2016 SME Report
EIB Group activities in support of SMEs and midcaps
EIB Group key messages and main achievements in 2016

The EIB Group again delivered record levels of finance for SMEs and midcaps with EUR 33.7bn of new operations signed. These commitments are estimated to have leveraged at least EUR 91.1bn of finance for SMEs and midcaps.

Finance for SMEs and midcaps continued to represent the single largest primary public policy goal (PPG) of the EIB Group, accounting for nearly a third of the EIB’s overall signature volume and almost all of the EIF’s activities.

The European Fund for Strategic Investments (EFSI), supporting the Investment Plan for Europe, contributed strongly to the achievement of the EIB Group’s record SME and midcap activity. Transactions signed by the EIF under the EFSI SME Window within the first 18 months of EFSI’s deployment are expected to mobilise 71% of the total investment target. This window was increased by EUR 500m in 2016 to accommodate the strong market demand for EIF instruments. Under the EFSI Infrastructure & Innovation Window, the EIB signed EUR 1.6bn of SME and midcap operations, contributing 14% to the total volume signed under EFSI in 2016.
The EIB delivered 74% of the SME and Midcap PPG through multi-beneficiary intermediated loans targeting SMEs and midcaps, mainly Loans for SMEs (L4SMEs), with the remaining 26% via direct loans and quasi-equity (to midcaps) and portfolio guarantees. In the EU, a considerable share of operations targeted specific sectors or thematic priorities such as innovation, youth employment, agriculture, microfinance and internationalisation in line with EU policy priorities. SME and midcap finance also remains a key activity for the EIB outside the EU, often supported by targeted technical assistance, to underpin private sector development.

Under several European Commission (EC) mandates, the EIF continued to roll out EU financial instruments in favour of SMEs. These instruments were deployed through dedicated thematic programmes including EU Finance for Innovators (InnovFin), Competitiveness of Enterprises and SMEs (COSME), EU Programme for Employment and Social Innovation (EaSI) and the Creative and Cultural Sector (CCS) programme. Also in partnership with the EC, the EIB Group successfully continued the deployment of the SME Initiative in four additional EU Member States (Bulgaria, Finland, Italy and Romania).

The EIB Group effectively reached beneficiary SMEs and midcaps through a wide range of predominantly intermediated debt-financing, risk-sharing, venture capital and private equity instruments to improve financing conditions and enable continued access to finance, further complemented by the Bank’s advisory services. The EIB Group worked in close cooperation with over 1 100 financial intermediaries including banks and leasing companies, guarantee and microfinance institutions, specialised finance providers, business angels and private equity fund managers, as well as with national and regional promotional institutions (NPIs).

EIB Group operations supported the investment and activities of some 300 000 SMEs and midcaps employing over 4.4 million people.
EIB Group support to SMEs in 2016 (in EUR bn)

<table>
<thead>
<tr>
<th>EIB Group support to SMEs</th>
<th>Inside the EU</th>
<th>Outside the EU</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EIB</td>
<td>EIF</td>
<td>EIB Group</td>
</tr>
<tr>
<td>Approvals</td>
<td>20.6</td>
<td>9.5</td>
<td>30.1</td>
</tr>
<tr>
<td>Signatures</td>
<td>21.3</td>
<td>9.5</td>
<td>30.1</td>
</tr>
<tr>
<td>Disbursements</td>
<td>18.8</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>Allocations (volume)</td>
<td>21.5</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>Finance leveraged</td>
<td>42.6</td>
<td>42.7</td>
<td>83.93</td>
</tr>
<tr>
<td># Allocations</td>
<td>144 000</td>
<td>n/a</td>
<td>144 000</td>
</tr>
<tr>
<td># Intermediaries ¹</td>
<td>270</td>
<td>666</td>
<td>936</td>
</tr>
<tr>
<td># Final beneficiaries</td>
<td>117 000</td>
<td>175 000</td>
<td>292 000</td>
</tr>
<tr>
<td># Employment sustained</td>
<td>3 042 000</td>
<td>1 000 000</td>
<td>4 042 000</td>
</tr>
</tbody>
</table>

1. In the interest of simplicity, the EIF’s very marginal activity outside the EU is included in the figures for within the EU.
2. EIF aggregated active counterparts and active counterparts with which the EIB signed new loans or to which the EIB made disbursements or allocations during 2016.
3. Signature and leveraged finance volumes in connection with the SME Initiative are included in both the EIB and EIF figures. The respective EIB Group figures have been adjusted to avoid double counting at Group level.
Within the EU

EIB key figures for 2016

Support to 117,000 SMEs and midcaps mainly through intermediated loans and guarantees
These enterprises employed over 3m people

EUR 21.3bn of new operations signed
(8% increase on 2015)
catalysing financing of at least EUR 42.6bn
Enhanced synergies and joint operations with EIF

EUR 20.6bn of new operations approved
(18% decrease on 2015)

EUR 18.8bn disbursed1 to financial intermediaries or beneficiaries directly
(6% increase on 2015)

Financial intermediaries allocated a record
EUR 21.5bn to SMEs and midcaps

Strong cooperation with public promotional institutions
(EUR 4.5bn signed)

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1. There is a natural time lag between signature/disbursement/allocations of multiple beneficiary intermediated loans (MBILs). Historic analysis shows that about 70-80% of an MBIL is normally disbursed within one year of signature and about 90% within two years of signature. The standard period for financial intermediaries to report on allocations is 18-24 months after either signature or disbursement.
Main achievements

In 2016, the EIB:

• Signed EUR 1.6bn of SME and midcap operations under the EFSI Infrastructure & Innovation Window, contributing 14% of the total volume signed under EFSI in 2016.

• Supported EU policy targets and sector priorities, notably through 32 signed operations (worth EUR 5bn or 23% of the SME and Midcap PPG) dedicated to Jobs for Youth (JfY), microfinance, agriculture, internationalisation and climate action. Beyond their eligibility under the SME and Midcap PPG, 62 operations, or 32% of the total of 192 signed in 2016, also contributed to other PPGs (39% to Innovation, 31% to Environment and 30% to Transportation).

• In cooperation with the EIF, signed four new Joint SME Initiative operations in Bulgaria, Finland, Italy and Romania, showcasing the EIB Group’s commitment to delivering on joint EU financial instruments dedicated to SMEs.

• Continued to shore up the European securitisation market in cooperation with the EIF, by investing EUR 4.7bn in Asset Backed Securities (ABS) of SME and other asset-class portfolios (doubling the investments made in 2015), resulting in additional SME and midcap financing by financial intermediaries.

• Under the Horizon 2020 programme, together with the EIF, continued to deploy InnovFin – EU Finance for Innovators, providing debt, guarantees and advisory services to innovative enterprises.

• Building on EIB-EIF synergies, signed new instrument agreements under the EIB Group Risk Enhancement Mandate (EREM), to be implemented by the EIF, for small senior loan facilities to cooperative banks and smaller institutions (CBSI) and the securitisation of SME portfolios under the SME Initiative.
Within the EU

EIF key figures for 2016

**EUR 3.7 bn** of signatures under the EFSI SME Window, which corresponds to 67% of the total SME Window

Support to approximately **175 000 SMEs and small midcaps** through a range of financial instruments provided to intermediaries. These enterprises employed **about one million people**

A record volume of **EUR 3.2 bn** in equity commitments, of which **EUR 1.2 bn under EFSI**, creating market traction and leveraging **EUR 18.5 bn**

**EUR 6.2 bn of guarantees** committed to financial intermediaries in 208 transactions (of which **EUR 2.5 bn under EFSI**), stimulating new loan portfolios and mobilising additional resources, leveraging **EUR 23.6 bn**

**EUR 121 m** signed for **microfinance** and social entrepreneurship (40% increase on 2015)

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

In 2016, the EIF:

• Deployed the guarantee instrument of the new EaSI (Employment and Social Innovation) Programme. Signed 29 agreements in 17 countries for a microfinance loan portfolio of EUR 409m expected to support 29,000 micro-enterprises and social enterprises. Also launched a new “EaSI Capacity Building Investments Window” totalling EUR 16m.

• Launched a new guarantee facility under the EC’s Creative and Cultural Sector (CCS) Programme. Three signatures were concluded for EUR 12.7m in Spain, France and Romania, expected to leverage EUR 86.6m of financing.

• Scaled up collaboration with national promotional institutions (NPIs) to further stimulate access to finance for SMEs and midcaps by launching the NPI Equity Platform and the NPI Securitisation Initiative (ENSI) to further stimulate SMEs’ access to finance.

• Continued the deployment of the EREM mandate towards the development of alternative debt finance – including loan funds – and also deployed a new window to provide senior loan financing to cooperative banks and smaller financial institutions for the ultimate benefit of SMEs and small midcaps.

• Pioneered the use of ESIF (European Structural and Investment Funds) and other structural funds in combination with EFSI under national and regional initiatives.

Due to strong market demand, the EFSI SME Window was increased by EUR 500m to EUR 5.5bn. Signatures by year-end 2016 are expected to mobilise investments worth up to EUR 58.8bn, amounting already to about 71% of the overall target (EUR 82.5bn), and supporting an estimated 305,500 SMEs and small midcaps. Geographical coverage of EFSI in all EU-28 Member States was achieved.
Outside the EU

EIB key figures for 2016

Support for around **8 000 SMEs** mainly through MBIL/L4SME intermediated loans, equity and microfinance activities. These enterprises employed some **378 000 people**.

**EUR 3.6bn** of new operations **signed**, accounting for 14% of total EIB signatures and catalysing financing of at least **EUR 7.2bn** (29% increase on 2015).

**EUR 2.7bn** disbursed to financial intermediaries for onlending to SMEs (17% increase on 2015).

**EUR 2.9bn** allocated to SMEs (53% increase on 2015).

**EUR 5bn** of new operations **approved** (67% increase on 2015).

**EUR 67m** signed for 10 new **microfinance** operations.
Main achievements

In 2016, the EIB:

- Partnered with the **EC, Member States, international financing institutions and international donors** to support private sector development.

- **Committed EUR 39m to two SME equity funds**, reaching a total portfolio of EUR 508m in commitments to venture capital and equity funds which have invested in 241 SMEs.

- Cooperated with **179 financial intermediaries** across all regions outside the EU.

- Achieved a record **EUR 2.9bn** in allocations to final beneficiaries.

- Concluded **39 new technical assistance agreements** for a total amount of EUR 56m.
Other highlights

Evolution of the EIB’s L4SME product

The Bank signed EUR 21.3bn of new finance for SMEs and midcaps in the EU and EUR 3.6bn outside the EU, which is expected to generate financing of at least EUR 49.8bn. In the EU, the Bank channelled its financing via financial intermediaries primarily through its L4SME product (EUR 19bn or 89% of 2016 signatures), but also through framework loans (5%), portfolio guarantees (4%, including the Joint SME Initiative), investment loans (1%) and (quasi)-equity (1%, under InnovFin MidCap Growth Finance).

Some 13% (EUR 3.2bn) of the EUR 19bn of L4SME operations signed benefited from streamlined appraisal for standard operations under the “EU Programme Loan for SMEs and Midcaps”. The well-established L4SME product has enabled the EIB to increasingly engage with its financial intermediaries to address thematic priorities: in 2016, 32 operations totalling EUR 5bn underpinned targeted EU priorities such as agriculture, youth employment, internationalisation of companies, sustainability and microfinance.

Intermediaries in the EU are mainly commercial banks (62% of 2016 signatures), public promotional institutions and authorities (21%) and leasing companies (9%). Over the course of the year, these intermediaries made around 144 000 allocations of EIB funding to 117 000 beneficiaries (SMEs and midcaps) for a total financing amount of EUR 21.5bn (18% y-o-y increase).

EIB support to SMEs and midcaps outside the EU

Local private enterprise development, including support for SMEs and midcaps, remains a major pillar of EIB activities outside the EU. In 2016, new signatures increased by 29% (due to the substantial contribution of Turkey and Egypt) to EUR 3.6bn. The Bank signed 11 new dedicated microfinance operations (EUR 75m) and made new commitments to two SME funds (EUR 39m).

The EIB continued to be an important provider of technical assistance for microfinance and private sector development in ACP countries and neighbourhood regions. In 2016, the EIB concluded 39 new technical assistance agreements in support of micro-enterprises and SMEs for a total of over EUR 56m.

Joint SME Initiative rollout

Following its successful launch in 2015 in Spain and Malta, the EIB Group continued to expand the SME Initiative in 2016.

The SME Initiative is a joint financial instrument of the EC, the EIB Group and Member States. It aims to stimulate SME financing by providing partial risk cover for SME loan portfolios originated by financial institutions. Alongside ESIF resources contributed by Member States, the SME Initiative is co-funded by the EU budget through Horizon 2020 and/or COSME resources and also by EIB Group resources. It covers two products including an uncapped portfolio guarantee for new SME loans/leases/guarantees (Option 1) and SME securitisation – either through ABS investments or guarantees (Option 2).

The EIF is entrusted by the participating Member States with implementing the SME Initiative, in cooperation with the EIB. The EIF provides senior risk cover, whereas the EIB provides risk cover at upper mezzanine level through resources from the EIB Group’s Risk Enhancement Mandate (EREM).

In 2016, Option 1 was brought to the market in Bulgaria, Finland and Romania, for an overall EIB commitment of EUR 588m. In Italy, the SME Initiative will be deployed under Option 2, generating an estimated total securitised loan volume of around EUR 2bn.
Further developments in 2016 include the signature of the Joint SME Initiative Option 2 in Italy and the launch of the EIF-NPI Securitisation Initiative (ENSI) as a collaborative platform with NPIs.

To enhance the intra-Group cooperation, a new EIB-EIF Service Level Agreement for securitisation-type operations was executed in March 2017, enabling the Bank to benefit from EIF expertise for the inclusion of mezzanine and lower-rated senior tranches also for operations under EFSI.

EIB Group products supporting financial inclusion in the EU

The need for sustainable employment, social inclusion and protection, and generally the need to support more vulnerable groups, was ever more prominent in 2016. In response, the EIB Group stepped up its commitment to supporting the still emerging social entrepreneurship sector in Europe.

Building on the success of the European Progress Microfinance Facility (EPMF), the Employment and Social Innovation (EaSI) microfinance programme was designed to support niche financial institutions that are best equipped to target micro-borrowers from social groups at risk and companies active in the social economy. In 2016, the EIF signed 29 EaSI guarantee transactions – of which 23 for microfinance and 6 for social entrepreneurship – for a total financing amount of EUR 32m. On the back of strong demand, the deployment of the EaSI guarantee instrument has been stepped up further under the EFSI SMW Window.

Moreover, a new “EaSI Capacity Building Investments Window” was launched with EUR 16m earmarked for direct and indirect equity investments to develop the institutional capacity of microfinance providers.

Staying within the EaSI framework, the EIB Group is expected to conclude the negotiations in 2017 for a
funded EaSI instrument, with an estimated commitment of around EUR 200m.

Financing of innovative enterprises through the EIB Group

The EIB Group increased its deployment of InnovFin during 2016. InnovFin – EU Finance for Innovators – is a EUR 24bn joint EIB Group (EIB and EIF) and EC (DG Research and Innovation) initiative. It was launched in 2014 under Horizon 2020, the EU research programme for 2014-2020. InnovFin consists of products ranging from guarantees for financial intermediaries to direct loans to enterprises as well as advisory services.

The InnovFin SME Guarantee remained in high demand by financial institutions in 2016 due to the provision of capital relief. Thanks to the additional resources under the EFSI SME Window, by the end of the year the EIF had signed 78 new agreements: total guarantee cover of EUR 2.3bn to support innovative enterprises is expected to leverage EUR 5bn of financing.

Under the InnovFin Equity envelope, the EIF committed EUR 165m of financing to 10 funds. The majority of these funds pursue multi-country strategies focusing primarily on early-stage companies active in the life sciences and ICT sectors. InnovFin Equity comprises four different products – ranging from technology transfer to investments in fund-of-funds – where the EIF provides risk capital financing to enterprises in their pre-seed, seed, start-up and other early-stage phases, enabling them to set up or reach the next stage of development.

In 2016, the EIB signed two InnovFin Midcap Guarantee operations amounting to EUR 150m, 17 direct loans under InnovFin Midcap Growth Finance, amounting to EUR 254m, and a EUR 10m quasi-equity operation under the envelope for Energy Demo Projects.
yet political uncertainty and the anticipated tightening of monetary policy are expected to limit the upward potential of macroeconomic improvements in most Member States. Whilst credit demand has started to increase, access to finance remains a binding constraint in some markets. Tightening regulation and capital constraints across much of the banking sector represent a drag on economic recovery, particularly in crisis-hit countries, thus causing persistent market fragmentation across the EU. Against this backdrop, the broadening of affordable financing options for SMEs and midcaps will remain a key priority for the EIB Group in 2017 both within and outside the EU.

In a context of highly liquid markets and low interest rates prevailing, at least in the short term, the EIB will complement its more traditional intermediated lending activity with new risk sharing products, while progressively widening its range of financial intermediaries to also include emerging market players, e.g. loan funds, Fintech companies and social finance providers – in line with the objectives of the European Commission’s Capital Markets Union.

Beyond the eligibility under the SME and Midcap Finance public policy goal, the EIB Group will continue to anchor its operational activity in thematic policy priorities. The EIB is expected to leverage its strong relationships with financial intermediaries in pursuit of other public policy goals, such as Innovation and Environment/Climate Action, in intermediated SME/midcap financing.

The EIB’s Corporate Operational Plan for the period 2017-2019 anticipates the stabilisation of activity under the SME and Midcap PPG, with a signature target of EUR 22bn in 2017. The EIF’s Corporate Operational Plan for 2017 targets the stabilisation of overall transaction volumes at EUR 9.6bn, with continued deployment of the EFSI SME Window, focusing on top-ups of the existing mandates (EaSI, COSME LGF, InnovFin SMEG) and building on the recently launched platforms for private equity and securitisation. At EIB Group level, coordination will continue to take advantage of group synergies and ensure complementarity of the product range targeting SMEs and midcaps.

In the EU, EFSI offers a unique opportunity for the EIB Group to enhance its support through riskier operations, targeting strong additionality for SME and midcap finance and investment. Cooperation with national (and regional) promotional institutions – notably through EFSI Investment Platforms – will enable the blending of resources for more impact. A new possibility to combine EFSI with ESIF is anticipated to further opportunities to create efficient and effective financial instruments that support SME and midcap investment and growth. Continued support will also be needed to boost European venture capital markets – particularly important for funding young, innovative companies as well as high growth ventures – as overall private equity activity levels are still catching up with pre-crisis levels.

Outside the EU, the Bank will continue to provide intermediated SME and midcap finance to foster private sector development. In the Southern Neighbourhood, the European Resilience Initiative should provide impetus towards higher risk activities with a broader range of local financial intermediaries to underpin the EIB Group’s response to improve access to finance for SMEs and midcaps.
The EIB Group consists of the European Investment Bank and the European Investment Fund.

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