



Briefing

Evaluation of the EIF's SME Securitisation Activities (2004-2015)

SMEs are the backbone of the European economy. Since the 2008 financial and economic crisis, the financing situation for SMEs across Europe has been slightly improving, but this also differs very much from country to country. In Europe, SME financing depends strongly on banks, and following the crisis banks will still remain the main external financing source for SMEs. A well-functioning securitisation market is a way to ease the supply problems by helping banks diversify their funding and achieve capital relief.

Against this background, SME securitisation (SMESec) can form an important element in the efforts to enhance access to finance for SMEs in Europe. It can be essential to helping financial intermediaries broaden their funding base, achieve capital relief and, ultimately, increase their SME financing.

Securitisation is a structured finance technique, by which originators (banks or also other financial companies such as leasing entities) pool assets (loans or other receivables) and sell securities (normally risk-tranched) in the capital markets to investors. Through the purchase of those securities, investors are entitled to claims on the cash flows backed by the pool of assets. Securities backed by a pool of SME loans are called SME asset-backed securities.

The main stakeholders in the securitisation process are originators, the special purpose vehicle/entity (although not always required), investors and credit rating agencies.

Since the late 1990s the EIF has been participating in the securitisation business by providing credit enhancement to SME securitisation transactions, mainly through guarantees. Thanks to its Multilateral Development Bank status, the EIF's guaranteed asset-backed securities are assigned a triple-A rating and are hence zero-risk weighted for regulatory capital purposes. Since its inception, the EIF has aimed at helping the development of this market segment in Europe, not only through its operations but also by spreading know-how and best market practices.

The evaluation assessed the EIF's contribution to the two key objectives of this business line: to increase SMEs' access to finance through SMESec and to stimulate SMESec's market development. The period analysed was 2004-2015.

Findings

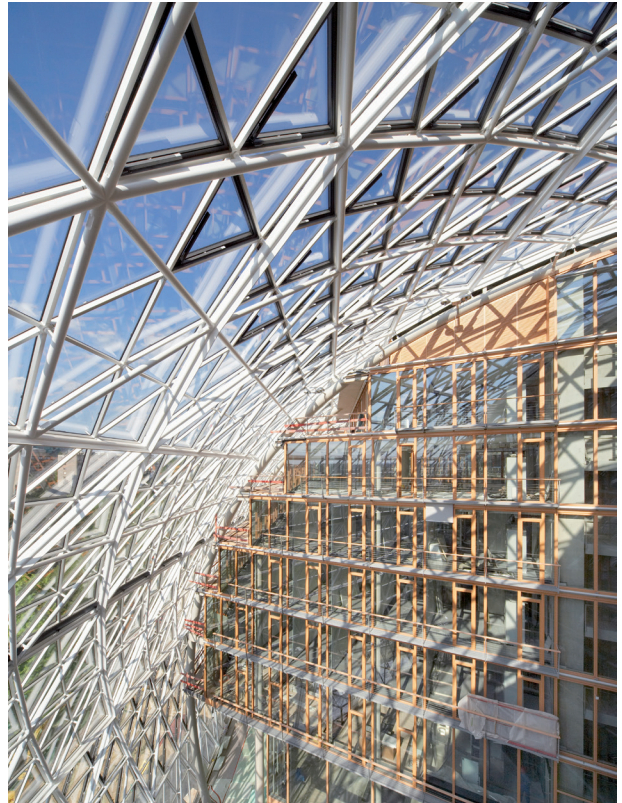
This evaluation could not ascertain the causality link between the EIF's SMESec support and additional SME lending. For most of the period under evaluation there was no methodological tool to verify the causal link between activities and results. This gap was filled by the development of the EIF's Value Added Methodology (2010) and its ex-post impact assessment (2013). According to this methodology, for the period 2013-2015, the SMESec's cumulative leverage exceeded the initial target. However, the tool relies exclusively on originators' reporting.

On the other hand, the evaluation found clear evidence that the EIF has contributed to SMESec's market development not only through its transactional activities but also by spreading know-how and best market practices. In 2009, the SMESec market came to a halt due to the economic and financial crisis and there was no EIF-supported transaction. In subsequent years, the EIF has had an important role in supporting the reopening of some SMESec national markets by facilitating deal execution in a difficult post-crisis environment.

Key recommendations

The evaluation identified areas for improvement and formulated recommendations, on the assumption that SMESec is a means to an end and that the success of this business line cannot be measured by the volume of SMESec activities but by the extent to which this volume translates into additional lending to SMEs:

- Clarify the EIF's policy objectives and targets in this market segment;
- Adjust the SMESec instrument to enhance its impact;
- Introduce additional mechanisms to ensure SMESec results in increased SME lending;
- Expand the EIF's advisory and technical assistance support;
- Undertake regular analysis of the cost-profitability of this business line; and
- Review the EIF's Value Added Methodology to ensure the EIF's SMESec instrument remains fit for purpose.




The full report can be accessed at:
<http://www.eib.org/infocentre/publications/all/evaluation-of-the-eifs-sme-securitisation-activities.htm>



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