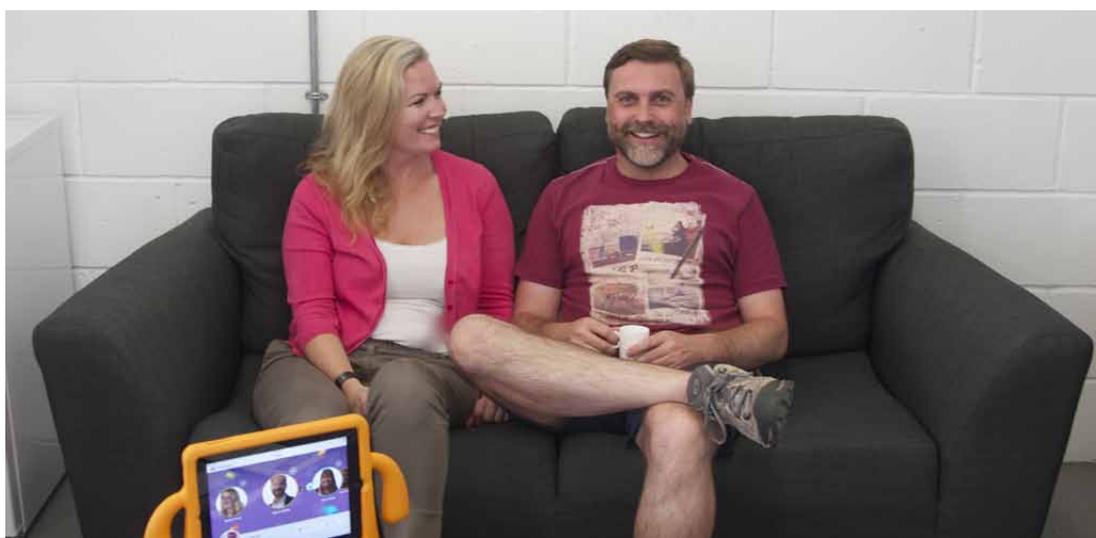
Launch of the new Mezzanine Co-Investment Facility (MCIF), expanding EIF mid-market activity to co-investments in target companies.

## Social Impact Investing: Highlights

Alongside private sector partners, the EIF launched an innovative new investment platform: the Social Impact Accelerator (SIA).

Commitments to four social impact funds for an aggregate amount of EUR 36m, financing sectors as diverse as employment, the environment, public health and education.

Through the new EIB EREM Social Impact Finance window signed at the end of 2014, over EUR 240m will be made available to invest through the SIA platform in the future.



### UK: Communication for everyone: powered by the EIF

“Communication for everyone” is Insane Logic’s mission. Based in the UK, and supported by Social Venture Fund II (one of the EIF-backed social impact funds), the company helps children, young people and adults who have speech, language or communication needs. They have created a language development programme – MyChoicePad – that brings together proven speech and language therapy techniques and market leading technology to deliver language development via tablet computers. Zoe Peden and Andrew Jackman, the company’s founders, designed an innovative and cheap symbol and gesture-based communication app but struggled to find the right technology for it. It all came together in 2010 with the launch of the first tablet computer and the app was released in May 2011. The award-winning MyChoicePad has helped seven-year old Lucy to work on her sign language skills to catch up with her peers. It also gave Richard, a teenager with Downs Syndrome, the ability to improve his vocabulary, and Charmaine, who has a chromosome disorder that affects her ability to understand and communicate, a sense of control so that she can express what she wants and needs.

## Guarantee and securitisation activity

Guarantee and counter-guarantee commitments of **EUR 1.6bn** through **60 transactions**, which will generate **EUR 5.6bn** of **new loans for SMEs** and support the **revival of the European SME securitisation market**.

### CIP and COSME

The last resources of the European Commission's Competitiveness and Innovation Programme's SME Guarantee Facility (CIP SMEG) were deployed in 2014. This facility has supported close to 350 000 SMEs since 2007 and will continue to have an impact in the coming years through the gradual deployment of the resources allocated to EIF financial intermediaries.

In July, the new Commission programme for the Competitiveness of Enterprises and SMEs (COSME) was launched to further develop European competitiveness by providing higher-risk SME loans and finance leases. The first COSME guarantee transactions were signed at end-2014.

### RSI and InnovFin

In June, the European Commission and the EIB Group launched InnovFin – EU Finance for Innovators, a joint initiative under Horizon 2020. The InnovFin SME guarantee builds on the success of its predecessor pilot, the Risk-Sharing Instrument (RSI), which was developed to improve innovative SMEs' and small midcaps' access to debt finance to support their research and innovation projects.

Under the RSI pilot, the EIF entered into guarantee agreements worth EUR 1.6bn with 36 financial intermediaries in 18 countries, enabling over EUR 3.3bn of loans and leases to be provided to innovative SMEs and small midcaps.

## Risk-sharing on new lending: Highlights

The EIF manages several SME and midcap initiatives aimed at providing enhanced access to finance for businesses. These programmes are implemented via banks and guarantee institutions, which are required to take additional risk so that we can guarantee a substantial part of their portfolio of new SME loans or leases. 2014 saw the launch of new programmes to ensure continued support in this vital area.



## Securitisation: Highlights

We continued to participate in the revival of the SME securitisation market by helping to credit-enhance tranches of SME loan or lease securitisation transactions and enabling financial institutions to apply a 0% risk weighting to assets with an EIF guarantee.

SME securitisation guarantees in 2014 amounted to EUR 672m, demonstrating our substantial added value in the segment and ability to enable more lending capacity for SMEs.



## Microfinance activity

**EUR 51m** in EIF support for micro-entrepreneurs and social enterprises in 2014, generating a loan volume of **EUR 135m** for micro-entrepreneurs.

Under the joint European Commission-EIB Progress Microfinance Facility managed by the EIF, geographical reach was expanded to two new countries (Croatia, Sweden) in 2014.

Progress Microfinance was granted the EU Microfinance Platform label by the Luxembourg Fund Labelling Agency (LuxFLAG), an independent international labelling agency specifically focused on the Responsible Investing sector.

## Regional activity

In 2014 we at the EIF expanded our regional activity, working to reduce the financing gaps across Member States. We continued to enhance our leveraging of public funds through SME-focused funds of funds.

2014 saw the rollout of the [Baltic Innovation Fund](#), the [Cyprus Entrepreneurship Fund](#), the [Dutch Venture Initiative](#) and the [Western Balkans Enterprise Development and Innovation Facility](#).

### Delivering financial engineering with Structural Funds: JEREMIE

The EIF supports regional development under the EC-EIF instrument Joint European Resources for Micro to Medium Enterprises (JEREMIE), which enables EU Member States to use part of their European Structural and Investment Funds (ESIF) to

provide risk financing to SMEs, deployed via financial intermediaries through a Holding Fund acting as an umbrella fund.

Several Member States, including Spain, Malta, Bulgaria and Romania, benefited from JEREMIE, and other countries and regions are currently discussing future implementation.

To date, SMEs have received finance amounting to some EUR 2bn, channelled from JEREMIE Holding Funds through 82 transactions. 49 of the financial intermediaries engaged are new EIF counterparts.

### Weaving a thread of success with the EIF

Dorinda recently opened her sewing business in Portugal and has never looked back since. She had been working as a seamstress for a number of different sewing companies for most of her life but this didn't offer her any job security or a steady customer base. The idea of opening her own sewing company had been appealing but as a 50-year old seamstress in Lisbon, without a formal work contract, trying to get finance with no formal income was not easy. With the idea of opening her own sewing shop in mind, she went to EIF-supported Millennium bank and, with a EUR 4 000 loan granted under the EC Progress Micro-finance facility, she opened a small shop in her local area. The shop is becoming more and more popular each day and she is considering providing a new laundry service in the future.





# Joint EIB Group activities and new initiatives

A well-functioning securitisation market is essential in helping financial intermediaries broaden their funding base, achieve capital relief and ultimately, increase their SME financing. The EIB Group is well placed in revitalising the securitisation market in the EU.

## The EIB Group Risk Enhancement Mandate (EREM)

In response to the June 2013 European Council's call for private sector and capital market instruments for SME finance to be leveraged and the EIF's risk-bearing capacity to be enhanced, the EIB Group Risk Enhancement Mandate (EREM) was established as a new mandate, to be managed by the EIF on behalf of the EIB.

EREM aims to support credit enhancement, ultimately benefiting SMEs, and to provide funding for particular market segments, including social impact finance and loan/debt funds.

## Revitalising the securitisation market

**SME securitisation creates a secondary market for SME loans** and enhances the ability of banks to lend to SMEs.

With the combination of long-term liquidity provided by the EIB and the EIF's long-standing market experience in providing guarantees for SME

portfolios, we at the **EIB Group** are well placed to help revive the securitisation market.

The **EIB Group ABS Initiative for SMEs** aims to combine EIB purchases of senior tranches of asset-backed security (ABS) notes with the EIF providing guarantees to third party investors.

In 2014, the origination efforts of the EIB Group under the initiative led to EIB purchases of **EUR 1.9bn in nine SME-backed ABS transactions** in Spain, Italy, Germany and Poland. The EIF provided guarantees of **EUR 410m** for six of these transactions.

## Supporting financial inclusion

**Social entrepreneurship is an emergent sector in the EU**, particularly since the crisis, to compensate for funding cuts and lower public spending at national/local level. As a Group, we enhanced our **support for social finance in 2014**: the EIF invests EIB Group resources in social impact funds that extend finance to SMEs which apply entrepreneurial solutions to address societal issues.

**Microfinance remains an important tool that can help meet economic and social objectives** both in-

SMEs	Midcaps	Large Caps	Advisory
InnovFin SME Guarantee	InnovFin MidCap Guarantee	InnovFin Large Projects	InnovFin Advisory
InnovFin SME Venture Capital	InnovFin MidCap Growth Finance		

direct products
  indirect products

side and outside the EU, but public support for this segment is declining due to budget restrictions.

Under **Progress Microfinance** – the joint EIB-EC initiative managed by the EIF – financial intermediaries receive funding and guarantees for better access to finance for vulnerable groups, individuals and micro-enterprises, including those active in the social economy.

Under the **Joint Action to Support Microfinance Institutions in Europe (JASMINE)**, financial intermediaries benefit from technical assistance to scale up their operational impact in the microfinance space.

The EIB implemented a **second facility for micro-finance loans in Spain** amounting to **EUR 100m**. The microfinance loans are extended to micro and small enterprises, notably the young self-employed and start-up entrepreneurs in Spain, which are key for growth and employment creation, in particular for young people.

## Accelerating innovation in the EU

**InnovFin – EU Finance for Innovators** is a joint European Commission-EIB Group initiative under Horizon 2020, the new EU research programme for 2014-2020.

InnovFin consists of a range of tailored financing and advisory products to help innovative firms access finance more easily.

It is expected that over the next seven years InnovFin products will make more than EUR 24bn of finance available for research and innovation by SMEs, midcaps and large companies and the promoters of research infrastructure.



### Austria: On the road to motorcycle safety

Stefan Pierer, CEO and Chairman of the Executive Board of KTM AG and KTM-Sportmotorcycle AG, has been indulging in motorcycle racing for most of his life and has even turned his passion into a profession. KTM is a classic niche world leader in producing and developing race-ready off-road and street motorcycles. But the industry still faces challenges regarding safety for motorcyclists. KTM needed a counterpart specialised in RDI financing to meet the company's top priority. Thanks to the EIB's financial instrument in support of innovative midcaps, KTM received a EUR 75m loan for precisely this purpose. The financial revving-up enabled the company to focus on safety as well as zero-emission concepts, fuel economy and the development of new, lightweight materials.



## The EIB outside the EU

Financial intermediaries  
**allocated EUR 1.9bn** to SMEs

EUR **2.6bn**

of new operations **signed** with expected leverage  
impact of at least EUR 5.2bn

Support for around **5 700 SMEs**,  
mainly through intermediated loans,  
equity and microfinance activities.

These enterprises  
**employed 270 000 people**

EUR **39m** was **signed**  
for 7 new microfinance operations

### The EIB's main achievements in 2014

- We supported **5 700 SMEs** employing **270 000 people**, including via 24 000 newly created jobs.
- Through partnerships with the **European Commission, EU Member States, international financing institutions and international donors** we supported private sector development outside the EU.
- We **signed 39 new intermediated lending operations** for SMEs.
- We **allocated a record EUR 1.9bn** of loans to final beneficiaries.
- We signed **seven new microfinance operations** amounting to EUR 39m.
- We concluded **seven new technical assistance agreements** for a total amount of EUR 10.6m.
- We made **new commitments to six SME funds** amounting to EUR 79m, which aim to invest EUR 425m in SMEs.
- We cooperated with over **100 counterparts** across all regions outside the EU.

## EIB support for SMEs outside the EU

Access to finance varies significantly across countries and regions but remains a substantial bottleneck for growth in a number of countries. Local private enterprise development is a major pillar of EIB activities under all its non-EU financing mandates.



Local private enterprise development **is a major driver of economic growth, revenue generation and international competitiveness.** As such it is a priority objective for the EIB under all its non-EU financing mandates.

**The geographical scope for deploying SME support outside the EU is extremely wide.** It spans more than 130 partner countries, with extremely diverse economic, political and institutional features.

The ease with which SMEs can access finance varies significantly across the countries and regions in which the EIB is active outside the EU.

**EIB loans to SMEs via our many partner banks around the world accounted for EUR 2.6bn,** around one third of our activities outside the EU in 2014.

Our support for SMEs outside the EU in 2014 helped sustain more than **270 000 jobs, some 24 000 of which were newly created.**

EIB funding of SMEs supports activities in a **wide range of sectors**, including:

- manufacturing and food processing industries
- tourism
- business services and commerce
- agriculture and fisheries
- education and health sectors
- energy.

We employ a **range of instruments to ensure that the EIB's offering suits the needs in every region:**

- EIB-intermediated SME lending via financial intermediaries
- capital contributions through **private equity or venture capital funds**
- support for **microfinance**
- **technical assistance.**



### Sadara sees promise in Palestinian start-ups

Started by a Palestinian and an Israeli, Sadara Ventures, the first tech-oriented venture capital fund in Palestine, has so far raised USD 30m and invested in four web-based start-ups specialising in the region.

Despite the difficult situation in the Middle East, Sadara – which means “pioneering” in Arabic – saw the light of day in 2011 in Ramallah’s nascent IT sector. Since then, the founding partners, Yadin Kaufmann and Saed Nashef, have backed four start-ups out of an expected portfolio of 12 companies. The EIB was the first investor to commit to the fund and its participation played a critical role in attracting a host of leading international companies and foundations, including the Google Foundation, Cisco, the George Soros Economic Development Fund and the Skoll Foundation. Sadara can allocate up to USD 2.5m per company. The fund also has the social objective of revitalising distressed regions in the Palestinian Territories and creating local jobs. In addition to supporting high-tech entrepreneurs, it encourages its portfolio companies to allocate up to 1% of their equity or revenues to a not-for-profit fund for education initiatives for underprivileged Palestinian youth: “something to contribute”.

### Contributing to rural development in Turkey

A EUR 100m line of credit to Ziraat Bank will benefit many family firms and small farmers throughout Turkey. EIB funds will be on-lent to farmers who will also receive EU subsidies granted under the Instrument for Pre-Accession for Rural Development (IPARD). IPARD aims to help rural businesses reach EU hygiene and environmental standards and to create rural jobs. Due to the lack of access to credit in rural areas, Turkish enterprises and farmers find it difficult to access IPARD funds as quickly as expected. Our loan aims to redress precisely this issue, contributing to a more coherent EU approach in rural Turkey.



### Promoting entrepreneurship in Tunisia

The EIB teamed up with a private sector organisation under the EIB-BTK-Réseau Entreprendre Partnership. The loan between the EIB and Banque Tuniso-Koweitienne (BTK) came about under a partnership agreement with Réseau Entreprendre. The EIB is providing a EUR 20m line of credit to BTK, which will match this funding for Tunisian SMEs with a further EUR 20m. 10% of the total amount will be earmarked for high-growth enterprises, which will receive a preferential rate of interest through the cooperation with Réseau Entreprendre, a private sector organisation. Réseau Entreprendre promotes the establishment of micro-enterprises by providing interest-free loans combined with customised coaching for entrepreneurs during the early years of their businesses. They will select high-growth enterprises and introduce these to BTK for financing.

## Collaboration and partnerships

In many countries outside the EU we at the EIB can have a greater impact when we work in collaboration with other IFIs, international donors or other relevant partners.

We often work in a complementary way, making funds available through the same intermediary institutions. We also support SMEs in cooperation with the European Commission or other IFIs,

through partnership agreements such as the **Western Balkans Enterprise Development and Innovation Facility (EDIF)**, which aims to improve access to finance for SMEs and support economic development in the region, and the **European Financing Partners**, a joint venture between the EIB and EU Member States' development finance institutions, which focuses on private sector development in the ACP States, including SME support.



# Investing in finance for micro-enterprises

Microfinance is a powerful tool for expanding access to finance to economically vulnerable groups, individuals and very small enterprises, which are usually excluded from traditional financial services. It helps to create jobs and address local needs and gaps in the supply of financial services. Outside the EU, we are active across the sub-Saharan Africa, Caribbean and Pacific regions as well as in the Mediterranean partner countries.

In the ACPs, we signed the first agreements with BancABC Botswana and Madison in Zambia under the EUR 50m Southern Africa Microfinance Facility. The intermediaries will be able to benefit

from a EUR 5m technical assistance programme due to be signed during the first quarter.

We also extended our first microfinance credit line in the Pacific (EUR 6m) to Banque de Tahiti in French Polynesia, which is expected to finance 1 200 micro-enterprises with fewer than 10 employees.

The EIB contributed to setting up Taysir, a microfinance institution in Tunisia. Taysir is a pilot project consisting of small private sector investments pursuing specific development, innovation and social objectives. By the end of 2018 Taysir expects to serve 25 000 clients, with an outstanding portfolio amount of TND 60m (EUR 26m).

In 2014, the EIB signed seven operations for EUR 39m in total, supporting micro-entrepreneurs through local and international microfinance service providers, via five intermediated lending operations (EUR 35m) and two equity investments (EUR 4m). We also signed one new technical assistance operation related to one of our microfinance investments – the micro-insurance fund LeapFrog II – for EUR 2.5m.

## Family values in Kenya

The EIB has a long-standing relationship with Family Bank, Kenya. Our loans are helping to bring about a turnaround and ensure sustainability for the Kenyan finance provider.

32-year old Daniel Kasimu has been able to improve the quality of his products thanks to Family Bank loans. Daniel has been operating his maize-milling firm for the past six years together with his wife, who assists him in the daily activities of the business. A customer of Family Bank for five years now, he has been able to boost his business through various loans, going from KES 100 000 [EUR 890] to KES 650 000 [EUR 5 800]. "My main challenge is to meet the cost of electricity and source affordable raw materials. Thanks to the financing from Family Bank, I manage to buy in bulk to reduce the cost of production," Daniel said. Currently, Family Bank is financing his fifth KES 650 000 [EUR 5 800] loan, which enabled him to purchase a destoning machine. And Daniel does not intend to rest on his laurels: "I followed a number of courses in food production and business management in order to strengthen my business further. I am also looking forward to receiving a KES 1m [EUR 8 900] funding to brand my products and purchase more milling machines."





## Technical assistance in support of micro-enterprises and SMEs

The Bank concluded seven new technical assistance agreements for a total of EUR 10.6m

The EIB makes technical assistance available in ACP countries and the EU Neighbourhood regions, for microfinance and private sector development. It manages technical assistance and secures significant amounts of funding for such activities from other donors.

- The Technical Assistance Programme in **East and Central Africa** aims to support the development

of both local financial institutions and SMEs, using resources from the European Development Fund (as part of the ACP Investment Facility managed by the EIB).

- In the **Eastern Neighbourhood Countries** technical assistance activities are supported with grants from external donors, e.g. the Eastern Partnership Technical Assistance Trust Fund (EP-TATF) and Neighbourhood Investment Facility (NIF).

### Fruit garden of Moldova

A EUR 120m EIB loan to the Republic of Moldova supporting SMEs in the horticultural sector was complemented by EUR 2m of technical assistance from the EU Budget Neighbourhood Investment Facility. The project, named "The Fruit Garden of Moldova," provides support to enterprises covering the entire food value chain.

*"The EIB is providing a loan to a key sector of Moldova's economy. These funds will help increase the living standards of Moldova's citizens while at the same time allowing the country to benefit from the free trade area with the EU,"* said EIB Vice-President Wilhelm Molterer at the launch event.





## Looking ahead

A key pillar of the EU architecture supporting growth and employment, the EIB Group will continue to contribute to the economic recovery in the EU by supporting SMEs.

The SME business outlook continues to be impacted by the changing macroeconomic environment in the EU. Banks' deleveraging process, low risk-taking capacity and financial market fragmentation, albeit diminishing, continue to hamper SME access to affordable finance, in particular for smaller companies.

Against this background, **support for SMEs remains a key priority for the EIB Group.** We at the EIB and EIF will continue to provide high lending and guarantee volumes and equity funds of funds

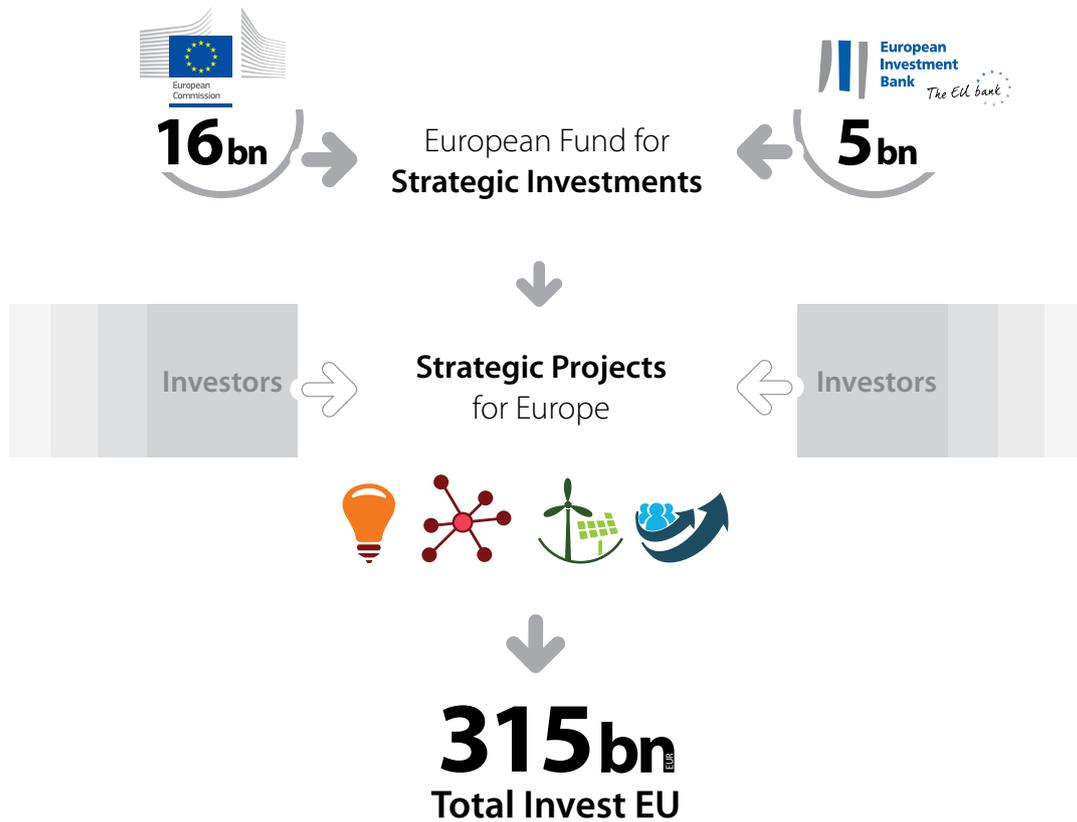
commitments and also broaden the product offering for risk-sharing and capital relief, to enhance intermediaries' SME lending ability.

The EIB Group will continue to adapt its range of instruments for SME finance in order to address identified market gaps and ensure value added propositions for evolving policy priorities at national and EU level, such as youth employment, innovation and the relaunching of the European SME securitisation market.

## Invest EU

In late 2014 the European Commission proposed an **Investment Plan for Europe**, which aims to revive investment in strategic projects across Europe. As part of the Plan the creation of the **European Fund for Strategic Investments (EFSI)**, a joint Euro-

pean Commission-EIB Group initiative, will help address market failures holding back investment. EFSI should unlock investment of at least EUR 315bn, of which EUR 75bn for the benefit of Europe's SMEs and midcaps.



## Group activity in 2015 and beyond

Within the EIB Group, SME support remains a high priority for the years to come in the EU. We will continue to join forces with public promotional institutions, partner financial intermediaries and public authorities to implement **national priorities and programmes for SMEs**. Particular emphasis will also be put on **innovative SME finance models** in response to specific market needs. The Bank will continue to develop innovative, risk-sharing operations, where appropriate leveraging EU and/or Member States' resources.

**EIF SME activities will be further enhanced** by the launch of financial instruments that will reinforce cooperation with the EIB and EC by blending resources to maximise finance and impact on the growth of SMEs.

**Outside the EU**, the EIB will continue to promote **private sector led growth**, both by supporting access to finance for SMEs and much-needed economic and social infrastructure and by providing advisory and technical assistance support.

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