

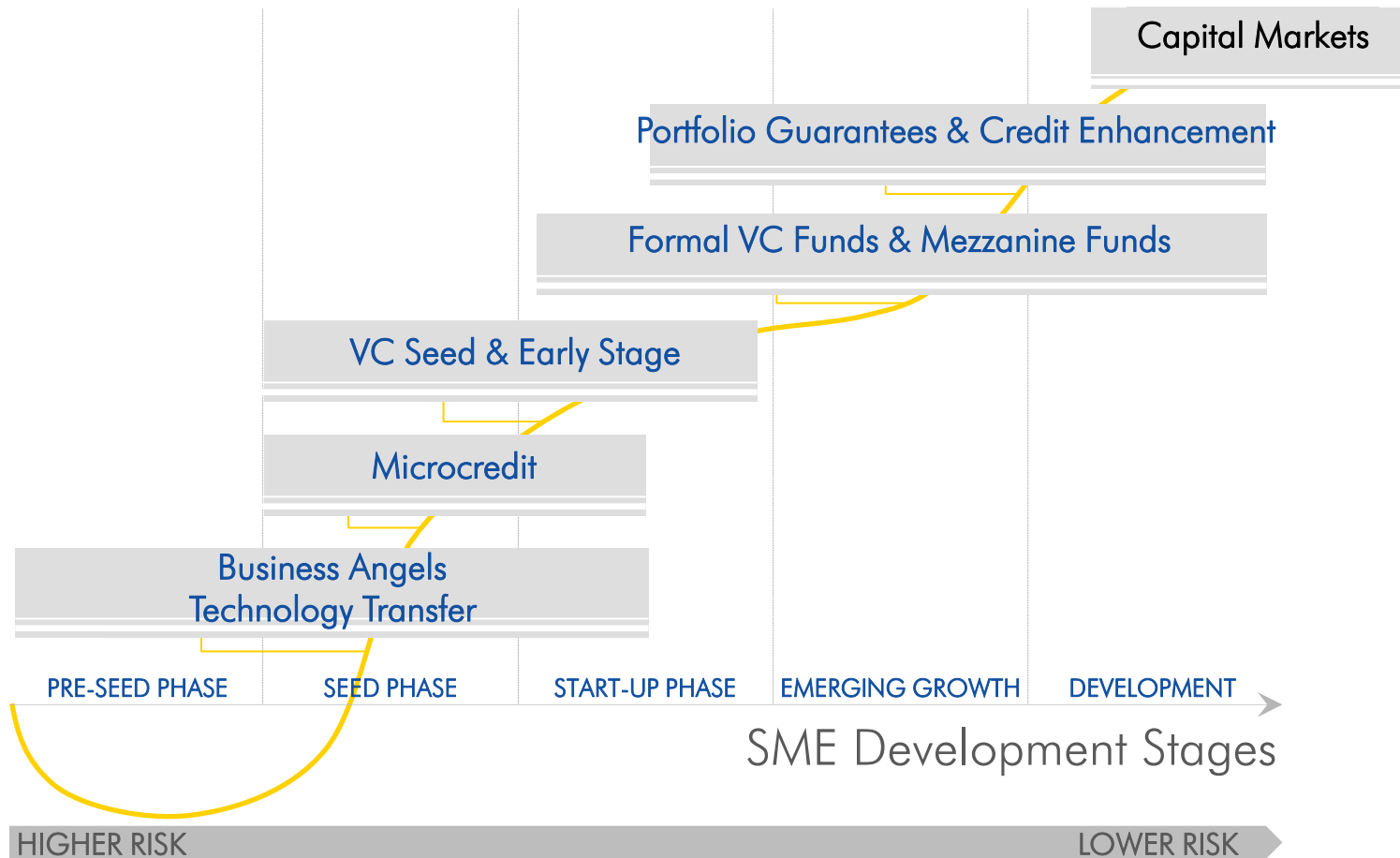


Improving access to finance for SMEs  
in times of crisis

European Investment Fund

15 January 2014

# Helping businesses at every stage



# How?

## ■ EU resources and national funds

- Debt products
- Equity co-investments
- Guarantees

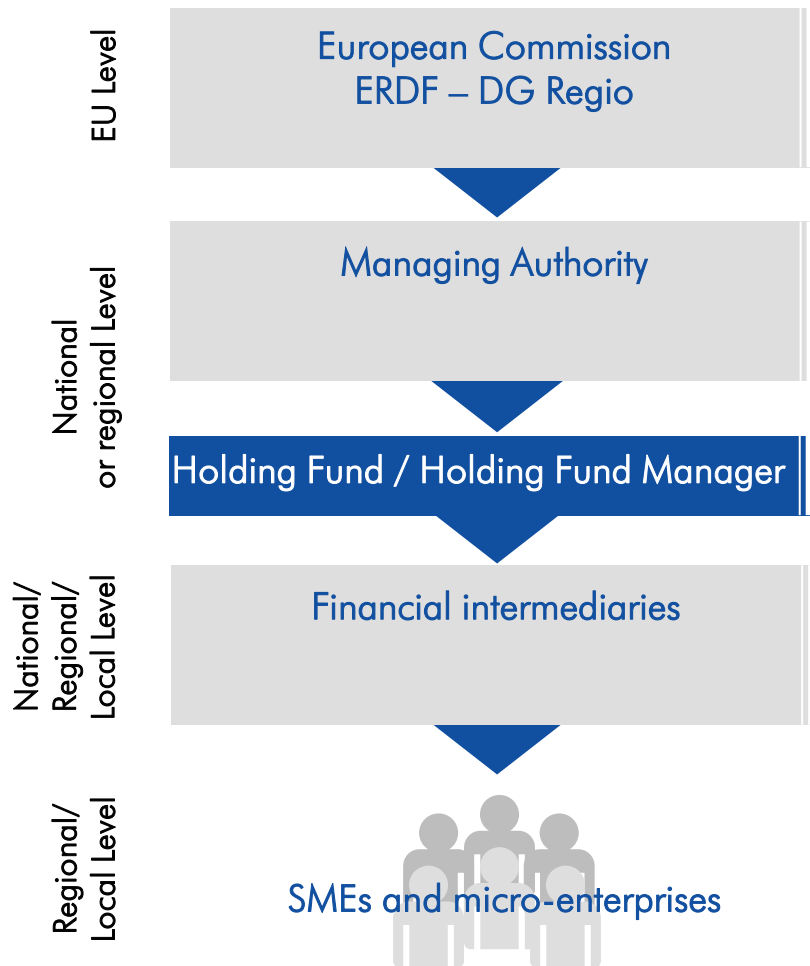
## ■ EIF own resources

- Equity co-investments (Technology Transfer, Venture / Growth / Mezzanine Capital )
- Guarantees for SME securitisations

## ■ The “SME initiative”

- Guarantees
- Securitisation of existing and new SME loans

# Delivering financial engineering with Structural Funds

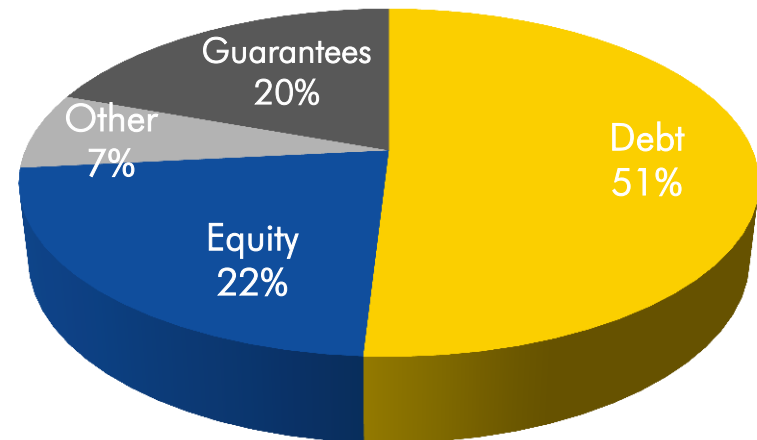


## Added value of the Holding Fund Manager

- Develop carefully **targeted financial instruments**
- Encourage growth in less developed regions with the help of **revolving instruments**, rather than grants
- Provide **impartial advise** that helps regional and national authorities to manage their resources
- Transfer **know-how** to regions and help develop sustainable risk capital markets at the local level

# Holding Funds Portfolio Mix

- **Total AUM:** EUR 1.2bn (EUR 250m in Greece)
- **Debt instruments:**
  - Funded risk-sharing products (co-operation with all 4 systemic banks in Greece)
  - Portfolio risk-sharing loans
- **Equity investments:**
  - Risk capital funds
  - Co-investment funds
  - Accelerator & seed funds (2 funds established in Greece)
  - Technology transfer funds (2 funds established in Greece)
- **Guarantee instruments:**
  - First-loss portfolio guarantees



# Equity portfolio (EIF, EIB, EC)\*

## Well-diversified portfolio

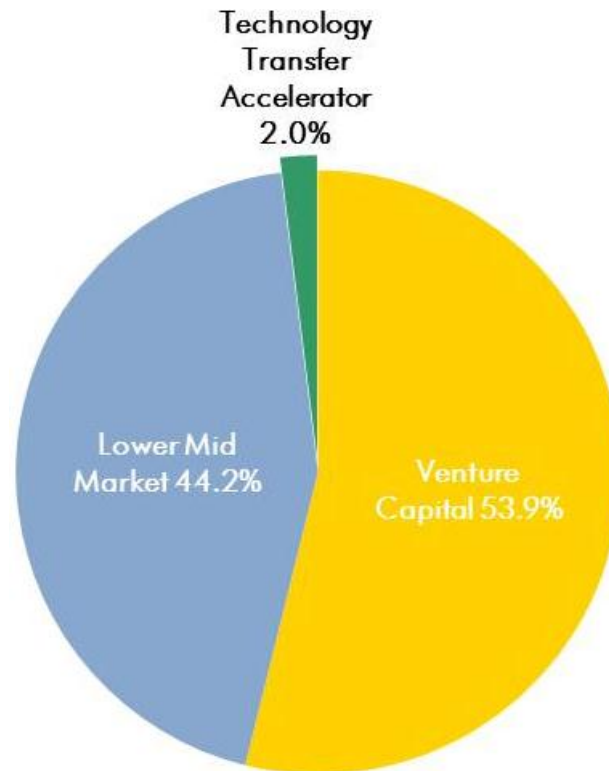


135 PE funds

EUR 2.8bn committed  
(EUR 1.8bn disbursed, EUR 1bn repaid, EUR 0.8bn net paid-out)

EUR 19.1bn total fund sizes

> 1,400 companies



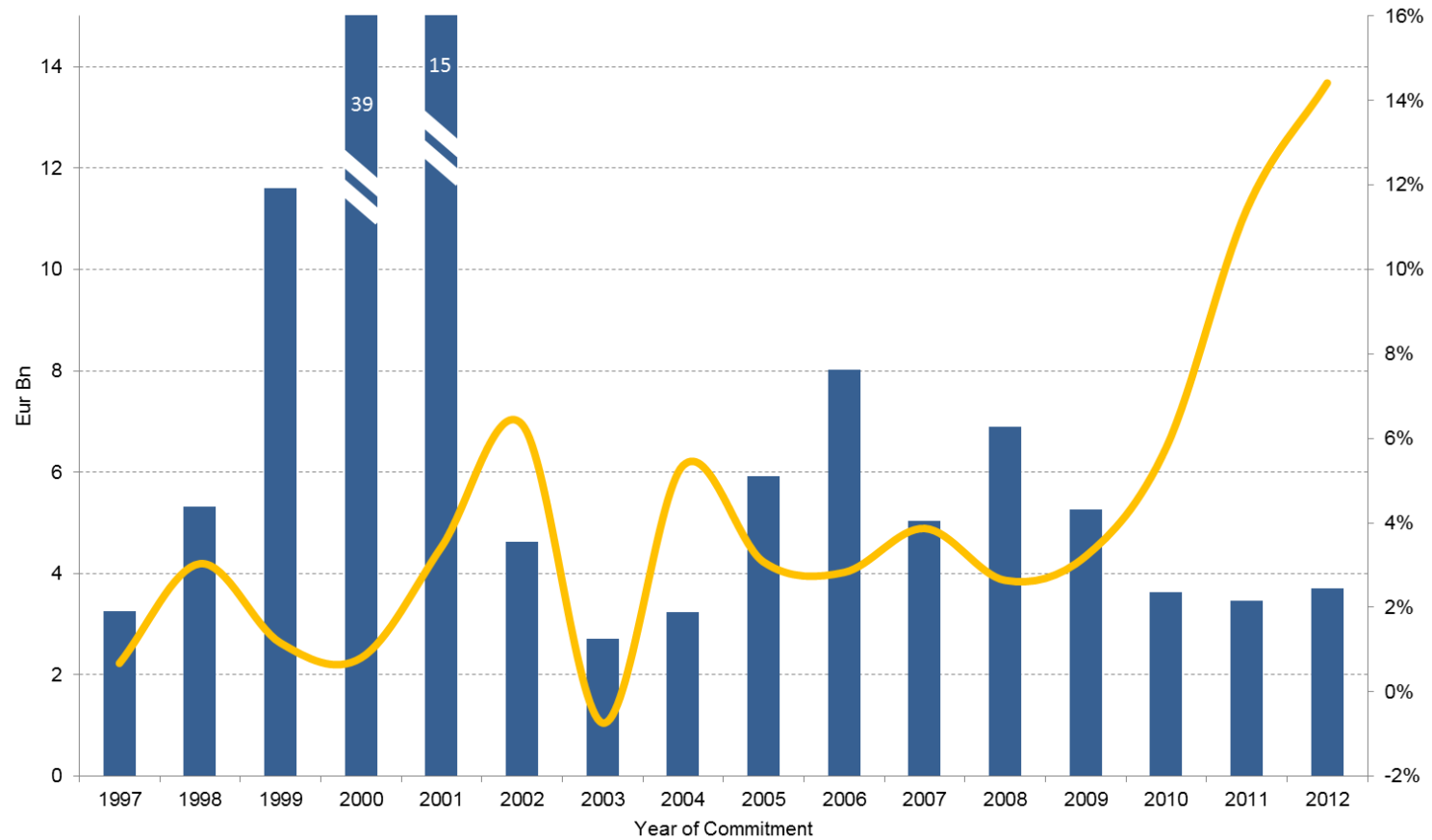
210 VC funds

EUR 3.3bn committed  
(EUR 2.3bn disbursed, EUR 0.8bn repaid, EUR 1.5bn net paid-out)

EUR 17.7bn total fund sizes

> 3,400 companies

# VC – European fundraising and EIF's relative exposure



■ Fundraising by European VC Funds (Source: ThomsonOne)  
— Capital Committed by the EIF to European VC Funds (% of Total Fundraising by European VC Funds)

# Impact on SMEs and banks

- **Debt products:**
  - By co-financing loans, **increase banks' lending capacity to SMEs**
  - By sharing risk on loans, **protect banks' capital bases and reduce SME collateral requirements**
  - By offering SF portion at zero or below market cost, **reduce cost of debt for SMEs**
- **Portfolio guarantees and guarantees for SME securitisations:**
  - Due to EIF (AAA rating and multilateral bank status) acting as guarantor, **provide capital relief to banks** (0% risk weighting applied to assets guaranteed)
  - By providing cover on losses, allow for reduced **collateral requirements**
  - **Collateral premium** is set at competitive terms
- **Equity co-investments:**
  - Help **start-ups** get off the ground
  - Help **established businesses** find the capital needed to keep growing
  - **Fill the funding gap left by institutional investors and provide strong catalytic effect** due to the involvement of EIF
  - Support the creation of **sustainable local risk capital ecosystem** that can nurture local SMEs



# The SME initiative in a nutshell

- **What is it?** Joint European Commission / EIF / EIB crisis-fighting initiative. Participation to the initiative is **optional** for each Member State (MS)
- **Why is it needed?** 80% of the SMEs on pan-European level rely on bank lending. In the context of the crisis and due to lack of liquidity, scarce capital and heightened SME credit risk concerns, **banks have restricted the supply of credit to SMEs**, with direct negative consequences to EU economic recovery, since SMEs face survival issues.

In order to restore access to finance for SMEs,  
must address the challenges that banks face and diversify SMEs' funding sources

- **How does it help improve SMEs' access to finance?** By providing **capital relief to banks**, attracting private sector capital market investments in SMEs, leveraging public funds, and **reducing market fragmentations**
- **How is the SME initiative implemented?** Via 2 instruments: **Uncapped Guarantee** and **Securitisation**
- **With what resources?**
  - **Structural Fund resources** managed by MS (European Structural and Investment Funds - ESIF): each MS may voluntarily allocate up to 7% of its national ESIF allocations
  - **Resources from the EU Budget** managed by the Commission (COSME, Horizon 2020)
  - **Sizeable contributions from EIB and EIF**; EIB concluded in June 2013 a EUR 10bn capital increase, part of which will be used in this initiative, EIF is currently in the process of a capital increase for the same purpose
  - Participation from **private investors** will also be envisaged

# SME initiative: impact on SMEs

## Guarantee

- **Facilitates SMEs to regain access to bank financing**, as it addresses two important factors behind banks' reluctance to extend credit to SMEs:
  - **SME credit risk concerns**: by covering up to 80% of losses for defaulted loans, addresses credit risk concerns and/or lack of collateral at the SME level. **Guarantee premium** is set at **below-market levels**
  - **Regulatory capital**: By providing capital relief to the banks due to EIF acting as guarantor (0% risk weighting on the guaranteed part under CRD IV), **addresses regulatory capital scarcity at the banks' level**
- **More flexible eligibility criteria** imply that more SMEs may receive financing
- **More funds potentially available to SMEs**, as in addition to Structural Funds, the SME initiative commits the participation of EIB and EIF with sizeable contributions from own resources

# SME initiative: impact on SMEs (cont'd)

## Securitisation

- Facilitates SMEs to regain access to bank financing, as it addresses two important factors behind banks' reluctance to extend credit to SMEs:
  - **Regulatory capital:** By providing capital relief to the banks (*synthetic risk transfer transaction*), addresses regulatory capital scarcity at the banks' level
  - **Liquidity:** By providing banks with funding for new loans (*funded transaction*), addresses the liquidity constraints that banks face
- By facilitating the re-opening of the SME ABS market, enables SMEs to broaden and diversify their sources of long-term funding
- More flexible eligibility criteria imply that more SMEs may receive financing
- More funds potentially available to SMEs, as in addition to Structural Funds, the SME initiative commits the participation of EIB and EIF with sizeable contributions from own resources

# EIF financing support to SMEs

“ We’ve supported over 1 Million SMEs  
over 15 years ” 

SME support in  
over 30 different  
countries

EUR 12bn of equity  
and guarantee  
commitments have  
mobilised over EUR  
70bn of financing  
from investors,  
partner banks and  
other market players

Broad European  
coverage:  
20 F-o-F/ Holding Funds,  
430 Venture and Growth  
Capital Funds,  
200 banks, guarantee and  
promotional institutions