EIB GROUP EVALUATION

Evaluation of EIB Group debt support for small businesses and mid-caps

July 2024

European Investment Bank | Group

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ABBREVIATIONS AND ACRONYMS

ABS	Asset-backed security
AIM	Additionality and Impact Measurement Framework
CESEE	Central, East, and South-East Europe
CMU	Capital Markets Union
COP	Corporate Operational Plan
COSME	Competitiveness of Enterprises and Small and Medium-sized Enterprises
COVID-19	Coronavirus disease 2019
CRD	Capital Requirements Directive
EaSI	EU Programme for Employment and Social Innovation
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EC	European Commission
ECB	European Central Bank
EFSI	European Fund for Strategic Investments
EGF	European Guarantee Fund
EIB	European Investment Bank
EIBG	European Investment Bank Group
EIBIS	EIB Investment Survey
EIF	European Investment Fund
EPMF	European Progress Microfinance Facility
ESIF	European Structural and Investment Funds
EU	European Union
EV	Evaluation Division
FID	Financial Institutions Department
GDP	Gross Domestic Product
IDHC	Innovation, Digital and Human Capital
IG	Inspectorate General
JEREMIE	Joint European Resources for Micro to Medium Enterprises
L4SME	Loan for SMEs
MBIL	Multi Beneficiary Intermediated Loan
OECD	Organisation for Economic Co-operation and Development
OPS	Operations Directorate
PPG	Public Policy Goal
SAFE	Survey on the Access to Finance of Enterprises

SLA	Service Level Agreement
SME	Small- and Medium-sized Enterprise
TLTRO	Targeted longer-term refinancing operations
ToFA	Transfer of Financial Advantage

KEY TERMS

Allocation	The attribution of a share of an intermediated loan to a final beneficiary or a specific sub-project.
Asset-backed securities	An asset-backed security (ABS) is a security whose income payments are derived from a specified pool of underlying assets, typically a group of small and illiquid assets which are unable to be sold individually. Pooling the assets into a financial instrument allows them to be sold to general investors. The pooling and repackaging of assets into ABSs is called securitisation.
Client	For the purpose of the evaluation, clients are defined as entities that are in direct contractual relationship with the EIB Group as borrowers or users of guarantees. For intermediated operations, we refer to financial intermediaries as clients, and to the end-user SMEs and mid-caps as final beneficiaries.
Cohesion policy	EU Cohesion Policy contributes to strengthening economic, social and territorial cohesion in the European Union. It aims to correct imbalances between countries and regions of the European Union.
Collateral	Collateral is a valuable asset that a borrower pledges as security for a loan.
De-linked risk-sharing	In case of de-linked risk-sharing, the EIB provides guarantee to an existing reference portfolio of loans, while the financial intermediary contractually commits to build up a portfolio of new, eligible loans in accordance with EIB rules and policy objectives. The new portfolio is not guaranteed by the EIB. The de-linked structure reduces the financial intermediary's exposure and capital consumption on the reference portfolio, thus creating new credit capacity to be deployed to support the origination of the new, eligible portfolio.
Final beneficiary	In the context of this evaluation, the final beneficiaries are the SMEs and mid-cap companies that receive loans either as a result of intermediated lending instruments or through direct lending.
(Intermediated) Lending instruments	In the case of intermediated lending instruments, the EIB Group provides loans to financial intermediaries that themselves on-lend to eligible final beneficiaries (e.g. SMEs). Under this setup, credit risk stemming from the exposure to the underlying final beneficiaries remain with financial intermediaries, which can be mitigated through collateral or, in some cases, state guarantees.
Linked risk sharing	In case of linked risk sharing the EIB provides guarantee on a portfolio of new operations to be originated by a partner financial intermediary during a pre-determined allocation period, in accordance with EIB rules and policy objectives. Linked risk sharing can be done under partial delegation, where the EIB retains the right to approve/reject any individual operation, or under full delegation, where the EIB delegates to the financial intermediary the selection of the underlying exposures based on pre-defined criteria.
Guarantee instruments	In case of guarantees, parts of the credit risk associated with an – existing or to-be-built – portfolio of sub-loans is transferred to EIB Group, which then partially covers potential subsequent losses.
InnovFin	InnovFin – EU Finance for Innovators - was an initiative launched by the European Investment Bank Group (EIB and EIF) in cooperation with the European Commission under Horizon 2020, the EU Research and Innovation programme for the budgetary period 2014-2020. From 2014 until 2022, InnovFin aimed to facilitate and accelerate access to finance for innovative businesses and entities in Europe.
InvestEU	InvestEU is the long-term financing programme of the European Union launched in 2021, which builds on the success of predecessor instruments such as EFSI, InnovFin and the Connecting Europe Facility. Investments under the InvestEU programme focus on four

policy areas: sustainable infrastructure; research, innovation and digitisation; small and medium-sized businesses; and social investment and skills.

Junior, mezzanine and senior tranches Tranches are related securities offered as part of the same securitisation transaction. Each tranche represents a different slice of the underlying portfolio's credit risk. A junior tranche is an unsecured security that ranks lower in repayment priority than other debts in the event of default. Mezzanine tranches rank in the middle of the repayment priority. Senior tranches have the highest repayment priority. Senior rated tranches generally have higher credit ratings and reward investors with lower yields than the lower tranches.

Mandate In addition to their own capital base, the EIB and EIF manages and advises a number of external financial resource agreements with various stakeholders. These allow the EIB Group to further extend its business activities. Mandates are provided by the European Union, EU Member States, regions, NPBIs and private sector entities.

Microfinance Microfinance is a financial service provided to low-income individuals or groups who otherwise would have no other access to financial services. Microfinance allows people to take on reasonable small business loans safely, in a manner that is consistent with ethical lending practices.

Mid-cap enterprises Enterprises that employ between 250 and 3 000 people. They are not micro, small or medium-sized enterprises as defined in the Commission Recommendation 2003/361/EC. Criteria relating to balance sheet total or turnover are not relevant in the context of this mid-cap definition.

Private debt Private debt refers to loans to companies which are not provided by banks or public markets, and instead are provided by private investors and markets

Public policy goal The EIB public policy goals (PPGs) ensure alignment of its activities with the European Union's priorities. All of the projects the EIB finances are expected to contribute to one or more of its four primary public policy goals: 1. sustainable cities and regions; 2. sustainable energy and natural resources; 3. innovation, digital and human capital; and 4. SMEs and mid-cap finance.

Small and medium-sized enterprises As per Commission Recommendation 2003/361/EC, businesses that employ fewer than 250 persons and have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million.

Synthetic vs true sale securitisation Securitisation is the process in which certain types of assets – for example financial intermediaries' SME loan portfolios - are pooled so that they can be repackaged into interest-bearing securities. True sale securitisations are generally structured around an entity (SPV) that is specifically set up with the role of acquiring a portfolio of assets and obtaining financing for such acquisition. The aim of the transaction is usually to legally separate the assets to be securitised from the other assets and business undertakings of the originator. Synthetic securitisations are those transactions that reference the performance of an assets' portfolio through credit default swaps, guarantees or similar instruments and do not involve an asset transfer.

Wholesale funding Wholesale funding refers to financing sources that financial institutions use in addition to core retail deposits. It includes deposits and other liabilities from institutions such as commercial banks, pension funds, money market mutual funds, national promotional banks, central banks, among others.

EXECUTIVE SUMMARY

About this evaluation

Enhancing access to finance for SMEs and mid-caps is a core activity of the European Investment Bank Group (EIB Group). Small and medium-sized enterprises (SMEs) and mid-caps are major drivers of output and employment in the European Union. Among the EIB Group's public policy goals, support for SME and mid-cap financing has been the largest in activity volume until recent years.

In the EU, the EIB Group works primarily with financial institutions as intermediaries to offer loan-type support to SMEs and mid-caps. In the highly cyclical economic environment of the past 15 years, the EIB Group has expanded its activities for SMEs and mid-caps and has diversified its product mix. A wide range of debt products are offered respectively by the European Investment Bank (EIB) and the European Investment Fund (EIF). The EIF chiefly provides guarantee products while the EIB has traditionally – but not exclusively – been oriented towards intermediated lending.[1] In addition to its lending products, the EIB is active in offering risk-sharing products and ABS subscriptions.

This evaluation analyses the relevance, effectiveness, impact, and financial performance of the EIB Group support for EU-based SMEs and mid-caps through debt products. This analysis covers the period 2010 to 2023 and complements EV's 2023 evaluation of the Group's equity and quasi-equity support for EU-based SMEs and mid-caps. The evaluation builds on desk research, literature and portfolio reviews, financial analysis, interviews, case studies and deep dives into selected operations. The evaluation also builds on two research papers analysing the SME financing gaps and lending constraints faced by financial intermediaries in the European Union.

Key findings

A more granular response to a diverse array of market constraints

1: Over the last 15 years, the Group has diversified its response to the constraints faced by SMEs and mid-caps in accessing suitable finance. SMEs' and mid-caps' ability to access debt financing on suitable terms is heterogenous across the European Union and varies over time along the business cycle. The constraints faced by firms are partly due to those constraints faced by the financial sector itself, namely access to funding at a reasonable cost, risk-taking capacity or credit concentration. Through its products, the EIB Group helps financial intermediaries alleviate these constraints. The EIB Group's product palette has diversified as a response to market development, in four notable directions:

- From generic support — serving SMEs and mid-caps across the board — to thematic support geared towards specific policy objectives, in line with evolving EU and EIB Group policy priorities.
- From working with large banks to also engaging — albeit to a limited extent — with alternative intermediaries as a way to support a more robust, diverse and competitive financial sector.
- From offering mainly intermediated lending products, to also addressing the risk-taking capacity and need for credit risk diversification of intermediaries, through guarantees and risk-sharing products.
- In the case of EIB risk-sharing products and ABS subscriptions, from mobilising predominantly external risk-sharing mandates to increasingly mobilising own resources.

[1] The EIF also offers equity support to SMEs and mid-caps through investment funds. This activity has been covered by a previous evaluation (EIB Evaluation Division, 2023).

2: In line with EU needs and policy objectives, the EIB Group has shifted its SME and mid-cap support rapidly and sizably towards specific thematic areas, including climate action — but it still provides few incentives for financial intermediaries to expand their portfolios in these areas, or for final beneficiaries to invest in them. Alongside the general SME financing gap, thematic gaps exist in specific investment areas with large positive externalities, such as climate, innovation, and women's economic empowerment. For the EIF, thematic support is governed by the orientation of mandates.[2] The EIB and the EIF have reflected changes in the EU policy environment by scaling up thematic support within their operations portfolio; this increase has significantly accelerated in the most recent years. Tools supporting thematic initiatives — such as the Green Gateway — have been useful in directing the attention of intermediaries to specific policy areas. Yet the overall results expected from thematic support towards SMEs and mid-caps are often not explicit. For instance, it is not clear whether classifying already eligible operations under a specific theme is a sufficient objective in itself. For private intermediaries, a stronger policy focus implies narrower eligibility and additional reporting obligations, thus the EIB Group is expected to provide them with adequate incentives to engage in thematic support while maintaining product marketability. So far, the Group has provided little incentive for intermediaries to actively seek thematic investments, usually non-financial incentives such as advice. In addition, the financial advantage offered to final beneficiaries is generally not sufficient to motivate them to shift their investments towards these thematic areas — for instance towards a greener, but more expensive technology. Shifting towards instruments with stronger incentive components would have resulted in higher additionality and impact, but at the same time, deploying such instruments is significantly more costly and resource intensive. There are positive examples of incentive mechanisms, such as blending with advisory or grant elements provided by mandators, or products with a pricing linked to specific targets; yet they are used infrequently, and only for a small share of the operations.

3: The EIB Group has aimed to increase its support for alternative finance providers — leasing, private debt funds, microfinance institutions, fintech companies, etc. — yet these initiatives have yielded only partial results so far, especially on the EIB side. Through its private debt, guarantee and microfinance operations, the EIF makes the largest contribution to the EIB Group's support to alternative financial intermediaries. For the EIB, despite targeted initiatives, the share of alternative financial service providers in the portfolio has been relatively stable since 2010. Its portfolio remains dominated by large international and national banking groups and public financial institutions (such as national promotional banks or public credit guarantee institutions). At the same time, the Group has diversified its activities with larger banking groups, helping them enhance product sophistication, thematic support and geographical coverage.

Generic objectives, with insufficient focus on firms' needs

4: The expected results for SME and mid-cap are often unclear, which leaves room for diverging interpretations of objectives and targets. This is primarily due to the absence of an up-to-date overall strategy for debt support to SMEs and mid-caps. The Group SME strategy has not been updated since 2011, yet significant changes have occurred in the market context, the needs and constraints of intermediaries, the EU priorities for SMEs and the EIB Group's product palette.[3] At a strategic level, the Bank's narrative defines which constraints faced by the financial sector it intends to address, but remains unclear on which types of constraints faced by SMEs and mid-caps are the most critical for the Group to address. This lack of clarity leads for example, to differing views among the interviewed EIB Group staff members on whether providing financing for SMEs at a lower cost is a sufficient objective in itself, and on whether diversifying the financing options available to SMEs is an objective of the Group. This unclear direction also trickles down to the level of ex-post measurement, which usually relies on indicators based on signature volume, with only limited insights into the overall effectiveness at the SME and mid-cap levels. Addressing the most relevant constraints faced by these firms, supporting those most in need, and promoting increased investment in thematic areas will remain difficult for as long as the EIB Group still lacks up-to-date strategic directions to guide its operations.

[2] Since 2020 through the deployment of InvestEU, EIF operations have been shifting towards a wider palette of thematic objectives, including a shift towards climate action.

[3] The 2011 Group-level SME strategy covered both debt and equity instruments. Since then, a new Group equity strategy was endorsed by the Board in 2020. The strategy for debt operations has not been updated since 2011.

5: The overwhelming majority of EIB Group support currently serves all SMEs and mid-caps, not targeting those facing the widest gaps in accessing finance: younger, smaller, or innovative firms or those with less collateral. Some EIF mandates target or have targeted underserved segments (e.g. microfinance activities, InnovFin, dedicated windows of InvestEU), or offered higher risk coverage. For the EIB, the Additionality and Results Framework (AIM) framework signals the importance of supporting vulnerable firms, but the public policy goal associated to SME and mid-cap finance gives no particular direction on the means and the extent the activity should be directed to those underserved firms, and how. In the absence of such direction, it cannot be determined whether the relatively limited focus of operations towards more vulnerable SMEs is a satisfactory outcome or not.[4]

6. Along with SMEs, mid-caps are also targeted by the Group's debt support products, but their specific financing needs are largely undocumented. Mid-caps are a major driving force of the EU economy, yet little evidence exists on the specific debt financing constraints they are facing, and how much these constraints differ from those faced by SMEs. Furthermore, mid-caps are heterogenous in size (250 to 3,000 employees), geography, innovation capacity and growth potential. While some products focus mainly or increasingly on mid-caps (such as the EIB's direct loans to mid-caps, the EIB linked risk sharing instrument, or the EIF's InnovFin guarantees), the current EIB Group product palette does not cater to their heterogeneous needs.

7: During the period under review, the bulk of the EIB Group's support to SMEs and mid-caps has focused on reducing their borrowing costs — yet SMEs report that their main financing constraints during the period were not borrowing costs, but quantitative rationing. During the period under review, surveys indicate that the constraint of quantitative rationing (whether in the form of firms being discouraged from submitting loan applications, rejected, or granted smaller loans than requested) has consistently been more relevant for SMEs in the European Union than high borrowing cost. The EIF offers credit guarantees and the EIB risk-sharing products, which have the capacity to mitigate quantitative rationing. Yet the largest share of activities is done through EIB lending products, whose main effect is to reduce the financing cost to final beneficiaries, and in some cases, lengthening the available maturity. Under specific conditions, EIB lending products may also have effects beyond pricing, but these were limited during the period under review.

Effective deployment, albeit with occasional delays and cancellations

8: Following delays that sometimes occurred in the adjustment of its product palette to the evolving constraints of financial intermediaries, the Group has already taken several measures to improve its responsiveness and flexibility. During the global financial crisis, EIB Group shareholders requested that it substantially increases support for SMEs and mid-caps. At a time when many intermediaries faced funding and liquidity constraints, the EIB progressively scaled up lending products, an increase supported by additional capital in particular. During the following recovery period—characterised by large-scale unconventional monetary easing— the competitiveness of EIB lending products was progressively eroded. At the same time, alternative products to support SMEs took time to deploy (risk-sharing and guarantee products offered through the European Fund for Strategic Investments — EFSI). As a response to the COVID-19 outbreak, the Group set up a multi-faceted response, including the adoption of temporary amendments to its procedures and the setup of a targeted large initiative, the European Guarantee Fund (EGF). The EGF was set up significantly faster than for past EIB Group mandates. However, delays in its operational launch — for reasons outside the EIB Group's control — limited its relevance as an emergency response to the liquidity crisis. The Group has recently taken action to increase its capacity to meet the demand for guarantee and risk-sharing products in a more timely manner, for example by increasing the deployment of risk-sharing products from own resources, striving for faster, more streamlined and more efficient processes, and defining an approach to respond to crisis situations faster. Yet in the future, these measures may not be sufficient for the Group to address potential shifts in intermediaries' needs of the same scale as those experienced in the past, due to prevailing limits on risk-taking capacity and the statutory limit linked to the gearing ratio.

[4] Besides debt products, the EIB Group also offers equity and quasi-equity instruments, which typically target young fast-growing innovative SMEs and mid-caps. These instruments are not in the scope of this report and have been covered by a previous evaluation (EIB Evaluation Division, 2023).

9: Geographically, the EIB Group's SME and mid-cap support is broadly aligns with the varying needs across the EU countries and regions. Financing gaps for SMEs are geographically heterogeneous. In general, SMEs and mid-caps in regions with lower GDP per capita, weaker financial systems and higher exposure to economic and financial crises tend to face more difficult access to bank finance. Overall, EIB Group support targets Member States with high financing needs. The regional mandates of the EIF have a strong positive effect in channelling support towards certain Member States. Looking at regions within Member States, about 30% to 55% of EIB Group support is targeting SMEs in cohesion regions.

10: Most EIB Group products have a good level of utilisation by financial intermediaries, yet certain products have only been partially deployed mainly due to cancellations or a short allocation period. While approximately 80% of signatures of the EIB Group's flagship products — EIB lending and EIF guarantees — were used to generate SME and mid-cap loans, it was lower for some other products. The use of EIB risk sharing products has been low due to cancellations stemming from the product complexity and the applicable risk criteria. In addition, products under the EGF mandate show low use overall due mainly to short allocation periods. A consequence of the lower deployment of these products is an achieved leverage falling below expectations.

11. Except for risk sharing instruments, intermediated products deployed by the EIB[5] have been profitable, with Asset Backed Securities (ABS) mezzanine non-investment grade yielding the highest nominal return. Per euro of capital consumed, among intermediated products, covered bonds have the highest risk adjusted return, followed by MBILs, while ABS mezzanine non-investment grade tranches stand the lowest given their punitive capital charge. Direct loans to mid-cap, although profitable, have a lower nominal and risk adjusted return than loans to corporates, owing to their smaller average size. The non-profitability of risk sharing instruments is driven mainly by the high share of operations that generated no or low revenues, due to slow ramp up of underlying assets and/or cancellations after signature.

Partial information on results achieved for SMEs and mid-caps

12. The available data on the financing offered to final beneficiaries suggest that the interest rate advantage and long maturity are effectively being transferred to SMEs and mid-caps. Allocation data reveal that the majority of EIB Group support — measured in number of allocations to final beneficiaries — is channelled towards micro and small firms. The most frequently reported type of financial advantage is a reduction of interest, typically between 20 to 40 basis points. The advantage in loan pricing has fluctuated with the economic cycle. Comparing the maturity of the loans signed with intermediaries with those subsequently offered to their SME clients also reveals that the extended duration is effectively passed to the SME level. Yet this does not necessarily indicate that the financial intermediaries offer longer maturities to clients than they would have done otherwise.

13. The EIB Group currently does not collect as much information as it could on the customer experience of SME and mid-cap beneficiaries, nor does it make full use of the information being collected — two missed opportunities to better understand outcomes and adapt products to beneficiary needs. Both the EIB and the EIF collect extensive firm-level data on allocations, and apply contractual clauses and verification procedures to ensure that part of the financial advantage received by the financial intermediaries is transferred to the final beneficiaries. These include contractual eligibility clauses, communication obligations, screening and verification of allocation lists. Furthermore, the EIB Group collects annual information on the general state of the SME and mid-cap financing market and overall funding constraints. Nevertheless, the expected results at the final beneficiary level (beyond interest and maturity conditions offered through EIB lending products) are often undocumented. As a result, the EIB Group knows little about the actual customer experience of its final beneficiaries. Existing allocation data is not systematically exploited, and beneficiary SMEs are not covered by qualitative surveys. Both the EIB and the EIF have published counterfactual analyses on the impact of lending and guarantees on the performance of beneficiary SMEs — but the interpretation of findings is subject to limitations.

[5] The profitability analysis does not cover EIF operations and those under the EGF, for which no detailed data is available on costs and revenues at operation level.

Recommendations

The EIB Group should:

1. **Define an up-to-date strategy for its SME and mid-cap support:** specify the Group's respective intended results for financial intermediaries and final beneficiaries (including for mid-caps); define how to adapt to changes in market conditions (including in terms of thematic ambitions and product mix); clarify the objective for underserved segments; and specify the Group approach towards mandators in that field.

2. **Strengthen the effectiveness of its thematic support:** accelerate the exploration of the incentives it may provide for intermediaries to actively seek for new opportunities in thematic areas — such as climate action — and for final beneficiaries to invest in these areas, including through financial incentives and blending with advisory and grant elements.

3. **Stand ready to adapt to the needs of financial intermediaries:** analyse the conditions under which guarantee and risk-sharing products targeting SMEs and mid-caps can be scaled up as needs evolve.

4. **Strengthen its focus on final beneficiaries:** develop tools and guidance to improve the analysis of final beneficiaries' needs and customer experience and to adjust the offering and procedures accordingly.

RECOMMENDATIONS AND MANAGEMENT RESPONSE

The Management Committee (MC) and the EIF Chief Executive recognize EIB Group ("EIBG") efforts undertaken during the period under observation by the Evaluation ("EV") Study (2012-2023) to support the EIBG SME & Mid-Cap Finance Public Policy Goal (PPG). As documented in the EV Study, EIBG has done so by adjusting its strategies to tackle the diverse challenges encountered by SMEs and Mid-Caps in accessing suitable financing.

The MC and the EIF Chief Executive also acknowledge the areas of improvement identified by the Study to further increase the impact of EIBG support to the PPG SME & Mid-Cap Finance and fully agree with the overarching EV finding that the EIBG SME/Mid- Cap Strategy (last reviewed in 2012), needs to be further revisited to better reflect changing market needs and the Bank's current operating environment. The recommendations of the EV Study will be duly taken into account in the update.

Table 1: Recommendations and management response

Recommendation 1
Define a strategy for SME and mid-cap support

The EIB Group should:

> **Specify the Group's respective intended results for financial intermediaries and final beneficiaries (including for mid-caps); define how to adapt to changes in market conditions (including in terms of thematic ambitions and product mix); clarify the objective for underserved segments; and specify the Group approach towards mandators in that field.**

The overall Group SME strategy has not been updated for debt instruments since 2011, yet significant changes have occurred in the market context, the needs and constraints of intermediaries, the EU priorities for SMEs and the EIB Group's product palette. At a strategic level, the Group's narrative elaborates on which constraints faced by the financial sector it intends to address but remains unclear on which types of constraints faced by SMEs and mid-caps are the most critical for the Group to address. This lack of direction leads to:

- Diverging interpretations regarding the objectives of support for SMEs and mid-caps across different services.
- Unclear or varying formulation of the intended goals of products and operations towards final beneficiaries, often with a focus on the needs of financial intermediaries, rather than those of final beneficiaries.
- As a consequence, lack of focus on results in ex-post measurement, which usually relies on signature-based and/or leverage indicators, with only limited insights into the overall effectiveness and impact of SME support.

An up-to-date EIB Group strategy should take stock of changes in the market environment, the EU policy objectives (e.g. European Green Deal, Capital Market Union) and the EIB Group's toolkit for financing SMEs and mid-caps. It should clarify the following aspects, among others:

- the expected effects of SME and mid-cap support on those final beneficiaries — increased lending, expanded support for underserved segments, reduced borrowing costs;
- the specific financial needs of mid-caps and their implications for the type of support provided;
- the implications of supporting SMEs and mid-caps generally versus supporting underserved segments;

- the implications of the EIB Group intervening in a countercyclical or structural context;
- conditions for providing working capital support to SMEs, including for their digitalisation[6] and in times of need;
- the implications of price competitiveness on the EIB Group's ability to set more ambitious objectives in thematic areas;
- the specific objectives of thematic operations versus generic operations, from a viewpoint of both financial intermediaries and final beneficiaries;
- the alignment between the Group's objectives and the objectives of external mandates.

While the updated strategy will provide guidelines for product design, implementation and monitoring, it will also establish a basis for assessing results.

Management Response: Agreed

In the development of its annual operational business strategies, new initiatives, products and mandates, EIB and EIF have continuously reflected relevant market developments, policy priorities and (in the case of mandates) relevant ex-ante impact assessments. The creation of the Financial Institutions Department (FID) has further enhanced the effectiveness of response to policy priorities and intermediary demand. At portfolio level, FID already identifies particular demands and opportunities in specific thematic areas and explores suitable and scalable products and initiatives for their cover. In addition, the geographic teams adapt EIB's operational response to market- specific dynamics and for each individual operation, under the AIM framework, an additionality narrative is developed, underpinned by relevant market gaps. Under the InvestEU mandate, EIF has strengthened its thematic response in relation to Sustainability, Innovation and Digitalisation, Cultural and Creative Sectors, Microfinance, Social Entrepreneurship, Skills & Education.

EIB and EIF management agree that the current SME strategy, last updated in 2011, no longer reflects this evolution and therefore requires revision to reflect the significant shifts in the market context (including regulatory aspects and the new geopolitical dimensions), the evolving needs and constraints of financial intermediaries, the priorities of the EU for SMEs and the evolution of EIBG's product range. The Management Committee and the EIF Chief Executive therefore acknowledge the importance of an updated EIBG SME and Mid-Cap strategy identifying final beneficiary needs and disincentives, financing objectives, intended results and channels for their achievement (counterparts, products, markets), based on impact assessment of the SMEs eligibility and reporting requirements on the performance, reflecting various developments over the past decade, in current policy priorities, market realities, regulatory environment, EIB Group product offer and the strategic coordination between EIB and EIF towards the same client group (i.e. financial intermediaries) through which SMEs and Mid-caps as well as thematic objectives are achieved.

The EIB Group is already contributing to the Capital Markets Union (CMU) agenda through the provision of financing and advisory support to accelerate investments in key policy areas and market segments, fostering a more efficient risk allocation and crowding-in private sector investors. In particular, in relation to intermediated SME finance, the EIB Group is offering different products under a single European signature (notably, equity, risk sharing and securitisations) that contribute to the objectives of the CMU. These will be further reviewed as part of the current CMU agenda.

[6] In its replies to the 2017 report of the European Court of Auditors "EU-funded loan guarantee instruments: positive results but better targeting of beneficiaries and coordination with national schemes needed", the European Commission noted: "*In today's economy financing products depend very much on the industry in which the SME is operating. If an SME is active in the services sector [it needs] access to working capital facilities for e.g. training of personnel and skills development. They may need sophisticated IT systems, websites and website management, cloud services etc. But these types of services can either be leased or will appear purely as cost in the profit and loss statement. However, traditional short-term working capital facilities granted on a revolving basis for several months are of little help to SMEs as they need a longer planning horizon*."

Securitisations plays an important role within EIBG to finance SMEs&Midcaps and other PPGs as the nature of the instrument allows to effectively address targeted policy objectives. EIBG has been active in the securitisation market for over two decades. Counting more than 200 transactions spread across 18 countries over the last 10 years, securitisation as a tool for funding and efficient capital management is well established. EIBG started to increase its activity and impact in this market under the EFSI (European Fund for Strategic Investments) mandate as it allowed to increase EIBG's risk taking capacity. EFSI enhanced its capacity to support the development of the market through guarantees at a mezzanine level and at a greater scale.

Securitisation within EIBG has evolved considerably since the current SME strategy was adopted. An increasing number of transactions are structured as joint EIBG operations and where EIB risk-taking is considerable but where structuring benefits from EIF's pool of securitisation expertise within EIBG through robust yet flexible infrastructure of tools & models, experts, methodologies, and procedures developed by EIF over time.

EIB has also, since the current SME strategy, evolved its support to MidCaps as response to financing gap analyses and the heightened challenges from CoVid and the Ukranian war. A new product (Linked Risk Sharing) was developed to effectively reach out to the smaller MidCap segment in an effective and scalable manner.

The EIB Group Services will develop an updated EIB Group strategy taking EV's recommendations into account, as appropriate and covering the following aspects:

- an aligned interpretation among services regarding the objectives of SME and mid-caps financing;
- demonstration and documentation of the intended impact targeted by different products;
- uniform application of sector and sub-project related criteria to FIs (e.g. group standards for CA&ES support to SMEs).

Recommendation 2
Strengthen the effectiveness of thematic support

The EIB Group should:

> **Accelerate the exploration of the incentives it may provide for intermediaries to actively seek for new opportunities in thematic areas — such as climate action — and for final beneficiaries to invest in these areas, including through financial incentives and blending with advisory and grant elements.**

The EIB Group's thematic products are useful in supporting market dialogue on selected policy areas, and they draw the attention of financial intermediaries to themes in the policy spotlight: for example climate change, innovation and gender equality. From the viewpoint of private intermediaries, a stronger policy focus implies constraints in eligibility and reporting obligations, and so the EIB Group is expected to provide adequate incentives for private intermediaries to engage in thematic support all while maintaining product marketability.

The evaluation found that thematic intermediated products currently provide limited incentive for intermediaries to actively seek new thematic investments, or for final beneficiaries to shift their investments towards the intended thematic objectives.

The EIB Group should explore ways to strengthen these incentives:

- by tapping into existing internal knowledge and experience (e.g. the example of EERE Malta, lessons from products with pricing linked to specific targets),
- by considering successful examples from peer institutions, and

- by fostering the blending thematic products with advisory activity and grant elements.

Thematic objectives should also take the competitiveness of the EIB Group's offering into account. In a context of more favourable pricing advantage, there could be more room to ask for more efforts on the existing thematic objectives without compromising on the marketability of products. In the case of the EIF, alignment with mandate objectives must also be taken into account.

Management Response: Agreed

The Management Committee and the EIF Chief Executive acknowledge the importance of incentives for financial intermediaries to expand their portfolios in thematic areas, particularly in climate action. This aligns with EIBG's commitment to supporting key policy areas such as climate change, innovation, and gender equality.

In the past, the Bank has already set up incentives for financial intermediaries in certain thematic areas such as "Jobs for Youth" initiative, the Green Gateway Programme to promote green lending or higher guarantee rates for investments in energy efficiency in linked risk sharing products. EIB typically includes some type of financial advantage in most of its products and in the case of the EIF, it already provides incentives, for example, all thematic products under InvestEU offer a higher risk coverage).

Since its creation at the beginning of 2022, the Financial Institutions Department (FID) has also intensified its efforts to integrate more thematic impact in the context of an active strategic relationship management with its banking group clients, through segment-focused loans and selection of financial intermediaries ("FIs") active in certain areas (such as agriculture, innovation, health and education and the social economy).

EIB carries out its securitization activities with its own resources in collaboration with the EIF under the SLA. The coupon or guarantee fee is in line with the market (with the purpose of not distorting the market dynamics to other investors), as well as the securitisation documentation, which must conform with market standards. However, on a bilateral basis, EIB signs an agreement whereby a financial advantage can be offered to the financial intermediary if it delivers new lending to a specific policy area and set of final beneficiaries. This modus operandi allows EIB to support to the CMU through securitisation while crowding in private capital, and offering an incentive to the FI to target specific policy objectives.

It has to be noted that the increase of eligibility requirements and controls and enhanced reporting obligations which require a significant internal development effort by the intermediaries, have to be balanced against the financial advantages provided.

As EIF carries out its securitization activities via joint EIBG operations and, to a certain extent, on a standalone basis. It does so with its own resources and as such it structures and prices the transactions in line with the ABS market. Therefore, no price incentives/subsidies are attached to any of EIF's securitization investments. Nevertheless, thanks to the application of the use of proceeds approach, it manages to secure strong commitments in support of relevant policy areas for the new additional lending by the originators (e.g. 38.3% of CAES achieved in 2023 overall and 20% of EIF commitments in a specific transaction was allocated to gender balance / female entrepreneurship). EIF participation is also key to provide liquidity to the market and complements EIB's participation in the same securitisation structures, thus jointly achieving intra-group synergies.

To be noted that thematic objectives through intermediated finance are often made under policy objectives other than the SME PPG (e.g. Sustainable cities and regions, innovation, education, health and foremostly energy efficiency/renewable energy).

Currently, new operations inside the EU under the SME PPG are prioritised according to the type of impact that the FI is expected to achieve and readiness to deliver (through expected allocations), taking into account the balance of priority objectives as per the Bank's operational plan. Applying a strategic global relationship management approach and within FID's overall business plan development, priority is given to FIs and/or MBILs targeting thematic areas and operations that benefit more final beneficiaries. Given FID's overall volume and capital constraint (i.e. COP target for PPG SME and standard operations and capital available for Special Activities) relative to demand for EIB intermediated finance and guarantees, such prioritization represents an effective filtering mechanism and incentive for FIs to promote operations that have a higher value added and impact from EIB's perspective.

The main obstacles to introducing price incentives through blending are threefold: (i) availability of grant elements (the above-mentioned EERE Malta operation was priced at 0% by using European Regional Development Funds from the Republic of Malta), (ii) EU competition rules (in practice, EIB cannot blend interest rates for private sector banks based on its priority setting, unless the FIs are selected based on an open tender and no EU market distortion takes place), (iii) the grant management makes the operation more complex, requires more resources and has a negative impact on cost coverage. In addition, the potential price differentiation may not be sufficient, considering EIB's pricing policy and competitiveness to offer meaningful price incentives to financial intermediaries. Generally, it can be observed that financial intermediaries tend to have their own strong interest in promoting certain thematic areas (especially climate but also other thematic areas or sectors), reflecting their corporate priorities and sustainability strategies. Services will therefore continue to identify areas of strong mutual interest with financial intermediaries to further promote thematic finance.

On the EIF side, with the launch of InvestEU, EIF's guarantee products are thematically focused in several areas such as: Sustainability, Innovation and Digitalisation, Cultural and Creative Sectors, Microfinance, Social Entrepreneurship, Skills & Education. All thematic products under InvestEU offer a higher risk coverage (70%-80% guarantee rate) compared to 50% for more generalist interventions. With the exception of the Sustainability Guarantee, these thematic products are a continuation from the previous programming period and were well received and deployed by EIF's financial intermediary base. The Sustainability Guarantee under InvestEU was launched in 2022 and is EIF's first pan-EU guarantee dedicated to support the green and sustainable transition of SMEs and Small Mid-Caps and to a lesser extent individuals and housing associations.

The Sustainability Guarantee is the largest portfolio guarantee product under InvestEU by resources allocated and has also proven particularly interesting to Member States, who topped-up additional resources for deployment.

The product is accompanied by technical advisory to help the market uptake. EIF in collaboration with EIB Advisory services launched a web-based tool for financial intermediaries to assist them on both eligibility assessment and impact reporting requirements. Other targeted advisory initiatives to support deployment are in development e.g. webinars, helpdesk to assist financial intermediaries on eligibility questions and e-learning.

The EIBG Services will continue drawing on internal knowledge and experiences, in order to further improve the demonstration of impact of SME support.

Recommendation 3
Stand ready to adapt to the needs of financial intermediaries

The EIB Group should:

> **Analyse the conditions under which guarantee and risk-sharing products targeting SMEs and mid-caps can be scaled up as needs evolve.**

While the EIB Group's SME and mid-cap financing product palette is diversified, there have sometimes been delays in adjusting of the offering to the evolving constraints of financial intermediaries. The Group has recently taken action to increase its capacity to meet the demand for guarantee and risk-sharing products in a timely manner. The creation of a Financial Institutions Department (FID) that serves as a central hub for all intermediated operations has been one important step in this area. However, in future, these measures may still be insufficient for the Group to address potential future shifts in intermediaries' needs that are of the same scale as those experienced in the past, due to prevailing limits on risk-taking capacity and the statutory limit linked to the gearing ratio.

Building on its past experiences and recently implemented measures — such as creating the ability to offer risk-capacity products using own resources and developing guidance for crisis response — the EIB Group could clarify whether further steps are needed to streamline the quick scale-up of guarantee and risk-sharing instruments when the need arises, in addition to existing initiatives.

More specifically, a review could assess:

- whether current Group financial resources, risk-taking ability and other internal capacities (human resources, information systems) are sufficient to meet needs in terms of guarantees and risk-sharing on the scale experienced in the past;
- what lessons can be learned from past experiences of scaling up risk-sharing and guarantee activities, and;
- whether the internal allocation of available risk-taking capacity across the Group's various policy objectives is flexible enough to swiftly adapt to potential changes in the market conditions of SME lending.

Management Response: Agreed

The Management Committee and the EIF Chief Executive acknowledge the importance of guarantee and securitization products in EIBG's intermediated product offer for SMEs and Midcaps and other PPGs. They therefore support the proposed review and optimization of the conditions under which guarantee and risk-sharing products targeting SMEs and Mid-caps can be scaled up as needs evolve. This is particularly pertinent now that guarantees and counter-guarantees (including under securitisations) are one of the elements furthering the objectives of the Capital Markets Union.

While the EIBG's SME and Mid-cap financing product range has become diverse, we agree that adjustments to the offer in response to evolving constraints of financial intermediaries have at times experienced delays particularly in dynamic macroeconomic environments (e.g. the development of risk sharing products that took many years to arrive at a scalable functioning product).

The EIBG has nevertheless taken some measures in this regard. At EIB level, the capacity to meet the demand for guarantee and risk-sharing products has been enhanced by converting the mandate-based guarantee products (risk sharing and ABS mezzanine) into a permanent product offer under its own resources. Both products require continuous investment in the relevant IT tools and applications for proper business steering and monitoring. On the EIF side, during the COVID crisis the institution managed to swiftly adapt the existing products to alleviate the liquidity and working capital constraints of SMEs. On the EIB side, the establishment of the FID as a central hub for all intermediated operations with private sector financial institutions has been a significant step towards improving the Bank's responsiveness and product development capacity.

However, the EIB Group is continuously investigating if and how risk sharing, other guarantees and counter-guarantees (including securitization) and capital market products can be expanded, through new product proposals, potential new financing sources/mandates of capital (for first loss cover) for SME and thematic support and reviewing relevant product and exposure limits.

In this context, the development of additional performance measurement tools are required in the FID First Line of Defence, in order to establish the profitability of EIBG products, covering both own resource and mandate-based SME support. Adequate revenue generation and cost coverage is pre-requisite for any new product development, whereas the Internal Rate of Return (IRC) should be commensurate to the capital consumption of the SME support product. The current performance measurement needs to be refined, also in order to be able to be able to identify high- impact products that fit best the group's SME strategy.

We note that these measures will need to adapt to potential shifts in intermediaries' needs over time and go along with a review of the capital treatment of the relevant instruments.

EIBG's securitisation activities are becoming increasingly important, with a view to allow financial institutions to free up capital to be made available for new debt financing. Looking forward, there is significant potential linked to the green transition and already many securitisation deals are aimed at generating new financing for energy efficiency initiatives, CO2-emissions reduction efforts, and other sustainability-related efforts supporting the twin transition. In that respect, product scalability could benefit from further diversification to private resources such as insurance/re-insurance funds to complement EIBG resources and better serve CMU objectives.

In response to the recommendation, the EIBG Services will conduct a review of experience so far and identify possible measures to better prepare the Group for similar needs in the future, ensuring a streamlined process for scaling up guarantee and risk- sharing instruments as required. It is proposed to do this in the context of the update of the SME Group strategy (see recommendation 1).

Recommendation 4
Strengthen the focus on final beneficiaries

The EIB Group should:

Develop tools and guidance to improve the analysis of final beneficiaries' needs and customer experience and to adjust the offering and procedures accordingly.

While the EIB Group has substantial information—both specific and aggregate—on financial intermediaries and their needs, comparatively less attention is paid to the needs and the customer experience of final beneficiary SMEs and mid-caps. Impacts on beneficiaries are not known except at a highly aggregated level. Little information is available on the specific types of SMEs and mid-caps reached, or on their experience as beneficiaries of EIB Group support: for example, whether constraints on access to finance were eased and whether collateral needs were reduced because of the EIB Group's support.

This issue is partly related to the lack of an explicit strategy and objectives vis a vis final beneficiaries. Data collection, analysis, and the selection of relevant metrics is dependent on the strategy and stated objectives of SME and mid-cap support. Better exploiting existing data, ensuring completeness and improving data quality would also help to formulate and inform an SME and mid-cap strategy in the first place.

There is room to confirm, complement, and further enhance the existing analyses on firm-level impact of EIB Group debt support instruments. To address these aspects, the following additional analyses could be considered:

- Qualitative survey of final beneficiaries. Survey evidence could provide an alternative source of information on impact at the level of final beneficiaries. While surveys incorporate subjective elements, they could still provide useful complementary and detailed information on the impact of EIB Group-supported debt instruments in parallel with quantitative, econometric impact studies.
- Combining EIB Group allocation data with central credit registry information. Credit registry data containing firm-level information on successful and unsuccessful loan applications would allow for tracking the credit history of EIB Group final beneficiaries, and explore the extent to which they were financially constrained before becoming beneficiaries of an EIB Group-supported debt instrument. Combining credit registry information with EIB final beneficiary data could also allow for more credible control groups for impact studies. Such information is collected by various national central

banks, and a harmonised dataset (Anacredit) has been compiled by the European Central Bank since 2014 for eurozone countries.

- Focus on the impact of thematic support when data becomes available. While some of the above-mentioned reports examined the effect of generic EIB support on the innovative capacity of firms, so far none of the impact studies have focused specifically on thematic operations. This may be due to the limitations of existing data, as thematic operations became widespread more recently. However, as data on these operations and the follow-up performance of firms become available, it would be useful for assessing the lessons learned from thematic operations to examine the impact at firm level within the thematic categories (green, gender, innovation, digitalisation etc.)

Management Response: Partially agreed

The Management Committee and the EIF Chief Executive acknowledge the importance of deepening the assessment of final beneficiaries' needs, to demonstrate the impact resulting from EIBG's intermediated finance and to ensure appropriate visibility. Continuing to build evidence on the impact of EIBG instruments is critical to ensure support is delivered effectively.

Rather than using scarce EIBG and client/beneficiary resources on fielding a new survey, more use can be made of existing surveys and data. The EIB Client Satisfaction survey is carried out every three years to assess their level of satisfaction with EIB products and services, as well as the perceived impacts of the EIB. This could include future questions for financial intermediaries in relation to final SME and mid-cap beneficiaries's perception of EIB-supported financing. Similarly, the concrete benefits achieved at beneficiary level (whether through reduced interest rate, longer tenors, less collateral or else) could be gauged through surveying intermediaries as it concerns a policy set by intermediaries.

Two additional existing datasets are used and can be further exploited to inform on the beneficiaries of EIBG support. First, EIBG annual Survey of Corporates on Investment and Investment Finance (EIBIS) gathers qualitative and quantitative information on investment activities by small and medium-sized businesses and larger corporates, their financing requirements and the investment obstacles they face. Second, SG/ECON has linked allocation data on EIB beneficiary firms to Bureau van Dijk ORBIS data covering balance sheet, employment, location, sector and other information. In addition, other information can be added from external datasets where relevant (e.g., on patents). This has allowed detailed analysis on programme beneficiaries, including on the impact of EIB support. The detail provided in these data and analysis is unique among MDBs.

The EIF's VC and PE MM surveys apply a module to analyse Fund Managers' (GPs') perception of EIF's value added. In addition, the EIF carries out a semi-annual exercise to link allocation data on EIF beneficiary firms to Bureau van Dijk ORBIS data. Additional data is integrated on an ad-hoc basis (e.g., on patents, IPOs, mergers and acquisitions) from external providers. This has allowed detailed ex-post analyses on final beneficiaries, including on the impact of EIF debt and equity support.

The suggestion on combining EIBG allocation data with central credit registry information is not viable in practice. Over the past years, SG/ECON has requested access from a number of central banks and to the ECB data. Access is provided only for the case of collaborative research projects selected by the central bank/ECB and only the small research team would get access to the data for a limited amount of time. In addition, important drawbacks exist, such as the need to sign collaboration agreements, often requiring the sharing of confidential EIB data, costs and the limited time coverage of the existing credit registry databases. External partners have also shown limited interest in such research collaborations. Therefore, for the purposes outlined in the recommendation, it would not be feasible to set a timeline as data access does not depend on the EIB and access to this data would at best be for a once-off research project and not continuous.

The EIF has recently created a dedicated team (in the newly established Strategy Department) that will - also in cooperation with related EIB services - focus on developing and implementing an EIF-wide holistic impact assessment approach.

The EIBG has a well-established approach focusing on SME and mid-cap beneficiaries. The program includes in-depth studies and market analysis, developed through rigorous statistical assessment and granular data. It covers a wide range of topics ranging from access to finance, employment, investment and productivity, to differences in impact across firm size classes and cohesion regions. Within this context, and thanks to its rich data access, SG/ECON, could consider further developing tools to extend the analysis of final beneficiaries' needs and their customer experience and to guide the adjustment of the EIB Group product offer and procedures accordingly.

1. Broaden the scope of the existing market analysis, widening the range of targeted regions, sectors, and firm types considered, to locate areas of potential intervention.
2. Focus the impact assessment on thematic support: (i) enhancing firms' productivity and competitiveness; (ii) supporting innovation; (iii) expediting convergence of cohesion regions; (iv) reducing the gender gap; and (v) facilitating the twin transition.
3. Develop an EIB financial constraint indicator to be used as an access to finance predictor for SMEs. Its construction could leverage EIBIS survey data on firms' access to finance, coupled with financial data from Orbis.

Rather than introducing additional qualitative surveys involving considerable investment of EIBG resources, it is proposed that ECON performs from time to time impact analyses in a similar manner as described earlier.

In general EIBG will, through its digital transformation ambitions, seek to improve customer journeys for key stakeholders at all levels, potentially also at the level of final beneficiaries. Over time this is likely to significantly facilitate access to data, enhance analysis of data etc.

1. INTRODUCTION

- **This evaluation analyses the EIB Group's debt support for SMEs and mid-caps inside the European Union.**
- **Debt is defined from the perspective of the final beneficiaries and encompasses all operations under which SMEs and mid-caps ultimately receive loan-type support.**

1.1 SMEs and mid-caps in the European Union

Small and medium-sized enterprises (SMEs) and mid-cap businesses are fundamental pillars of the European Union's economies, playing pivotal roles in driving economic output and employment opportunities. As of 2021, SMEs constituted 99.8% of all enterprises within the non-financial business sector in the European Union, providing employment to a substantial 83.2 million Europeans, which equates to 64.5% of the total workforce. These enterprises represent 51.8% of EU gross domestic product and exert their influence across every sector of the economy. However, despite their economic importance, these companies often encounter considerable challenges when seeking financial support.

Studies indicate that the provision of credit to SMEs falls short of the socially optimal level, and this shortfall can be attributed to various constraints or disincentives in the financial intermediation system. SMEs encounter greater hurdles when seeking funding for expansion compared to their larger counterparts. This discrepancy can be attributed to the fact that asymmetric information, adverse selection, and moral hazard tend to be more pronounced for smaller businesses (OECD, 2006).[7] Moreover, in contrast to larger corporations, SMEs typically lack access to formal capital markets as an alternative means of securing financing (McQuinn, 2019).

Box 1: EU, EIB and EIF definitions of SMEs and mid-caps

EU definition of SMEs: Businesses that employ fewer than 250 persons, and that have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million.

- **Micro-enterprises** are defined as enterprises that employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed €2 million.
- **Small enterprises** are defined as enterprises that employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed €10 million.
- **Medium-sized enterprises** are defined as enterprises that employ fewer than 250 persons and either have an annual turnover that does not exceed €50 million, or an annual balance sheet not exceeding €43 million.

Commission Recommendation 2003/361/EC

The EIF applies fully the EU definition of SMEs (considering both number of employees and turnover), while **the EIB** usually applies it partially and considers the number of employees – in line with Article 2 of the EC Recommendation on the definition of SMEs of 2003. In case of operations under certain mandates, such as the EGF, it applies the full dual EU definition.

Mid-caps are defined as enterprises that employ between 250 and 3 000 persons. They are not micro, small or medium-sized enterprises as defined in the Commission Recommendation 2003/361/EC. For the avoidance of doubt, criteria relating to balance sheet total or turnover are not relevant in the context of this definition of mid-cap.

Within mid-caps, the EIF distinguishes **small mid-caps**, which are defined as enterprises that employ between 250 and 499 persons.

[7] Adverse selection in the context of bank lending pertains to the situation where borrowers who possess undisclosed, high-risk characteristics are more likely to seek loans. This can lead to difficulties for banks in accurately assessing and pricing the risk associated with potential borrowers. Moral hazard refers to the risk that borrowers may engage in riskier behaviour once a loan is secured because they do not fully bear the consequences of their actions due to limited liability. This can create challenges for lenders in managing and mitigating the increased risk associated with borrowers' behaviour post-loan approval.

1.2 The EIB Group's support for SMEs and mid-caps

Enhancing access to finance for SMEs and mid-caps is a core activity of the EIB Group. The endeavour to facilitate SME and mid-cap financing has, for most of the period under review, ranked as the most prominent public policy goal in terms of activity volume within the EIB Group. Over the course of the past 15 years, marked by a highly cyclical economic environment, the EIB Group has increased its engagement with SMEs and mid-cap enterprises. Concurrently, the institution has broadened its range of financial products to better meet the diverse needs of these businesses.

The EIB Group builds primarily on financial institutions as intermediaries to offer loan-type support to SMEs and mid-caps. In many instances, these intermediaries are commercial banks, but the EIB Group also collaborates with a diverse array of other entities, including leasing companies, national promotional banks and institutions (NPBIs), private debt funds managed by asset managers, microfinance institutions, guarantee funds, and more. While the EIB also offers direct debt support, such as loans extended directly to mid-cap businesses, these represent only a modest portion of the total financial support in this domain (1%).[8]

Both the EIF and the EIB contribute to providing debt support for SMEs, albeit with distinct roles. Historically, the EIB has placed a primary emphasis on lending to financial intermediaries, typically in the form of intermediated loans. Meanwhile, the EIF primarily mobilises mandates to offer guarantee products that share SME credit risk between the mandator and financial institutions. It is important to note that this division of responsibilities is not rigid; over time, the EIB has expanded its support by offering guarantees, and the EIF has, on occasion, introduced lending products to its portfolio.

Box 2: Timeline

1968: SMEs eligible for EIB lending support (through global loans).

1994: EIF founded by the EIB, the European Community, through the European Commission and a number of European public and private financial institutions as a public private partnership.

1996: First securitisation transaction by the EIF.

1997: SMEs eligible for EIB equity support (through equity venture capital).

2000: EIF restructured and its shareholding structure modified. EIB became the majority shareholder. The two institutions now form the EIB Group. Since then, EIF provides portfolio guarantees to financial institutions involved in SME finance.

2001: EIB's first SME ABS subscription.

2003: Introduction of mid-cap grouped loans. EIB supports mid-caps if the company or the project also contributes to another objective of the EIB ("Mid-Cap R&D", "Mid-Cap Environment", "Mid-Cap Energy", "Mid-Cap TENs").

2005: EIB's first SME risk sharing transaction.

2007: First EIF capital increase — of 50%, to €3 billion.

2008: European Council requests EIB to substantially step up its support for SMEs.

2008: In the early days of the Global Financial Crisis, the EIB Board of Directors approves the modernised Loan for SMEs (L4SME).

2010: EIB revises its mid-cap eligibilities and waives the double eligibility criteria, meaning that mid-caps can be supported across the board.

2012: European Council agrees on €10 billion cash injection for EIB.

2014: 50% EIF capital increase and EREM to support impaired financing of European businesses.

2020: Temporary back-to-back guarantee from EIB: credit protection from EIB to cover part of EIF senior exposure on InnovFin SMEG until implementation of capital increase in 2021.

2021: EIB time bound mandate to EIF to allow it to deploy its share of EGF in full.

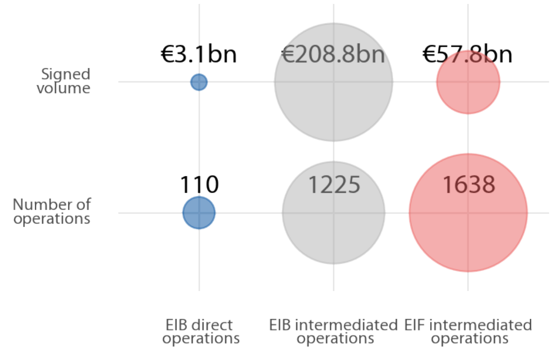
2021: EIF shareholders approve a significant increase in EIF share capital — from €4.5 billion to €7.4 billion.

[8] As a baseline, EIB intermediated products target both SMEs and mid-caps. Typically, the mid-cap portion should not exceed 30% of the total amount. EIF operations typically target SMEs and small mid-caps. However, each mandate has specific objectives that can include a narrower or broader target population. For example, the InnovFin mandate allows for support for larger mid-caps while COSME only targets SMEs (and does not cover mid-caps). With InvestEU, the EIF now includes larger mid-caps or individuals under certain financial products.

The cumulative EIB Group debt support for SMEs and mid-caps within the reference period (2010-2023) amounted to €270 billion (EIB net signatures and EIF net commitments).[9] The largest share of this total, €209 billion, can be attributed to EIB's intermediated operations, as depicted in Figure 1. About €58 billion arises from the EIF's indirect operations, while direct operations constitute only a minor fraction of the overall net volume. As shown in Figure 2, the total volume of EIB SME debt operations exhibited consistent growth in the aftermath of the global financial crisis and the European sovereign debt crisis, spanning from 2010 to 2014. Subsequently, annual signatures have somewhat decreased. Conversely, the EIF's activities were on an upward trajectory, commencing from the start of the period, albeit from a relatively modest base. A notable upswing occurred from 2015 onwards, coinciding with the introduction of the EFSI mandate, which empowered the EIF to expand its guarantee supply. EFSI also allowed the EIB Group to further develop innovative products, including its risk-sharing instrument. The substantial peak in 2021 can be attributed to the EGF mandate which was the EIB Group's main response to the economic consequences of the COVID-19 pandemic.

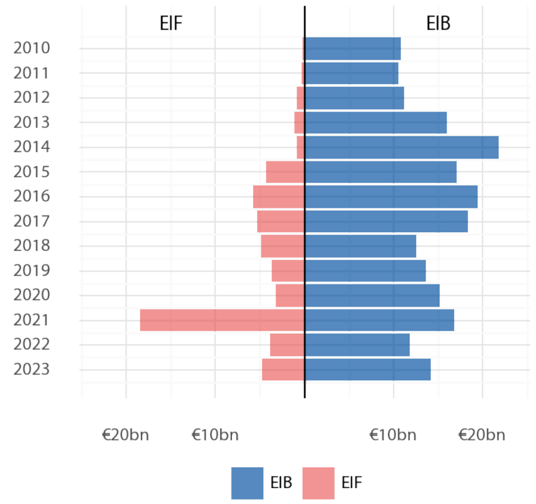
The intermediated model employed by the EIB Group for SME and mid-cap support offers several advantages from both policy and operational standpoints. The EIB Group predominantly relies on this intermediated delivery model for the following reasons:

Figure 1: Signed volume and number of EIB Group SME and mid-cap debt operations (2010-2023)



Source: EIB and EIF

Figure 2: Net signed volume of EIB Group SME and mid-cap debt operations over time



Source: EIB and EIF

- **Incentives and banking expertise:** Intermediaries, which are primarily private sector entities specialising in SME lending, are responsible for conducting due diligence and selecting projects. They have a strong motivation to identify viable clients and contribute with their expertise in project valuation and risk assessment.
- **Local know-how and proximity to borrowers:** Intermediaries bring a crucial local perspective to the table. They know the intricacies of local markets and regulations, and often maintain long-standing banking relationships with borrowers. This local knowledge and proximity enhance the effectiveness of the lending process.
- **Cost efficiency:** Local intermediaries already have established branch networks and staff, which are essential for serving the vast number of SMEs across the European Union. For international financial institutions like the EIB Group, this level of infrastructure and service provision would be economically inefficient to replicate.

The EIB Group's interventions through intermediaries fall into two main categories, each with different effects on the intermediary itself: lending and guarantees.

[9] For the EIB, we used net signed amounts (total signature net of cancellation) as a measure of volume. For the EIF, we used net commitments (share of signatures deployed with intermediaries).

- **Lending:** In lending-type operations, the EIB Group extends loans to financial intermediaries, which, in turn, on-lend these funds to eligible SMEs and mid-caps. Under this arrangement, the credit risk related to the underlying SMEs and mid-caps remains with the financial intermediaries. The EIB's risk exposure is primarily to the financial intermediary, although it can be partially mitigated through collateral or, in some cases, state guarantees. For the intermediary, the EIB loan is essentially viewed as wholesale funding. On the other hand, by using a securitisation, the EIB Group is not exposed to the financial intermediary but rather to the pool of securitised loans.
- **Guarantees:** With guarantee instruments, portions of the credit risk linked to an (existing or to-be-built) portfolio are transferred to the EIB Group or its mandator, which then assumes partial responsibility for potential future losses.

Intermediated products that support SMEs and mid-caps can include either or both of lending and guarantee elements. Within these overarching categories, there is a range of products offered by the EIB Group. Some exclusively provide lending, while others focus solely on guarantees and risk transfer. Certain products integrate both elements. The evaluation team classified the various types of support offered by the Group.[10] The primary product categories for intermediated SME and mid-cap support, as used for the evaluation, are as follows (see also Figure 3):

- **EIB lending products:** These products involve extending loans to financial intermediaries with the requirement that they generate a new portfolio of loans to SMEs and mid-caps. Some of the favourable lending conditions received by intermediaries for these loans are to be passed on to the SMEs. The credit risk associated with the final beneficiaries themselves remains with the financial intermediaries. The EIB's risk exposure is primarily to the financial intermediary, which can be partially mitigated through collateral or, in certain cases, state guarantees. This lending can also be executed through what are referred to as *loan substitutes*, wherein the EIB subscribes to a covered bond, or a low-risk (senior/investment grade) ABS tranche issued by the financial intermediary instead of making a straightforward transfer of funds. Within the EIB Group's product catalogue, lending products encompass most of the EIB's *multiple beneficiary intermediated loans* (MBILs) such *as Loans for SMEs, Mid-Caps & other priorities*, including covered bonds and subscription to senior ABS tranches, and also *Framework Loans*.
- **EIB ABS subscription:** These products offer elements of both lending and guarantees. The EIB participates by subscribing specifically to a riskier — mezzanine/non-investment grade — ABS tranche issued by the financial intermediary, or otherwise providing credit protection on a higher-risk loan portfolio in case of synthetic transactions. The EIB is exposed to a pool of securitised loans. The transaction can provide capital relief to financial intermediaries, allowing them to originate new eligible loan portfolios. In some cases the EIF is fronting the transaction, providing an unconditional and irrevocable guarantee on the tranches, and then the EIB is providing a back-to back guarantee to the EIF as final risk-taker.[11] Within the EIB Group's product catalogue, this category includes a subset of *multiple beneficiary intermediated loans* (MBILs), such as *Loan for SMEs, Mid-Caps & other priorities - ABS mezzanine tranche*.
- **EIB risk sharing:** Under this category, the EIB offers a guarantee to a financial intermediary, which extends coverage for a pre-defined share of the losses pertaining to each defaulted loan within a portfolio. This guarantee or risk participation mechanism serves to provide capital and/or risk relief to the financial intermediary. Within the EIB Group's product catalogue, this comprises products such as *Risk sharing - De-Linked/Linked with full/partial delegation*.
- **EIF lending products:** These products offer lending support in the form of loans extended to financial intermediaries with expertise in microfinance. The objective is to enhance their ability to offer financing

[10] For the sake of simplification, the classification used in this evaluation grouped EIB Group products with similar characteristics together. The detailed description of each product can be found in Annex 2.

[11] A service level agreement (SLA) was signed between the EIB and the EIF in 2013 whereby the EIB delegates to EIF the initial assessment, structuring and monitoring of certain specific types of securitisation transactions.

with better conditions to microenterprises and social enterprises. In these cases, the EIF's risk exposure is to the financial intermediary, typically through senior or subordinated loans. Within the EIB Group's product catalogue, this encompasses various mandate-based products, such as *EPMF (European Progress Microfinance Facility)*, the *EaSI Funded Instrument*, and elements of the *InvestEU* programme.

- **EIF private debt:** This product is tailored to facilitate SME and mid-cap support, specifically through investment funds. The EIF engages by making an equity-type investment, collaborating with other investors to establish a private debt fund. These funds have a targeted investment strategy centred on offering debt financing to SMEs and small mid-caps, which may take various forms, such as loans or bonds, or asset-backed financial facilities such as leases and trade receivables.
- **EIF guarantees:** Within this category, the EIF offers portfolio guarantees to financial intermediaries for their debt financing targeting SMEs and small mid-caps. These guarantees offer coverage for a pre-defined share of the portfolio on a loan-by-loan basis. Some guarantees have predefined caps, limiting the extent of coverage for losses. Many of these guarantees not only transfer risk but also provide regulatory capital relief. These fall under various, successive mandate-based portfolio guarantees within the EIB Group's product catalogue, including programmes such as *InnovFin, COSME*, *EGF* and *InvestEU*. This category also includes true sale and synthetic securitisation transactions done under EIF own resources and other non-EIB mandates.

Figure 3: Classification of the EIB Group intermediated debt products for SMEs and mid-caps

	EIB	EIF
Lending	**EIB lending products** • *Multi beneficiary intermediated loans* • *Covered bonds* • *Senior ABS tranche* • *Framework loans*	**EIF lending products** • *EPMF* • *EaSI funded instrument* • *InvestEU* *(…)*
Elements of both lending and guarantee	**EIB ABS subscriptions** • *Loan for SMEs, mid-caps & other priorities - ABS mezzanine or junior tranche* • *ABS credit enhancement*	**EIF private debt**
Guarantee	**EIB risk-sharing** • *Risk sharing – De-linked and linked with full or partial delegation*	**EIF guarantees** • *InnovFin* • *COSME* • *InvestEU* • *Credit enhancement*

Source: EIB and EIF

Intermediated products are designed with the intention of creating a leverage effect, where each euro provided to intermediaries generates more than one euro of lending to SMEs and mid-caps.[12] However, for the sake of comparability between products across the Group, support for SMEs and mid-caps will primarily be measured based on the volumes channelled to intermediaries or to the final beneficiaries of direct loans. While most of these products are expected to result in a multiplier effect, the EIB Group method for estimating this leverage does not permit meaningful comparisons between different products (see Section 5.1). Therefore, the

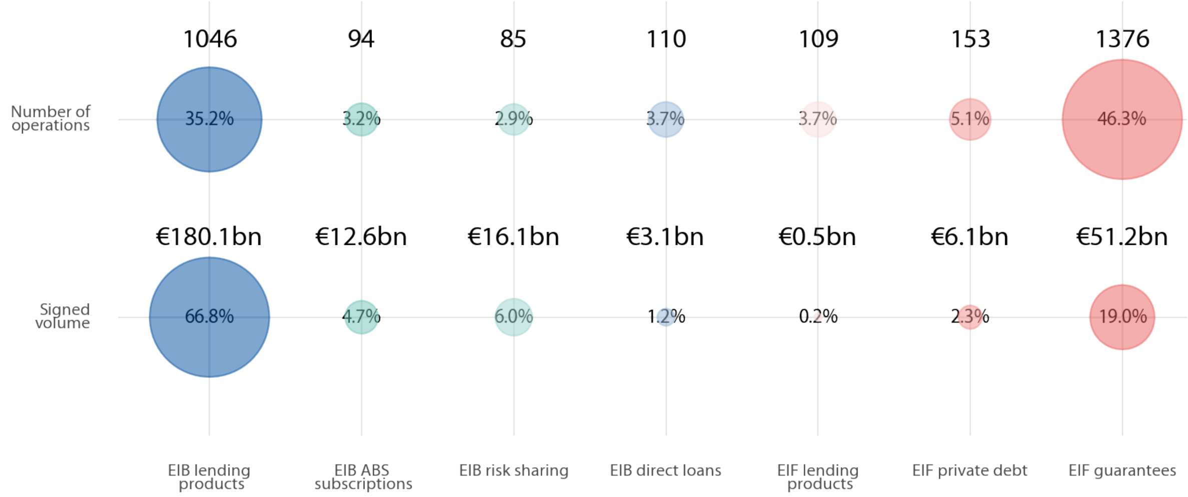
[12] Leverage is defined as the ratio between the maximum financing amount made accessible to final recipients (in this case SMEs) and the financing provided by the EIB Group to financial intermediaries. The methodology for estimating the maximum financing amount made accessible to final beneficiaries varies across the different products of the EIB Group (See section 5.1).

evaluation will employ the net signed volumes with intermediaries as the primary metric for assessing the volume of financial support provided to SMEs and mid-caps.

In addition to intermediated support, the EIB Group also extends direct lending to small firms, predominantly to mid-cap companies. These products, which operate without recourse to intermediaries, do not neatly align with the above categorisation. However, they do fall within the scope of the evaluation. The EIB makes direct loans to directly support medium-sized companies, offering them customised financial solutions to expedite their growth. Typically, these loans take the form of senior debt. Within the EIB Group's product catalogue, this category corresponds to the *Mid-cap Loan*.

Looking at the relative size of the product categories, the overwhelming majority of SME and mid-cap support has been provided through either EIB lending products or EIF guarantees. Over the period in scope, EIB lending products accounted for 35% of operations and more than two-thirds of net signed volume (Figure 4). EIF guarantees accounted for 46% of operations, and for a fifth of the volume signed.

Figure 4: EIB Group operations by product type from 2010 to 2023 (number of operations and net signed volumes)



Note: The percentages represent the relative weight of each product category relative to the total EIB Group support (in number of operations, and net signed volumes)

Source: EIB and EIF

A distinct classification of financial intermediaries has been established for the purpose of this evaluation. The main objective of this classification is to assess the extent to which the EIB Group has engaged with alternative, non-traditional financial intermediaries. The following key distinctions are made:

- **Independent entities vs. subsidiaries.** It is essential to differentiate between independent entities and subsidiaries of large financial groups. In cases where specific vehicles and funds are sponsored by banking groups, these are "consolidated" and considered to be part of their parent institutions.
- **Consistent classification across the EIB and EIF.** To ensure uniformity in classification, the evaluation applies the same categorisation criteria to counterparts of both the EIB and the EIF. This approach is used even when similar intermediaries are clients of both institutions.[13]

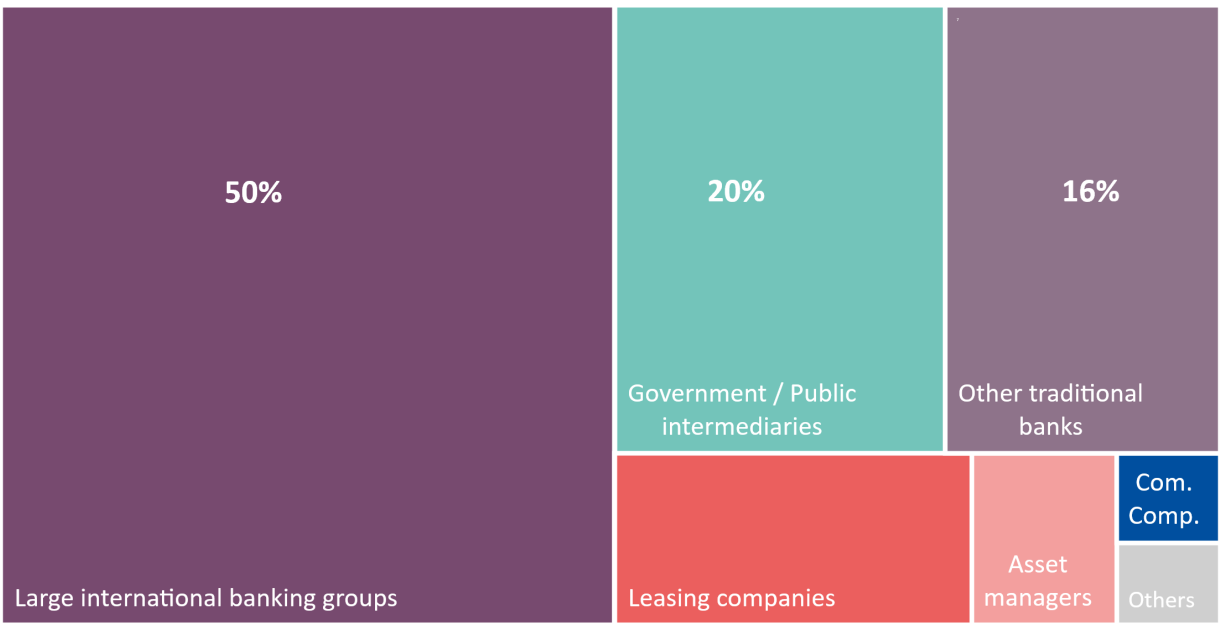
[13] For the purpose of the evaluation "clients" are defined as entities in a direct contractual relationship with the EIB Group as borrowers or users of guarantees. For intermediated operations, we refer to the intermediaries as "clients", and to the end-user SMEs and mid-caps as "final beneficiaries".

The classification distinguishes between several types of financial intermediaries:

- **Commercial banks**. Subsidiaries, funds, and vehicles owned or sponsored by these banks are placed in the same category as their parent organisations. This category is further broken down into three sub-categories:
    - *Large international banking groups*. These are the largest international commercial banks, often subject to stress tests by the European Banking Association or recognised as the largest within a specific Member State.
    - *Other traditional banks.* Major commercial banks operating within the European Union that do not fall into the "Large International Banking Groups" category.
    - *Other bank*s. Smaller supervised financial institutions.
- **Leasing companies**. Leasing companies, irrespective of ownership, constitute a separate category.
- **Government / public intermediaries.** This category encompasses all forms of publicly supported intermediaries, including large NPBIs, export-import banks, public credit guarantee institutions, and investment arms of regional or local authorities.
- **Asset managers.** This category includes all investment specialists and professionals.
- **Other non-bank intermediaries.** Foundations and non-profit organisations are included in this category.

During the reference period (2010-2023), the EIB Group collaborated with nearly 1 000 distinct clients. This encompassed financial intermediaries channelling EIB support, and mid-cap clients who received loans directly. As shown in Figure 5, most of the EIB Group's intervention volume is intermediated through commercial banks, with approximately 50% facilitated by large international banking groups and another 16% through other traditional banks. Collaboration with government/public intermediaries accounts for 20% of the overall volume.

Figure 5: Relative share of EIB Group clients in net signed volume (2010-2023)



Note: 'Com. Comp.' refers to commercial companies. The category 'Others' includes 'other banks' and 'other non-bank intermediaries'

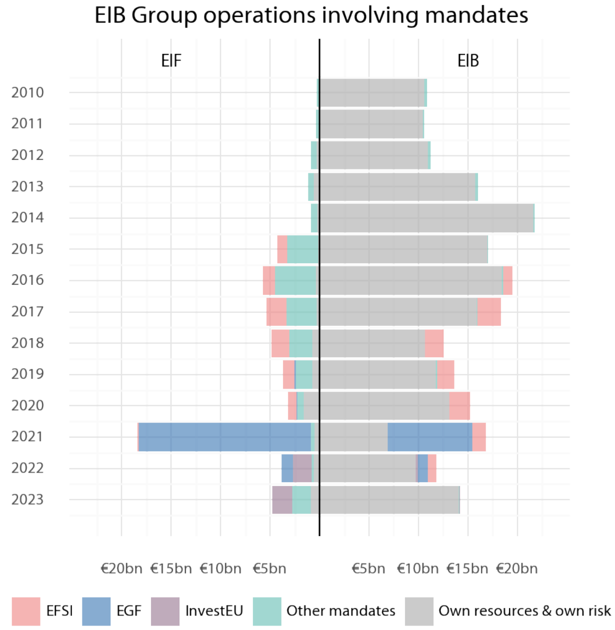
Source: EIB and EIF

1.3 The complementary role of own resources and mandates for extending support to SMEs and mid-caps

Mandates help the EIB Group complement the activity it carried out using own resources, particularly for the EIF.

- In the case of the EIB, the overwhelming majority of lending support is carried out using its own resources (Figure 6). Historically, mandates allowed the EIB to take on higher-risk activities and leverage own resources. Recently, it has been developing its risk-taking capacity using its own resources exclusively.
- The EIF is primarily a mandate manager, implementing mandates from the European Commission, Member States and the EIB. It also leverages on its own resources to mobilise these initiatives.

Figure 6: The role of own resources and external mandates over time (net volume)



Source: EIB and EIF

Most guarantee activities for SMEs and mid-caps are conducted through mandates. Mandates serve as crucial resources for the EIB Group's activities in providing debt support to SMEs and mid-caps. EFSI and the EGF have played pivotal roles in contributing to the EIB's support for SMEs.[14] The EIF's portfolio guarantee activities have predominantly been supported through centrally managed mandates from the European Commission, such as COSME or InnovFin, or from other EU and national sources such as the EGF and ESIF. These mandates have been instrumental in enhancing the EIB Group's capacity to provide support for SMEs and other entities, especially during challenging economic periods and crises.

During the reference period, the following large-scale mandates were deployed, along with several smaller ones:

- **European Fund for Strategic Investment (EFSI):** Launched in July 2015 as part of the Investment Plan for Europe, EFSI was a response to the repercussions of the global financial crisis of 2008-2009 and the sovereign debt crisis of 2011-2012, which led to a significant decline in investments in Europe. EFSI's primary objective was to mobilise financing for investment in Europe. It was supported through a guarantee provided by the EU budget to the EIB Group and aimed at boosting the risk-bearing capacity of the EIB Group. While this mandate was not exclusively aimed at supporting SMEs, it added significant capacity to the EIB and the EIF. For the EIF, EFSI allowed guarantee activity in particular to be scaled up. EFSI also allowed the EIB Group to develop and introduce innovative products with higher risk and higher value added, including risk sharing instruments.

- **European Guarantee Fund (EGF):** Backed by 22 Member States, the EGF provided support to companies facing challenges during the COVID-19 pandemic within the European Union. Among other resources, the EGF offered guarantees to release capital for national promotional banks, local banks and other financial intermediaries, which made financing more accessible for SMEs, mid-caps and corporates. Participating EU

[14] The European Commission is the main mandator of the EIB Group. Its mandates typically provide the EIB Group with protection allowing the EIB Group to undertake, often in combination with its own resources like in the case of EFSI, riskier activities than it would do otherwise (either lending or guarantee) or other activities on the same scale within the same timeframe. The EGF, backed by 22 EU Member States, also required the EIB Group to contribute with its own capital for the part deployed by the EIF.

countries supplied guarantees proportionate to their shares in the EIB or other institutions. The guarantee covered potential losses that may arise in the EGF operations of the EIB Group. The EGF allowed the Group to significantly increase its volume of SME and mid-cap support in 2021, and resulted in a one-off increase in the EIF's guarantee activity, as shown in Figure 6.[15]

- **InvestEU:** Launched in 2021, InvestEU is the European Union's new long-term financing programme, building on the achievements of EFSI. Investments under the InvestEU programme focus on four key policy areas: (a) sustainable infrastructure, (b) research, innovation, and digitisation, (c) SMEs and (d) social investment and skills. The InvestEU programme consists of three building blocks: the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal. The EIB Group is the main implementing partner of InvestEU Fund, responsible for deploying 75% of the total volume of the programme.

1.4 About the evaluation

This evaluation is part of the Evaluation Division's Work Programme, approved by the EIB Board of Directors. The most recent IG/EV evaluation specifically devoted to SMEs in the European Union was conducted in 2013, covering the period from 2005 to 2011. However, the approach and products of the EIB Group have significantly evolved over the past decade in response to changing economic contexts and conditions. Furthermore, looking forward, the EIB Group is encountering new challenges relating to its market positioning, evolving policy priorities, the transition from EFSI and major mandates such as COSME and InnovFin to the InvestEU programme, and the increasing mobilisation of activities at own risk. Given this evolving landscape, it is indeed an opportune time to scrutinise the Group's strategy, approach, and activities towards SMEs and mid-caps, to ensure that they remain aligned with the changing needs and dynamics of the market and EU policies.

This evaluation complements the Division's evaluation on SME support offered through equity and quasi-equity products, which was presented to the EIB Board of Directors in December 2022.[16] The present evaluation, focusing on debt instruments, serves as a complementary assessment to provide a comprehensive view of the EIB Group's support mechanisms for SMEs and mid-caps.

This evaluation analyses the relevance, effectiveness, impact and financial performance of the products and underlying operations. It addresses the following questions:

- To what extent does the EIB Group product offering adequately address (a) the debt financing needs of SMEs and mid-caps and (b) policy objectives?
- To what extent have the EIB Group debt operations been effective in addressing the constraints of financial intermediaries?
- To what extent have the EIB Group debt operations been effective and impactful in serving the needs of SMEs and mid-caps?
- What are the implications of operations providing debt support to SMEs and mid-caps on the EIB's long-term profitability and capital position?

The intended users of this evaluation are primarily the following stakeholders:

- The EIB and EIF Board of Directors for accountability and learning purposes.

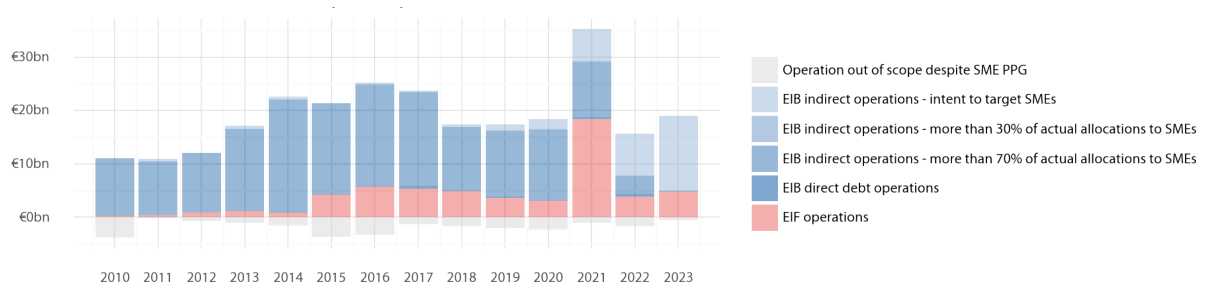
[15] Response to COVID-19 has a strong impact on the EIF's business and the demand for EIF products. Following a record year in terms of the level of operations, in 2021 the shareholders of the EIF approved a major increase in its total authorised capital — 64% from €4.5 billion to approximately €7.4 billion. The aim was to allow the EIF to mobilise significantly greater financial support and to address the consequences of the COVID-19 crisis.

[16] Equity and quasi-equity instruments typically target a special subset of SMEs and mid-caps, which are often young fast-growing innovative firms.

- EIB Group management and services formulating EIB strategy and interacting with the European Commission and other EU and national bodies in relation to support for small businesses and innovative firms.
- EIB Group services originating, structuring, and implementing operations in support of small businesses and innovative firms.
- External stakeholders such as the European Commission, NPBIs, beneficiaries (small businesses and financial intermediaries) and the public at large.

The evaluation focuses on the EIB Group's debt support for SMEs and mid-caps within the European Union. Debt is defined from the perspective of the final beneficiaries and encompasses all operations where SMEs ultimately receive loan-type support. While the EIB Group is also active outside the European Union, the evaluation concentrates on operations within it for two reasons: (a) the majority of relevant EIB Group operations are executed in EU Member States, and (b) the socioeconomic context in countries outside the European Union differs significantly from that within it, making it challenging to draw conclusions relevant for both country groups. The scope of the evaluation covers activity from 2010 to 2023. This time frame allows for an assessment of the relevance of the activity over time and in different economic contexts. It also enables a comprehensive evaluation of the effectiveness of the support as intermediated operations can take time to fully reach their final beneficiaries. However, where necessary for the analysis, the evaluation occasionally makes references to pre-2010 operations.

Figure 7: Evaluation scope relative to the EIB Group's SME public policy goal (net volume)



Source: EIB and EIF

The scope of this evaluation differs from the operations reported under the SME public policy goal (PPG). It has excluded some operations reported under the SME PPG, for which allocation data are already available, and that did not have sufficient actual allocations to SMEs ex-post. These are denoted by the grey bars in Figure 7. On the contrary, some operations targeting SMEs that were allocated to other PPGs — but not to the SME PPG — are included in the scope of the evaluation.

The evaluation included some operations in support of SMEs that are not reported under the EIB SME PPG. To identify these operations, the evaluation relied on their intended target as well on their actual level of allocations to SMEs. The scope is illustrated on Figure 7, and includes:

- **EIF operations** resulting in loan-type support by default, except operations targeting individuals (e.g. skills and education programmes).
- **EIB direct debt operations** targeting SMEs and mid-caps.
- **EIB indirect operations**, for which:
    - more than 30% of the actual allocations target SMEs and mid-caps, or;
    - sufficient allocation data are not yet available, but a strong intent to target SMEs and mid-caps is mentioned in the operation description.

The evaluation employed a diverse range of methods and information sources. This comprehensive array of methods and data sources ensured a thorough and multifaceted evaluation of the EIB Group's debt support activities for SMEs and mid-caps within the European Union. They included the following:

- **Desk research:** An examination of the EIB Group's internal documentation, including strategies, procedures, agreements, reports, due diligence documents, minutes, and other relevant materials that describe products, mandates, and programmes.
- **Literature review:** A review of academic literature, technical reports on SME and mid-cap financing gaps, existing evaluations, audits, and EU policy documents related to SME access to finance.
- **Portfolio analysis:** An analysis of EIB Group debt support using data on signatures and disbursements spanning the period from 2010 to 2023. For intermediated transactions, the evaluation considered data at both the intermediary and the final beneficiary levels.
- **Financial profitability analysis:** Analysis based on volumes of signatures, disbursements, repayments, product types, risk characteristics, costs, revenues and capital charge.
- **Targeted research:** The use of two research papers about SME financing gaps and the lending constraints faced by financial intermediaries.
- **Interviews:** Semi-structured interviews with EIB and EIF staff, focus groups, representatives of financial intermediaries, and market experts.
- **Case studies:** In-depth case studies of the market context and selected EIB Group operations in seven EU countries: Poland, France, Italy, Romania, Greece, the Netherlands, and Ireland.
- **Deep dives:** A thorough analysis of 37 individual operations undertaken by the EIB and the EIF.

Supporting evidence from the interviews, case studies and deep dives is highlighted throughout the evaluation report.

2. DOES THE EIB GROUP DEBT PRODUCT OFFERING ADEQUATELY ADDRESS THE FINANCING NEEDS OF SMES AND MID-CAPS, AND POLICY OBJECTIVES?

- **The SME financing gap is larger for younger, smaller, collateral-poor companies and is heterogeneous across geographies and over time.**
- **While mid-caps — along with SMEs — are targeted by the Group's debt support products, their specific financing needs are largely undocumented.**
- **Financial intermediaries need flexible support for both funding and risk-sharing constraints; furthermore, a diverse system of financial intermediation expands the options available to SMEs for accessing finance.**
- **The Group's product palette is highly adaptable and capable of addressing a broad spectrum of policy needs and changing circumstances.**
- **Over time, the Group has diversified its response to the constraints faced by SMEs and mid-caps in accessing suitable finance, shifting to thematic support geared towards specific policy objectives, in line with evolving EU and EIB Group policy priorities.**
- **The expected results of SME and mid-cap support are often unclear, which leaves room to diverging Interpretations of objectives and targets, primarily due to the absence of an up-to-date overall strategy for debt support for SMEs and mid-caps.**
- **Most of the EIB Group's support for SMEs and mid-caps consisted in reducing their borrowing costs — yet their main financing constraints faced by these firms during the period were not borrowing costs, but quantitative rationing.**

2.1 What are the needs justifying the EIB Group's support for SMEs and mid-caps in the European Union?

This section analyses the financing needs of SMEs and mid-caps. First, we look at whether there is a need for public intervention on the market for SME and mid-cap loans in the European Union in general, and for certain investment themes. Second, we look at the role and importance of various constraints financial intermediaries face. We also highlight the role of diversification of providers of finance to SMEs. Finally, we define a framework to better understand the potential effects of public interventions on the SME debt market.

To summarise, public intervention is justified to address the SME and mid-cap constraints in accessing suitable finance. The financing gap is:

- Particularly pronounced for younger, smaller, collateral-poor SMEs and mid-caps;
- Heterogeneous across geographies and over time;
- Also present in specific themes, such as innovation, climate and green investments, gender equality and economic empowerment, and young entrepreneurs.
- Associated with the funding and/or risk sharing constraints of financial intermediaries;
- Amplified by a relatively concentrated and bank-based financial intermediation in the European Union, which can at times prevent optimal access to funding sources;
- Chiefly present in the form of quantitative rationing, and, to a lesser extent, excessive cost of funding.

2.1.1 The SME financing gap in the European Union is heterogeneous

The SME financing gap pertains to the challenge encountered by SMEs when trying to secure funding through traditional financial channels. Numerous SMEs have the potential to use funds effectively, but they find it difficult to access financing from conventional financial institutions at all or on suitable conditions. This disparity between the available financial resources for SMEs and the funds they could put to productive use is commonly referred to as the 'funding gap" or "financing gap'.

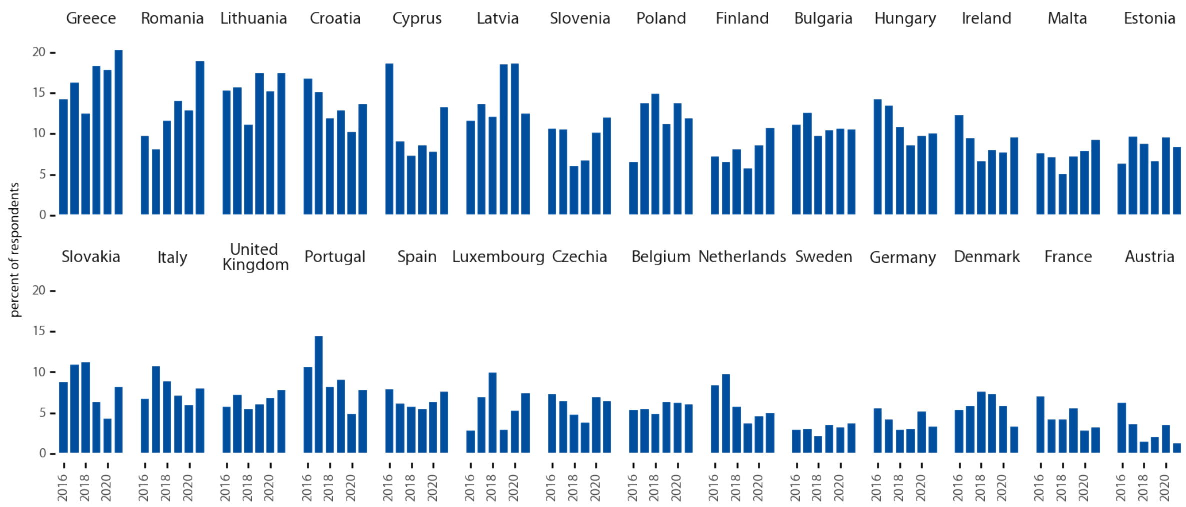
The SME financing gap is particularly evident among younger, smaller, innovative, and collateral-poor SMEs. Various factors influence firms' ability to secure bank financing. Among the most crucial are:

- **Firm age**: The age of a firm is a significant factor affecting financial constraints. Younger firms are often perceived as lacking experience, and they tend to have higher mortality rates, making them riskier to financial institutions (Beck and Demirguc-Kunt, 2006a).
- **Firm size**: The size of a firm also plays a pivotal role in determining access to finance. Small firms face more significant financing challenges compared to larger ones (Beck et al, 2006).
- **Innovation**: Innovative SMEs are more likely to encounter difficulties in accessing finance. These firms often operate with riskier business models and rely on intangible assets that are challenging for banks to evaluate (Freel, 2007).
- **Collateral use**: The use of collateral is a conventional banking practice aimed at mitigating the impact of asymmetric information. Firms with substantial collateral available typically face fewer limitations in accessing finance, as collateralisation helps to better align their interests with those of banks.

The ability of SMEs to access bank financing at all, or on suitable conditions, varies significantly across geographical regions, encompassing disparities between countries and within different areas of the same country. Across countries, the SME financing gap strongly correlates with general economic development. Small firms in countries with a more developed banking system, higher output per capita, a more efficient legal system and robust institutional structures typically contend with a smaller financing gap (Beck et al, 2006). Moreover, evidence indicates that SMEs in rural areas tend to encounter a more pronounced financing gap (Klagge and Martin, 2005).

Consequently, the financing gap exhibits considerable diversity across the European Union countries. Figure 8 and Figure 9 illustrate various survey-based indicators of access to financing in different countries, underscoring the substantial variations from one country to another.[17] Generally, SMEs in countries characterised by higher GDP per capita, robust financial systems, and lower exposure to recent economic and financial crises tend to experience more accessible bank financing. Looking at regional disparities, it becomes evident that financial constraints are especially prevalent in less developed regions. These regions typically feature a regional GDP per capita below 75% of the EU average and are eligible for the highest level of support under EU Cohesion Policy (EIB, 2022).

Figure 8: Share of finance-constrained SMEs in the EU



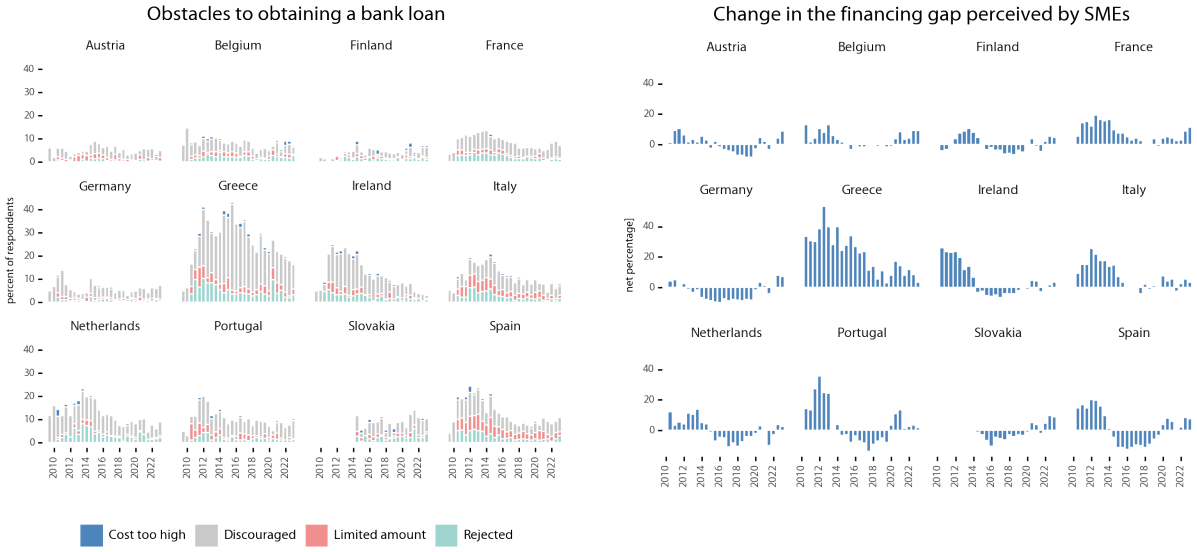
Source: EIBIS

Access to finance gradually improved from the mid-2010s onwards, albeit with substantial variations among different countries. The SME financing gap is subject to fluctuations over time in response to economic and financial cycles. As depicted in Figure 9, the share of firms encountering obstacles in securing bank loans can vary significantly over time. SMEs' perceptions regarding the widening or narrowing financing gap have also recorded significant shifts in the past decade. Typically, SMEs report a pronounced deterioration in access to finance during the early 2010s, primarily as a consequence of the financial crisis.

In addition to addressing the generic SME financing gap associated with financial frictions, public intervention is also intended to encourage targeted, thematic support for investments that yield substantial positive externalities. These externalities arise from the fact that a portion of the benefits generated by these investments cannot be fully captured by the investor, making them prone to underinvestment by purely private means. While conventional solutions for mitigating externalities involve regulations, taxes, or subsidies, preferential lending can also serve as an effective tool within this toolkit.

[17] The EIB Group Survey on Investment (EIBIS), which has been administered annually since 2016, is a unique survey of the investment activity of some 13 000 EU firms. The ECB Survey on the Access to Finance of Enterprises (SAFE) documents trends in firms' need for, and the availability of, external financing by firm size and country. The survey is conducted twice a year covering euro area countries.

Figure 9: Further indicators of SME access to finance



Source: ECB SAFE survey

The externalities relevant to these themes can vary widely, encompassing areas like climate, innovation, gender equality, and digitalisation, all of which derive from the priorities outlined in EU policies.[18] The current EU policy landscape underscores the need for an increase in targeted thematic support. As part of the European Union's SME Strategy for a sustainable and digital Europe from 2020, the policy focus has shifted towards thematic support. Within the context of the SME window of InvestEU, the new strategy places emphasis on SMEs that are perceived as high-risk or have limited collateral. These firms include innovative businesses, those in the cultural and creative sectors, companies transitioning from resource and energy-intensive models to more sustainable ones, and those adopting digital business practices. Furthermore, the strategy introduces a gender-smart financing initiative aimed at stimulating funding for women-led companies.

Thematic financing gaps typically exhibit greater resistance to cyclical fluctuations than the generic financing gap. The positive externalities associated with these thematic financing gaps are not contingent on economic ups and downs. Although the funding of such investments may indirectly be influenced by the financial cycle, the underinvestment and the substantial requirement for public support persist even during economic upswings, and the need to address thematic gaps remains constant across the economic cycle.

2.1.2 The specific financing needs of mid-caps are largely undocumented

While mid-caps are — along with SMEs — targeted by the EIB Group's debt support products, their specific financing needs are largely undocumented. Mid-caps are an important driving force of the EU economy. According to a recent study (EIB, 2024), *"…mid-caps are steady performers across key investment and output indicators and are key contributors to addressing the challenges faced by the European Union linked to the green and digital transitions, competitiveness and productivity. In terms of innovation, digitalisation and both their perception of climate change risks and the related investment, they are almost at par with XL firms and significantly more active than SMEs*".

Little evidence exists on the extent to which the specific debt financing constraints faced by mid-caps differ from those faced by SMEs. There is limited empirical evidence pointing to particular financing challenges faced by mid-cap companies in the European Union. Research specifically devoted to examining financing gaps affecting mid-caps

[18] These externalities also apply to SMEs and mid-caps operating in the field of social economy, which face a financing gap due to their business model to deliver on a social good and not maximising their profit.

is scarce, yet such analyses are crucial in determining the policy relevance of the EIB Group initiatives supporting mid-caps, particularly outside periods of crisis.

Mid-caps find themselves halfway between SMEs and large firms. The few available studies, often policy papers authored by consulting firms (e.g. Roper and Malshe, 2012; KPMG, 2022; de Angelis and Riekeles, 2022), tend to emphasise that mid-caps find themselves in a somewhat unique position. In most EU Member States, they are too large to benefit from public support aimed at SMEs, yet they lack the extensive administrative capacity of large corporations, making it challenging for them to navigate complex requirements. Furthermore, mid-caps themselves are heterogenous in terms of size (250 to 3,000 employees), geography, innovation capacity and growth potential.

When it comes to access to finance, mid-caps are likely to face different constraints than SMEs. Mid-caps are larger than SMEs, and typically have a longer corporate history and more collateral. They are therefore less likely than SMEs to be significantly affected by the general financing gap. Existing evidence suggests that firm size, age and collateral availability are critical factors contributing to the financing gap, and mid-caps tend to perform better in these aspects than SMEs. This observation aligns with a recent extensive study by the European Commission (European Commission, 2022) which found that while access to debt finance for mid-caps is considered to be a challenge, it is to a lesser extent than for SMEs. At the same time, mid-caps are likely to be more constrained in their growth potential by the relatively low development of EU capital markets than SMEs. Innovative, high-growth mid-caps encounter difficulties in raising external capital beyond a certain size, leading to what is commonly referred to as the "scale-up gap."

2.1.3 Financial intermediaries' constraints play a key role in SME and mid-cap access to finance

While the EIB Group mainly relies on an intermediated delivery model of SME and mid-cap debt support, financial intermediaries' ability and willingness to supply credit to SMEs can be constrained. These constraints often stem from the market imperfections — asymmetric information, adverse selection and moral hazard — that underlie the SME financing gap. Furthermore, these constraints may be magnified by cyclical variations in access to capital and funding, by regulatory requirements imposed on the banking sector, by concentration of credit risk, or by distortions arising from barriers to entry into the financial intermediation sector.

Public interventions, like those carried out by entities such as the EIB Group, can more effectively address the SME financing gap when they target the primary constraints or disincentives faced by financial intermediaries. These typically fall into three categories: scarcity of affordable funding (liquidity), risk-taking capacity and concentration risk. In addition to these, there can be other limitations that indirectly curtail the supply of credit to SMEs and mid-caps, such as a shortage of eligible collateral, which renders them particularly risky for bank loans.

Interviews with the EIB Group's partner financial intermediaries confirm that a variety of factors constrain intermediaries' capacity to lend to SMEs. The institutions interviewed confirm that such constraints often result in credit rationing for SMEs, or in financing not being available on suitable terms:

- **On the supply side**, intermediaries cited access to and cost of funding and liquidity, capital constraints driven by regulatory requirements and legacy non-performing loans from the past, cost and profitability of SME lending and limited risk-taking capacity as important constraints.
- **On the demand side,** they noted a lack of adequate/ acceptable collateral, the bankability of SME borrowers, or the or difficulties in assessing bankability due to a lack of financial statements and relevant information.

Funding constraints refer to the limited access of financial institutions to either short-term liquidity or long-term funding. In extreme cases, this could mean an inability to secure new funding, but it can also result in a significant increase in funding costs. Funding constraints have negative implications for the supply of credit to SMEs, as demonstrated by De Jonghe et al. (2020). These constraints lead to an overall reduction in credit supply, which disproportionately affects high-risk clients like SMEs. Funding constraints can become particularly severe for banks that rely heavily on wholesale borrowing rather than retail deposits, as wholesale funding is often challenging to renew during periods of funding shocks.

Risk-taking constraints refer to situations in which financial institutions have limited capacity to absorb credit risk. Such constraints can manifest in various ways and are often interrelated:

- **Constraints on regulatory capital.** Capital serves as a buffer for banks when economic and financial disruptions impact the value of assets on their balance sheets. It enables banks to take and manage risk, including credit risk. Capital needs may vary over time and can change suddenly due to shifts in asset valuations or regulatory requirements. The level of bank capital is crucial for credit supply, as research shows that low and declining bank capital has a negative impact on corporate lending activities (Gambacorta and Shin, 2016). Given that regulatory capital requirements are risk-dependent, and SME lending typically involves higher risk, capital constraints are particularly significant for SME lending, even though this higher capital need is partly mitigated by EU regulation.[19]

- **Limits on the ability to offload existing risk.** The ability to transfer credit risk from a bank's balance sheet through mechanisms like securitisation or credit derivatives has a positive impact on credit supply (Gambacorta and Marques-Ibanez, 2011). Limited access to securitisation, including true-sale, synthetic, or credit derivatives, can hinder credit supply to riskier clients such as SMEs.

- **Limits on serving riskier borrowers in general.** Some borrowers may be considered too risky for banks to serve, even though they could be viable clients with some form of public support. For certain risky yet socially desirable activities, the cost of reducing information asymmetry and uncertainty to an acceptable level may be prohibitively high for a bank. This can result in lending levels below the socially optimal point, and firms with valuable projects may be underserved (Anginer et al., 2014).

The funding and risk-taking constraints have evolved significantly over the period under scope. This period was characterised by a dynamic interplay between funding and risk-taking constraints.

- During the global financial and European sovereign crises (2008-2013), funding constraints greatly affected EU financial intermediaries, particularly in Southern and Central/Eastern Europe. Traditional monetary policies were insufficient to address the limited access to liquidity, and though risk-taking capacity declined, credit risk manifestations took time to surface, keeping funding constraints in focus.

- In the post-crisis recovery phase (2014-2019) the relative importance of risk-taking constraints increased. The ECB's quantitative easing and targeted refinancing operations alleviated funding constraints for most EU banks. However, risk-taking constraints gained prominence as losses incurred during the crisis necessitated capital write-offs and tightened regulations under Basel III.

- The onset of the COVID-19 pandemic (2020-2021) brought challenges in terms of both liquidity access and perceived credit risk. Large-scale support programmes at the national and EU levels played a crucial role in mitigating these challenges, and maintained an expansionary monetary policy stance.[20]

Experience from the 2010-2023 period also points to the need for flexibility in the SME policy support toolkit. First, it should be equipped to address both funding and risk-taking constraints, as these can change over time. Second, it should be capable of swiftly transitioning between instruments designed to address either constraint, since market conditions or other public interventions can shift. Third, the composition of instruments should be adjusted to align with the macroeconomic, macro-financial, and policy environment. A set of general guidelines for structuring the product offerings of public financial institutions in response to the policy context is outlined in the Annex 1, drawing on the work of Eslava and Freixas (2021) and Freixas and Peydro (2023).

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[19] The EU Capital Requirements Regulation (CRR) introduced a "SME supporting factor" to partly compensate for the negative implications for SME lending of Basel III. It allowed the capital requirements for credit risk on exposures to SMEs to be reduced under certain conditions.

[20] The evolution of funding and risk-taking constraints, together with the response of the EIB Group are analysed in more detail in the Section 3.1.2.

Interviews with financial intermediaries confirm that the presence and intensity of constraints vary over time, by country, and by type of intermediary. According to the interviews, access to funding has varied over time. It was a heavily binding constraint in the immediate aftermath of the global financial crisis, but eased considerably following the ECB's quantitative easing. However, access to funding remained a constraint in certain countries until 2017 due to the protracted and heterogenous nature of the crisis. Furthermore, certain types of intermediary, such as some NBFIs did not have direct access to central bank liquidity.

The case studies highlight that the financing conditions generally eased during the second half of the decade, until the onset of the COVID-19 pandemic. However, they point out some country-level specifics — and that despite the improvement, access to finance remained a major constraint throughout the period in countries like Italy, Greece, Romania and Ireland.

2.1.4 Diversifying the sources of debt supply can further enhance access to finance

In addition to improving SME access to finance through the banking sector, diversifying financing sources can also enhance the availability of funding for SMEs and mid-caps. The European financial intermediation system is predominantly bank-based when compared to other countries and regions, such as the United States. Research indicates that an overreliance on banks is linked to higher systemic risk and reduced economic growth (Langfield and Pagano, 2015). A heavily bank-oriented system also leaves SMEs and mid-caps dependent on and susceptible to the banking sector as their primary external source of funding.

Established during the recovery from the European sovereign crisis, the EU Capital Markets Union (CMU) initiative aims to create a fully unified European financial market. A capital markets union will, among other things, "*provide businesses with a greater choice of funding at lower costs and provide SMEs in particular with the financing they need*". Key priorities of this initiative include increasing funding resources in Europe, promoting the growth of sustainable securitisation markets, and fostering the development of robust European private placement markets.

Equity and quasi-equity instruments provide a robust alternative to traditional lending. Typically, they focus on specific subsets of SMEs and mid-caps — particularly young, rapidly growing, and innovative firms. They address the financing challenges that arise due to the unique risk profiles and business models associated with innovation, making it difficult for these firms to secure funding through traditional financial intermediaries. These instruments have been assessed separately in a different evaluation (EIB, 2023) and are not discussed in this report.

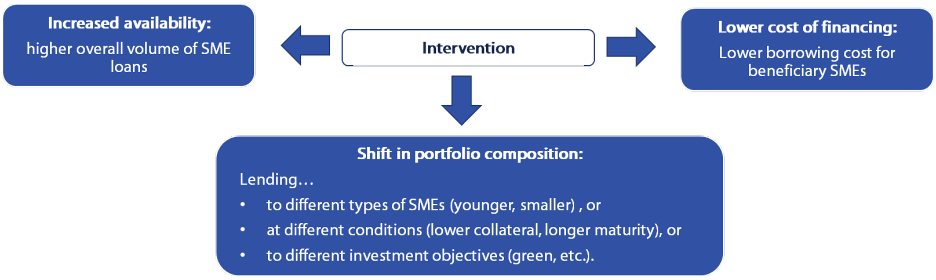
In addition to equity financing, it's important to consider support for alternative debt providers: private debt funds, leasing firms, microfinance institutions, fintech companies, and more. Public support for institutions that offer these alternatives, such as leasing companies, private debt funds, microfinance institutions, and fintech companies, can expand the array of financing sources available to SMEs and mid-caps. This support not only widens the options for financing but also contributes to the overall resilience of the financial intermediation system.

The case studies also highlight a growing need for diversification. In most of the case study countries (with the exception of Poland and Romania), the banking sectors exhibit high concentration and limited competition. Additionally, alternative sources of debt finance are relatively small and fragmented, although some positive developments have been observed in countries like Ireland, France, and the Netherlands.

2.1.5 Beyond cost, even obtaining finance at all is a challenge for many SMEs

Irrespective of the specific form of intervention by international financial institutions (IFIs) and national promotional banks and institutions (NPBIs), including those by the EIB Group, what the final beneficiary ultimately receives is a loan. This applies whether the operation directly targets the beneficiary, utilises intermediaries, involves lending, or includes guarantees. In all cases, SMEs and mid-caps receive a loan as the end result of the intervention.

Figure 10: Possible effects of MDB/NPBI interventions on the SME credit market

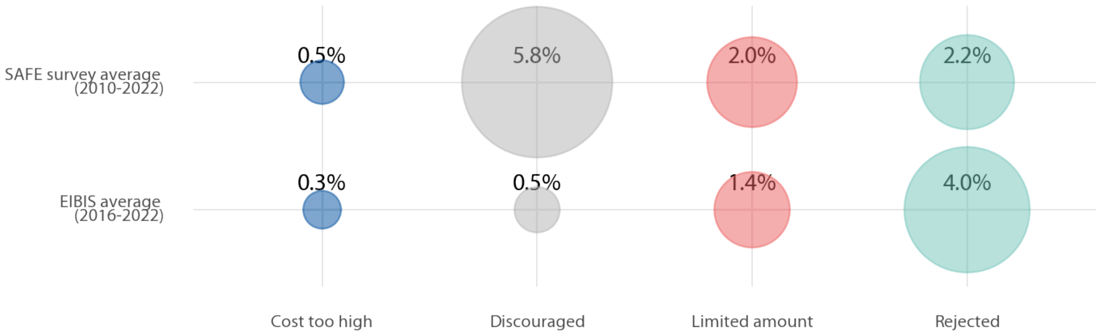


Interventions that lead to loans for SMEs and mid-caps can have several distinct effects on the market for small business loans, each addressing different aspects of the SME financing gap. These potential effects can address the multifaceted challenges faced by SMEs when applying for external financing. They fall into the following categories Figure 10:

- **Increased availability.** Policy institutions' interventions can boost the overall supply of available credit in the market for all SMEs.
- **Shift in portfolio composition.** Policy interventions can direct credit supply toward underserved areas, including certain types of small businesses (e.g. younger or smaller firms) or various project types, such as thematic lending for green projects, investments in environmental sustainability, innovation, etc.
- **Lower cost of financing.** The result of the intervention can manifest as reduced borrowing costs for SMEs.
- **Enhanced non-financial conditions**, such as longer maturities or lower collateral requirements.

The overall effect of an intervention is typically a combination of the factors mentioned above, depending on the market conditions and the design of the product. The effects can be influenced by the existing market conditions. For example, an intervention that increases the availability of credit in a specific geography or time period may lead to crowding out of market financing elsewhere if the market is already functioning well. The overall impact of the intervention is also heavily influenced by its design. This includes factors like eligibility criteria, pricing, and the specific objectives of the intervention. In practice, the success of an intervention in addressing the SME financing gap will depend on a thoughtful combination of these factors, tailored to the circumstances and needs of the SME market.

Figure 11: Relevance of different types of SME finance constraints



Note: Share of SMEs experiencing financing constraints. Finance-constrained firms include those dissatisfied with the amount of finance obtained (limited amount), firms that sought external finance but did not receive it (rejected) and those that did not seek external finance because they thought borrowing costs would be too high (cost too high) or they would be turned down (discouraged).

Source: ECB SAFE survey and EIBIS.

The primary challenge for most SMEs is not the cost of borrowing, but rather the access to, and quantity of credit. The data from surveys like the ECB's SAFE and the EIBIS indicate that, in the European Union, SMEs have faced quantitative rationing more often than high borrowing costs as a constraint on accessing bank finance. Figure 11 highlights that the most pressing issue for EU SMEs is related to their ability to access sufficient credit to meet their financing needs. A relatively substantial number of firms in the European Union report facing quantitative limits when seeking bank finance. This can take the form of loan applications being rejected, receiving lower loan amounts than initially requested, or being indirectly discouraged by banks from applying for credit. In contrast, only a small percentage of firms (between 0.3% and 0.5% percent) have reported that high borrowing costs prevented them from accessing external finance.

2.2 Has the EIB Group defined clear policy objectives for its debt operation targeting SMEs?

This section explores the extent to which the EIB Group has defined objectives for its debt operation targeting SMEs, and how clear and relevant to the needs these objectives are. To shed light on the key objectives, the evaluation focused on the following:

- the EIB Group's SME strategy;
- on the EIB side, the EIB's Additionality and Impact Measurement (AIM) framework, and the key performance indicators (KPIs) of the EIB's Financial Institutions Department;
- on the EIF side, mandate documentations and the Value Added Methodology (VAM).

The key findings of the analysis are the following:

- **The 2011 EIB Group strategy for SMEs aimed to combine the respective strengths of the Bank and the Fund, to tackle both anti-crisis and long-term growth objectives, by mobilising a combination of generic and targeted products.**
- **The lack of an up-to-date strategy since 2011 often creates ambiguity in the objectives and types of SME and mid-cap constraints to be addressed by EIB Group interventions.**
- **While the EIB AIM framework and KPIs of the EIB's Financial Institutions Department provide some guidance for EIB SME and mid-caps operations, they are no substitute for a comprehensive SME strategy.**

2.2.1 The lack of an up-to-date strategy often creates ambiguity regarding the objectives of EIB Group interventions

The EIB Group adopted an SME strategy in 2011, aimed at addressing the widening SME financing gap that became more pronounced in the period after the global financial crisis. This strategy outlines the Group's various instruments and the institutional framework for SME support, and offers guidelines for future priorities.

- **The strategy recognised the collaborative roles of the EIB and the EIF in delivering SME support.** The EIF primarily focuses on providing equity in the form of venture capital, and credit enhancement through guarantees. The EIB's primary objective is to enhance SMEs' access to finance by providing liquidity support through bank refinancing, with the intention that these benefits trickle down to the SMEs.
- **The strategy categorised its products for SMEs into two main types: general and targeted.** General products aim to support all SMEs as defined by the EIB Group. In contrast, targeted products are designed to focus on specific regions, sectors, or company sizes.
- **The strategy differentiated between operations that address the structural, long-term financing gap and those that provide countercyclical or anti-crisis support.** Developed in response to the recovery from the global financial crisis, the strategy highlights the need for rapid and focused support in the most severely affected regions and considers the diverse nature of the recovery process.

The strategy called for future re-assessment and development. The intention was "to maximise its growth support by using the best of EIB's and EIF's expertise for designing products which respond to particular challenges faced by SMEs." In particular, the strategy envisaged the future re-assessment of the balance between (a) anti-crisis operations as opposed to support for long-term growth, (b) whether EIB Group support results in improved access to finance for SMEs and mid-caps, (c) the shift from general products towards thematic objectives during the post-crisis recovery and (d) emphasis on long-term growth by increasing the overall risk profile of the products, thereby fostering the impact of EIB Group's SME support albeit with lower volumes.

However, since the SME strategy was endorsed in 2011, it has not been revisited or updated for debt instruments, and is no longer relevant in providing guidelines for current operations. The proposed "future re-assessment and development" mentioned in the 2011 strategy has not been carried out. Several factors have helped make the strategy obsolete in various ways:

- **Changing market context**. The economic conditions faced by intermediaries have markedly evolved since the global financial crisis and the European sovereign debt crisis, when the previous strategy was drafted. Its focus is on "anti-crisis" instruments. The changing role of the EIB Group in subsequent periods, such as the shift to more targeted support suitable for regular economic conditions outside crises, has not been reflected in the strategy.
- **Evolving EU-level objectives**. The European Commission's 2022 "SME Strategy for a sustainable and digital Europe" calls for a more targeted approach. While the EIB appears to have adopted some of these changes in priorities, they are not integrated into the strategic documents. For example, neither the SME strategy, nor the thematic ones address the EIB's intended objectives when engaging in thematic support for SMEs. This results in a lack of clarity regarding the policy objectives of thematic support operations, with varying interpretations of their intended purpose within the EIB Group. For instance, when it comes to thematic operations, services disagreed on whether relabelling existing operations from generic to thematic should count towards achieving thematic objectives.
- **Operational delivery**. The EIB Group's product palette has expanded to offer new solutions beyond the initial offerings of 2011. The strategy does not account for the increased use of risk-sharing instruments on the EIB side, the EIB Group's growing involvement in the ABS market, or its increased activity with private debt funds, non-bank financial intermediaries, and national promotional banks and institutions (NPBIs). Furthermore, some of these products fall outside the division of labour defined in the current SME strategy between the EIB and the EIF.

As a result of these developments, the existing SME strategy does no longer give a direction to EIB Group services, which leads to ambiguity regarding the objectives of EIB Group interventions. References to the strategy are notably absent from decision-making notes, product descriptions, appraisal documentation for individual operations, and the results measurement framework of the EIB. Furthermore, interviews conducted revealed that many staff members working on SME support don't even know the strategy exist. Interviews with EIB Group services have shown that there can be substantial disparities in the interpretation of the objectives of SME and mid-caps support across different services. For example:

- Services held differing views on whether providing financing SMEs at a somewhat lower cost is a valid objective in itself.
- Interviewed staff members also disagreed as to whether EIB Group objectives include diversifying the financing options available to SMEs by supporting smaller, regionally focused banks or financial institutions specialised in other niche market.

In the absence of strategic guidance, documents aimed to support decision on individual products or operations do not share a consistent rationale. They remain vague about the intended goals of products and operations towards final beneficiaries, and often focus exclusively on the needs of financial intermediaries. The lack of clarity makes it especially difficult to evaluate the outcomes. As a consequence, the ex-post performance of operations is determined by volume-based indicators, which offer only limited insights into the overall effectiveness and impact of SME support.[21]

The recent evaluation of the EIB Group equity support for SMEs and mid-caps (EIB, 2023) highlights the importance of a Group-wide strategy. The Group Equity Strategy — approved by the EIB Board of Directors in 2020 — provides

[21] Some of concrete implications of the lack of strategic guidance on effectiveness – in the contexts of thematic operations, and internal knowledge about SME clients – are also discussed in Section 3.2.2 and 3.3.2.

the strategic framework for equity and quasi-equity-type operations at Group level. To ensure that the EIB Group's limited resources are used in the most impactful manner possible, the strategy proposes a highly selective and targeted approach to equity investments, focusing on:

- markets with the largest investment gap;
- where Group support has the greatest additionality and impact;
- at the same time ensuring sustainability, adequate financial returns and portfolio diversification.

Deep dives into particular transactions reveal a variety of justifications across the sample of EIB operations reviewed. These include, but are not limited to:

- **Enabling NPBIs to cover market gaps** in the provision of finance from commercial sources, e.g., debt financing for innovation, and long-term loans (7+ years) for SMEs and mid-caps on suitable terms (Bpifrance, SBCI)
- **Counter-cyclical objectives:** to enable (commercial) financial intermediaries to continue to lend to SMEs and mid-caps in crisis contexts like the financial/ sovereign debt crisis, or COVID-19 pandemic (e.g. Greece, Ireland, Italy, Romania)
- **Market-building:** to support the revival of securitization markets by filling a gap in the market for riskier tranches e.g. mezzanine.
- **More generally, to address factors constraining financial intermediaries' capacity to lend,** e.g. concentration limits, risk weighting/ capital requirements, low risk appetite, or access to medium-long-term funding (for on-lending).

Apart from the SME strategy, references to SMEs and mid-caps support are incorporated into some of the subsequent thematic strategies, yet these references typically do not formulate SME-specific objectives. Over the past few years, the EIB Group has endorsed various sectoral or thematic strategies and strategic orientations, such as the Climate Bank Roadmap (CBR); the EIB Gender Strategy; Innovation, Digital and Human Capital (IDHC); and others. These strategic documents acknowledge the importance of SME support in achieving the overarching strategic goals. Still, they do not give detailed information on how to implement SME support, the specific objectives to be met, the purpose of products, or the precise beneficiaries to target. Consequently, the specific approach for targeting SMEs in line with these thematic goals, as well as the objectives to be achieved, remains undefined.

In EIF's case, the absence of an EIB Group strategy is partially substituted by the existence of EIF mandates setting their own objectives. For its activity, the EIF primarily deploys resources mandated by third parties in complement to its own resources, provided that such mandates are compatible with its task. The EIF's mandators may pursue different specific policy objectives, over which the EIB Group has only limited control. While the EIF as a mandate manager has a flexible approach towards the specific policy objectives of the mandates, overall its mandates must be aligned with the EIF's and the Group's strategic priorities, which sets the priorities for the acceptance of new mandators and mandates by the EIF.

2.2.2 The EIB results framework and performance indicators provide only a limited substitute for a formal SME strategy

The EIB's results framework, together with specific organisational performance indicators can provide some guidance for EIB operations targeting SMEs and mid-caps, but they cannot fully replace a comprehensive SME strategy. First, such indicators only address specific areas, but do not provide guidance on the intended effects of operations. Second, these metrics only pertain to EIB operations and do not offer Group-wide guidance across the EIB and the EIF. Finally, even in cases where they indicate priorities, they do not necessarily succeed in providing sufficient incentives to enforce them.

The AIM framework reflects the policy priorities that guide EIB operations.[22] The AIM framework is expected to guarantee that operations align with EIB priorities. As such, AIM can serve as a proxy to identify EIB priorities, including those related to SMEs.

[22] The Additionality and Impact Measurement (AIM) framework is used for ex-ante and ex-post assessment of all EIB operations. AIM replaced the 3PA (3-Pillar Assessment) the EIB's earlier additionality measurement framework in 2020. It seeks to demonstrate and communicate how the

Pillar 1 of AIM is designed to create incentives for projects to address the diverse nature of the SME financing gap. The system is structured around three pillars. Pillar 1 offers an assessment of the reasons for pursuing a specific project. For intermediated lending to SMEs and mid-caps, it should "*provide a succinct and clear narrative of how the project addresses access to finance constraints and the general market failure — asymmetric information and high screening costs for small investments*." The AIM scoring is based on three specific areas:

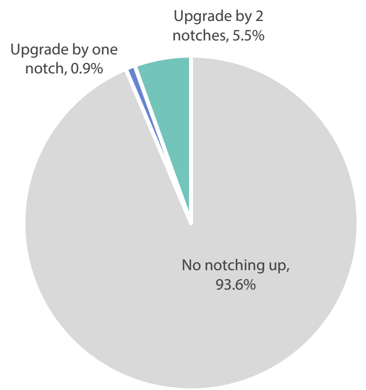
- **Geography.** The degree to which the EIB supports financially challenged regions. An operation earns extra points if it targets (a) Member States where access-to-finance constraints are higher than the EU average or (b) Cohesion regions.
- **Constrained/vulnerable companies.** The degree to which the EIB supports vulnerable companies. An operation receives additional points if it targets (a) female-owned companies, (b) microenterprises, or (c) young companies.
- **Additional EIB policy priorities/sectors.** The degree to which the EIB supports sectors or priorities beyond SMEs. An operation earns extra points depending on the extent to which it aligns with an additional public policy goal.

Other pillars of the AIM incentivise the alignment of operations with specific needs, particularly in terms of diversifying funding sources for SMEs and mid-caps. Pillar 2 of the AIM framework evaluates the expected outcomes of a project, including the benefits transferred to final beneficiaries, such as reduced financing costs and extended maturity periods. It also assesses how the operation contributes to the development of a more diverse funding market.

Box 3: Does the EIB's AIM framework provide sufficient incentives to align operations with the intended objectives?

AIM is designed to favour projects with the highest additionality. Yet in practice, the premium given to projects prioritising constrained or vulnerable companies appears insufficiently strong: The portfolio only marginally prioritises constrained or vulnerable companies. Increased support for constrained and vulnerable companies is a policy priority defined as part of AIM's Pillar 1. Yet only 6% of intermediated lending operations received additional scores for supporting financially constrained or otherwise vulnerable SMEs, as depicted below. This suggests that most EIB support targets SMEs in a broad manner without a specific focus on more vulnerable subgroups within the SME population, such as younger, smaller firms, or collateral-poor SMEs. It also indicates that the AIM scoring system may not provide strong enough incentives to shift operations towards targeting these vulnerable SMEs.

Share of EIB SME and mid-cap support operations focusing on more constrained/vulnerable companies (2021-2023)



Note: This graph presents ex-ante assessment of intermediated SME/mid-cap operations from 2021 to 2023. It shows the share of operations for each scoring level (0,1 or 2 notches) assigned to the 'focus on more constrained/vulnerable companies' component of the Pillar 1

Source: EIB

Starting in 2022, responsibility for EIB's intermediated operations with private financial institutions was consolidated within a single Financial Institutions Department (FID). The FID was established when a decrease in EIB lending occurred in parallel to a corresponding increase in EIF activity and with key intermediary partners being targeted by both the EIB and the EIF. In this context it was necessary to strengthen collaboration and achieve a coordinated pipeline between the EIB and the EIF under a complementary product strategy for each country. Compared to the previous institutional arrangement, where expertise in intermediated lending was spread across different geographical departments within the EIB's Operations Directorate General, the FID now serves as a central hub for all intermediated operations. It assumes operational tasks and coordination on intermediated SME support,

Bank, as a public institution, makes a difference, to bolster the EIB's accountability and to reinforce awareness of additionality and impact among staff and stakeholders.

consolidating data from both the EIB and EIF. It also provides management with regular reporting of SME and mid-cap activities and assesses the expected demand for SME and mid-cap products.

The Key Performance Indicators (KPIs) assigned to the Financial Institutions Department (FID) also provide insight into the policy preferences guiding EIB Group SME and mid-cap operations. The KPIs set for the FID aim to align operational priorities with geographical needs and the objective to diversify funding sources for SMEs. They specify that (a) signatures in the three countries with the largest volumes should not exceed 55% of the total volume, (b) signatures in the 15 EU countries with the lowest volume should not represent less than 10% of the total volume, and (c) signatures with "small" intermediaries, regional players or sector specialists must be at least 40% of signature volume.

Box 4: The EIF's results management framework: the Value Added Methodology (VAM)

In contrast to the AIM, the EIF VAM is not detailed enough to derive the EIF's policy priorities for SME support from it. The AIM framework only covers EIB operations. The EIF has its own result management framework, the VAM. Structured around three pillars, this methodology is less detailed compared to its EIB counterpart. As a mandate-driven institution, this approach facilitates systematic value-added reporting to the EIF Board of Directors. However, since the EIF's operations are primarily conducted through external mandates, this methodology doesn't replace but rather supplements the specific objectives of individual mandates, which express more focused preferences. For example, COSME focuses on SME segments that are not (or are only exceptionally) provided for by the financial intermediary; or on increasing volumes to SMEs to which the financial intermediary is allowed to lend under its credit policy, but does not due to high risk or insufficient collateral.

2.3 Is the EIB Group toolbox fit for addressing market gaps?

This section explores whether the EIB Group's SME and mid-cap product palette suits the needs and the EU and EIB Group policy objectives. First, we assess the development and the broadening of the toolbox against the evolving needs. Second, we assess the shift towards thematic operations in line with changing policy objectives. Third, we assess the extent to which the EIB Group targets the relevant type of obstacles to SMEs' access to finance. The key findings of the analysis are the following:

- **In response to the heterogeneous and changing needs of the SME financing market and financial intermediaries, the EIB Group has developed a product palette suitable for a wide range of market conditions.**
- **The EIB Group has increasingly shifted towards thematic operations, in line with evolving policy priorities.**
- **While the EIB toolbox can address a range of obstacles to SME and mid-cap access to finance, the bulk of support has aimed to reduce firms' borrowing costs.**

2.3.1 The EIB Group has broadened its product palette to respond to a wide range of needs and market situations

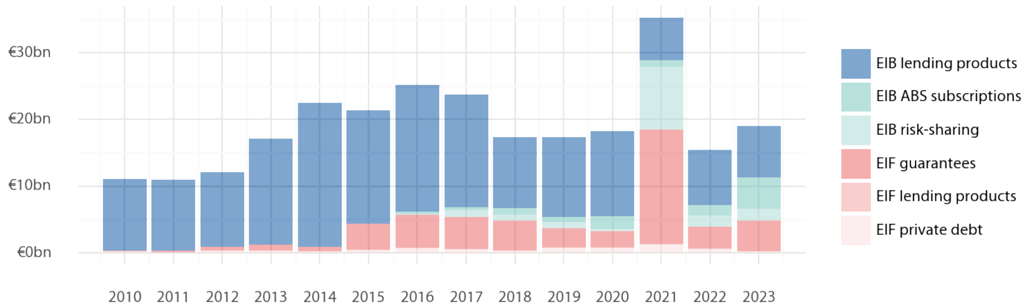
The EIB Group has significantly expanded its product palette over time, moving beyond predominantly EIB lending products to offer a wider range of instruments. This broader product line can effectively address diverse policy requirements across different economic conditions, geographical regions, and various types of support, including both generic and thematic assistance.

Following the global financial crisis, the EIB Group's SME debt product palette was primarily focused on providing lending products (chiefly MBILs) through banks. Although guarantees were also offered by the EIF, they had limited volumes and were linked to specific external mandates, such as the SME Guarantee Facility (SMEG) under the Competitiveness and Innovation Framework Programme (CIP) or guarantees provided through the JEREMIE programme.

Starting in 2014, the EIB Group expanded its product offerings from lending products to also include a wide range of guarantee and risk sharing instruments.

- On the EIF side, the introduction of EFSI allowed for leveraging on guarantee products associated with the 2014-2020 Multiannual Financial Framework (MFF), including COSME and InnovFin. This expansion led to greater availability and volumes of guarantees offered to financial intermediaries, as depicted in Figure 12.
- Simultaneously, the EIB introduced various products designed to enhance the risk-taking capacity of intermediaries. These included investments in non-investment grade ABS and the EIB risk sharing product. The share of these instruments within the total volume of SME support began to rise in 2017 and has continued to grow. In more recent times, the EIB has further developed its ability to provide guarantee support using its own resources.

Figure 12: The evolution of the EIB Group product palette over time (net volume)



Note: EIB lending products include MBILs, framework loans and direct loans to mid-caps.

Source: EIB and EIF

Furthermore, using "loan substitutes" the product palette is able to address collateral constraints and support the presence of certain lower-rated financial institutions in capital markets. Loan substitutes allow financial institutions with a lower credit rating to participate in transactions with the EIB. Instead of dispersing funds through a standard collateralised loan agreement, in case of a loan substitute, the EIB subscribes to a covered bond or ABS issuance from the intermediary. The intermediary then directs the funds and the financial advantages provided by the EIB to its SME clients. This approach allows financial intermediaries to diversify their financing sources, lower their cost of funding compared to unsecured transactions, signal their presence in capital markets, and make more effective use of their available collateral. An essential requirement for using loan substitutes is that the financial institution must be located in a country with developed securitisation or covered bond markets.

With its broadened product portfolio, the EIB has expanded its ability to reach a wider spectrum of EU SMEs. By providing a diverse array of products, the EIB can also play a role in strengthening funding options beyond traditional banking, including private debt funds, leasing companies, microfinance institutions, and fintech enterprises. This approach helps broaden the geographical scope of the EIB's support by ensuring that it has suitable solutions for different contexts and markets.

In conclusion, the resulting product palette is highly adaptable and capable of addressing a broad spectrum of policy needs and changing circumstances. Importantly, it encompasses instruments that can effectively address the two most significant constraints faced by financial institutions when providing credit to SMEs: access to funding and risk-taking capacity. Furthermore, the product palette offers flexibility in various dimensions, including diversification of financing sources.

Feedback from financial intermediaries in interviews underscores the general suitability of the current EIB Group product palette. As stated by representatives of intermediaries, the diverse range of products such as MBILs, portfolio guarantees (capped/uncapped), loan substitutes, and ABS subscriptions allows the EIB Group to cater to the varied requirements and preferences of different clients, adapting to changing market conditions over time. The interview participants did not identify any significant shortcomings in the EIB Group offering.

2.3.2 The EIB Group has increasingly shifted towards thematic support

The focus of EIB Group operations in the period under consideration has gradually evolved from primarily addressing the generic SME financing gap to increasingly incorporating thematic operations. In line with the European Commission's priorities, the EIB Group has been transitioning towards thematic support.

To qualify as a thematic operation at the EIB, intermediated SME support needs to devote a certain share of allocations to the given thematic. The financing contract includes specific requirements whereby the intermediary commits to devote part of its portfolio to an agreed thematic. In practice, this means that the intermediary allocates a pre-agreed share of the loan volume to SMEs that make investments that are aligned with the given thematic objective. The share allocated to the thematic objective is typically between 10% and 30% of the allocations, as shown in Table 2. On average, climate-focused MBILs need to assign 27% of the loan volume to green investments.[23]

Table 2: The share of allocations within thematic MBILs targeting the specific theme

EIB thematic MBILs	Median % of allocation targeting specific thematic
Climate action	27%
Innovation	23%
Jobs for youth	30%
Young farmers	10%
Gender equality	30%

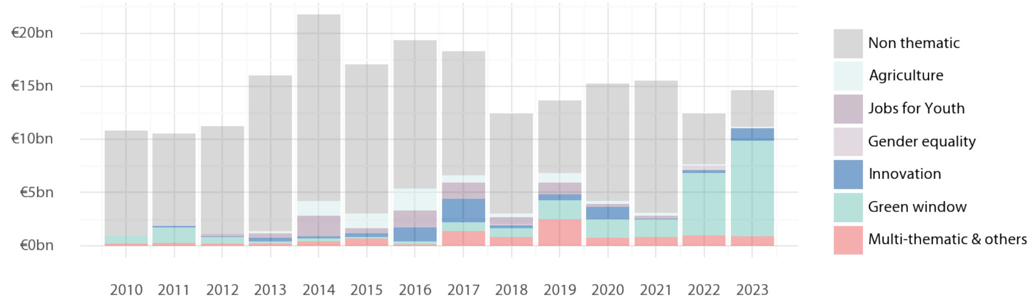
Source: EIB

For EIB products, by 2022, around 80% of intermediated support for SMEs aligned with an EIB thematic objective (Figure 13). The following thematic areas are supported:

- **Innovation:** From 2017 to 2022, standard EU Loans for SMEs and mid-caps include a default percentage (11%) automatically assigned to innovation. This was raised to 16% as from 2023. Specific, innovation-focused MBILs with higher required shares of innovative investments for SMEs and mid-caps are also possible with guidance from the Projects Directorate.
- **Green window (climate action and environmental sustainability):** The intermediary can make a contractual commitment to allocate a share of EIB funds to investments contributing to activities that fit the eligibility list of the green window.
- **Gender equality and women's economic empowerment:** The intermediary can make a contractual commitment to allocate a share of EIB funds in support of female-owned/female-led enterprises or other eligible entities. To qualify, the final beneficiary must meet the gender eligibility criteria based on EU and international best practice.
- **Jobs for Youth:** Since 2013, EIB support can be originated in the EU Member States under the EIB Jobs for Youth initiative, which facilitates employment for young workers by improving access to finance and borrowing conditions of enterprises in regions with high unemployment rates.

[23] Besides MBILs, the EIB also supports SMEs and mid-caps through thematic risk-sharing products, ABSs and, in case of mid-caps, direct loans. For risk-sharing products, the guarantee rate may be set up to a maximum level of 75% on an exceptional basis to facilitate projects contributing to climate action, such as in the field of renewable energy and energy efficiency. However, the vast majority of the thematic EIB support takes the form of MBILs.

Figure 13: Evolution of EIB SME and mid-cap debt support by thematics (net signatures)



Source: EIB

The EIF's thematic focus has primarily been driven by mandates provided by the European Commission. Innovation has been a major area of emphasis for the EIF across multiple mandates, including the RSI (2007-2013) and its successor, InnovFin (2014-2020). Collaborating with its mandators, the EIF has also cultivated specialised expertise in niche markets such as microfinance, social impact, and support for the cultural sector.

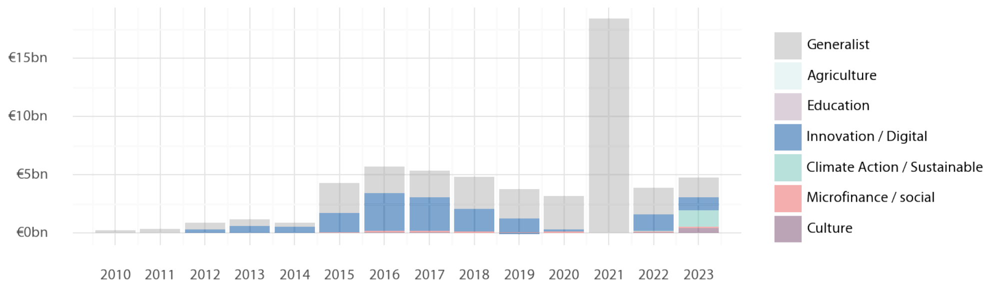
- **For the period under review, about 70% of EIF operations can be considered as non-thematic SME support.** This is mainly driven by the high volume of the EGF mandate, which was a generic instrument to address the impact of the COVID-19 pandemic on European SMEs and small mid-caps. Another large contribution to the non-thematic support was the COSME LGF mandate,
- **The largest thematic support has been for innovation at close to 25% of the total EIF portfolio.** There has been a series of innovation-focused mandates — RSI, InnovFin, InvestEU Innovation & Digitalisation — for the EIF in the subsequent Multiannual Financial Frameworks (MFFs) of the European Commission.

Since 2020 through the deployment of InvestEU, EIF operations have been shifting towards a wider palette of thematic objectives (Figure 14).[24] Building on the success of predecessor instruments such EFSI, InnovFin or the Connecting Europe Facility, the mandate offers targeted finance for SMEs and mid-caps at different stages of development and across the key policy areas, namely:

- SME Competitiveness;
- Sustainability;
- Innovation & Digital;
- Cultural & Creative;
- Microfinance and Social; and
- Skills & Education.

The EIF’s portfolio guarantee products now support investments for these policy priorities with the largest shares devoted to Sustainability and Innovation & Digital.

Figure 14: Evolution of EIF SME and mid-cap debt support by thematics (net signatures)



Source: EIF

[24] The year 2021 was an exception as the EIF was mainly deploying support related to the COVID-19 crisis. Such support was not thematic by nature, as it aimed at helping SMEs and small mid-caps to alleviate liquidity and working capital constraints.

2.3.3 While the EIB toolbox can address a range of obstacles to SME and mid-cap access to finance, the bulk of support has aimed at reducing firms' borrowing costs

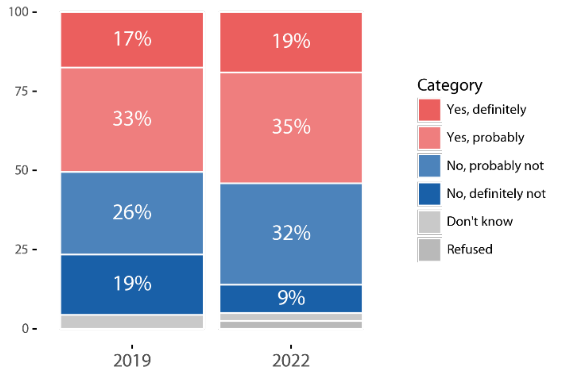
The evaluation examined the extent to which the EIB Group's product palette is designed to address the different obstacles that hinder SMEs' and mid-caps' access to finance. These obstacles include high cost of financing, but also quantitative constraints, such as receiving less funding than requested, or being discouraged or rejected. The evaluation analysed the expected effects of each EIB Group product category, whether they aim to reduce the cost of financing, enhance the overall availability of funding, or direct lending towards previously underserved SMEs or investment areas.

Overall the EIB Group offers products that can address various obstacles to access to finance, yet in practice the vast majority of support has aimed to reduce SMEs' and mid-caps' borrowing costs. Despite the expansion of its product offerings, EIB lending products remained the largest component of EIB Group support. During the period under review, approximately 68% of support was channelled through lending products. With the exception of 2021, EIB lending products consistently accounted for more than half of the total support for SMEs and mid-caps at the Group level each year.[25] As shown below, EIB lending products have mainly affected the cost of funding to SMEs. Other products, such as guarantees, risk sharing and most ABS subscriptions can address the quantitative aspects of the financing gap, yet they have been a smaller part of the overall Group-level support.

EIB lending products

EIB lending products have primarily consisted in reducing the cost of funding for SMEs and mid-caps. They contribute to lower cost of financing through the mechanism of Transfer of Financial Advantage (ToFA). Financial intermediaries are offered an EIB loan with favourable pricing and conditions. They are contractually required to transfer part of this financial advantage to final beneficiaries. The standard requirement is to transfer a third of the EIB financial benefit, with a minimum of 25 basis points (or 10 basis points in the case of justified exceptions). Alternatively, the EIB financial advantage can take the form of longer tenors expected to be transferred to the final beneficiary level.

Figure 15: Share of intermediaries keeping their lending offering towards final beneficiaries unaltered after receiving EIB support (% of respondents)



Note: Response to the question: Now, thinking about your lending activities, if your application for the EIB had been refused, would your lending offer to the relevant segment have been the same?

Source: EIB Client Satisfaction Survey (2019 & 2022, all EU bank clients)

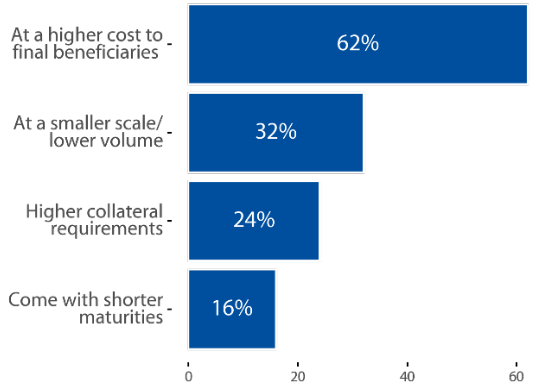
When intermediaries have access to ample funding from alternative sources, EIB lending products often do little to increase the volume of loans available to SMEs. In times when funding and liquidity is abundant, intermediaries can raise funding from alternative sources. At the same time, under such market conditions interest rate spreads are usually compressed, and the pricing advantage of EIB loans is smaller. This limits the EIB's leverage on financial intermediaries to ask for changes in their lending offerings (increased volume, stronger thematic orientation, longer maturities, etc). Given the low price advantage of EIB products in such times, it is unlikely to have any effect on the intermediaries' quantitative loan supply to SMEs and mid-caps. This has also led the EIB to soften its ToFA requirements in certain cases in the past. In practice, due to the relatively small ticket size of typical SME loans, the actual benefit in financial terms for the final beneficiary firms usually remains very limited.

[25] In 2021, the roll out of the EGF mandate — as a response to the COVID-19 pandemic — resulted in a sharp and one-off increase in guarantee products.

Evidence from the EIB Client Satisfaction Survey confirms that the most significant effect of EIB products on intermediaries' lending offerings has been to reduce the cost of funding.[26] Since 2016, the EIB conducted the EIB Client Satisfaction Survey every three years. This survey collects feedback from a representative sample of banks, corporates, and public sector counterparts. It provides insight into the effects of EIB-intermediated products at the level of final beneficiaries:

- When it comes to banking clients, only 41% indicate that they would not have offered the same lending conditions to final beneficiary firms without the EIB intervention (Figure 15).
- Among the 41% that report an effect on their lending offer, the most commonly cited advantage of the EIB products for final beneficiaries is the lower cost of funding (Figure 16).
- Increasing the lending volume towards SMEs, lowering the collateral requirements or increasing the maturity is mentioned only by a small minority of the respondents.

Figure 16: Likely change in EIB- supported intermediaries' offering towards final beneficiaries in the absence of EIB support (% of respondents)



Note: Response to the question: If your application for the EIB had been refused, would your lending offer have been…?

Source: EIB Client Satisfaction Survey (2019, all EU bank clients responding with 'no' to the question above).

Under specific conditions, EIB lending products may also have effects beyond pricing, but these were limited during the period under review.

- **In periods and regions in which financial institutions' access to funding is restricted**, EIB lending products can contribute to increased availability of SME loans. For example, this was the case in the aftermath of the global financial crisis, or in the geographies most affected by the crisis. In these cases, EIB lending products effectively address a significant constraint faced by financial intermediaries, potentially resulting in additional lending to SMEs.
- **Thematic lending products**, if offering sufficient incentives for intermediaries and final beneficiaries, have the potential to shift the market's project portfolio towards investments with positive externalities, such as those related to green initiatives and innovation.[27]
- **EIB lending products in the form of loan substitutes** have the potential for a more pronounced impact on loan availability for SMEs, as they may alleviate binding collateral constraints for certain financial institutions. Using leasing companies also allows firms to finance their equipment without the need for collateral.

[26] The EIB Client Satisfaction Survey covers the EIB only, and does not include EIF clients. Furthermore, the survey does not distinguish between intermediaries using different types of EIB products (EIB lending products, EIB risk sharing, EIB ABS subscriptions). Therefore the survey represents the financial intermediaries' opinion on the EIB intermediated portfolio as a whole, which is chiefly composed of EIB lending products.

[27] Section 3.2.2 assesses the extent to which the EIB Group's thematic products have been providing such incentives.

The evaluation interviewed more than 30 financial intermediaries. The interviews provide a varied perspective on the use of intermediated loans:

- **Large commercial banks** typically stated that EIB lending products (MBILs and loan substitutes) did not significantly enhance their lending volume or extend their SME client base. Instead, these instruments enabled them to offer more competitive rates to existing clients.
- **Other types of intermediaries**, including leasing companies, cooperative banks, and non-bank financial intermediaries (NBFIs), generally noted that EIB Group funding support helped them expand into specific target segments. Without this support, they might have found it challenging to reach these market segments.
- **Thematic lending products** helped some of the interviewed commercial banks (for example, in the Netherlands and Romania) to implement and boost their existing thematic strategies.

EIF guarantees and EIB risk sharing

Through guarantee and risk-sharing products, the EIB Group shares part of the credit risk with implementing financial intermediaries. While they differ in their specific set-up, EIF guarantee and counter-guarantee instruments and EIB risk sharing products provide loss protection to financial intermediaries that generate SME lending.

By increasing financial intermediaries' capacity to assume SME credit risk, guarantees and risk-sharing instruments are primarily able to address the quantitative aspects of the SME financing gap. They can contribute to better access to finance:

- by increasing the overall volume of loans available to SMEs, and;
- by shifting the portfolio of loans towards riskier firms and projects that would have not received financing otherwise.

The relative size and the overall scale of these effects depend on the product parameters of the guarantee instruments, such as the level of protection offered by the product and other eligibility conditions. Certain instruments that offer high protection can be eligible for regulatory capital relief, and thus allow financial intermediaries to increase their supply of credit to SMEs and mid-caps. Other instruments that offer relatively low protection do not provide capital relief.

- In general, higher guarantee rates and uncapped guarantee structures are most suitable for helping the riskiest firms access to finance — such as young, innovative SMEs and mid-caps. Examples of such products include the EIF's InnovFin SMEG and uncapped guarantees under InvestEU.
- Capped guarantees offer lower credit protection than uncapped guarantees, they typically allow leveraging on resources, and they reach a large number of final beneficiary SMEs. Such products have been offered by the EIF under COSME LGF and InvestEU, among others.
- De-linked EIB risk sharing products offer capital relief or risk sharing on an existing portfolio that prompts the financial intermediaries to originate new eligible loans to SMEs and mid-caps.
- Linked EIB risk sharing aims to stimulate the origination of new eligible loans typically to larger SMEs and mid-caps, to improve their access to finance or financing conditions.

Guarantee and risk sharing can also contribute to lower financing cost — but this depends on each mandate, the price for the intermediary, the risk coverage and whether the product has a subsidy element. For instance, InnovFin guarantees include a requirement for the financial intermediaries to transfer part of the financial advantage to beneficiaries.[28] In the case of EIB risk sharing, financial intermediaries may be required to transfer part of the pricing advantage received to final beneficiaries on a case-by-case basis.

[28] This requirement of transferring the financial advantage applies only if the final beneficiary is an SME or a small mid-cap, and does not apply for large mid-caps.

Interviews with representatives of financial institutions suggest that guarantee products empower intermediaries to provide financing to SMEs that might otherwise be unable to borrow or would qualify for less favourable terms.

- According to the interviews, SMEs have enjoyed extended loan maturities, interest rate reductions, reduced down payment requirements in leasing arrangements, and, in some cases, reduced or eliminated collateral requirements.
- Guarantees have enabled financial institutions to target specific market segments, including startups, innovative firms, businesses in the cultural and creative sectors, and microentrepreneurs.

ABS subscriptions

Participation in securitisation transactions provide an alternative way to alleviate the risk constraints of financial intermediaries, and combine this with funding. In such cases the EIB Group subscribes to a specific tranche in an asset-backed security (ABS) issued by the intermediaries. This subscription can enable regulatory capital relief, which financial intermediaries are required to redeploy to originate new eligible SME and mid-cap loan portfolios.[29] The size of the new SME portfolio to be generated is typically several times larger than the size of the guarantee. In cases where the underlying securitisation structure is synthetic, the EIF fronts the transaction, providing an unconditional and irrevocable guarantee on the tranches, and then the EIB provides a back-to back guarantee to the EIF as final risk-taker.

While ABS subscriptions increase intermediaries' lending capacity, they usually fail to shift their lending behaviour towards specific segments. Given that the EIB Group's risk exposure is not linked to the SME portfolio to be generated by the intermediary, these products have little effect on targeting riskier or underserved SMEs. The unfunded ABS first lost piece guarantees developed under the EGF are an exception, as they require intermediaries to build a portfolio of riskier clients. However, thematic support can focus the effect to a smaller segment of intended final beneficiaries, depending on the market conditions and the EIB Group's ability to provide a significant financial advantage to be passed on to the intermediaries to incentivise thematic lending.

Other EIF products

The EIF's support for private debt aims to broaden the supply of financing products for SMEs. Firms for which traditional bank loans would not be easily available on suitable conditions, or without access to public debt markets can turn to private debt funds.

- By playing a market-building role, the EIF is raising the overall availability of financing to SMEs.
- While many private debt users could still benefit from traditional bank support, debt funds offer customised financing in the form of flexible interest rate structures, repayment schedules or collateral requirements. Their (credit) assessment of loan recipients is more flexible, and can be faster and more tailored to specific situations.

The EIF's intermediated loans provide senior and subordinated loans to microfinance intermediaries, allowing them to reach an underserved segment of the SME population. The aim is to increase their capacity to provide financing to microenterprises and social enterprises, and to mobilise their own resources to grow their microfinance or social entrepreneurship portfolios. By supporting microfinance institutions, the EIF serves small businesses that are otherwise ineligible for traditional bank financing. These intermediaries offer tailored support with relatively small tickets, yet without stringent, bank-like eligibility requirements. The EIF is thus expanding the overall availability of financing to an underserved segment.

[29] The effect on capital release is proportionate to the seniority of the exposure, impacting the magnitude of the increase in lending.

3. HAS THE EIB GROUP BEEN EFFECTIVE IN ADDRESSING FINANCING GAPS AT GEOGRAPHICAL, THEMATIC AND MARKET LEVELS?

- **The EIB Group's SME support is broadly aligned with the distribution of needs among EU countries and regions: The Group is providing more support to Member States and regions with a higher SME financing gap.**
- **In line with EU needs and policy objectives, the EIB Group has shifted its SME and mid-cap support rapidly and sizably towards specific thematic areas, including climate action — but it still provides only few incentives for financial intermediaries to expand their portfolios in these areas, or for final beneficiaries to invest in them.**
- **While the EIB Group has aimed to increase its support for alternative finance providers, these initiatives have yielded only partial results so far, especially on the EIB side. At the same time, the Group has diversified its activities with larger banking groups.**

This chapter focuses on the extent to which the EIB Group has been effective in addressing geographical, thematic and diversification needs. The section is divided in three parts:

- We first consider whether the geographical coverage of the Group's support has been aligned with the needs of SMEs' and mid-caps across the European Union.
- Next we look at how effective the EIB Group's thematic support has been in shifting investments towards the thematic policy objectives.
- Finally, we assess how effective the EIB Group's support has been in diversifying the financing sources available to SMEs and mid-caps.

3.1 Has the geographical coverage of the EIB Group's support been aligned with the needs of SMEs' and mid-caps across the European Union?

Overall, the country-by-country distribution of the EIB Group's support is broadly in line with the needs in the Member States. On average, the EIB Group is providing more support to Member States with a higher SME financing gap. In absolute terms, the volume of support is highly concentrated toward Italy and Spain where more than 45% of the overall volume has been signed. The bottom 17 countries only account for 10% of the total support. However, when looking at this support relative to GDP, the picture is more balanced, and the bulk of support is channelled towards the Member States with the lowest GDP per capita, where the SME financing gap is larger (Figure 18).

Figure 17: EIB Group support (net signed volume) and share of constrained firms per Member State

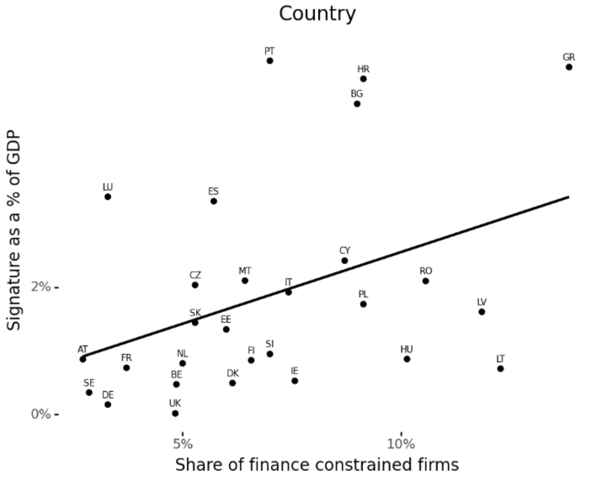
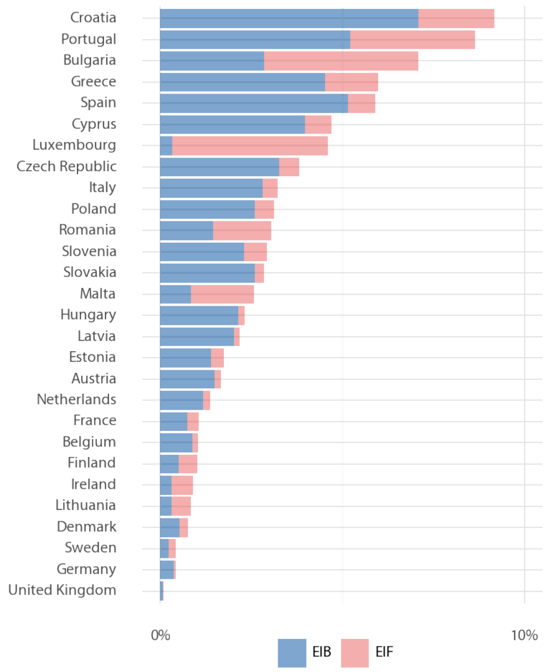


Figure 18: EIB Group debt support for SMEs by Member States (net signed volume as % of GDP)

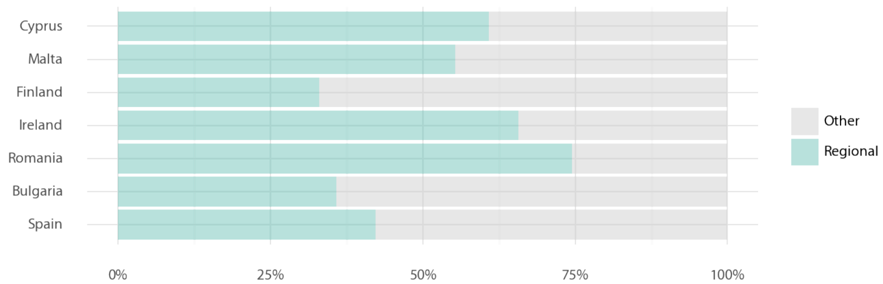


Source: EIB and EIF

The EIB Group's support by country is correlated with country-level indicators of financing needs. The annual EIB Group Survey on Investment (EIBIS) includes information on the constraints faced by these firms in accessing finance.[30] Figure 17 illustrates the positive association between the EIBIS indicator of country-level financing constraints and the amount of EIB support relative to the country's GDP.

The EIF's regional mandates contribute strongly towards increasing the EIB Group's support in certain Member States with significant needs. The EIF is providing guarantees in some countries under regional mandates. In these cases, Member States or regional authorities entrust the EIF with deploying operation on their territory. In most cases, funding comes from a European structural and investment fund (ESIF). These mandates play a key role in certain Member States and provide a significant amount of the total volume of EIB Group support (Figure 19) They are critical for the EIB Group to address the higher financing gap measured in countries such as Bulgaria, Cyprus, Malta or Romania.

Figure 19: Share of regional mandates in EIF signatures per Member State (net volume)

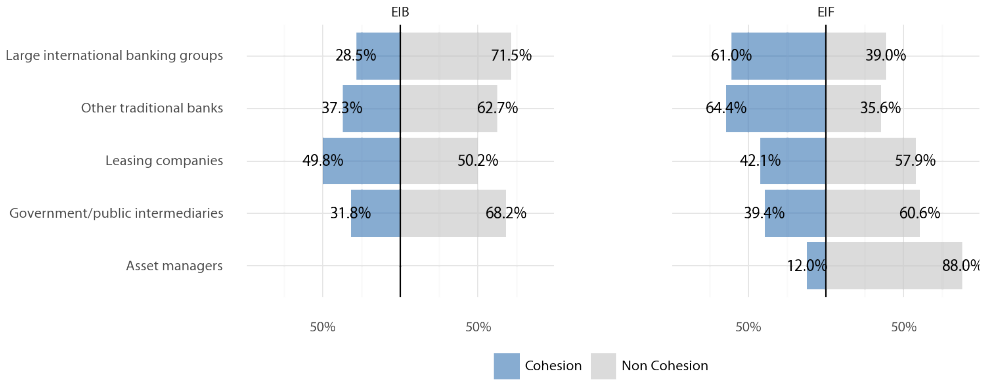


Source: EIB and EIF

[30] Finance-constrained firms include firms dissatisfied with the amount of finance obtained, those that did not receive it, and those that did not seek external finance because they thought borrowing costs would be too high or they would be turned down.

At a regional level, about 30% of EIB and more than 55% of EIF support is targeting SMEs in Cohesion regions.[31] Figure 20 depicts the share of allocations of loans to final beneficiary firms located in Cohesion regions for each type of intermediary. EIF products have higher outreach to companies in Cohesion regions than EIB products. Large international banks and traditional banks allocate 30 to 40% of their EIB-supported resources in Cohesion regions, whereas for EIF products it exceeds 60%. Commercial banks allocate equally or more to SMEs located in the Cohesion regions than government/public intermediaries; the latter — typically NPBIs and national guarantee funds — do not appear to have a stronger focus on the less developed regions within their own country relative to private intermediaries. The difference is even more significant for EIF support, where 39% of the support by NPBIs and other public institutions is allocated to final beneficiaries of Cohesion regions.

Figure 20: Share of allocations in Cohesion regions by type of intermediary



Source: EIB and EIF

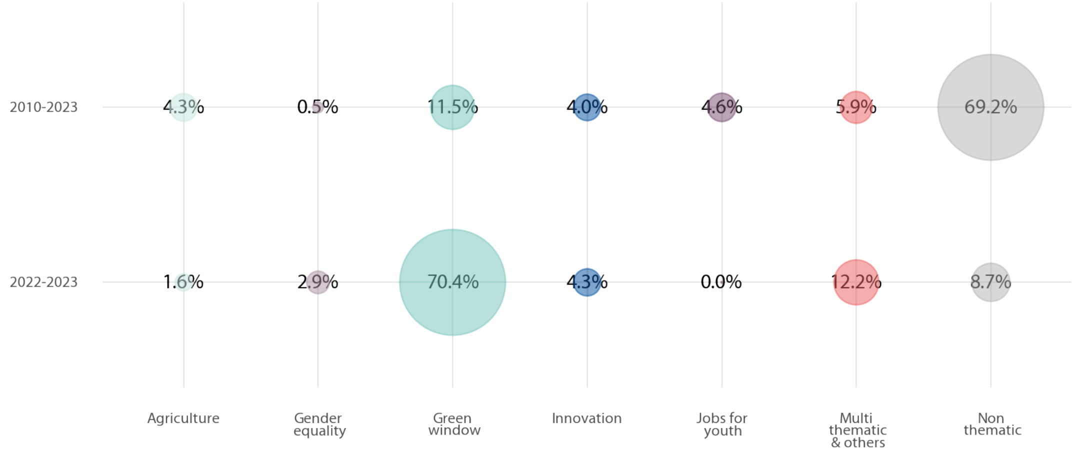
3.2 How effective was the EIB Group's support in shifting investments towards thematic policy objectives?

In line with the shifts in EU policy objectives, the EIB Group has increasingly focused on support for SMEs and mid-caps with a thematic component. As already shown in detail in Section 2.3.2, in terms of net signed volume, there has been a gradual increase of thematic products within the EIB Group portfolio. On EIB side, while for the whole period 2010-2023 only 31% of the MBILs have a thematic component, for the years 2022-2023 this share reached 91%, highlighting their growing importance over time. About 37% of the volume signed for all thematic operations targeting SMEs and mid-caps is for climate action (Figure 21).[32]

[31] The EIB considers as cohesion the EU regions (classified at NUTS 2 level) where gross domestic product per capita is below 90% of the average in the EU-27.

[32] To qualify as a thematic operation at the EIB, financial intermediaries must devote a certain share of their SME and mid-cap allocations to the thematic in question. The financing contract with the EIB includes specific requirements whereby the intermediary commits to devote part of its portfolio to the agreed thematic. In practice, this means that the intermediary allocates a pre-agreed share of the loan volume to firms making investments aligned with a relevant thematic objective.

Figure 21: Share of thematic operations as a total of EIB lending products, net signed volume



Source: EIB

EIB Group thematic products are useful in directing the attention of intermediaries to themes and in supporting efforts in selected policy areas. In some cases, such as with the climate, the "early mover" expertise of the EIB Group can help financial intermediaries to strengthen their expertise, develop orientations towards environmental and social objectives or prepare for future regulatory requirements. The EIB Group and the intermediaries can collaborate on operationalising policy priorities and work toward standardising eligibility criteria.

Case studies and interviews with financial intermediaries confirm that in many cases EIB support can help intermediaries to shift towards the given thematic such as climate.

- A large commercial bank in the Netherlands used the EIB loan to start impact finance and, in turn, used this product to position itself in the market as a green bank.
- A specialised financial institution in Romania reported how the EIB liquidity support enabled it to develop a new product to provide long-term lending for climate action/green projects undertaken by SMEs.

An example of this type of support is the *Green Gateway.* Developed with funding from the European Investment Advisory Hub, the Green Gateway portal helps partner financial intermediaries of the EIB and EIF to assess and report on the green eligibility and green impact of allocations. The portal offers guidelines and case studies on green investment criteria, and provides an e-learning platform. It also provides online tools to assess the green eligibility of SME sub-projects in a simple and user-friendly manner. Beyond assisting EIB financial intermediaries with allocating green sub-projects under EIB intermediated finance products, the portal's tools can also give useful guidance on the green taxonomy for other financial institutions.

However, interviews with staff highlighted that the expected outcomes of thematic support often remain unclear, linked to the absence of strategic guidance. Case studies and interviews revealed that the expected change induced by EIB Group's thematic support is not understood similarly across the Bank's departments. Some staff see thematic products as a way to influence intermediaries' behaviour, and to encourage them to invest more in thematic areas than they would otherwise. Others assign a less ambitious objective to thematic operations, as they perceive them as a means of identifying and give a thematic label to already eligible sub-loans offered by intermediaries, with no intent to increase such activity. The EIB Group's strategies — including the SME strategy and thematic ones — do not provide clear, well-formulated intentions on the expected outcomes of thematic intermediated support for SMEs and mid-caps. This calls for a clarification of the intended objectives.

Interviews also revealed that thematic support was not always marketed consistently within the Bank. Depending on the context — markets and geographies, or the team in charge of initiating an operation —the type of thematic brought forward for operations may vary. Especially in the case of newly emerging policy objectives like gender, the evaluation found that whether such thematic products were marketed towards clients depended heavily on the personal interests, motivations and backgrounds of the client-facing staff.

At the same time, there are limited incentives (a) for intermediaries to seek and finance thematic investments and (b) for final beneficiaries to shift their investment behaviour:

- **Intermediaries:** An ex-ante assessment of the intermediary's capacity to deploy thematic support is usually conducted based on historical track record. The thematic targets are thus linked to thematic allocation percentages observed in the past, which the financial intermediary will realistically be able to deliver in the future, too. The resulting (relatively low) thematic targets do not call for an increase in the thematic portion of the intermediary's lending portfolio. For larger intermediaries, it is possible to fulfil the thematic nature of the operation by selecting eligible counterparts and projects from their existing SME lending pipeline of operations, without actively seeking new lending opportunities in the given area.
- **Final beneficiaries:** For many EIB-supported thematic operations, the financial advantage offered by the EIB to the financial intermediary, and the portion of this advantage passed on to the beneficiary firm, are relatively low. This may therefore be insufficient to incentivise a meaningful change in behaviour. For example, a typical transfer of financial advantage of 25 to 40 basis points won't, in most cases, substantially influence firms' investment behaviour — for instance to shift towards a greener, but more expensive technology. This has been particularly true in periods of low interest rates, where spreads were compressed, and the financial advantage offered by the EIB was even more limited.

A balance must constantly be maintained between incentivising for a thematic shift and ensuring product marketability. The intermediated nature of EIB Group support means its products must be marketable. EIB thematic support must consider the administrative burden on intermediaries of measuring and assessing the eligibility of underlying loans and reporting to the Bank. To maintain its position as a market leader when it comes to eligibility requirements, the EIB must, in a context of reduced competitive financial advantage and taking private sector absorption of policy standards into account, keep striving to develop integrated products providing support beyond pure lending.[33]

A way to incentivise a shift in the behaviour of final beneficiaries towards the thematic objectives is the use of advisory, or pricing linked to specific targets, or blended instruments though mandates. Recent initiatives, such as risk-sharing operations with higher risk taking when thematic objectives apply, or products with pricing linked to specific targets are steps into this direction. To go further, combining lending with non-reimbursable grants from external (EU or national) sources, and with advisory services, can improve the incentive structure for final beneficiaries and render thematic investment objectives more attractive (fi-compass, 2021). There is a broad in-house expertise on blended financial instruments to build on within Advisory services (InvestEU Advisory Hub and fi-compass in particular). Furthermore, blended finance solutions are often used by other international financial institutions (see Box 5 for examples). the EIB Group Climate Bank Roadmap also stresses the role of blended finance.

Yet, within the EIB Group's thematic SME support there have been limited cases of blended products. One example is a mandate the EIF piloted in Malta that blended its typical product with a grant component, allowing it to offer interest-free support for climate action.

[33] Under the current conditions, when EIB lending products are relatively competitive in terms of pricing, there is more room to have ambitious targets for thematic objectives compared to the low interest rate environment experienced previously.

Box 5: Blending to strengthen thematic support

The EIB Group piloted the Energy Efficiency and Renewable Energy Financial Instrument in Malta. It facilitates access to finance for both households and enterprises (entrepreneurs, SMEs and mid-caps) in relation to energy efficiency and renewable energy investments in Malta. Under this scheme, leveraging on the European Regional Development Fund from the Republic of Malta, the EIF issues a free guarantee to the financial intermediary, while the EIB provides technical assistance: online tools and bilateral support. The targeted beneficiaries receive an interest rate subsidy that applies for ten years pushing the loan interest rates near 0%

In Germany, the KfW CO2 emission reduction loan programme (Förderprodukte für Energie und Umwelt) provides companies with soft loans, with a maximum tenor of ten years, to finance the construction of energy efficient buildings or the renovation of existing industrial/tertiary ones. Loans are granted by commercial banks and are combined with an interest rate subsidy and a capital rebate scheme, whose amount depends on the energy savings' achieved. The capital rebate may go up to 27.5% and 5% of the loan amount for the renovation of existing buildings and for new construction projects respectively. In practice, the capital rebate is provided in the form of a reduction of the loan tenor through a write-off of the last annuities due from the final recipient.

The EBRD's Green Economy Financing Facilities (GEFF) provides finance and advice to businesses wishing to invest in green technologies. The GEFF programme operates through a network of more than 140 local financial institutions across 26 countries supported by more than €4 billion of EBRD financing. In certain cases, companies can also request banks participating in the facility to authorise a grant (provided by the European Union, the EBRD Shareholder Special Fund and potentially other donors) for successful completion.

3.3 How effective was the EIB Group's support in diversifying the financing sources available to SMEs and mid-caps?

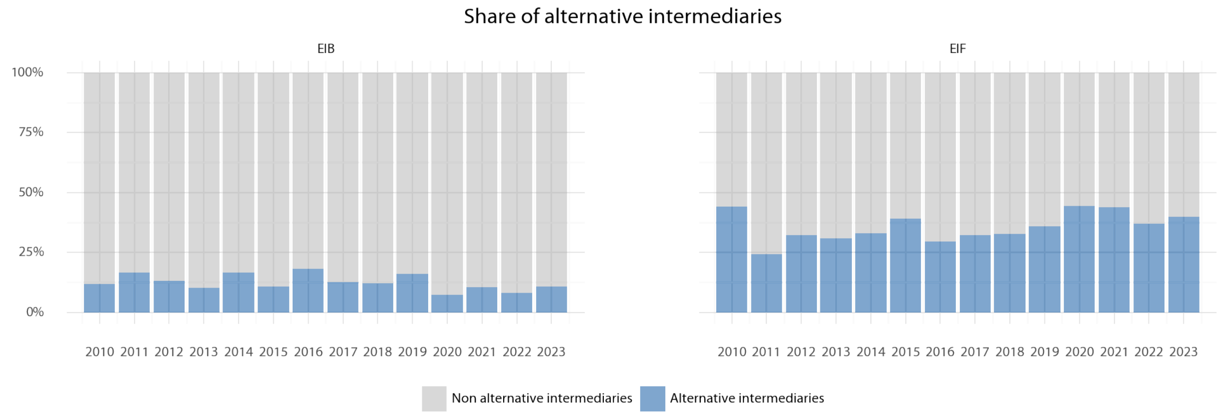
Diversifying the intermediaries channelling EIB Group support has long been a Group objective, and recently became an explicit and monitored policy objective. The development of alternative financing support for SMEs is part of the policy objectives and incentive structure of the EIB Group, as reflected in the EIB's AIM framework since 2021 and in Financial Institutions Department (FID) KPIs since 2022, as well as in the EIF's objectives.[34]

In relative terms, there was no increase in the diversification of intermediaries channelling EIB Group support over the period. The evaluation used a different methodology to that generally used by the EIB, and consolidated subsidiaries with their parent companies in the classification of financial intermediaries. Alternative providers are therefore identified as independent providers — thereby excluding those owned or sponsored by larger banking groups. With a share of operations averaging 13% of the EIB portfolio and 36% of the EIF one, support for alternative providers is mainly driven by EIF activity.[35] The relative share of alternative finance providers in both the EIB's and the EIF's client base did not increase over the period in scope (Figure 22).

[34] The EIB set a KPI for the FID, calling for the annual three-year average of total FID SME signatures with "small" intermediaries, regional players or sector specialists to be at least 40% of the annual three-year average of FID intermediated SME signature volume. It uses a different classification of alternative financial institutions than the one used in this evaluation. The KPI has reached 57% in 2022-23. For the EIF, supporting the development of ecosystems is a key pillar, including fostering inclusive finance, securitisation, private credit, alternative SME lenders, etc.

[35] For the purpose of the quantitative analysis, we define alternative financial institutions as other banks, leasing companies, asset managers and other non-bank intermediaries. The definitions of these individual categories are detailed in the introduction.

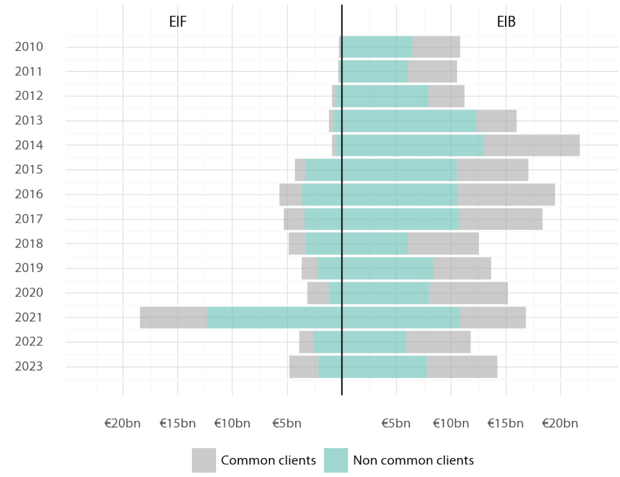
Figure 22: Share of alternative intermediaries in the EIB and EIF portfolios (number of operations signed)



Source: EIB and EIF

There is a large overlap between the financial intermediary clients of the EIB and the EIF (Figure 23). In light of the high share of common clients, the creation of a single Financial Institutions Department (FID) plays an important role in coordinating intermediated SME support. Over the last years, FID's global relationship management role has been intensified in close collaboration with the EIF.

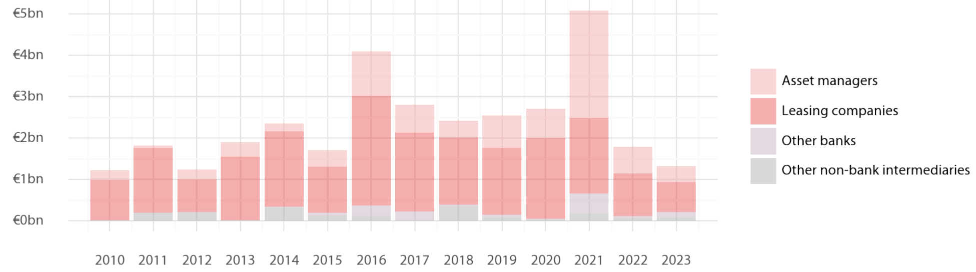
Figure 23: Net volume signed with common clients



Source: EIB and EIF

In absolute terms (net signed volume), there has been a slight increase in support for alternative financial intermediaries, although it remains a small share of the EIB Group portfolio. While not a large volume at portfolio level, EIB Group operations with intermediaries other than large international banking groups, traditional banks and government/public intermediaries have increased over the period. Within the alternative financial intermediaries, the bulk of the increase is attributed to leasing companies and asset managers. The overall increase is driven by the growth in volume of EIB Group activities over the period, and the increased share of EIF operations within EIB Group-level SME support activity.

Figure 24: Yearly net volumes signed with alternative intermediaries

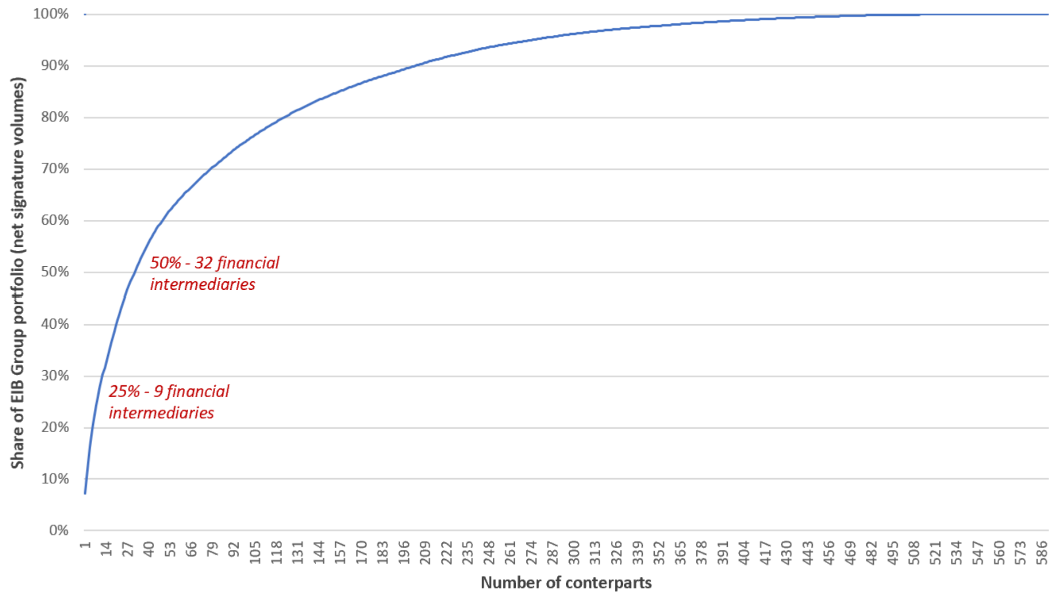


Source: EIB and EIF

The EIB Group has been partnering with government/public intermediaries, such as NPBIs to deploy a significant share of its SME support. About 22% of EIB Group operations in support of SMEs and mid-caps are channelled through government/public intermediaries. For the EIF this share is slightly above 10%. The benefit of partnering with national and local public partners lies in their knowledge and access to local markets. These intermediaries can also be co-financiers, either of individual operations or through investment platforms. The EFSI mandate encouraged cooperation with NPBIs, which remains a key pillar of EIB intermediated support.

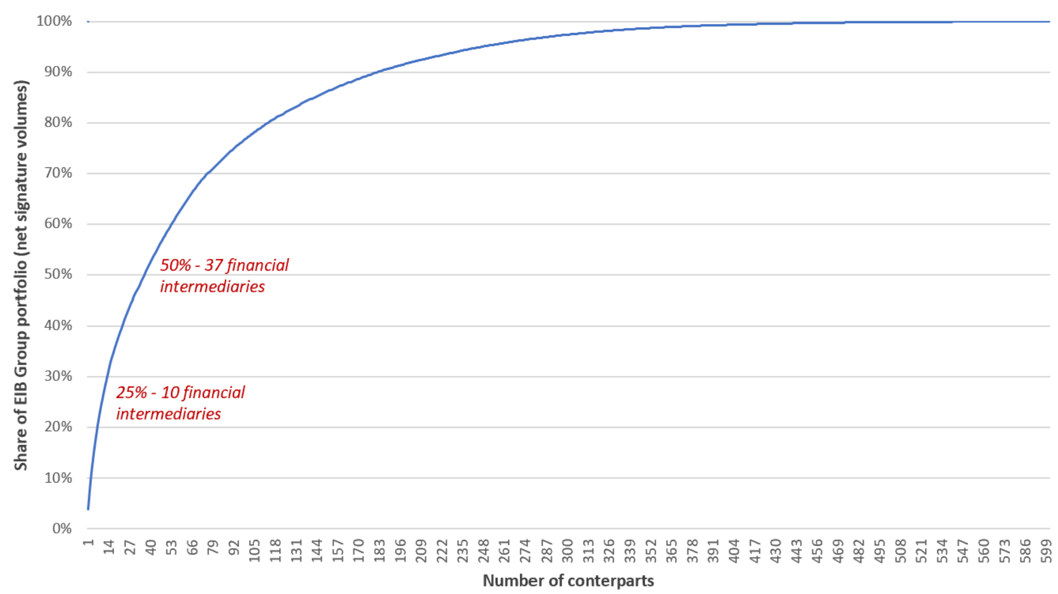
The EIB Group mostly channels its support through international banking groups, which can deliver high volumes per operation. EIB and EIF portfolios of intermediated operations are both highly concentrated over the whole period. While the EIB Group is working altogether with a total of about 1,000 different intermediaries, the nine biggest EIB clients make up 25% of the total volume of operations, and the 32 biggest represent more than 50% (Figure 25). Similarly, for the EIF, the ten largest intermediaries channel 25% of the net signed volume (Figure 26). Most of the intermediated SME support therefore stems from a small number of large clients, mainly international banking groups and their subsidiaries. Since these operations are also often synonymous with bigger ticket size for the EIB Group, this trend increases when looking at volumes.

Figure 25: EIB portfolio concentration (net volume)



Source: EIB

Figure 26: EIF portfolio concentration (net volume)



Source: EIF

Nevertheless, the long-standing relationship with large banking groups has helped the EIB Group broaden its product palette towards more specialised products. While they do not foster the diversification of financial service providers catering to SMEs and mid-caps, over time the products offered through large, repeat clients have been increasingly diverse in various ways, such as product sophistication, thematic support and geographical coverage.

4. HAS THE EIB GROUP BEEN EFFECTIVE IN ADDRESSING THE NEEDS OF FINANCIAL INTERMEDIARIES?

- **Over time, the diversified product palette has helped to alleviate some of the constraints faced by financial intermediaries in extending access to finance for SMEs and mid-caps.**
- **Yet, internal and external constraints have sometimes hampered the Group's ability to be flexible and rapid enough to scale up guarantees and risk-sharing products in response to the evolving needs of financial intermediaries. Learning from these experiences, the Group has taken several measures to improve its responsiveness and flexibility.**
- **Overall, most EIB Group debt products for SMEs and mid-caps were effectively and rapidly disbursed.**
- **Despite strong demand for guarantees over the period, two particular products — EIB risk sharing and EGF guarantees — were not used fully and effectively.**

This chapter focuses on the effectiveness of EIB support in reaching financial intermediaries. The focus is thus on the first element of the intermediated lending model: the link between the EIB and financial intermediaries.

- We first consider the extent to which EIB support was effective in addressing the funding and risk-taking constraints of financial intermediaries over time, in adjusting to the shifts in these needs, and in carrying out counter-cyclical support over the economic cycles.
- Next we look at the time needed to deploy the different EIB Group products to the intermediaries, and whether the financing amount made available to financial intermediaries (approved and signed) were effectively used by the latter.

4.1 How effective was the EIB Group in adjusting to the shifts in the financial intermediaries' constraints and needs over time?

The evaluation assessed how the EIB Group was able to adjust its product offering to the shifts in needs and constraints of financial intermediaries. As discussed in Chapter 2, intermediaries' constraints play a key role in SME and mid-cap access to finance. Public interventions address the SME financing gap more effectively when they target the relevant constraints faced by financial intermediaries.

For the purpose of our analysis, we identify three distinct periods:

- the period following the global financial crisis and the EU sovereign debt crisis (2008-2013);
- the post-crisis recovery with quantitative easing (2014-2019), and;
- the period defined by the COVID-19 pandemic (2020-2023).

GCF and sovereign crisis (2008-2013)

During the global financial crisis, the EIB's shareholders asked it to substantially step up support for SMEs and mid-caps. In a time when many intermediaries faced funding and liquidity constraints, the EIB progressively scaled up lending products, an increase largely supported by additional capital.

During the global financial crisis and the European sovereign crisis (2008-2013), both funding and risk-taking constraints became severely binding on EU financial intermediaries, with funding being an immediate priority for most of the period. Access to funding and liquidity was significantly limited during this period, especially in the countries most affected by the crisis, such as those in Southern Europe and Central and Eastern Europe. Despite significant easing measures taken by the European Central Bank (ECB), conventional monetary policies were insufficient to address the issues related to limited access to liquidity and funding. Intermediaries' risk-taking capacity also deteriorated. Although credit risk took some time to manifest, non-performing loans and other losses increasingly put pressure on banks' capital. Figure 27 illustrates this using data from the ECB Bank Lending Survey. The survey data shows that deterioration in banks' ability to access external market funding, as well as their worsening capital positions, continued to tighten the lending conditions they were offering to firms.

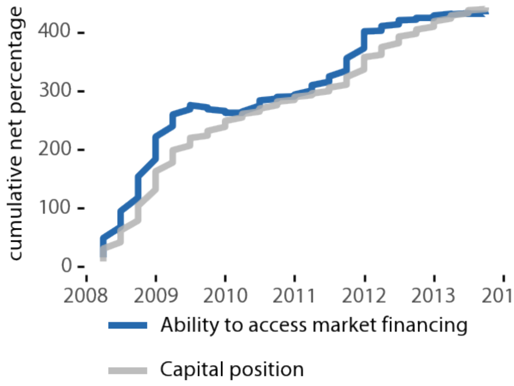
In the immediate aftermath of the global financial crisis and the EU sovereign debt crisis, shareholders of the EIB asked the Group to provide support to SMEs and mid-caps chiefly in the form of funding, which was in high demand among intermediaries.[36] While European financial intermediaries were affected by liquidity and funding constraints, the EIB had a relevant product to hand, ready to be deployed: the MBIL. The EIB's capacity to increase its support for SMEs and mid-caps was further reinforced by the fully paid-in increase of €10 billion in its capital in 2012.

The EIB effectively rolled out lending support with the large-scale deployment of MBILs. In the context of the high interest rates faced by many intermediaries on the wholesale funding market, the EIB could offer attractive support to clients, including those that had difficulty raising funding elsewhere. While there was also a need for guarantee and risk sharing products, the EIB Group focused chiefly on funding support (Figure 28). EIF guarantees and EIB risk-sharing products were limited to a few specific, smaller-scale initiatives.[37]

[36] At the informal ECOFIN meeting held in Nice on 12 and 13 September 2008 EU economy and finance ministers asked the EIB to provide banks with lines of credit for SMEs for a total of €15 billion in 2008-2009 and €30 billion by 2011 (EIB, 2009).

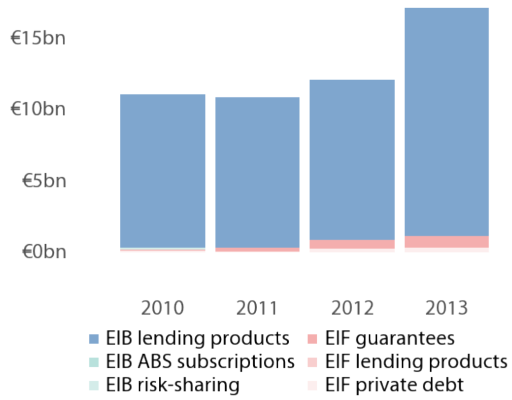
[37] On the EIF side these included the CIP SMEG, the RSI, and first-loss portfolio guarantees supported from EU structural funds through the JEREMIE programme. The EIB supplied risk-sharing products and ABS subscriptions only sporadically during this period.

Figure 27: Factors affecting euro area banks' credit supply to firms (2008-2013)



Source: ECB Bank Lending Survey.

Figure 28: EIB Group net signed volume supporting SMEs (2010-2013)



Source: EIB and EIF

Note to Figure 27: Response to the question: Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of loans or credit lines to enterprises? Cumulative net percentages are calculated as the difference between the share of positive and negative responses aggregated over time. Positive values indicate factors leading to tighter credit conditions.

Overall, the EIB Group's product offering was well aligned with the intermediaries' needs and constraints. As a result, the net signed volume supporting SMEs increased markedly over the period. By 2013, support for SMEs became the public policy goal with the largest signature volume: €18.5 billion, representing a more than threefold increase since the pre-crisis (2007) signature volume of €5.5 billion.

Post-crisis recovery and zero lower bound (2014-2019)

During the following recovery period—characterised by large-scale unconventional monetary easing— the competitiveness of EIB lending products was progressively eroded. At the same time, alternative products to support SMEs (risk-sharing and guarantee products offered through EFSI) took time to deploy.

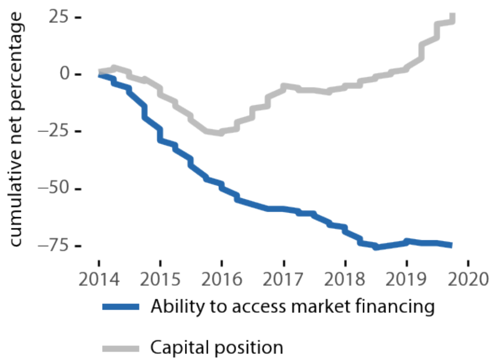
During this phase, funding constraints were alleviated by abundant central bank liquidity. The launch of the ECB quantitative easing programmes and targeted longer-term refinancing operations (TLTRO) reduced the significance of funding constraints for most banks, except in specific niches and regions (e.g. Greece). As a result of the large-scale monetary easing and competition from the ECB's comparable products introduced as part of the TLTRO, the EIB's lending products became less competitive.

Meanwhile, capital and risk-taking capacity constraints remained relevant, and became even more pronounced. Losses during the crisis necessitated write-offs against bank capital, and capital regulations were tightened with the implementation of Basel III and its adoption in the European Union (ECB, 2015). As a result, the relative importance of risk-taking and funding constraints shifted over this period, with risk-taking becoming the intermediaries' chief binding constraint — confirmed by the ECB Bank Lending Survey data shown in Figure 29.

When financial intermediaries' main constraint shifted away from liquidity toward risk-sharing instruments, the EIB Group had trouble adapting in time. Figure 30 illustrates that EIB lending products continued to account for most of the signature volume supporting SMEs and mid-caps. Nevertheless, EIF guarantee activity significantly increased over the period, and the EIB risk sharing and ABS subscriptions became more prominent as well.

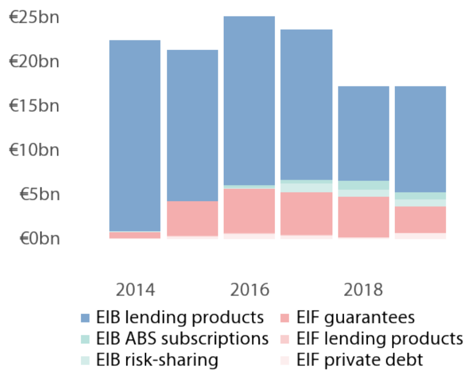
- The EIF's new guarantee mandates under the 2014-2020 Multiannual Financial Framework (MFF) allowed risk-sharing products to be mobilised on a larger scale.[38] In addition, from late 2015 onwards, EIF deployment of European Commission mandates has been accelerated by EFSI.
- On the EIB side the risk-sharing product took off slowly. As will be discussed in Section 4.2, the complexity of the instrument hampered its deployment with financial intermediaries. The higher capital charge applied to risk-sharing products relative to lending products of similar signature volume constrained the scale-up of such activity.[39] This was alleviated by EFSI, which allowed higher-risk operations (the so-called "Special Activities") to increase from 2016 onwards.

Figure 29: Factors affecting euro area banks' credit supply to firms (2014-2019)



Source: ECB Bank Lending Survey. (See note to Figure 27)

Figure 30: EIB Group net volume supporting SMEs (2014-2019)



Source: EIB and EIF

The EIB continued to assign high volume targets to lending products, despite the erosion of their pricing advantage and attractiveness. Increasing the volume of risk-sharing instruments was constrained by the overall mandate volumes on the EIF side, and by the time it took to develop and refine the risk-sharing product on the EIB side. Yet, the annual EIB operational plans assigned increasingly ambitious targets for signatures in support for SMEs and mid-caps. Interviews indicate that this incentivised operational staff to market lending products despite lower client demand.

COVID-19 (2020-2021)

As a response to the COVID-19 outbreak, the EIB Group set up a multifaceted response, including a specialised large-scale initiative, the European Guarantee Fund (EGF). The EGF was set up significantly faster than for past EIB Group mandates; yet delays in its operational launch — for reasons outside the EIB Group's control — limited its usefulness as an emergency response to the liquidity crisis.

The COVID-19 pandemic resulted in a further decrease of risk-taking ability for EU financial intermediaries. The economic impacts of the pandemic were expected to result in severe asset deterioration and significant losses on loan portfolios. This expected loss of capital incentivised banks to tighten their lending standards (Figure 31). At the same time, SMEs and mid-caps were facing a plunge in revenues due to the lockdown, resulting in liquidity shortages. Credit lines were often needed to bridge the periods of low activity and give SMEs and mid-caps liquidity to continue their operations. While financial intermediaries were also expected to face funding constraints, the Pandemic Emergency Purchase Programme and other measures from the ECB covered these needs.

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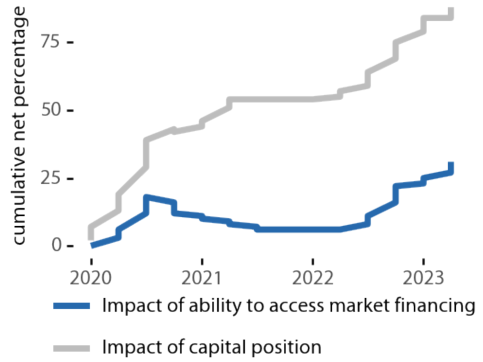
[38] InnovFin's €13.9 billion mandate was much larger than that of its predecessor, the RSI (€1.12 billion). The same is true for COSME (€2.5 billion) compared to CIP SMEG (€507 million).

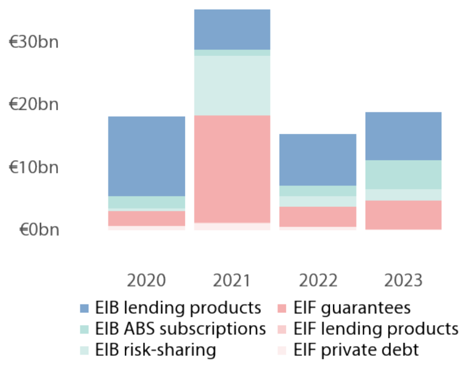
[39] It is the riskiness, rather than the nature, of a product that determines capital consumption. EIB lending products are typically intermediated through clients with high credit ratings — or for lower-rated clients the risk is mitigated through collateral or state guarantees. These are therefore subject to low capital consumption. By contrast, guarantee and risk-sharing instruments assume the credit risk of the underlying exposure, typically to high-risk SMEs. They are therefore subject to high capital charges.

Figure 31: Factors affecting euro area banks' credit supply to firms (2020-2023)



Source: ECB Bank Lending Survey. (See note to Figure 27)

Figure 32: EIB Group net volume supporting SMEs (2020-2023)



Source: EIB and EIF

In response to the economic shock induced by the COVID-19, the EIB Group put in place a multifaceted response.

- **As part of the immediate response, both the EIB and the EIF were particularly agile in mobilising several existing mandates to rapidly scale up SME and mid-cap support.** The EIB Group designed adequate tailor-made solutions, within the constraints of its available capital and risk-taking capacity. The EIB temporarily accepted significant deviations from its normal procedures, such as financing of non-project related investments (working capital finance) and an increase in the proportion of co-financing.
- **The bulk of the COVID-19 support for SMEs and mid-caps came under the EGF, with some delay for reasons outside the EIB Group's control.** As a mandate with high risk-taking capacity, the EGF allowed the Group to significantly scale up its guarantee and risk-sharing support for SMEs and mid-caps. Under this initiative, the EIB provided support through risk-sharing products and ABS subscriptions, among others. The EIF deployed debt funds and guarantee products, alongside other products outside the scope of this evaluation. The EIB Group formally approved and set up the EGF significantly faster than past EIB Group mandates. However, the mandate suffered from delays in its operational launch.[40] While the COVID-19 pandemic reached the European Union in March 2020, EGF operations were launched only from December 2020 onwards. The resulting delays reduced its relevance as a countercyclical response to the crisis: The EGF became operational only after the urgent liquidity needs of SMEs and mid-caps had already largely been addressed. As shown in Figure 32, most of the COVID-19 support reached intermediaries only in 2021. Despite the long time it took to operationalise it, the EGF mandate strongly increased EIB Group's risk-taking capacity to help firms continue their growth and development in the medium to long term, in the aftermath of the crisis. Under the EGF, the biggest volumes were delivered by the EIF in the form of guarantee products while the EIB strongly scaled up its risk sharing products.

One element that contributed to the sometimes slow adjustment to the market's needs in the post-crisis period is that the orientations defined in the EIB Group's operational plans have not entirely reflected the changing SME financing needs. Over the evaluation period, the EIB operational plans recognised the increasing importance of SME and mid-cap support.[41] The initial years of this period indicated heightened objectives for SME support. However, starting from the period of 2016-2018, the operational plans have begun to acknowledge the evolving context,

[40] The "*Rapid assessment of the EIB Group's operational response to the COVID-19 crisis*" recognised the EIB's and the EIF's agility in mobilising several existing mandates to rapidly scale up their response. This agility allowed the Group to respond at considerable scale. However, it also noted that delays in the operational launch of the EGF had two important consequences: (a) EGF products became less attractive for financial intermediaries because they had less time to build the portfolio, (b) delays reduced the EGF's relevance as a countercyclical response.

[41] The EIB Group operates under an operational plan that undergoes annual review and approval by the EIB Board of Directors. This operational plan establishes overall business targets for the EIB Group's activities in a given period and outlines the key priorities and activities to be executed in the coming year.

particularly the improved market conditions for SME and mid-cap access to finance due to increased market liquidity and better access to funding. Nonetheless, the Bank's financing volume targets for SME and mid-caps support remained stable over the period.[42]

Volume targets have incentivised the EIB to continue delivering high levels of signatures in the form of EIB lending products. Such targets would have been much more difficult to achieve using predominantly risk-sharing and guarantee products but EIB lending products are relatively quick to sign and deploy, providing a sure way to deliver on quantitative targets.

While European Commission mandates were previously a major resource for guarantees and risk-sharing activities, their volume is now lower than in the past. European Commission resources, such as COSME, InnovFin or EFSI, have increased the EIB Group's capacity to provide guarantee and risk sharing. Their role was particularly important for the EIF. However, the mandates issued under the European Commission's 2021–2027 MFF had smaller budgets than in previous programming periods, limiting the volume of guarantee and risk-sharing products that could be offered by the EIB Group through mandates.

In recent years, the EIB has been developing options for deploying guarantee products at own risk. Partly as a response to these limitations, the EIB has been developing its capacity to offer risk-sharing products at its own risk. In 2022, approval was granted to allocate a significant budget to facilitating the deployment of Special Activity mezzanine ABS subscriptions and risk-sharing instruments at own risk. This strategic move now enhances the EIB's flexibility and autonomy in delivering guarantee and risk-sharing support.

The EIB Group has also taken other measures to increase its flexibility and responsiveness to rapid shifts in market needs, such as the ongoing development of a crisis and disaster response. This approach is currently being designed — in response to EV's rapid assessment of the Group's COVID-19 response — to enhance the EIB's ability to respond swiftly to crises and disasters. It focuses on leveraging the complementarity between the EIB and the EIF, where the EIB provides resources, and the EIF brings speed and agility in deployment. Other initiatives include the adoption of a risk-based approach in operations approval and a streamlined decision-making process. This effort will be supported by the development of integrated IT solution.

The creation of the Financial Institutions Department (FID), which serves as a central hub for all intermediated operations has also been an important step. The FID is a single point of coordination on intermediated SME support, consolidating data from both the EIB and the EIF. As part of that role, the FID assesses the expected demand from financial intermediaries for various SME and mid-cap products, and can therefore facilitate adjustments to shifts in market conditions.

These measures help improve the EIB Group's responsiveness and flexibility, but it remains to be seen whether they can address shifts in intermediaries' needs similar to those experienced in the past. Operations in support of SMEs and mid-caps will clearly benefit from these newly launched initiatives. At the same time, they may not fully address the specific challenge of rapidly increasing the EIB Group's capacity to provide guarantee and risk sharing products.

- Experience from the post-crisis recovery and from COVID-19 shows that, on occasion, demand for risk sharing and guarantee products can exceed what the EIB Group would realistically provide at own risk. Constraints limiting the Group's response include the gearing ratio on the EIB's side and the availability and size of existing mandates on the EIF side.
- The EIF has limited own funds or capital to deploy in times of crisis. At the same time, it has been playing an important countercyclical role and, as in previous crises, it is likely to remain an integral implementing partner for resources made available by the European Commission, the EIB or Member States in times of crisis.
- The current EIB corporate operational planning process is mainly driven by targets expressed in signature volumes. Incentives to deliver on these volume targets could limit the flexibility and speed of adjusting to changing market conditions — as shown in the past, where volume targets resulted in the

[42] For 2022, the EIB Board of Directors exceptionally approved a decrease in target signature volumes contributing to the SME PPG.

deployment of EIB lending products, which are easier to sign and deploy, even when they were less attractive to intermediaries than risk sharing products.

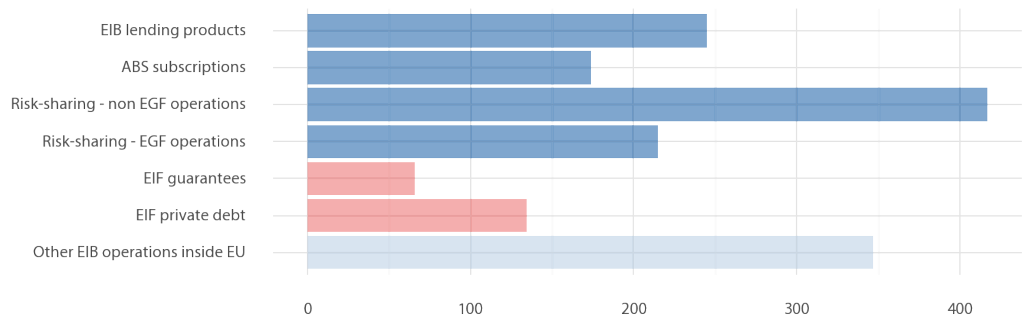
4.2 How rapidly and effectively have EIB Group products been used by financial intermediaries?

Time to signature

In terms of time needed to set up an actual operation and sign a contract with a financial intermediary, EIB Group support for SMEs and mid-caps is signed rapidly compared to other Group operations, with EIF operations being particularly fast. Each institution has a different process for approving and signing operations.

- For the EIB, the time to signature is the time between the Project Identification Note (PIN) and the signature date of the contract.[43] EIB lending products (MBILs and loan substitutes) are typically deployed faster than other EIB operations (Figure 33). Risk sharing products — with the exception of EGF operations — take significantly longer to sign: more than 400 days on average. Under the EGF mandate, EIB risk-sharing operations went through a fast-track approval under global authorisation, which accelerated time to signature. They also strongly benefited from EGF governance arrangements, which were designed to ensure lean quick decision-making. As a result, time to signature has been twice as fast for operations under the EGF than for non-EGF risk-sharing operations.
- For the EIF, the time to signature is the time between the Appraisal Authorisation note (AA) and the signature date of the contract. The efficiency of the EIB and EIF processes cannot be directly compared, as the two institutions have different internal and external rules to comply with when it comes to operations approval. Nevertheless, the EIF is relatively fast at signing operations, especially with its guarantee products, which are signed within 66 days of the first screening.

Figure 33: Time to signature of EIB Group products (days)



Source: EIB and EIF

Use of signed volumes by financial intermediaries

The extent to which signed volumes reach the final beneficiary SMEs and mid-caps is influenced by both cancellations and non-use. Not all signed volumes result in mobilising finance for SMEs and mid-caps:

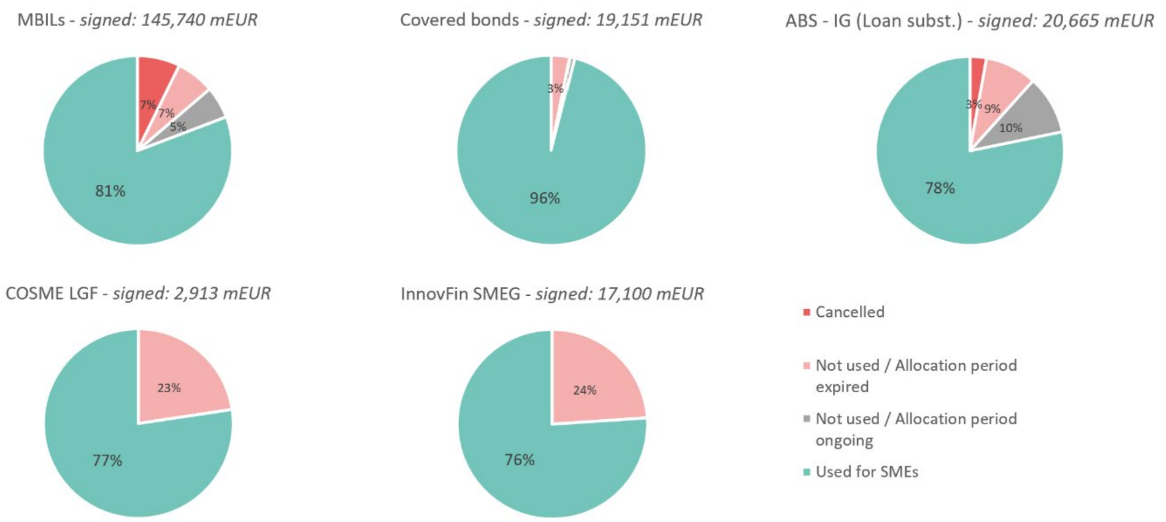
- **Cancellations:** Contractually signed volumes can be partially of fully cancelled, resulting in partially unused support.

[43] In this evaluation, the time to signature is the computed as the time between the Project Identification Note (PIN) and the signature date of the contract for EIB operations. This allows for better comparability with EIF operations. Internally, the EIB however usually tracks the time to signature as the time between operation creation and signature date.

- **Non-use:** After signature, the financial intermediary has a predetermined time frame to allocate its support to SMEs and mid-caps (the "allocation period"). At the end of this period, financing not allocated can no longer be mobilised by the intermediary. For one reason or another, intermediaries don't always fully utilise the available resources during the allocation period.[44]

Cancellation and non-use hamper the effectiveness of EIB Group support. Signed exposure, even if not deployed or used, tie up capital or mandate capacity, as well as other resources (staff, etc.). But cancelled operations do not contribute to the group's financial sustainability, or to better access to finance for SMEs and mid-caps.

Figure 34: Signed, cancelled and allocated amounts by EIB lending products and EIF guarantees



Source: EIB and EIF

The EIB Group's flagship products — EIB lending products and EIF guarantees — show high levels of deployment. Approximately 80% of signatures of the EIB Group's flagship products (EIB lending and EIF guarantee) were used to generate SME and mid-cap loans. On the EIF side, for the guarantees under the flagship mandates (COSME LGF and InnovFin SMEG) more than 75% of the guarantee is used to mobilise SME and mid-cap lending (Figure 34).[45]

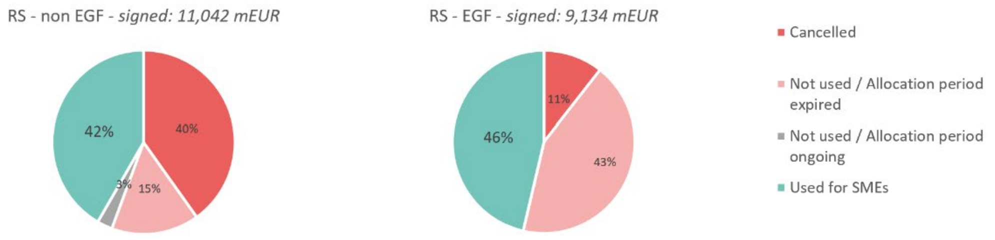
Use of signed volumes: EIB risk-sharing instruments

The use of EIB risk sharing products has been significantly lower due to high cancellation rates. Risk sharing products suffered from high cancellation rates, affecting the amount actually deployed with intermediaries. These cancellations often occurred quite late — typically 1 355 days after signature for non-EGF risk-sharing transactions. Under the EGF mandate, the typical cancellation period for the cancelled share was 380 days. Besides cancellations, low use occurred particularly for the EGF risk sharing instrument, for which a large share of signed volume was not allocated to SME and mid-cap loans within the allocation period (Figure 35).

[44] When measuring effectiveness, the evaluation distinguishes between two types of non-use. Some amount of non-use for recently signed contracts is to be expected due to the time intermediaries need to build up a loan portfolio after receiving the resources. This only applies to operations for which the allocation period is still ongoing. We show these amounts separately from those that could no longer be mobilised because the allocation period had lapsed.

[45] For EIF guarantees, this figure is calculated as the ratio between the amount of the guarantee used by the financial intermediary for SME lending, and signed amount (as opposed to the committed amount) to allow for comparability across products.

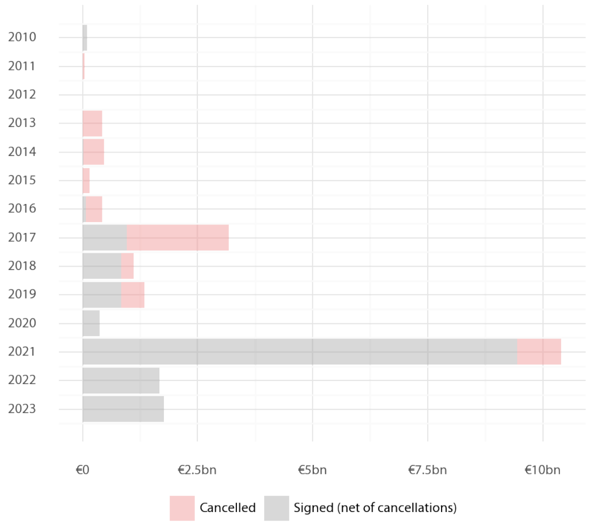
Figure 35: Signed, cancelled and allocated amounts by risk-sharing products



Source: EIB

The high cancellation rate for EIB risk sharing product was likely due to the complexity of the instrument, which has since been addressed. From 2013 onwards, EIB risk-sharing products suffered from a low level of underlying allocations — meaning that signed operations were not fully used by the financial intermediaries, and were later cancelled (Figure 36). In 2017 the EIB took corrective action to further strengthen the attractiveness of the product. An internal analysis found that the performance issues were linked to the administrative burden created by the EIB's complex contractual requirements.

Figure 36: Cancellations of EIB risk sharing products by signature year



Source: EIB

The proposed corrective measures mostly revolved around two pillars: (a) a stronger reliance on the intermediaries in risk assessment and reporting, and (b) a rapid transfer of guarantee benefits to intermediaries.[46]

- The EIB decided to work with intermediaries with the highest implementation capacities and to enhance the compatibility of their risk assessment frameworks with the EIB standards.
- For EIB risk sharing products under the partial delegation model, under which the EIB opines on each individual allocation made by an intermediary, the EIB increased reliance on information provided by the intermediaries, including the credit assessment. At the same time, the EIB safeguarded its obligation to rate and price each exposure.

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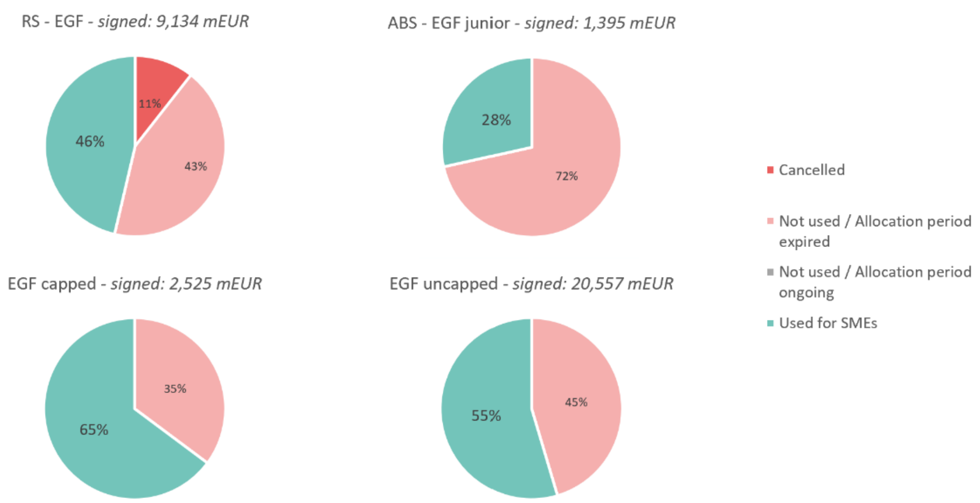
- For risk sharing products under the full delegation model, the EIB's selective approach focusing on the intermediaries with the highest implementation capacities also allowed for stronger reliance on their processes and methodologies.[47]
- When deploying the de-linked risk-sharing product, the EIB also took measures to immediately deliver the benefits of the guarantee to intermediaries. For such products, financial intermediaries were required to commit capital resources, and build up a new portfolio of SME and mid-cap loans before obtaining the benefits of the guarantee. The new measure has allowed the EIB to "warehouse" the risk until the new portfolio is allocated by the intermediary, so that the risk sharing can occur directly upon signature.[48]

Use of signed volumes under the EGF mandate

All EGF products —at both the EIB and the EIF — show low overall use, resulting in low effectiveness. Among EGF products, ABS subscriptions show the lowest level of use with only 28% of signed volume being used for SME support, while slightly less than 50% of EIB risk-sharing products have been used for SME and mid-cap support. Among EIF products, guarantees suffered from a relatively low actual rate of use: 65% for capped guarantees and 55% the uncapped ones (Figure 37).

Figure 37: Signed, cancelled and allocated amounts by EGF products



Source: EIB and EIF

The low uptake of EGF products could be attributed to a range of factors.

a) **The more tenuous economic impact of the COVID-19 crisis than initially expected.** Banks were initially in high demand of guarantee products, fearing a deterioration of their SME lending portfolio, and with their clients facing high short-term liquidity needs. In hindsight, because the impact of the pandemic on firms

[47] EIB risk sharing products can either be linked, or de-linked. In case of *linked risk-sharing*, the EIB provides a guarantee on a portfolio of new operations originated by a partner financial intermediary during a pre-determined allocation period, in accordance with EIB rules and policy objectives. Linked risk sharing can be done under *partial delegation*, where the EIB retains the right to approve/reject any individual operation, or under *full delegation*, where the EIB delegates to the financial intermediary the selection of the underlying exposures based on pre-defined criteria. In case of *de-linked risk sharing*, the EIB provides a guarantee to an existing reference portfolio of loans, while the financial intermediary contractually commits to building up a portfolio of new, eligible loans in accordance with EIB rules and policy objectives. The new portfolio is not guaranteed by the EIB. The de-linked structure reduces the financial intermediary's exposure and capital consumption on the reference portfolio, thus creating new credit capacity to be deployed to support the origination of the new, eligible portfolio.

[48] Warehousing means that the financial intermediary can take advantage of the guarantee on the pre-existing portfolio before building up the new portfolio of SME and mid-cap loans.

was shorter and more muted than initially expected, intermediaries did not use all the available protection.[49]

b) **The time it took to implement the mandate and the resulting short allocation period.** The launch of the EGF mandate itself has also taken longer than expected for reasons outside EIB Group control. This delay was only partly offset by an extension of the allocation period.[50] This reduced the time intermediaries had to allocate the product to final beneficiary SMEs.

c) **The existence of national schemes.** With the rise of the COVID-19 pandemic and its consequences, a variety of initiatives were launched to support companies facing lockdown. The EGF had to compete with other national support schemes, many of which were launched earlier.

[49] Anecdotal evidence suggests that in some cases, clients have taken a precautionary approach, preferring to sign operations with the EIB as a contingency buffer, while ultimately not drawing down the financing made available to them by the Bank. (EIB, 2021)

[50] This is discussed in more detail in *Rapid assessment of the EIB Group's operational response to the COVID-19 crisis* (EIB, 2021).

5. HAVE EIB GROUP DEBT OPERATIONS ENHANCED ACCESS TO FINANCE FOR SMES AND MID-CAPS?

- **For most EIB Group products the volume of finance leveraged for SMEs and mid-caps has been in line with targets, yet for some operations — ABS, risk sharing products and products deployed under the EGF mandate — the leverage achieved fell short of expectations.**
- **By number of loans, most EIB Group support is channelled towards micro and small firms.**
- **Data reported by intermediaries suggest that the interest rate advantage and the long maturity are transferred to the final beneficiaries.**
- **At present, the EIB Group does not collect as much information as it could on the customer experience of final beneficiaries (SMEs and mid-caps), nor does it make full use of the information collected.**
- **Evidence suggests that EIB support helps SMEs to grow, but further analysis could complement the EIB Group's understanding of the mechanism of impact.**

This chapter analyses the extent to which EIB Group operations achieved their goal of addressing the SME and mid-cap financing gap. We first assess whether the volume of finance leveraged through financial intermediaries has met expectations. Then we analyse which types of firms benefitted from EIB Group support, and assess the extent to which the financial advantages of the EIB's intermediated lending products — long maturities and low interest rates — have been passed on to the SMEs and mid-caps.[51] Next, we look at what information the EIB Group currently collects on its final beneficiaries. Finally, we look at the economic impact of these EIB Group interventions on SMEs and mid-caps.

[51] This analysis is only performed for EIB lending operations. First, the transfer of financial advantage is not directly comparable across product types. Second, although some mandates include a transfer of financial benefit, the EIF does not require intermediaries to report on the effect of its support for SMEs and mid-caps systematically across mandates.

5.1 Has the EIB Group support leveraged the expected volume of finance for SMEs and mid-caps?

Each euro of EIB Group support is expected to mobilise more funding from public or private investment — this is the leverage effect. Within the EIB Group, the leverage ratio (also called the "multiplier") is defined as the additional portfolio — the maximum financing amount made accessible to final recipients, in this case SMEs and mid-caps — divided by the financing provided by the EIB Group to financial intermediaries. For each EIB Group product, a leverage target is set on an ex-ante basis.

Comparing leveraged volumes across different products, and between the EIF and the EIB, may be misleading. There are three main reasons for this, described below.

First, although the definition of leverage is consistent across the EIB Group, the approach to determining the targeted leverage varies by product, and within products by the level of risk taken. On the EIB side, the size of the additional portfolio is determined based on the EIB's risk-taking strategy.

- For EIB lending products, the EIB typically requires the financial intermediary to generate total lending equal to twice the size of the signed transaction. Together with the multiplier due to additional investments, this results in an overall leverage of 280%.[52]
- For EIB risk-sharing, the additional portfolio to be generated and reported on corresponds to a multiplier of the capital relief offered by EIB support.
- For EIB ABS subscriptions, the leverage depends on the tranche of the portfolio covered by the EIB, where the additional portfolio to be generated gets higher as seniority decreases.
- On the EIF side, similarly to EIB risk-sharing, the additional portfolio includes the portion of the loan portfolio not guaranteed by the EIF. Consequently, the leverage is higher for products where the relative EIF exposure is smaller compared to the overall portfolio. Assuming a similar guarantee rate, a capped guarantee of 20% would have a leverage effect five times that of an uncapped guarantee.

Second, reporting requirements on the additional portfolio of final beneficiaries differ among products and between the EIB and the EIF, and therefore cannot be compared.

- In the case of EIB lending products, the EIB only requires the intermediary to report on a portfolio equivalent to the size of the EIB's financing. The remaining portion of the additional portfolio, referred to as the complementary portfolio, does not require loan-by-loan reporting, only a simple declaration from the financial intermediary.
- For EIB risk-sharing products, the level of detail in reporting varies depending on whether the operation is backed by a mandate. In some cases, financial intermediaries are required to report on the entirety of the additional portfolio, while in other instances, reporting is limited to the first portion equal to the size of the EIB's operation.
- For EIB ABS subscriptions, in contrast to other products, the EIB collects comprehensive details on the total additional portfolio.
- For all EIF products, intermediaries are reporting on the total additional portfolio.

Third, the leverage ratio is only one dimension of effectiveness of reaching SMEs and mid-caps through debt instruments. Beyond mobilised volume, the types of products offered to intermediaries (contractual parameters, risk coverage, etc.) and the conditions offered to SMEs (price, maturity, etc.) are also key factors in measuring the effectiveness of an intervention. An instrument with high mobilisation may give a small benefit to a lot of firms, but

[52] This multiplier due to additional investments represents the ratio between the expected mobilised investments made by final beneficiaries and the Leveraged Financing. This component is calculated assuming that the Financial Intermediary finances 70% of the SME investment, thus this factor is set at 1.4.

not be more effective than another instrument targeting a smaller number of firms to provide specific, larger scale support.

Given the above-mentioned limitations, the evaluation refrains from using the leverage effect as the only proxy for effectiveness when it comes to comparing products. Since the leverage effect definition is not consistent across different instruments, or between the EIF and the EIB, it would be incorrect to simply compare the mobilised amounts and conclude that higher leverage means higher effectiveness. In addition, the allocation data are not consistently collected across products, rendering actual leverage computation impossible for certain products.

Nevertheless, comparing the expected and actual leverage for a given product indicates whether ex-ante expectations were met. The expected leverage for each operation is defined at appraisal based on the parameters presented above and defines the portfolio of lending for SMEs and mid-caps to be generated by the intermediary. As shown in Table 3, comparing expected and achieved leverage gives an indication of the extent to which EIB financing has mobilised resources for SMEs and mid-caps, compared to original predictions. [53]

The EIB Group's flagship products achieved leverage close to the expected level. Since they were effectively used by financial intermediaries (see Section 4.2), EIB lending products and EIF guarantees (like COSME and InnovFin) achieved leverage close to expectations: actual leverage is around 80% of expected leverage. On the EIF side, leverage is significantly influenced by both the mandate and the characteristics of the product. Uncapped guarantees yield the highest mobilisation with COSME peaking at x 22.05.

In line with the suboptimal use of the product, the leverage achieved by risk sharing instruments and EGF products falls below expectations. With a high level of cancellations, a significant part of EIB risk sharing instruments was not mobilised by financial intermediaries and did not generate any leverage effect. Similarly, affected by the factors detailed in Section 4.2, the leverage achieved by EGF products was hampered by the low uptake of the mandate.

The leverage achieved through ABS subscriptions has been much lower than initially projected, yet significant. Despite being only half the expected achievement, ABS subscriptions still have a leverage of x 3. While the actual multiplier reaches a level of x 3.83 for non-investment grade ABS and x 3.12 for EGF junior ABS, it is significantly below the anticipated levels, meaning that the portfolio of allocations did not attain the target volume.

Table 3: Projected and achieved leverage by EIB Group products

Product	Sub-category	Expected leverage[54]	Achieved leverage[55]
EIB lending[56]	MBILs	x 2.80	x 2.27
	Covered bonds	x 2.80	x 2.69
	ABS – IG	x 2.80	x 2.18
EIB ABS subscriptions	ABS – non IG	x 6.78	x 3.83
	ABS – EGF junior	x 10.94	x 3.12
EIB risk sharing	Risk sharing (non-EGF)	x 3.45	Not possible to determine[57]
	Risk sharing (EGF)	x 7.14	x 2.56

[53] The **expected leverage** of an operation is determined at appraisal for each individual operation, based on the above-mentioned definition. The expected figure presented in the table is the weighted average of these multipliers at approval. The **achieved leverage** is the ratio between total financing mobilised (allocation) and volume signed. The achieved leverage can be computed based on the actual allocations, if they are collected. However, the EIB does not collect detailed information on all allocations (this varies by product). Thus, the leverage achieved has been estimated for MBILs, but cannot be estimated for risk-sharing instruments, as each operation has a different leverage requirement.

[54] For EIB operations, the expected leverage is the weighted average of each individual operation targeted leverage as reported at appraisal. For EIF operations, the targeted leverage is defined at mandate level and includes the financing provided by Financial Intermediaries to SMEs directly due to EIF support as well as the external multiplier due to additional investments.

[55] The achieved leverage is computed as the ratio between the total SME financing generated and the total signed volume (as opposed to net signed volumes). Consequently, volumes cancelled that did not generate SME financing affect the overall ratio.

[56] For EIB lending products, the EIB requires intermediaries to report on a portfolio equivalent to the size of the EIB financing provided, while they commit to generating the rest of the portfolio by means of a declaration. The computation of achieved leverage assumes a x 2 leverage effect on amounts allocated.

[57] For EIB risk sharing product outside of the EGF mandate, reporting is limited to the first portion equal to the size of the EIB's operation, rendering the computation of achieved leverage impossible.

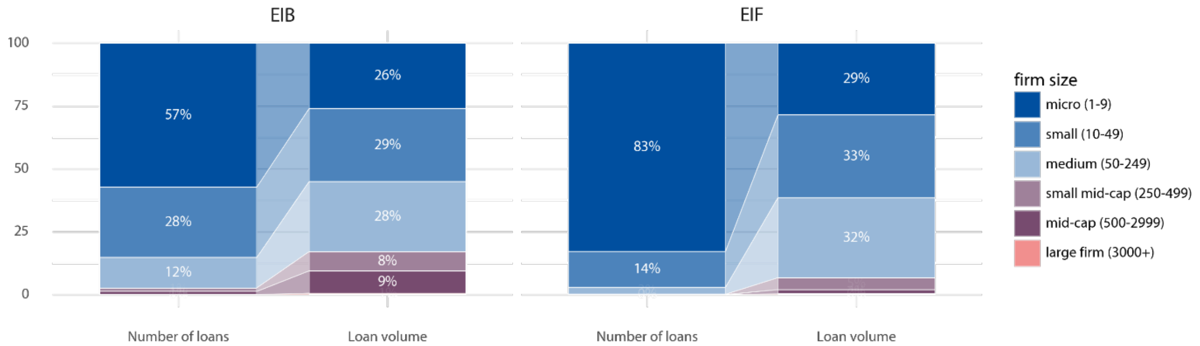
EIF guarantees	COSME LGF	x 28.0	x 22.05
	InnovFin SMEG	x 2.80	x 2.18
	EGF capped guarantees	x 14.40	x 7.57
	EGF uncapped guarantees	x 6.46	x 1.09
EIF private debt	Private debt	x 5.44	x 3.40

Source: EIB and EIF

5.2 How is EIB Group support distributed by firm size?

By the number of loans, most EIB Group support is channelled towards micro and small firms; by volume, it is more evenly distributed across the SME and mid-cap spectrum. Bearing in mind the methodological considerations mentioned above, the evaluation examined the profile of supported companies based on available data (Figure 38). Both the EIB and the EIF predominantly support micro-size companies, which constitute approximately 60% and more than 80% of their respective allocations. In terms of volume, as the ticket size increases with the size of the company, micro-size companies represent approximately 25% and 30% of allocations, while mid-caps account for 17% of the EIB's total allocations and 6% of the EIF's.

Figure 38: EIB Group support for SMEs and mid-caps by firm size (%)

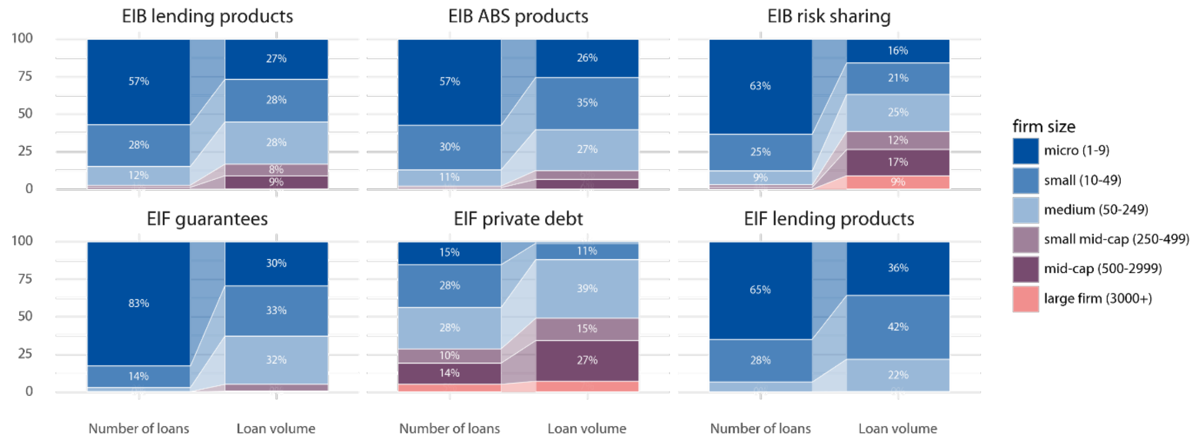


Note: "Number of loans" shows the number of individual loans provided to firms in a given size category as a proportion of the total number of firms supported. "Loan volume" shows the lending volume (in €) provided to firms in a given size category relative to the total volume of loans supported.

Source: EIB and EIF

Different EIB Group products have different outreach. As shown on Figure 40, the EIB's product palette, all products are predominantly allocated to SMEs. While EIB lending products and ABS subscriptions allocate about 15% of volumes to mid-caps, EIB risk-sharing products provide more substantial support to mid-caps and large firms (38%). On the EIF side, support is primarily focused on SMEs — with the exception of private debt, which targets mid-caps and large companies (50%). This particular product places a strong emphasis on fostering the growth of these larger enterprises.

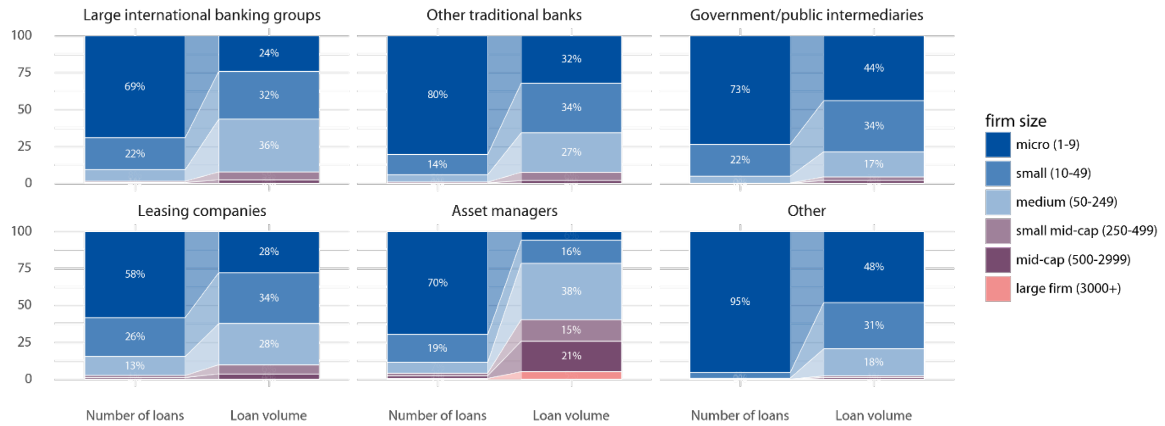
Figure 39: EIB Group support for SMEs and mid-caps by firm size — breakdown by product category (%)



Source: EIB and EIF

The analysis based on the type of financial intermediary does not show notable differences, except for asset managers (Figure 40). Asset managers primarily deploy EIF microfinance and the Private Debt Initiative, which explains their stronger emphasis on both ends of the SME and mid-cap spectrum.

Figure 40: EIB Group support for SMEs and mid-caps by firm size — breakdown by type of financial intermediary (%)



Source: EIB and EIF

5.3 How effective was the EIB in transferring a financial advantage to SMEs and mid-caps?

Financial intermediaries are expected to transfer a portion of the financial advantage embedded in EIB lending products to final beneficiaries.[58] The financial advantage may take various forms, such as below-market interest rates, longer maturities, local currency denominations, and flexibility in the timing of drawdowns. The overall advantage varies according to the type of counterparts and market context. The contractual arrangement between the intermediary and the EIB specifies that a part of the financial advantage must be transferred to the beneficiary SMEs and mid-caps.[59]

Box 6: Financial intermediaries' duty to inform

Financial intermediaries are required to communicate their partnership with the EIB to the final beneficiaries, through either a product name or documentation pointing to the EIB. The intermediary should have an information page on the EIB's activity to support SMEs, including eligibility criteria and a reference to the advantageous EIB conditions.

Intermediaries deploying EIB support are also required to report to the EIB on the type of advantage they have passed on to SMEs. They can select from a range of possible types, such as lower interest rates, longer maturity, lending to underserved segments (availability), offering loans in another currency, or offering a lump sum rebate. As shown in Table 4, for 80% of allocations the reported advantage is a reduction of the interest charged to the SME.

The evaluation zooms in on two types of financial advantage passed on to SMEs and mid-caps: financing cost and maturity. These are the types of advantages for which data are available and for which the evaluation was able to gauge effectiveness.

Table 4: Type of transfer of advantage passed on to recipient SMEs, as reported by financial intermediaries (2010 – 2023)

Type of transfer of advantage to SMEs	Percentage of total allocations
Reduction in interest rate	80%
Availability of EIB funding	6%
Other	2%
Longer maturity	0%
Lump sum rebate	0%
Different currency	-
Nothing reported	12%

Source: EIB

Transferring the lower cost of financing to SMEs and mid-caps

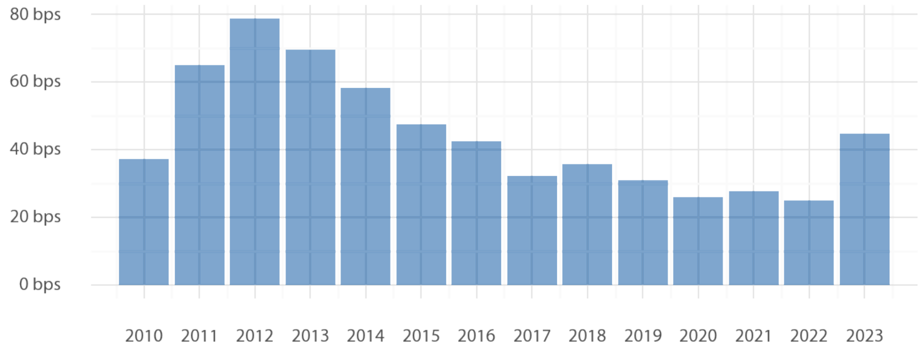
The typical transfer of interest rate advantage to final beneficiaries was between 20 and 40 basis points, and fluctuated with the economic cycle. Lower cost of financing is a key aspect of the EIB's lending products: Intermediaries are expected to transfer part of the below-market pricing of the EIB product to SMEs and mid-caps. The higher the financial advantage offered to the intermediary, the larger the benefit it can pass on to these firms. In the aftermath of the global financial crisis, the financial advantage passed on to the final beneficiaries was at its highest (Figure 41). In the post-crisis recovery period, when interest rates fell below zero and spreads became

[58] This section focuses on EIB lending products and certain ABS subscriptions, for which data on the transfer of financial advantage is available. Some EIF mandates and EIB risk sharing products also include financial benefit to be passed on to beneficiaries, but no systematic data are collected.

[59] The contract with the intermediary indicates how the financial advantage will be transferred to the final beneficiaries. If the advantage takes the form of interest rate reductions, the minimum reduction is specified. If the advantage takes another form — e.g. longer maturity — the method of quantification is laid down in the contract. This is to ensure that the EIB receives adequate quantifiable information about the advantage passed to final beneficiaries.

compressed as a result, the EIB advantage was limited, which constrained the financial advantage that could be transferred to firms. More recently, the increase of interest rates since mid-2022 has reversed this downward trend.

Figure 41: Evolution of average actual ToFA



Source: EIB

Transferring longer maturity

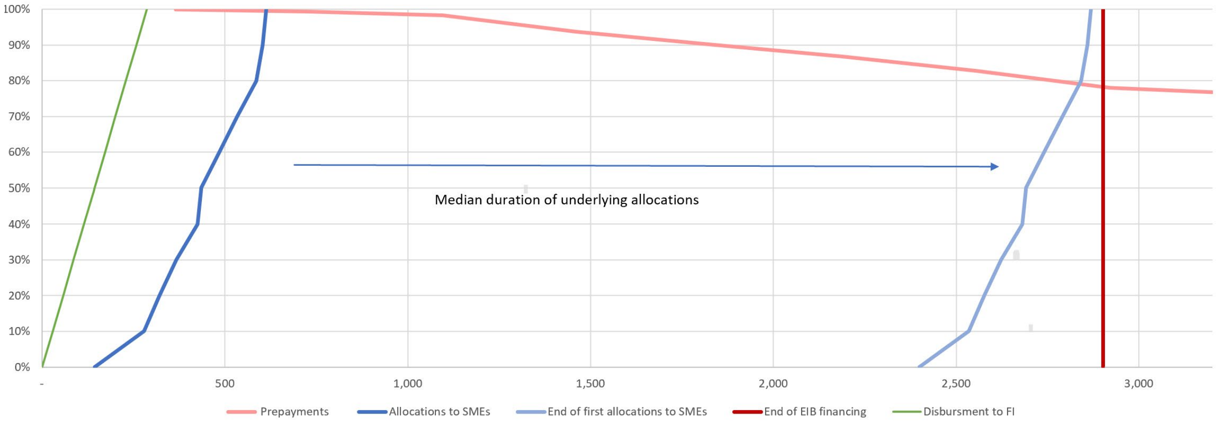
Intermediaries effectively pass on the long maturity of EIB lending products to SMEs. One way the EIB can influence intermediaries' lending is by offering them long maturities, so they in turn can provide extended loan maturities to their clients. This approach enables firms to access loan maturities aligned with the economic lifecycle of their investments.

The extended duration is effectively passed on to SME. This is shown by a comparison of the maturity of the loans signed with intermediaries and those subsequently offered to SMEs in their lending portfolio.

- At approval stage, EIB management approves a maturity corresponding to the maximum that can be offered to financial intermediaries. The median maturity in the evaluation portfolio is 12 years.
- Subsequently, the EIB and its clients negotiate the final terms of the financing agreement, including the actual maturity of the contract. The median maturity of actual signatures is 8 years (Figure 42).
- Finally, the SMEs indirectly supported through EIB lending products receive a median duration just over 6 years — broadly in line with the maturity of the EIB lending products contracted with intermediaries.

While the maturities of allocations are aligned with those of the underlying EIB loans, this does not necessarily indicate that the financial intermediaries are offering longer maturities to clients than they otherwise would have. The case studies highlight cases where certain financial intermediaries improved the financing conditions they offered to final beneficiaries (pricing, maturity or lending volume). This is particularly the case for smaller intermediaries, non-bank intermediaries and NPBIs. However, the case study sample is not a representative selection of EIB Group clients, therefore these examples cannot necessarily be generalised at portfolio level. A more representative sample of intermediaries used by the EIB client satisfaction survey indicate that while these positive examples are present, the typical EIB intermediary did not change the conditions of its lending offering to final beneficiaries, beyond lowering the cost (see Section 2.3.3 as well as Figure 15 and Figure 16).

Figure 42: Typical MBIL allocation cycle (years)



Note: The graph compares the median maturity taken by intermediaries (taking into account the time to disburse financing to intermediaries and the actual maturity date of the lending) with the median duration offered at SME and mid-cap level (taking into account the time for intermediaries to on lend to SMEs and the actual duration offered to these firms)

Source: EIB

The case studies revealed that the support provided by the EIB Group enabled intermediaries to extend financing to businesses that otherwise could not access it, or at least not on the same favourable terms.

- Case studies found that EIB lending product have enabled smaller and mid-size banks to increase their business volumes.
- No expansion in lending volume or client base was reported by large commercial banks due to EIB operations. However, these banks did use these products to offer improved financing conditions to their existing clients without impacting their lending volumes.
- The case studies demonstrated that, through the provision of risk-sharing products, guarantees enhanced the risk-taking capacity of intermediaries. This enabled them to offer financing to SMEs and mid-caps that could otherwise not obtain it, or only on less favourable terms.
- The case studies also highlighted the EIB Group's positive impact on NPBIs and non-bank intermediaries. Without the support of the EIB Group, these would not have been able to develop their activities to the same extent.

5.4 Beyond allocation data, what information is available on enhanced access to finance for SMEs and mid-caps?

The EIB Group regularly collects information on the investment activity of EU SMEs in general, including funding and constraints. Launched in 2016, the annual EIBIS survey gathers information on investments made by SMEs inside the European Union. The survey data can be used to track changes in SMEs' financing conditions and economic context perceptions. For over a decade, the EIF has also been issuing the SME Access to Finance Outlook, in which it reviews the overall markets providing funding for SMEs. These initiatives provide relevant information for the EIB Group in understanding market-wide financing needs and their evolution.

At the same time, the EIB Group has little information on the customer experience of its final beneficiaries. While systematic information is collected at market level, little information is collected for the SMEs being supported by EIB products. Apart from the reporting made by intermediaries on the transfer of financial advantage, no qualitative information — even on a sample basis — is collected to better understand the effect of the EIB Group's products on SMEs' competitiveness, growth and expansion in thematic areas. This makes it difficult to actually assess whether intended effects have been achieved, and to identify potential areas of development.

The survey of final beneficiaries conducted in 2013 yielded valuable information on the SMEs receiving EIB support. A customer satisfaction survey carried out in 2013 provided valuable information on the EIB's SME final beneficiaries, as part of a previous evaluation of the EIB's intermediated lending to SMEs (EIB, 2013). Among other information, the survey provided insight into SMEs' funding needs, the financing they received from EIB-supported intermediaries, their perception of the attractiveness of lending conditions — with interest rates considered the most crucial factor — the supported underlying investment and the effectiveness of the funding.[60]

While the EIB Group requires intermediaries to provide firm-level data on the beneficiary firms, these data are not fully exploited for policy analysis. Both the EIB and the EIF require regular reporting of firm-level data from intermediaries on underlying SME and mid-cap portfolios. While key aggregate statistics of this data are regularly calculated and reported internally, this information could be better used for learning from past operations, improving products and steering support towards firms with the highest financing needs. In addition, in some cases, key elements are missing to properly capture the effects of interventions. For example, the EIF does not systematically collect data on some of the key intended effects of its support at firm level, such as the effect of its guarantees on collateral requirements and other lending conditions.

This lack of information can be linked to insufficient strategic guidance. There is insufficient clarity on the intended results of operations for final beneficiaries, as mentioned earlier. Without such strategic guidance, it is difficult to identify the most relevant metrics to follow and how to interpret them. For example, the final beneficiaries reached by the EIB Group could be benchmarked against the SME population in each country. This could help the Group identify whether its support is targeting the intended beneficiaries. Better exploiting existing data would also help formulate and inform an SME and mid-cap strategy in the first place.

5.5 To what extent did the EIB Group support impact the economic performance of SMEs and mid-caps?

Over the last few years, significant effort has been devoted to estimating the economic impact of both EIB and EIF SME support at firm level. Both the EIF and the EIB have published a range of quantitative counterfactual analyses focusing on the impact of lending support and guarantee products on the performance of beneficiary SMEs (see Table 5). These studies cover a wide range of products, geographical areas, and time periods, and use methodologies — propensity score matching combined with difference-in-differences — widely used in the empirical economic literature.

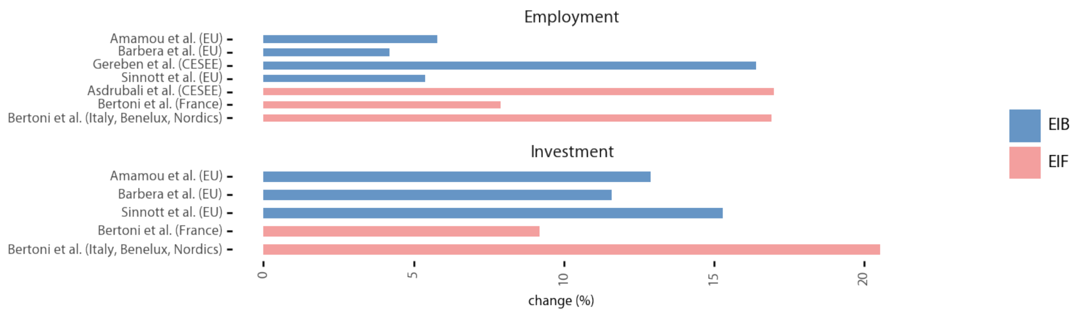
[60] The 2013 survey confirmed that SMEs typically considered financing offers from different financial institutions, and that EIB-supported intermediaries indeed offered better terms and conditions. The timing of the funding was also judged to be appropriate. The survey also found that a considerable number of final beneficiaries were not aware that the financing they received originated from the EIB. The survey also gathered information on impact, with positive effects reported in terms of number of employees and financials.

Table 5: Counterfactual impact studies on EIB Group SME debt support

	Authors and year	*Title*	*Geographic scope*	*Period*
EIF	Asdrubali and Signore (2015)	The Economic Impact of EU Guarantees on Credit to SMEs Evidence from CESEE Countries	CESEE	2005 - 2012
	Bertoni, F., Colombo, M.G., Quas, A. (2018)	The effects of EU-funded guarantee instruments on The performance of small and medium enterprises: Evidence from France	France	2002-2016
	Brault and Signore (2019)	The real effects of EU loan guarantee schemes for SMEs: A pan-European assessment	19 European Countries	2002 - 2016
	Bertoni, F., Brault, J., Colombo, M.G., Quas, A., Signore, S. (2019)	Econometric study on the impact of EU loan guarantee financial instruments on growth and jobs of SMEs	Benelux	2002 - 2017
	Bertoni, F., Brault, J., Colombo, M.G., Quas, A., Signore, S. (2019)	Econometric study on the impact of EU loan guarantee financial instruments on growth and jobs of SMEs	Nordic Countries	2002 - 2017
	Bertoni, F., Brault, J., Colombo, M.G., Quas, A., Signore, S. (2019)	Econometric study on the impact of EU loan guarantee financial instruments on growth and jobs of SMEs	Italy	2002 - 2017
EIB	Gereben, Á., Rop, A., Petricek, M., Winkler, A. (2019)	Do IFIs make a difference? The impact of EIB lending support for SMEs in Central and Eastern Europe during the global financial crisis.	CESEE	2008 - 2014
	Amamou, R., Gereben, Á., Wolski, M. (2020).	Making a difference: Assessing the impact of the EIB's funding to SMEs	EU28 countries	2008 - 2014
	Barbera, A., Gereben, Á., Wolski, M. (2022)	Estimating conditional treatment effect of EIB lending to SMEs in Europe	EU28 countries	2008 -2015
	Sinnott, E., Gatti, M., van der Wielen, W. (2023)	Impact assessment of the EIB's intermediated lending to businesses	EU28 countries	2008-2017

These studies generally conclude that publicly funded intermediated lending and guarantee schemes help SMEs to grow. SMEs accessing EIB Group-supported lending outperform non-beneficiary SMEs in a number of KPIs, such as employment and asset growth (see Figure 43 on the scale of impact). In some cases, there is also a significant increase in turnover, innovation capacity and survival probability. In contrast, evidence on the impact on the beneficiary's profitability, including profit (e.g. EBIT, EBITDA), productivity, return on assets (ROA) and return on investment (ROI) is mixed, and not fully conclusive.

Figure 43: The scale of peak impact on employment and investment



Note: Peak cumulative change relative to the control group. Investment is measured either as fixed assets or total assets.

Source: EIB and EIF

According to these studies, most of the impacts materialise in the short to -medium term (particularly between one and four years). The studies observe a direct impact on assets in the year after the loan and later with indirect impacts on turnover, employment, and other economic performance indicators. However, it should be said that the time horizon of impacts covered by the studies depends on data availability, with only one study looking at the long-term impacts up to ten years after loan disbursement.

The literature also highlights that impacts are not homogeneous across SME types, geographies, the economic cycle, or loan characteristics. A multitude of factors shape the magnitude of impact of EIB Group-supported, debt-based products on SME performance:

- **Age of the beneficiary SME**. The effect on KPIs is larger for younger companies, which face higher financial constraints than larger, more established companies.
- **Size of the beneficiary SME.** The effect is larger for smaller companies, especially microenterprises, which more often lack collateral and credit history.
- **Geographical location.** Evidence from pan-European and multi-country studies identifies a different geographical distribution of benefits. These studies support the hypothesis that the effects on both intermediated loans and loan guarantees are larger in less developed regions, which have more barriers to credit access than developed areas. For instance, Amamou et al. (2020), and Asdrubali and Signore (2015) show that the effects are larger in Central, Eastern and Southern Europe than in Western and Northern Europe.
- **Economic cycle.** Many of the studies corroborate the hypothesis that intermediated loans and guarantee schemes act as countercyclical policies. Access to finance is likely to make a difference in a period characterised by financial and economic turmoil, with positive impacts on assets, investments and survival probability.
- **Loan amount and other loan characteristics (interest rate, maturity).** While not all the studies include this aspect, all those that do support the idea that the bigger the loan, the higher its effects. In addition, larger effects occur when loans have long maturities and advantageous pricing.

The heterogeneity of the impact appears to be associated with the presumed importance of the SME financing gap. Firms that are younger, smaller located in less developed regions and/or facing economic and financial downturns are more likely to experience significant constraints in access to finance. According to the impact studies, these are also the firms that can benefit the most from EIB Group-supported debt instruments.

Nevertheless, some key limitations need to be considered when interpreting existing impact studies.

- **First, the impact studies do not shed light on the mechanism through which the impact materialises.** Namely, it is not known whether it is the lower borrowing cost, or the larger volume of loans available to SMEs, or the shift in the portfolio composition, that causes the measured impact. More detailed information on the mechanism through which the impact is reached would be useful for future product design.
- **Second, the methodology used for counterfactual sample selection cannot credibly filter out firms without viable projects.** Consequently, one cannot be certain whether the impact is a result of a difference in access to finance due to EIB support, or a difference between firms with viable investment projects in hand and those without such investment projects. This can bias the results, and may cause a false positive impact to be measured for EIB loans.
- **Third, impact across products cannot be compared.** So far, studies have not included granularity by product type, and do not allow impacts to be compared between the various products in a consistent manner.

6. WHAT ARE THE IMPLICATIONS OF THE EIB GROUP OPERATIONS PROVIDING DEBT SUPPORT TO SMES AND MID-CAPS ON THE EIB´S LONG RUN PROFITABILITY AND CAPITAL POSITION?

- **Except for risk sharing instruments, intermediated products have been profitable, with ABS mezzanine non-investment grade yielding the highest nominal return.**
- **The non-profitability of risk sharing instruments is driven mainly by the high share of operations that generate no/low revenues (due to slow ramp up of the underlying assets and/or cancellations after signatures).**
- **Per euro of capital consumed covered bonds have the highest risk adjusted return among intermediated products, followed by MBILs, while ABS mezzanine non-investment grade tranches have the lowest given their punitive capital charge.**
- **Direct loans to mid-cap, although profitable, have a lower nominal and risk adjusted return than loans to corporates, owing to their smaller size.**

6.1 Preamble: objectives and scope of the profitability analysis

The EIB is a non-profit maximising organisation with the duty to remain financially self-sustainable. Hence, this section assesses their nominal and risk-adjusted profitability as a complement the analysis of relevance and effectiveness per products covered in the previous sections.

The profitability analysis assesses the intrinsic realized/ex-post profitability of the products. The intrinsic realized profitability analysis of products is undertaken as if they were deployed under EIB own risks. Hence for products under European Commission mandates, the analysis is done under the counterfactual of no risk coverage from the mandator and no revenues retroceded to the mandator. This is important as the Bank is increasingly deploying special activities at own risk. In particular, the EIB has been deploying since 2022 non-investment grade ABS tranches and risk sharing instruments at own risk. The analysis only covers EIB operations; operations deployed by the EIF[61] and under the EGF are excluded as no detailed data on costs and revenues at operation level are available.

The temporal scope of the analysis covers signed operations initiated since 2010 up to 2023 and focusses on realized/ex-post profitability. The analysis covers operations created and signed over the period 2010 to 2023 and their cumulative revenues and costs over this timeframe. To match the financial data with the net signed volume of operations and their status (i.e., disbursed or not, cancelled after signature and fully repaid) the later are defined as of end December 2023.

[61] However, ABS transactions under the Service Level Agreement (SLA) are included in the analysis. ABS under EREM are excluded as no granularity of costs and revenues are available.

Operations are grouped by homogeneous products, targeting SMEs and mid-caps as final beneficiaries. The product "loans to corporates" is added as a benchmark.

- For intermediated operations, the evaluation looks at four main EIB product groups[62], namely MBILs (excluding ABS and covered bonds), ABS, covered bonds, and risk-sharing instruments.[63] These instruments differ with respect to being market instruments or not, funded or unfunded, and with respect to their riskiness as proxied by the loan grading at signature. As these products can also target other final beneficiaries, an algorithm was created to further identify operations targeting SMEs and mid-caps based firstly on allocations if available, secondly based on the SMEs/mid-cap PPG[64] in conjunction with a text search for key words in the name and the description of the operations.[65] However, given that the bulk of these products were classified as targeting SMEs and mid-caps[66] and that the objective is to assess the profitability of the products per se, all operations were kept.
- Direct operations targeting mid-caps are labelled as "mid-cap loans".[67]
- The (direct) corporate loans group[68] is included as a benchmark, for comparison with MBILs. Indeed, these are the two largest portfolios, in terms of number of operations as well as volume signed. Moreover, this group also serves as a benchmark for comparison with direct loans to mid-caps, which entail smaller ticket size.

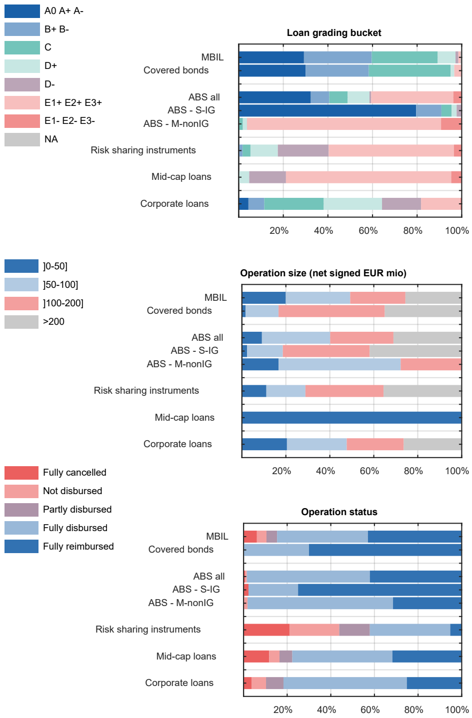
These groups are heterogeneous not only in terms of product type, but also with respect to the risk, age/vintage year, status, and size of the operations; these are important determinants of their profitability.

[62] Since the products are set at the contract level, only operations having a unique product type throughout their contracts are included in each respective group.
[63] Different variables at contract level available in DW lending universe were combined to classify the contracts, i.e., EIB Group Product Name, Contract Product Name, Contract OPS Product Name, Borrower ID, Security Category Name and Parent Operation ID.
[64] Except if 100% under innovation and digitalisation PPGs, then the PPG was disregarded as in many cases when the operations targets SMEs and/or mid-caps and innovation and/or digitalisation it would be attributed under the innovation and digitalisation PPGs.
[65] Some operations were further checked with the PIN and/or AFS.
[66] The algorithm was last update as of February 2024, allowing more allocations to be available.
[67] These operations were identified by the EIB Group Product Name "Mid-Cap loan" which started under EFSI. Predecessors' operations undertaken under RSFF – Growth Finance Initiative - and under Innovfin – Mid-Cap Growth Finance –labelled under other products, and whose loan grading at signature is not equity type, were also included.
[68] Identified on the basis of the Contract OPS Product Name "Corporate loan" and loan grading not equity type.

Figure 44 shows, for each product group, the distribution of operations risk profile, as measured by the transactional loan grading at signature.[69] MBILs and covered bonds are mainly standard operations split over the A, B and C loan grading ranges. While risk sharing instruments and mid-cap loans comprise mainly of special activities. Corporate loans and ABS[70] are distributed between standard and special activities, hence the analysis further divides these groups along the risk dimension. For corporate loans the evaluation uses the special activities loan grading threshold of D-. For ABS the split is done according to the seniority/subordination level of the investment in the ABS and the initial rating of the tranche, namely ABS senior investment grade (ABS S-IG) and ABS mezzanine non-investment grade (ABS M-nonIG) tranches. This provides two 'cleaner' groups to compute capital proxies as explained later.

In terms of ticket size (middle panel), corporate loans and MBILs are split across all size buckets, covered bonds and ABS S-IG are mainly tickets bigger or equal to 100 million while mid-cap loans are smaller tickets below 50 million (Figure 44 lower left panel). Risk sharing instruments and mid-cap loans have the highest share of "non-revenues" generating operations (i.e., loans not yet disbursed, guarantees not yet committed or operations cancelled after signature), with circa 43.9% and 16.5% respectively (lower panel). For MBILs and corporate loans this figure is circa 10%. Covered bonds and ABS senior investment grade tranches operations are circa 70% fully reimbursed[71] as the bulk of these operations were deployed in the first part of the period.

Figure 44: Operations characteristics

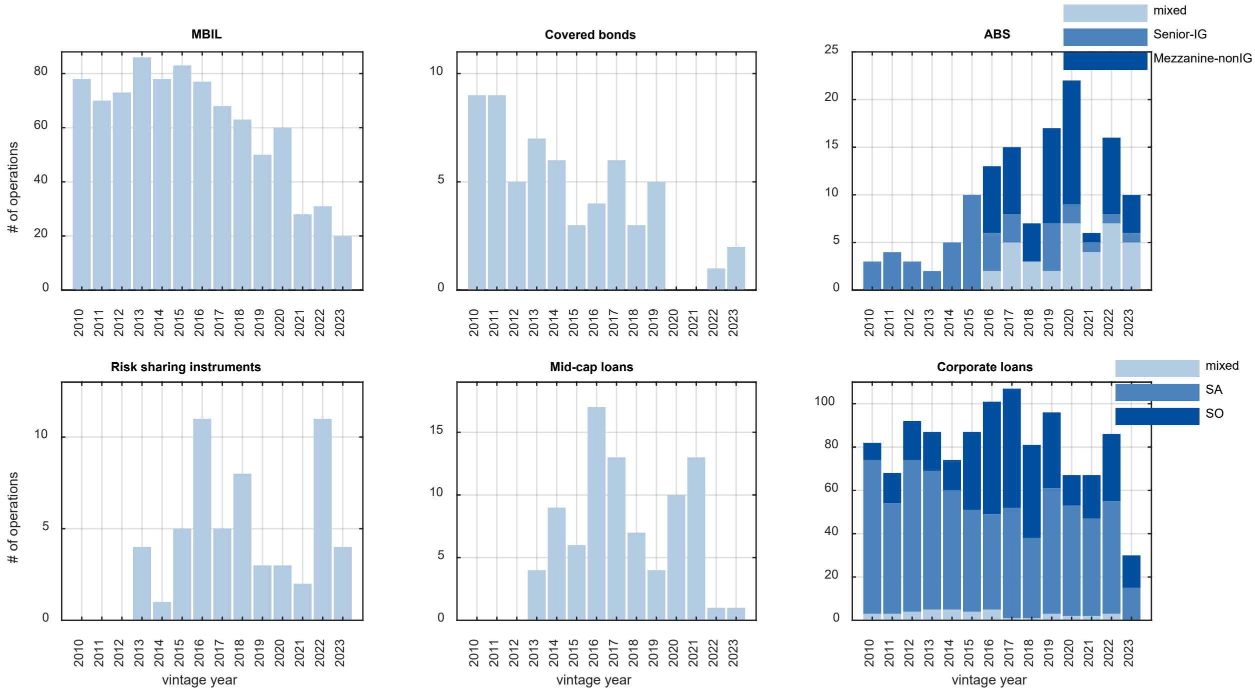


Source: EV computations based on data from DW lending universe, CLM universe, E-front and EIF ABS surveillance report.

Figure 45 below further shows for each products the time evolution of new operations creation, i.e., the number of operations per vintage year. The bulk of the products existed since 2010, while risk sharing instruments[72] and direct loans to mid-caps started in 2013 (under RSFF then InnovFin). Investments in sub-investment grade ABS tranches, i.e., tranches with initial rating below Baa3, started in 2016 under EFSI external guarantee and since 2022 at own risk. In terms of creation of new operations, MBILs have since 2016 been on a downward trend, while the pipeline of corporate loans has decreased since 2018.

[69] Missing loan gradings at signature were retrieved from the loan grading application for alive contracts, and from the application archives for dead contracts. For operations having more than one loan grading at signature, a volume weighted average expected loss is computed on the basis of the mid-point expected loss of the contracts loan grading then mapped back to the loan grading scale.
[70] These transactions can take the form of either a participation in true sale ABS or synthetic securitization transaction, including Credit Linked note, a funded variation of synthetic securitization.
[71] An operation is considered fully reimbursed if it reaches a 95% reimbursement rate as of end December 2023.
[72] A first generation of risk sharing instruments existed already before 2010; they are out of scope for this analysis.

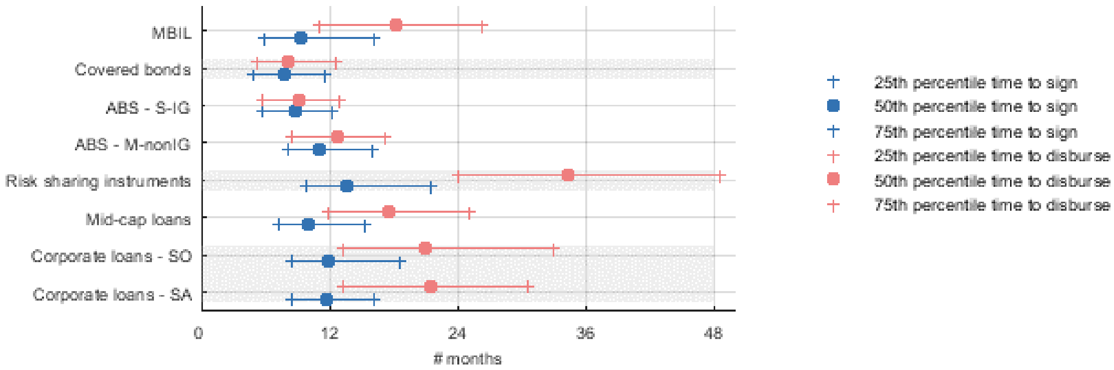
Figure 45: Number of signed operations over time, by product type



Source: EV computations based on data from DW lending universe, CLM universe, E-front and EIF ABS surveillance report.

Except for risk sharing instruments, intermediated operations take less time to sign and to disburse compared to direct ones (Figure 46). The median time to fully sign an operation is circa 9 months for MBILs, 12 months for corporate loans and up to 14 months for risk sharing instruments. To fully disburse, a MBIL operation takes about 18 months (median time), 21 months for corporate loans and 34 months for risk sharing instruments. Covered bonds and ABS have the shortest time to disbursement, as these instruments are typically disbursed at signature or shortly after.

Figure 46: Distribution of time to signature and time to disburse[73]



Note: The time to sign is computed as the volume weighted average of contract signature dates with respect to the operation creation date for operations fully signed. The time to disburse is computed as the volume weighted average of disbursement dates with respect to the operation creation date for operations fully disbursed.

Source: EV computations based on data from DW lending universe, CLM universe, E-front and EIF ABS surveillance report.

6.2 All products targeting SMEs and mid-caps - except risk sharing instruments - have been profitable

The evaluation analysed profitability of products from different angles. Firstly, by considering the profitability of the entire portfolio of operations within each product group, since the inception of these operations. Secondly (see section 6.3), as the full portfolio profitability is a weighted average of the underlying operations profitability which are in different stages of their lifetime and created in different years (i.e., different ages), the analysis zooms into the cross-section distribution to better gauge the typical profitability of operations per products.

The metric used to assess the product profitability (since inception) is the portfolio cumulative nominal return — euro net revenues per euro (net) signed. This indicator, akin to a return on asset, allows to control for the size of the different portfolios.

- The revenues and costs included under this metric are similar those used in EV evaluation of Special Activities and in Services yearly profitability analysis.
- Revenues include intermediated revenues (mark up and modulation), administrative revenues and up-front fees, risk pricing, guarantee revenues[74], commitment and deferment fees, prepayment indemnities on fixed rate loans and revenues from the zero floor.
- Costs[75] include operating costs and fees paid to the EIF under the SLA for ABSs'. Increases and releases of provisions are also included.
- The metric is computed for all groups since inception from 2010 onwards, up to end 2023, at the portfolio level.

[73] For guarantees, the analysis refers to time to commit.

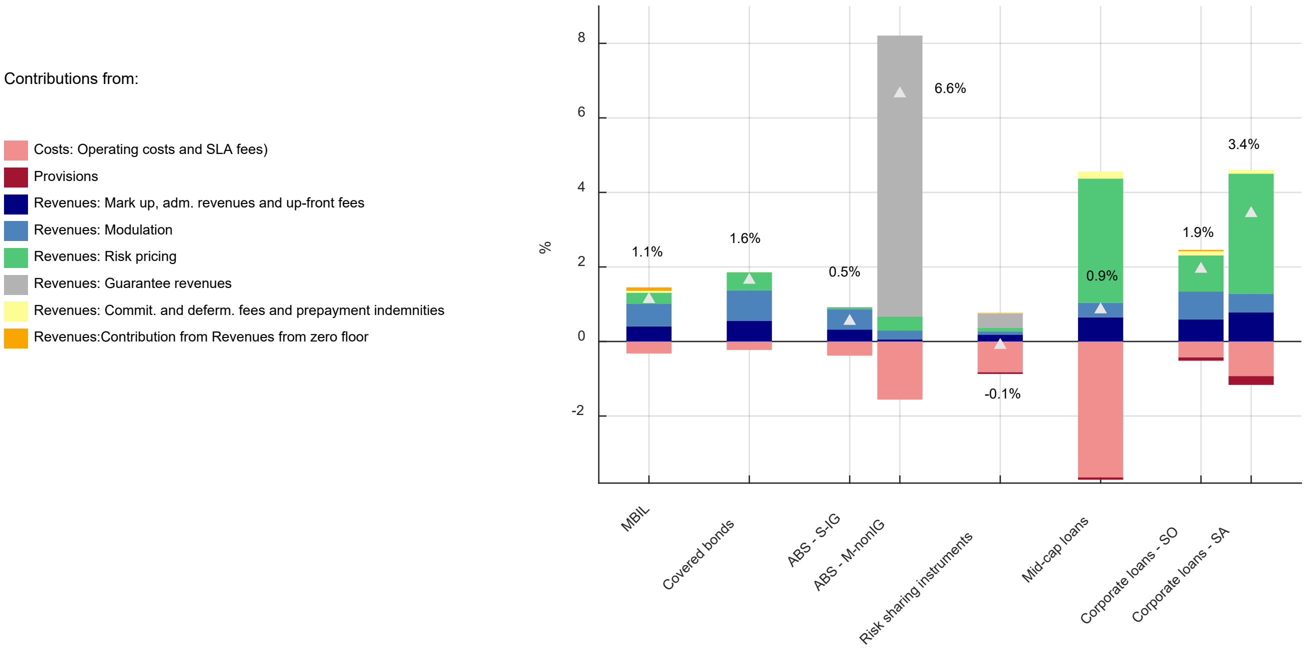
[74] For guarantees the split between the mark-up, modulation and risk pricing is not consistently available, hence all components are aggregated under the guarantees revenues.

[75] As the groups are defined at the contract level (i.e., based on contract product), we cannot control for costs of not yet signed operation nor pre-signature attrition. However, post signature attrition is included as well as the costs of the parent operation (i.e., the global authorization operation). The costs recorded under the parent operation mainly reflect the origination costs of the children/individual operations as well as some portfolio monitoring/analysis under the parent operation.

As of end 2023, all products, except risk sharing instruments, have been profitable (Figure 47) with ABS mezzanine non-investment grade yielding the highest nominal return across all products analyzed.

- Figure 47 shows the total return per product groups as well as the contribution of the different components to the nominal return.
- Among the 'lower risk' groups, MBILs have generated a cumulative nominal return of 1.1%, lower than corporate loans standard operations (1.9%), and covered bonds (1.6%), but better than ABS senior investment grade (0.5%).
- Figure 47 also illustrates that higher risk operations such as corporate loans under special activities and ABS mezzanine non-investment grade yield a higher nominal return as they benefit from a higher risk pricing. Note that the bulk of the mezzanine non-investment grade ABSs are unfunded synthetic transactions, for which the split of the mark-up, modulation and risk pricing is not consistently available; all components are therefore grouped under guarantees revenues. However, given that these operations are in the E+ to E- loan grading buckets they benefit from high-risk pricing.
- Risk sharing instruments have the lowest returns and not yet profitable, as the negative drag on the portfolios' profitability of the "non-revenues" generating operations is the highest.

Figure 47: Cumulative nominal return (2010 to 2023)



Source: EV computations based on data from DW lending universe, CLM universe, E-front, EIF ABS surveillance report, GR&C-RM/GFIN/ALM/AMU, SG/GS/PBA/MA and FC/FRA/FRD/LAU.

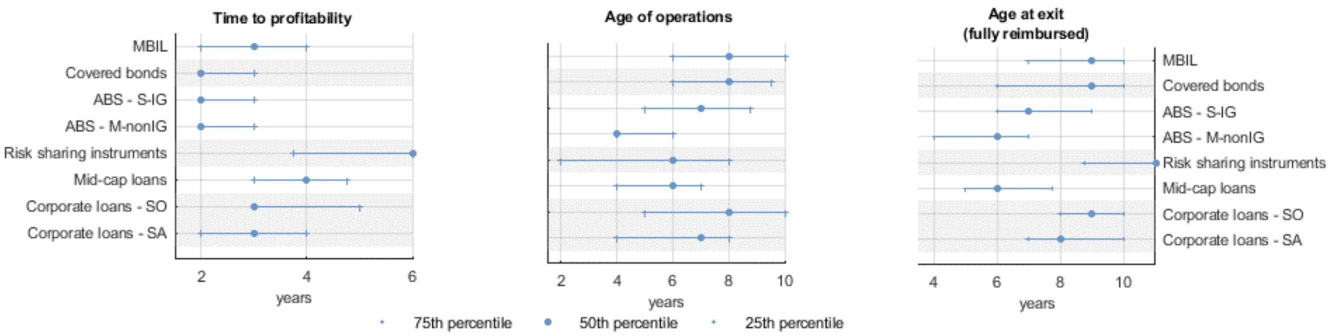
6.3 Further slicing into the drivers of nominal returns

This section slices the portfolio along the main drivers of profitability, namely operation stage in its lifetime, size, and risk buckets.[76]

ABS and covered bonds are the quickest to reach profitability. The left panel of Figure 48 displays the time to profitability. 50% of ABS and covered bonds operations break even within two years and 75% within three years. MBILs and corporate loans take three years and direct mid-caps four years to reach the same proportion of operations breaking even. Risk sharing instruments are the slowest, with 50% breaking even within six years.

Furthermore, there is also a wide dispersion in operations age, hence, individual returns do not, in general, span the fifteen years timeframe of the portfolio within scope. For fully reimbursed operations, the median age at exit (i.e., lifetime of an operation) is nine years for MBILs, covered bonds and corporate loans, while ABSs and mid-caps loans have a median age at exit of about six years. Note that within the portfolio of risk-sharing operations, only one is fully reimbursed, with an age at exit of eleven years.

Figure 48: Time to profitability and age of operations



Note: Time to reach profitability is computed as the number of years it takes for an operation to generate positive cumulative net revenues. So as not to bias downwards the result, it is computed based on the sub-set of operations which have reached profitability. For operations fully reimbursed the age corresponds to the age at exit.

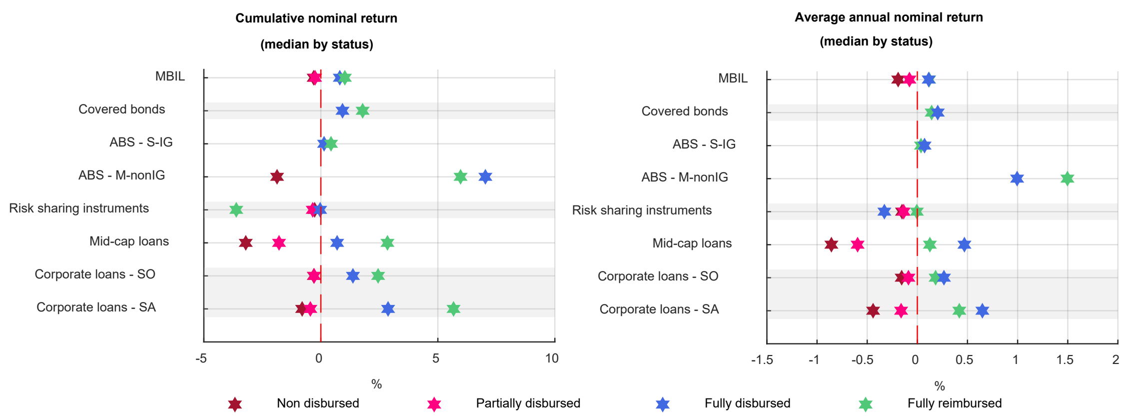
Source: EV computations based on data from DW lending universe, CLM universe, E-front, EIF ABS surveillance report, GR&C-RM/GFIN/ALM/AMU, SG/GS/PBA/MA and FC/FRA/FRD/LAU.

Higher risks operations, i.e., special activities, yield the highest average annual nominal return. ABS non-investment grade having by far the highest average annual nominal return. **The sub-groups of fully disbursed[77] and fully reimbursed operations within each products yield a positive return, except for risk sharing instruments. Controlling for the age of operations, the ranking of products does not change.** Figure 49 shows the median returns by operation status. The left panel shows the cumulative nominal return while the right panel shows the average annual nominal return to further control for the age/time horizon of return. As expected, within each group there is a wide spread of returns according to the status[78] of the operations, as the bulk of the revenues are generated by disbursements.[79] Except for risk sharing instruments[80], the sub-groups of fully disbursed and fully reimbursed operations within each products yield a positive return. Controlling for the time horizon/age of operations, the ranking of products does not change. Higher risks, i.e., special activities, yield the highest average annual nominal return, with ABS non-investment grade having by far the highest average annual nominal return. Moreover, although the portfolio of mid-cap loans has a low profitability compared to large corporates — due to

[76] As the full portfolio return for a product group is a weighted average of the underlying operations return a further slicing of the portfolios across different dimensions is performed to better gauge the typical profitability of products and their underlying drivers.
[77] For guarantees, the analysis refers to commitments.
[78] The status 'cancelled after signature' is not displayed at given that the denominator is zero, the return is minus infinity.
[79] All non-revenues generating operations (i.e., cancelled after signatures and not disbursed) have a negative profitability.
[80] The few risk sharing operations that have been fully disbursed and fully reimbursed have been not profitable, because they entail only few allocations, hence insufficient revenues to cover costs.

its high share of “non revenues generating” operations and smaller ticket size — its sub-portfolio of fully disbursed and fully reimbursed operations performs well.

Figure 49: Controlling for status and the age of operations/horizon of returns



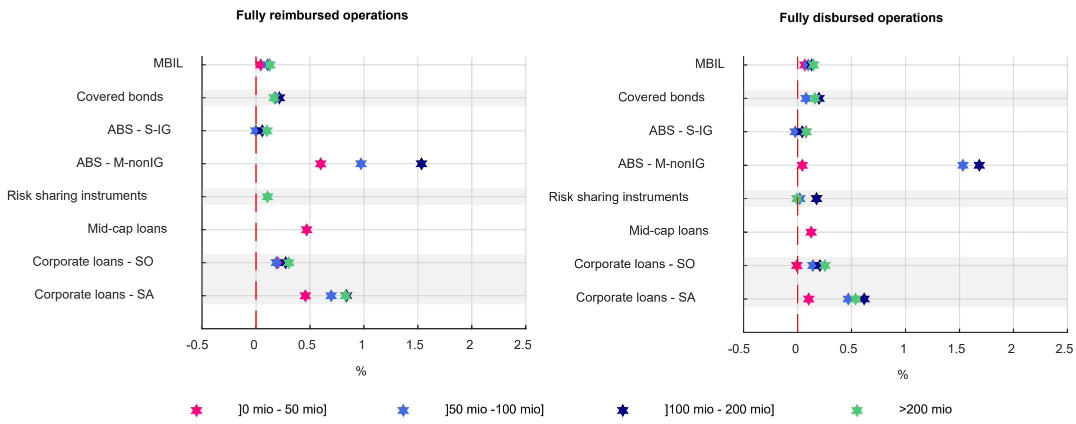
Note: The average annual return is computed by dividing the cumulative nominal return by the horizon over which each it is computed, i.e., the operation age. The median over status distribution is displayed on the figure. The status ‘cancelled after signature’ is excluded from this chart as because of division by zero (net signed) the return is minus infinity.

Source: EV computations based on data from DW lending universe, CLM universe, E-front, EIF ABS surveillance report, GR&C-RM/GFIN/ALM/AMU, SG/GS/PBA/MA, and FC/FRA/FRD/LAU.

For all product groups, return increases with the size of operations (Figure 50). This results from the fact that revenues, mainly set as a margin on the disbursed amount, are far more sensitive to size (measured by the net signed amount) than costs. Indeed, except for the fees paid to the EIF for ABS under the SLA — which depend on the size of the exposure[81] — costs are mainly driven by the complexity of operations. It is also worth noting that direct loans to mid-caps, which are all in the small size bucket, fare better than Special Activities corporate loans over the same size bucket and better than Standard Operations corporate loans.

[81] Under the revised SLA agreement of September 2023 – effective as of July 2023, the fees are determined at the ABS deal level and independent of the size of the total EIB investment and the number of tranches. To attribute the cost at the EIB contract level, two allocations rules have been used, a volume weighted and a number weighted rule. The results don’t change as the revised fee structure applies only to the last 6 months of the period analysed.

Figure 50: Controlling for the size bucket — average annual nominal return



Note: The average annual return is computed by dividing the cumulative nominal return by the horizon over which each it is computed, i.e., the operation age. The median over status distribution and size bucket is displayed on the figure.

Source: EV computations based on data from DW lending universe, CLM universe, E-front, EIF ABS surveillance report, GR&C-RM/GFIN/ALM/AMU, SG/GS/PBA/MA, and FC/FRA/FRD/LAU.

6.4 Controlling for capital intensity — risk adjusted return

Lastly, we compute an average annual risk adjusted return, which is the net revenue per euro of capital. Computing a risk adjusted return entails some methodological choices and caveats:

- First, the Bank uses three models to compute capital consumption, namely regulatory capital, economic capital, and S&P methodology. There are methodological differences between each model, for example differences in the scalar risk measure used (value at risk versus expected shortfall, horizon over which losses are estimated and level of confidence, risk parameters, risk mitigants, contract clauses eligibility). Hence the results will be model specific, although the resulting ranking should provide similar results.
- Second, net revenues are a flow over a multi-year period while capital consumed is a stock at a certain point in time and depends on the risk parameters at that point in time. Not only does the transaction underlying risk parameters varies over time but also the model-based parameters vary.
- Some products, namely ABS synthetic and risk sharing instruments incurred changes in methodologies during the period under review.

These caveats notwithstanding, the evaluation computes a capital proxy based on regulatory capital[82], as this metric is available 'naked' of external guarantees like EFSI and hence allows to assess the intrinsic capital charge of the product.[83]

Among the intermediated products, covered bonds have the highest risk adjusted return, followed by MBILs while ABS mezzanine non-investment grade tranches the lowest given their punitive capital charge. Figure 51 below shows on the left-hand side the average annual nominal return and the average annual risk adjusted return on the right-hand side. Compared to the previous observations, the reversal of ranking after controlling for capital intensity is driven by the different risk weights assigned to different products as:

[82] The capital charge is computed as the risk-weighted multiplied by 8%, hence is capped at one. Although EIB risk limits are set higher, this will equally affect all operations, hence would only imply a level shift in the risk-adjusted returns not the ranking.

[83] To estimate a representative 'lifetime' capital charge per euro signed exposure, the evaluation pools three vintages of contracts level capital charge, namely December 2020, 2021, and 2022. A representative capital charge is computed using the median of all contracts available in the database for a given product (as underlying risk parameters differ by products type) and loan grading buckets to provide more granularity. Loan grading and capital charge are positively correlated, as both are underlying measures of risk, although not perfectly.

- Senior ABS and covered bonds generally entail lower risk weights (and hence capital charge) due to their higher ratings compared to the originators rating, thanks to the credit enhancements built into the securitisation or covered bond structure. Being a double recourse instrument[84], covered bonds have the lowest capital charge.
- Capital charges on ABS mezzanine non-investment grade tranches are penalising. Capital charge on ABS transactions depends on their rating grade, seniority of the position, tranche maturity and in case of non-senior tranches, the tranche thickness. Rating for structured transactions, such as ABS, are by their nature model-based and not directly equivalent to an EIB counterpart rating for an intermediary bank. A traditional counterparty in difficulty can adjust its business model, merge, or seek shareholder or government support. However, none of these support measures is available for ABS tranche. As a result, ABS ratings exhibit far more volatility than ratings for other counterparties, particularly on the downside in stress scenarios. Regulators recognise these risks by imposing higher capital charges for lower rated ABS tranches than for identically rated corporate or covered bonds. Conversely, capital charges on senior tranches, which are often rated higher than the originating financial institution, are comparatively lower.
- Moreover, the typical mezzanine ABS tranche in which EIB invest has an initial rating below Baa3 to achieve the ultimate goal of the transaction, namely, significant risk transfer allowing regulatory capital relief, in accordance with the capital requirement regulation. For synthetic mezzanine transactions, rating in the low BB or single B range may be needed for a transaction to be economical whilst complying with regulatory requirements and providing significant risk transfer. Hence, low non-investment grade mezzanine tranches entail prohibitive capital charges, often close to euro-for-euro.[85]

Once adjusting for capital intensity, corporate loans standard operations and special activities yields similar returns — good size and risk pricing compensates for higher capital charges. Mid-cap loans, although having higher risk pricing, yield a lower return due to their lower size.

The evaluation did not compute a risk adjusted return for risk sharing instruments as the nominal return is negative and underlying exposures are not enough (i.e., low guarantee issue rate) to have meaningful capital charges.[86] However, as explained in Section 3.1.1, some of the flaws of the product have been addressed, hence the negative profitability observed in the past might not be a predictor of its future performance. With respect to capital intensity[87], given that the underlying individual exposures under the products are mid-caps, large corporates, public sector entities, not always necessarily of highest risk when the financial intermediary aim is to alleviate concentration risk, the capital intensity will be much lower than that of the mezzanine non-investment grade ABS.

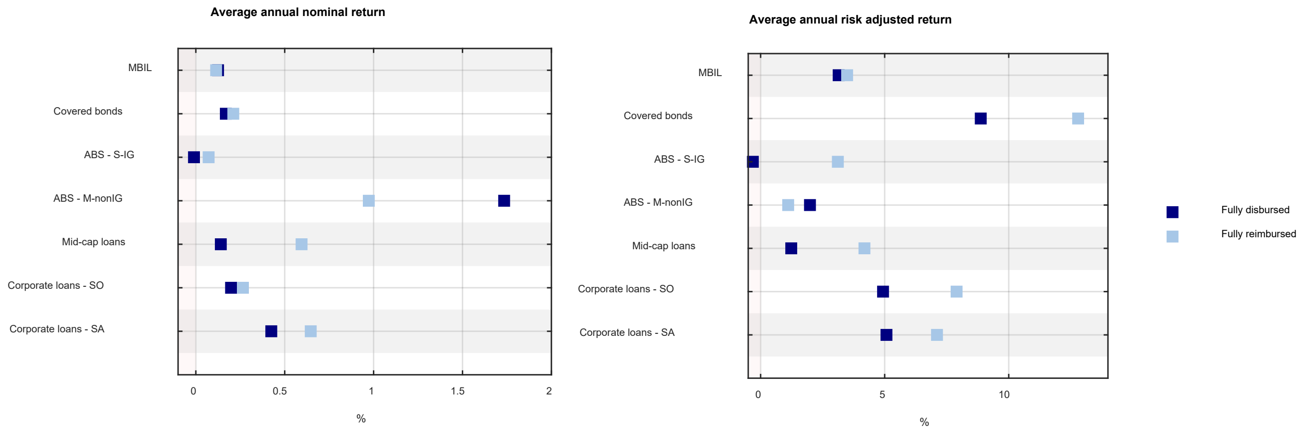
[84] Covered bonds are dual recourse instruments, because they enable investors to have a claim against the issuer but also, in case of default, against the cover pool.

[85] Over the past few years, the Bank has been implementing the new securitization framework, allowing a less penalizing treatment of synthetic ABS- under the the standardized approach for securitisation exposure (SEC-SA) - which were previously deducted. from own funds. This allows EIB to use EIF internal rating, instead of external rating which are in general not available. But, it entails also for EIF to provide more data for computing the underlying capital charge and fulfilment of additional monitoring requirements. That said, the capital charges for the low rated mezzanine tranches are still close to euro-for-euro.

[86] The loan grading at signature is a conservative loan grading not necessarily reflecting the actual exposure once included.

[87] Different methodologies have been applied according to the degree of delegation – partial or full. Under EFSI risk sharing operations under full delegation were deducted from own funds. However, to allow a less punitive capital treatment, for the 'Linked Risk Sharing full delegation at Own Risk', deployed since 2022, Services asked the Audit Committee for the exceptional use of the Standardized approach for computing regulatory capital, under a Permanent Partial Use. Indeed, due to the full delegation concept, EIB will not rate independently the underlying guaranteed exposure. In the absence of an internal rating, the Advanced Internal Rating Based approach for credit risk regulatory capital requirements cannot be applied, as the main risk parameters will not be available. Nevertheless, the CRR provides for the possibility to apply, under certain conditions and in exceptional cases the permanent partial use of the Standardized approach instead of the A-IRB.

Figure 51: Controlling for capital intensity/charge



Note: The average annual nominal return is computed by dividing the cumulative nominal return by the horizon over which each it is computed, i.e., the operation age. The median over status distribution and size bucket is displayed on the figure. The average annual risk adjusted return is computed by dividing the average annual nominal return by the capital intensity.

Source: EV computations based on data from DW lending universe, CLM universe, E-front, EIF ABS surveillance report, GR&C-RM/GFIN/ALM/AMU, SG/GS/PBA/MA, FC/FRA/FRD/LAU, and GR&C-RM/GREG/CM/CAP.

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ANNEX 2: THE RELATIVE IMPORTANCE OF FUNDING AND RISK-TAKING CONSTRAINTS

Freixas and Peydro (2023) provide a detailed analysis of the channels through which public policy can support private financial institutions to improve the allocation of credit to SMEs. They characterise the role of the different instruments – subsidised loans and credit guarantees. They highlight that the choice of the instrument depends on the economic and banking environment: the business cycle, the stance of monetary policy and macroprudential policies.

They also provide an empirical analysis of the roles of liquidity (funding) and capital (risk bearing) constraints for bank lending in the EU between 2007 and 2019 using bank-level data. In particular, they analyse

a. how loan growth is affected by changes in the banks' capital position and liquidity situation, and

b. how does the effect depend on the stance of monetary and macro-prudential policies.

The key lessons of the analysis are the followings:

- **In general, both funding and risk-taking constraints have an impact on corporate credit, therefore both liquidity support and guarantee instruments can have a role.** Both liquidity shocks and capital shocks affect credit dynamics: a decline either in liquidity or in capital position is therefore leads to a slowdown of SME lending.
- **In times of downturns and recessions, liquidity support is needed more.** According to the empirical analysis, in economic downturns, liquidity constraints are more binding, therefore the impact of liquidity on credit growth is stronger.
- **In times of recovery and growth, risk-sharing and guarantees are more efficient to support credit growth to SMEs.** Capital constraints have been more binding in upturns, therefore instruments that allowed to ease them have stronger positive effect on credit growth.
- **Monetary tightening has a negative impact on bank liquidity, and it calls for liquidity support to limit the slowdown of SME credit.** A monetary easing, on the other hand dampens the efficiency of liquidity support, and increases the importance of capital constraints on lending.
- **In times of macro-prudential tightening, both capital (guarantees) and liquidity (funding) instruments are needed to support credit to SMEs.** Nevertheless, the impact of effects from macroprudential policy tend to be less significant than those for monetary policy.
- **The right policy instruments and its intensity shows heterogeneity across countries.** The effects of capital and liquidity constraints on credit growth were smaller in Germany than in the other EU Member States considered in the sample.

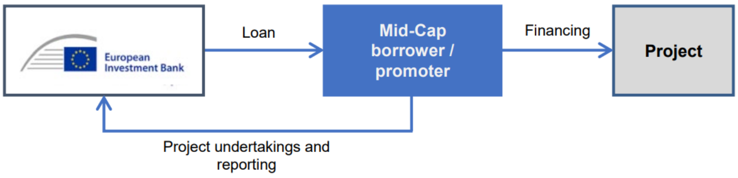
ANNEX 3: PRODUCT DESCRIPTIONS

This appendix provides a description of the main EIB Group product presented in the report. [88]

1 EIB products

1.1 Direct lending

Mid-Cap loan enables the EIB to directly support medium-sized companies with tailored financial solutions to accelerate their development.



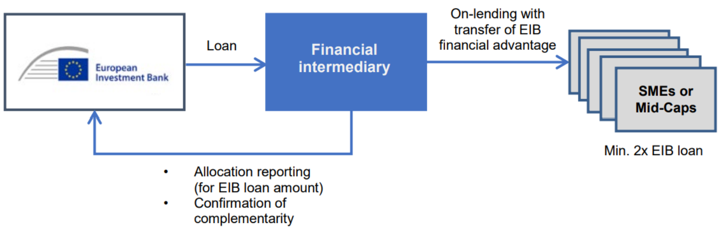
1.2 Intermediated support

Intermediated products bear a multiplier effect by which the financial intermediary commits to generate, within a certain period, a new portfolio of eligible loans for an amount that is a multiple of the EIB support. In case the financial intermediary allocates the EIB loan for 100% of the individual sub-loan amounts, it is also required to build up a complementary portfolio of new loans to eligible final beneficiaries. The size of this complementary portfolio is at least that of the EIB loan amount for the typical senior loan finance; higher portfolio multiples are required for operations that entail EIB taking mezzanine risk.

1.1.1 Intermediated loans and loan substitutes

Intermediated lending

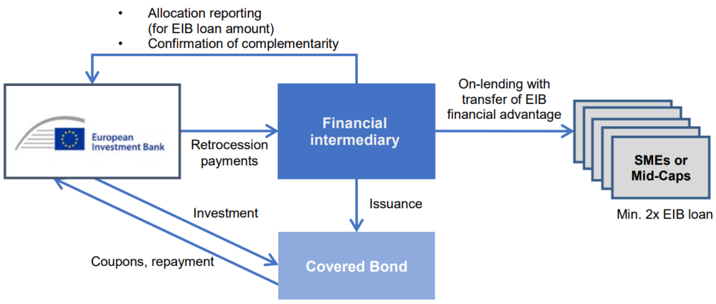
EIB provides a loan to a financial intermediary for on-lending to small scale projects and investments, promoted by multiple beneficiaries such as SMEs and mid-caps.



[88] The appendix does not provide an exhaustive list of all EIB and EIF products which includes products beyond the ones presented.

Covered bond

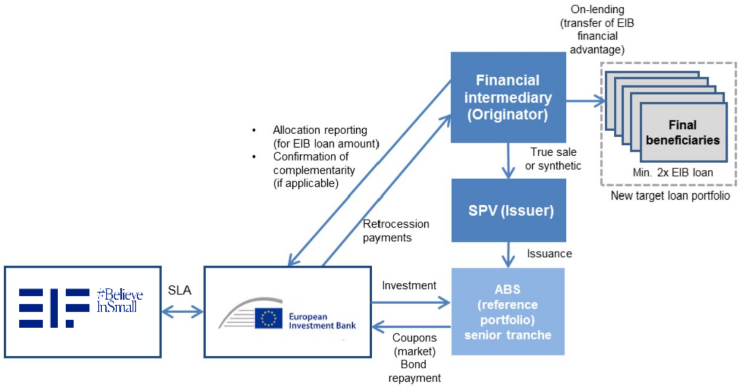
EIB loan for SMEs and mid-caps implemented through the EIB subscribing to a covered bond issued by the financial intermediary, rather than a straightforward transfer of funds.



ABS senior tranche

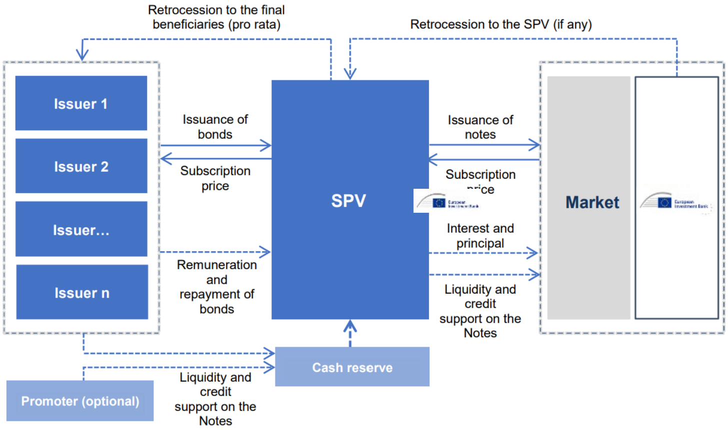
EIB loan for SMEs and mid-caps implemented through the EIB subscribing a senior tranche in Asset Backed Securities (ABS) either:

- issued by the financial intermediary



In such cases, the EIF is in charge, on behalf of the EIB Group, of the structuring, due diligence and monitoring of these so-called 'granular ABS operations'.

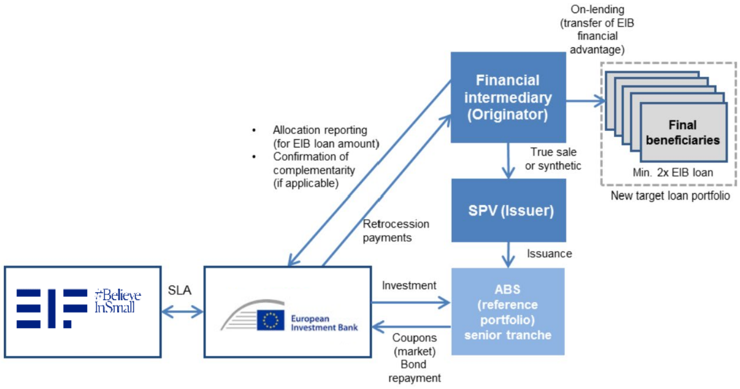
- of a non-granular portfolio of loans to SMEs and mid-caps



1.1.2 ABSs

Mezzanine and junior tranche ABS

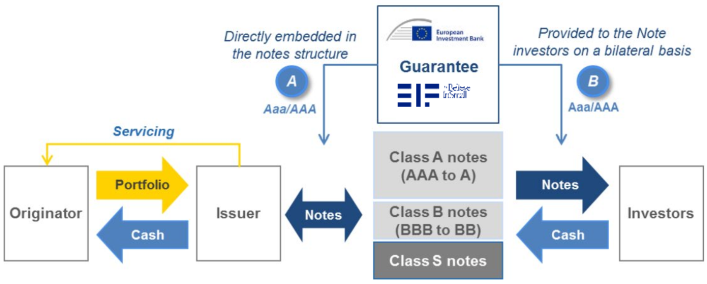
The EIB subscribes to a mezzanine tranche of an Asset Backed Securities (ABS) issued by the financial intermediary. Mezzanine transactions can enable relief of capital, which financial intermediaries are required to redeploy to originate new eligible loan portfolios for a multiple of the mezzanine exposure size, which depends on the riskiness of mezzanine and the riskiness of the new target portfolios. For the structuring, due diligence and monitoring of granular ABS operations, EIB services (OPS, RM and TMR) rely on EIF under a Service Level Agreement (SLA).



ABS credit enhancement

EIF provides an unconditional and irrevocable guarantee for a senior or mezzanine tranche of a granular securitisation.

Guarantees on synthetic mezzanine tranches aim at providing capital relief to the financial intermediary while guarantees on funded ABS mezzanines are typically instrumented for funding purposes (though they can provide capital relief in very specific transactions).



1.1.3 Risk sharing product

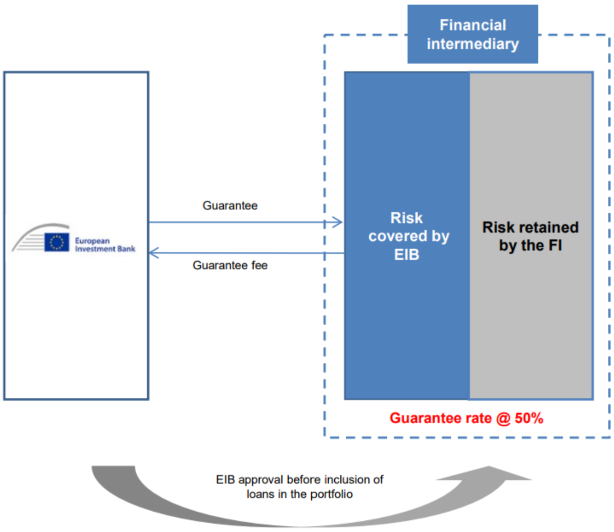
Linked risk-sharing

The EIB provides

- an unconditional, irrevocable first-demand non-funded guarantee or
- a funded risk participation/contingent loan to a financial intermediary

covering up to 50% of the losses in respect of each loan in a new non-granular portfolio.

The guarantee aims at providing capital and/or risk relief to the financial intermediary.



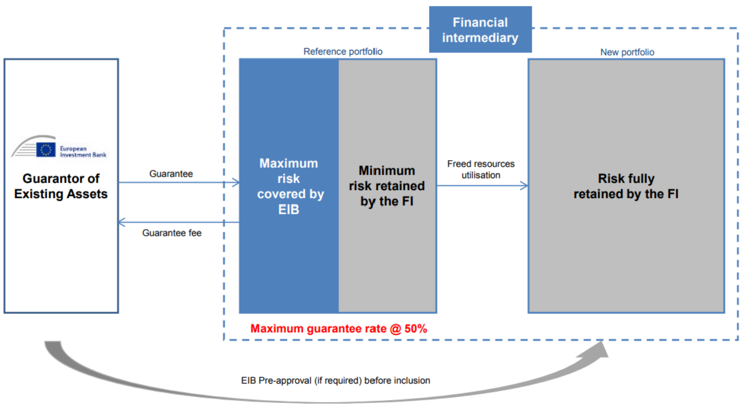
Delinked risk-sharing

The EIB provides

- an unconditional, irrevocable first-demand non-funded guarantee or
- a funded risk participation/contingent loan to a financial intermediary

to cover up to 50% of the losses in respect of each defaulted loan in a non-granular reference portfolio of pre-selected, existing loans (typically 10 to 20 loans).

The guarantee aims at providing capital and/or risk relief to the financial intermediary.



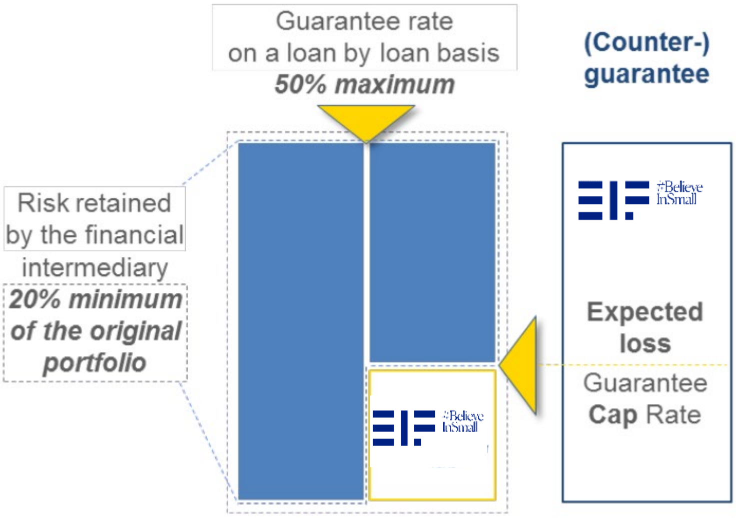
These products can either be channelled under a full delegation model or a partial delegation model. Under the full delegation model, the loans are allocated by the partner institution according to pre-defined criteria, during the allocation period. Under the partial delegation model, the loans are submitted for EIB approval.

2 EIF products

2.1 Guarantees

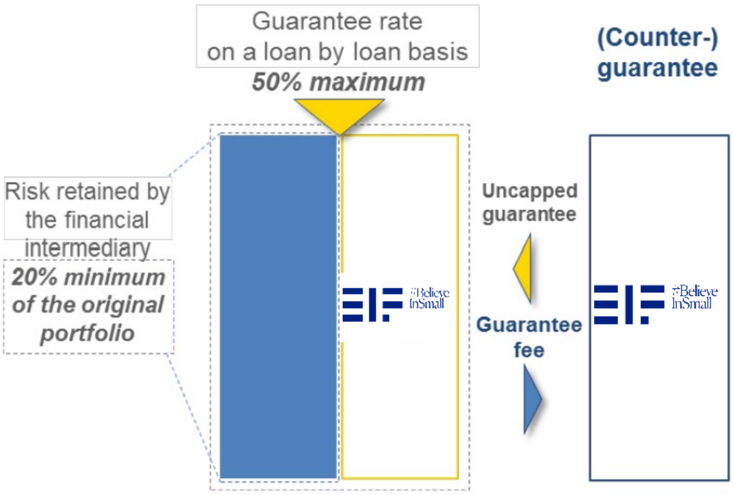
Capped guarantee

EIF provides capped portfolio (counter-) guarantees to financial intermediaries for any type of debt financing to SMEs. The unconditional, irrevocable first-demand (counter-)guarantee provides up to 50% cover on a loan-by-loan basis, subject to a cap amount at the expected loss level.



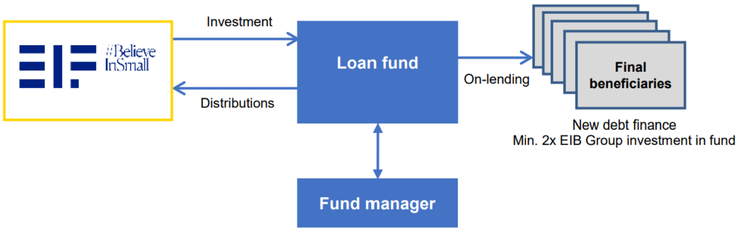
Uncapped guarantee

EIF provides uncapped portfolio (counter-) guarantees to financial intermediaries for their (senior and subordinated) debt financing to innovative SMEs and small Mid-Caps. The unconditional, irrevocable first demand (counter-) guarantee provides up to 50% cover on a loan-by-loan basis.



2.2 Private debt

The EIF makes an equity-type investment, alongside third party investors, into a closed-end fund or other investment vehicle that provides senior and/or uni-tranche financing primarily to SMEs and small Mid-Caps.



2.3 Microfinance intermediated lending

The EIF provides lending to of financial intermediaries, from small non-bank financial institutions to well established microfinance banks to make microfinance a fully-fledged segment of the European financial sector.

THE EVALUATION DIVISION OF THE EIB GROUP

The Evaluation Division of the EIB Group conducts independent evaluations of the EIB Group’s activities. It assesses the relevance and performance of these activities in relation to their objectives and the evolving operating environment. It also helps the EIB Group draw lessons on how to continuously improve its work, thereby contributing to a culture of learning and evidence-based decision-making.

Evaluation reports are available from the EIB website: http://www.eib.org/evaluation


Barba

EIB GROUP EVALUATION

Evaluation of EIB Group debt support for small businesses and mid-caps

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2024-0086