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The SME consultation process

In May 2007, after nearly two years of implementing the European Investment Bank Group's new strategy, the EIB Management Committee decided to launch a consultation process (the "SME Consultation") with banking partners, public authorities and SME representatives on modernisation of the Bank's product offering to SMEs in the EU-27, with the aim of increasing its value added for the final beneficiaries.

1. EUROPEAN CONTEXT

The timing of this review of the EIB Group's SME financing activity fits in well with European Commission initiatives. Besides the European Initiative for the Development of Microcredit in Favour of Growth and Employment launched in November 2007, a "Small Business Act for SMEs" should be finalised by June 2008, and will include chapters on how to improve SMEs' access to finance. At the same time, DG Competition is reviewing the existing range of exceptions on state aid applicable to SMEs in an effort to improve SMEs' access to public support where it is deemed necessary.

2. IMPLEMENTATION OF THE SME CONSULTATION

The SME Consultation took place from June 2007 to January 2008. It was initiated via an invitation letter, sent out to 104 interested parties in all EU Member States, comprising 67 banks or banking associations, 14 SME associations (including chambers of commerce or trade associations) and 23 government bodies (including European Commission DGs). The response to the Consultation has been generally good, with an overall response rate of 75%. By the end of February, all participants in the SME Consultation will have a chance to provide their comments on a first version of a report summarising the findings and proposing some preliminary conclusions on the future role of the EIB Group in European SME finance. A final version will subsequently be made available to the public in the first half of 2008, when the EIB Group will also start to draw its own operational conclusions and update its strategy for an appropriate footprint in SME finance for the Group.

3. PRELIMINARY FINDINGS OF THE SME CONSULTATION**3.1. Financing gaps persist in European SME finance and require in-depth knowledge of the target SME market**

At the beginning of the exercise, the general opinion was that in developed financial markets access to finance is not a major issue for SMEs. The SME Consultation shows that the analysis has to be much more specific and that indeed there is a lack of adequate financing tools in many countries for a variety of SME segments, e.g. micro-enterprises without business or personal assets to offer as security, young, fast-growing, innovative enterprises or those facing the challenge of transmission. This finding is important also because these SME segments are major contributors to growth, competition and innovation and thus to employment and the productivity of the European economy as a whole. It is of great importance for the future growth of Europe that these segments in particular are not constrained by lack of adequate financing tools. In some European Member States, it is even the scarce availability of long-term resources as such which could limit the development of SMEs.

The SME Consultation noticed the diversity of situations and interest among EU Member States and shows that there is no single European SME market. It is therefore important that the EIB's future activity in favour of SMEs moves away from the "one size fits all approach" and turns towards solutions that are the result of a deeper knowledge of the various national SME markets.

3.2. "Innovation" has a wide meaning in the context of SME finance and needs innovative financial products to realise its potential

With regard to modern SME finance, the market would like to see the EIB shift its emphasis from eligibility restricted to new fixed asset investment towards financing of soft investments that foster internationalisation, growth and innovation. Innovation with regard to SME finance has to be seen in a broader context, where for example expansion into new markets should become eligible for EIB finance.

SMEs continue to depend mainly on bank debt for funding. A large amount of debt on the balance sheet hampers their chances of obtaining further loan finance for expansion, which is why, in addition to maintaining a strong presence in traditional loan finance, the EIB Group must develop alternative financing tools. Mezzanine finance is a promising instrument, which may in future not be reserved solely for more sophisticated borrowers. In this context, the EIB Group could play a specific role in close cooperation with the European Commission. A market for mezzanine financing must be developed, including appropriate financial tools, but also based on increased awareness-building among SMEs through advisory and technical assistance programmes.

3.3. Modernisation of the EIB Group's product range: less bureaucracy, more added value for SMEs and more appropriate products

The EIB's global loan product and the underlying principle will continue to have their role to play. However, the global loan needs to evolve, taking account of the findings of the SME Consultation on the financing gaps and financing needs of today's SMEs. To reduce the bureaucratic hurdles for SMEs, a number of simplifications of the global loan product will be proposed, in terms of both eligibility criteria and the information required by the EIB. These simplifications should, however, not be viewed as a goal in itself. They are a way of reducing the administrative costs of managing the EIB's products and therefore increasing the financial value added available to SMEs.

EIF support, which is focused on young, highly innovative, and fast-growing SMEs, has been reinforced through the launch in 2007 of the the Competitiveness and Innovation Framework Programme (CIP), in which the EIF acts as the manager of European Commission funds. This has confirmed the EIF's business model as the European body specialising in venture capital, loan guarantees, micro-credit guarantees, equity and quasi-equity guarantees and securitisation.

The SME Consultation suggests that the EIB Group's product offering in SME financing should be strengthened and enlarged, particularly in the areas of:

- equity finance;
- mezzanine finance; and
- senior loan finance,

in whatever structure these products may be used, be it in the form of funds or ABS structures or simply intermediated loans with or without risk sharing, in order to cover the largest possible spectrum of SME financing needs. The whole spectrum will not be used in each market. Taking into account the view of the respective national government concerning the EIB's involvement in SME financing, each geographical team of the EIB Group will be able to have recourse to some or all of the range of the Group's products whenever they see a need in their specific market environment. These initiatives imply wide scope for complementary action by the EIB and EIF.

In those areas and markets where strong promotional structures exist, the EIB Group should team up constructively with public support institutions, wherever their schemes have proven to be successfully implemented and are in line with the EIB Group's priority objectives. Very close cooperation with the Commission and the involvement of banking and SME associations is necessary. In this context, the EIB Group is willing to contribute to the drafting of the Small Business Act currently under preparation by the European Commission.

3.4. Getting to know the SME market better and make the EIB better known to SMEs

One final important finding of the SME Consultation is that there is a lack of information among SMEs about the possibilities of EIB Group support, irrespective of the current extent of EIB activity in the market in question. It is worth mentioning, however, that this lack of information does not apply only to the EIB Group but is a problem common to many public support schemes. The EIB Group will have to reconsider its information policy towards SMEs. It should give a very clear message about its activities, through its intermediaries, but also through other channels with direct contact to SMEs. One option could be to initiate – for those countries that are genuinely interested – the creation of national round tables with participants from SMEs, banks and public support organisations to regularly evaluate improvements in SME finance and identify problems and solutions. The effectiveness of giving this aspect a higher profile will, however, largely depend on the financial value added the EIB Group may be able to offer in the future.

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