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EIB Group support for SMEs

The European Investment Bank provides medium and long-term finance to SMEs via global loans. **Global loans** are credit lines to intermediary banks or financial institutions, which on-lend the funds to support small-scale investment projects, often carried out by SMEs that have fewer than 250 employees. Projects financed through global loans must have a total cost of up to EUR 25 million, the sub-loan representing in general a maximum of 50% of project cost.

As a complement to global loans, the EIB launched a new product in 2004, the **mid-cap loans**, targeting essentially enterprises of an intermediate size, bigger than SMEs, but with a staff of fewer than 3000. Mid-cap loans are grouped loans through financial intermediaries. The projects financed under mid-cap loans are vetted by the intermediary which report ex-ante to the EIB about the investment's economic, financial, technical and financial viability.

One of the objectives of the mid-cap loans is to fill the gap between global loans and individual direct loans for large projects. This has become more necessary now that the EIB has aligned its SME definition with that of the Commission, lowering the Bank's former SME workforce threshold from 500 to 250. Mid-cap loans enable the Bank to continue offering indirect loans to firms excluded from the SME category by virtue of the introduction of the new definition, providing that their projects meet the Bank's eligibility criteria. The first two mid-cap loans were signed at the end of 2004 and the Bank expects that 2005 will see many more of such operations.

The European Investment Fund supports SMEs by providing equity through venture capital financing and, indirectly, by the provision of guarantees for the SME portfolios of financial institutions or public guarantee bodies.

Over the past five years, the EIB Group's support (EIB and EIF) for SMEs in the 25-member European Union has consisted of:

- EUR 26.7 billion of the 57.4 billion in global loans to some 200 partner banks
- EUR 2.3 billion in equity participations in 109 operations
- EUR 6.5 billion in portfolio guarantees through 97 banks or specialised institutions

Emphasis on value-added

In 2004 the three pillars of EIB value-added being applied to direct loans have also been a crucial element for global loans and grouped loans.

The first pillar, consistency of global loan activity with the priority objectives of the European Union, has played a decisive role in the allocation of EIB funds. Thus global loans have been targeted to assist regional development and to stimulate innovation and research, while about half of the EUR 10.7 billion in global and grouped loans has supported SMEs.

In the case of global loans, the soundness of the project, which is the second pillar of EIB value-added, refers primarily to the capacity of the intermediary to manage the loan according to an agreed set of criteria, in line with the Bank's objectives. The assessment and selection of banking partners has been a constant preoccupation, helping to assure that the Bank's funds are used in the best possible way.

The third pillar of value-added relates to the financial value-added for the final beneficiaries of global loans, in other words, the interest rates and maturities available to SMEs and local authorities. In 2004, the Bank has continued to diversify intermediary banks in order to stimulate competition that is favourable to the final

beneficiaries. In addition, the EIB paid particular attention to the mechanism in place at its partnerbanks to make sure that the final beneficiaries are informed of the EIB's involvement and that they derive a significant financial benefit from the EIB's favourable conditions.

The European Investment Fund

Using its own resources, as well as resources entrusted to the European Investment Fund by the EIB, the European Commission, and since recently the German Ministry of Economics and Labour, the EIF fulfils the EU policy objectives of enhancing SME finance, increasing accessibility to micro-credit and providing support for start-ups in the EU 25 and in the Accession and EFTA countries.

At the end of December 2004, the venture capital portfolio of EIB, EIF and Commission resources combined, totalled EUR 2.8 billion committed in almost 200 venture capital funds. Jobs created via these venture capital funds amounted to more than 20, 000 at the end of 2004.

The EIF has been mandated by the European Commission to provide indirect support to SMEs via the Multi-Annual Programme for Enterprises 2001-2005 (MAP). Under that mandate, the EIF had carried out guarantee transactions supporting more than 200 000 SMEs as at end September 2004, with a total guarantee amount of EUR 4.6 billion backing EUR 17 billion of loans. Of this total number of SMEs, close to 14 000 were micro-enterprises (1 to 10 employees) that have benefited from micro-loans. By the end of 2005, the Fund expects that it will have guaranteed SME loan portfolios for a total of more than EUR 20bn.

As far as the own risk credit enhancement activity of the EIF is concerned, guarantee commitments of EUR 1.6 billion as at end December 2004 have catalysed the issuance of securities of EUR 37.3 billion backed entirely or partially by SME loans, affecting close to 300 000 European enterprises.

For more information on the EIB, visit the internet site www.eib.org.

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