

**“SMEs’ access to finance: the role of financial and non-financial intermediaries and capital markets”**

Dr. Helmut Kraemer-Eis  
Head of Research & Market Analysis  
European Investment Fund

# Introduction: The EIF at a glance



## 1994

founded and started providing **venture capital** to European businesses in 1997

## 2000

Majority owned by the European Investment Bank (EIB) with which we form the EIB Group

## AAA-rated

We're AAA-rated by all major rating agencies, with a **strong** capital base

## Shareholders

**63.7% EIB**, **24.3% EC**, 26 public and private **financial institutions** holding the remaining **12.0%**

## Access to Finance

Helping SMEs, micro- enterprises and European regions innovate and grow by **making finance more accessible**

## Dual objective

pursuing **EU policy objectives** as well as **financial sustainability**

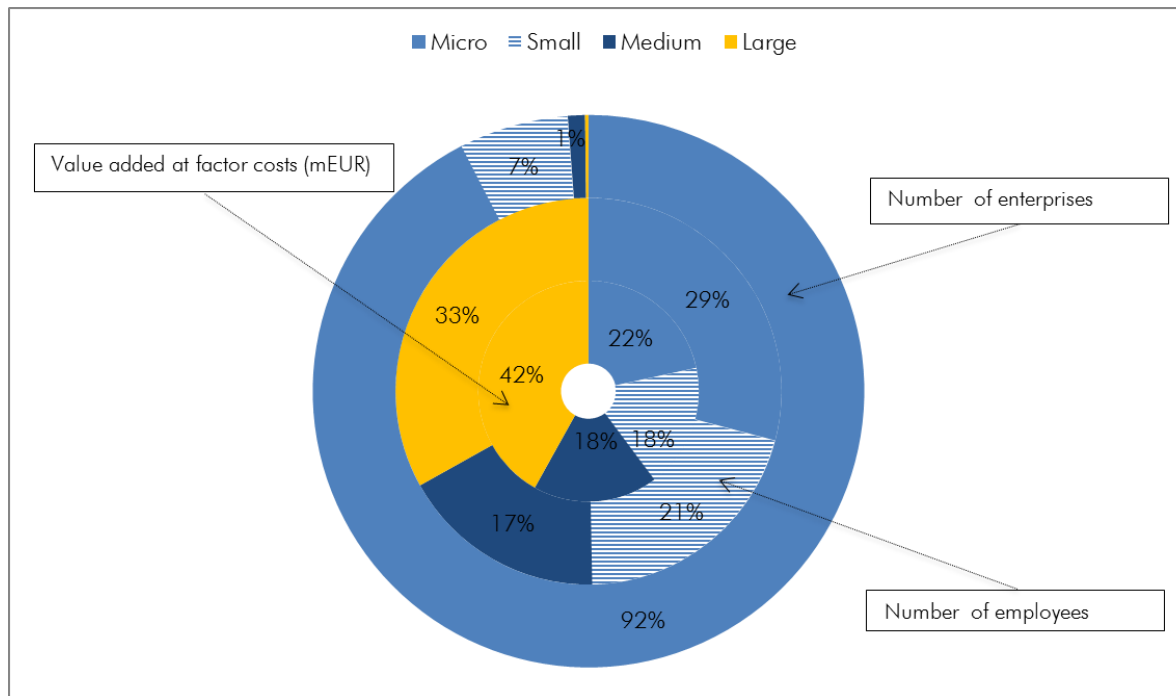
## Wide range of resources

EIB, own res., European Comm., Member States / Regions, private investors, public institutions, etc.

## Working

with financial intermediaries across the **28 EU countries**, **EFTA** and all **Accession countries**

# Let's recall - the backbone of the EU economy

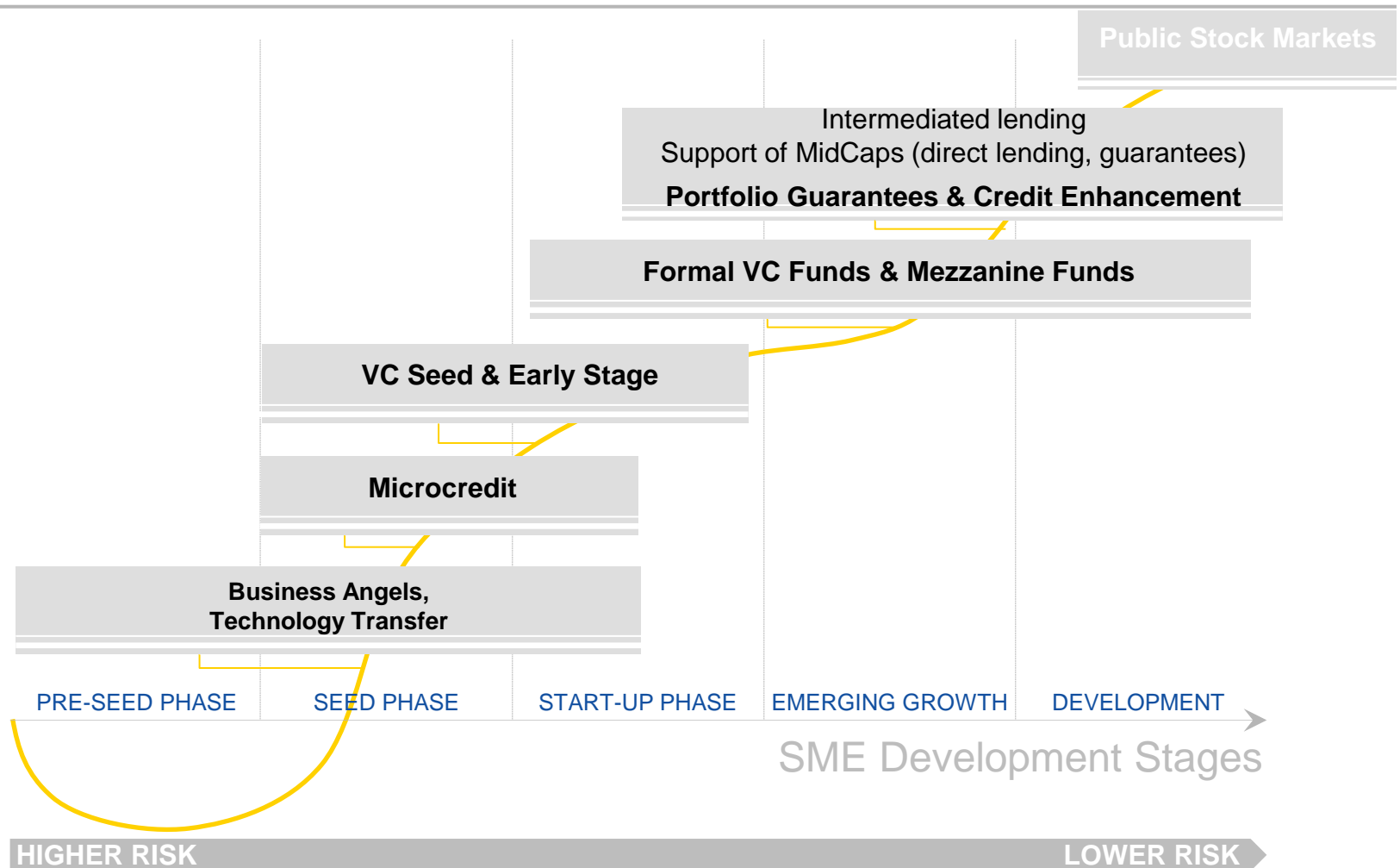


Source: Kraemer-Eis, Lang, Gvetadze (2014), based on data from Eurostat

⇒ More than 21.5m of SMEs in the European Union make for 99.8% of all non-financial enterprises, employed 88.8m people (66.9% of the total employment), and generated 58.1% of total added value

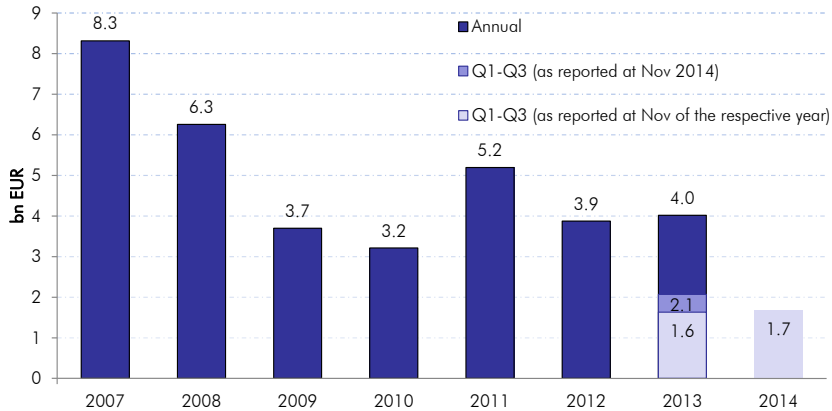
⇒ *THE SME?*

# Different needs in different stages



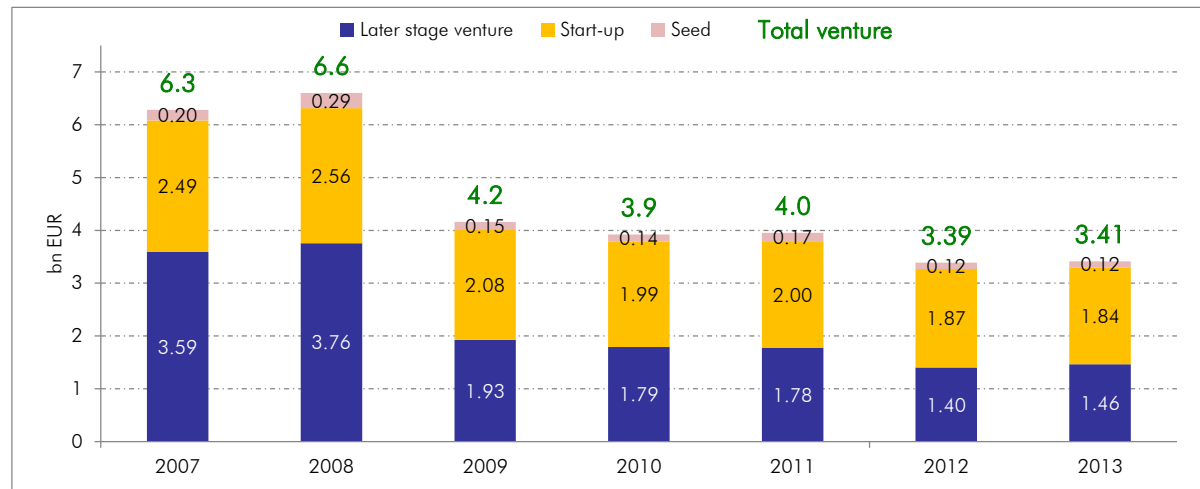
# VC - Market activity

## Funds raised by VC firms located in Europe



Low activity volumes  
despite countercyclical  
role of public players

## Venture Capital investment activity evolution in Europe

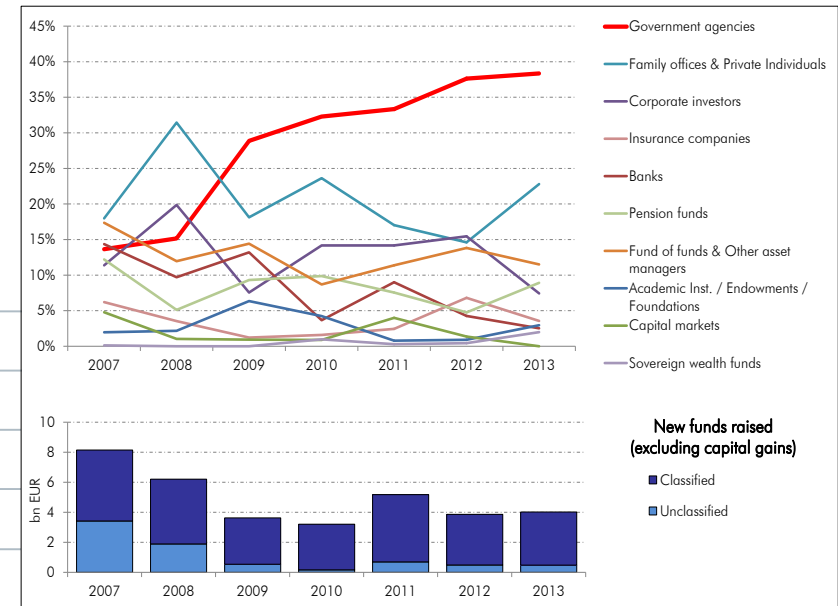
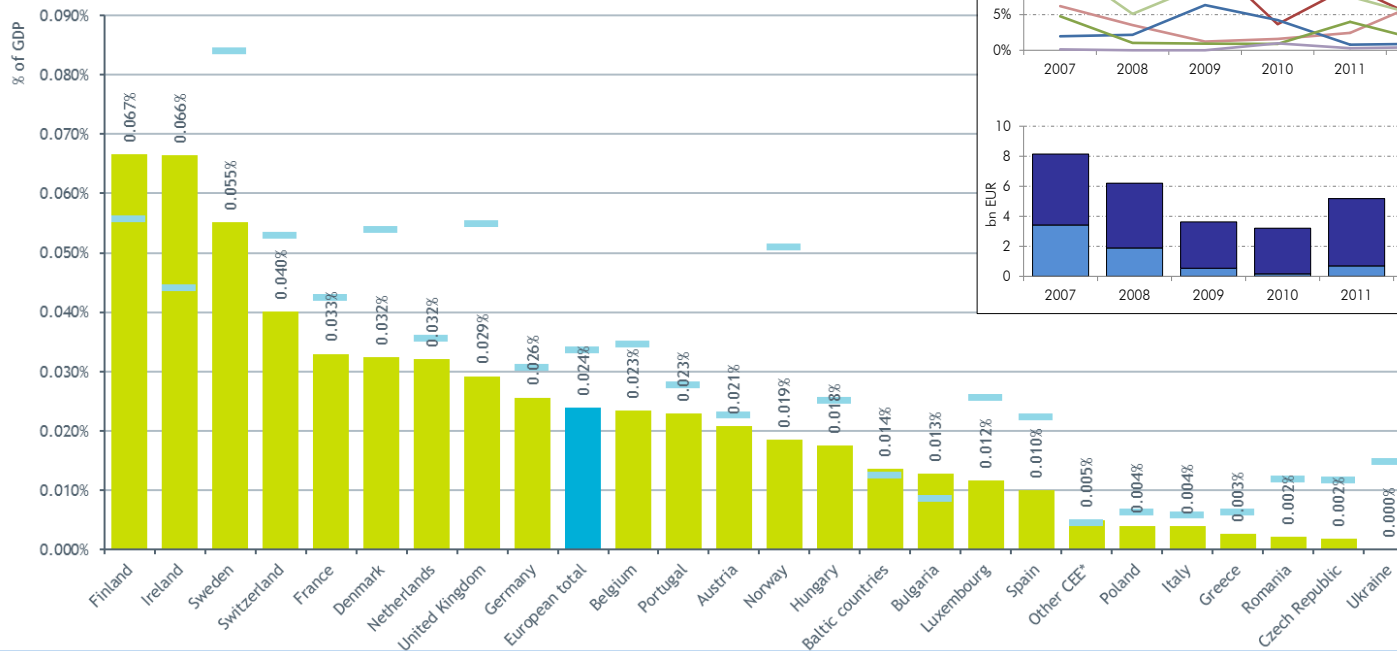


Source: Kraemer-Eis, Lang, Gvetadze (2014), based on data from EVCA

# VC - Investor base & investments as % of GDP

Investor base: High share of government agencies in VC fundraising ... but no crowding out.

VC Investments as % of GDP (market stat.)



Source: Kraemer-Eis, Lang, Gvetadze (2014), based on data from EVCA

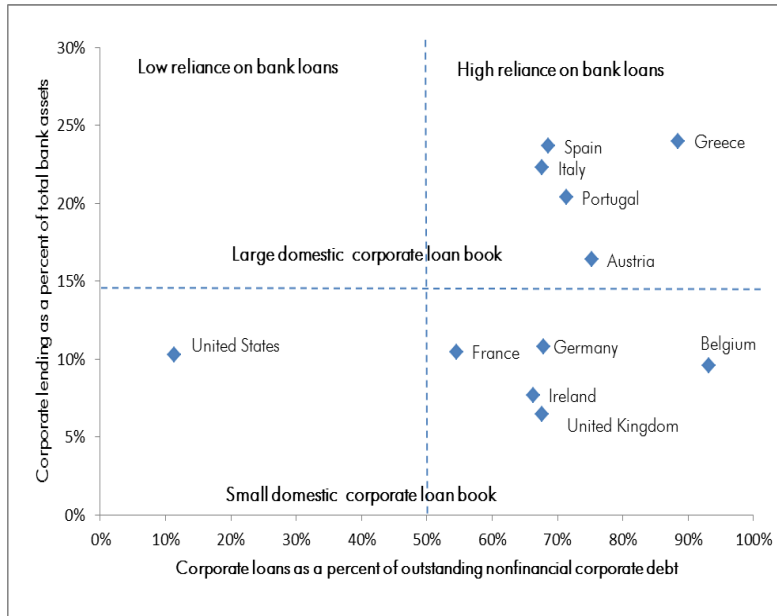
Source: EVCA

## Specific problems, i.e. in the area of seed & early stage financing

- Scalability and absorption capacity – no linear relationship between available public support and innovation / growth
- VC is very important, in particular for young companies with innovation and growth potential - but let's not only think in terms of
  - «traditional» Venture Capital → BAs, Corp VC, TT, SI, ...
  - Venture Capital → microfinance, guarantees, ...

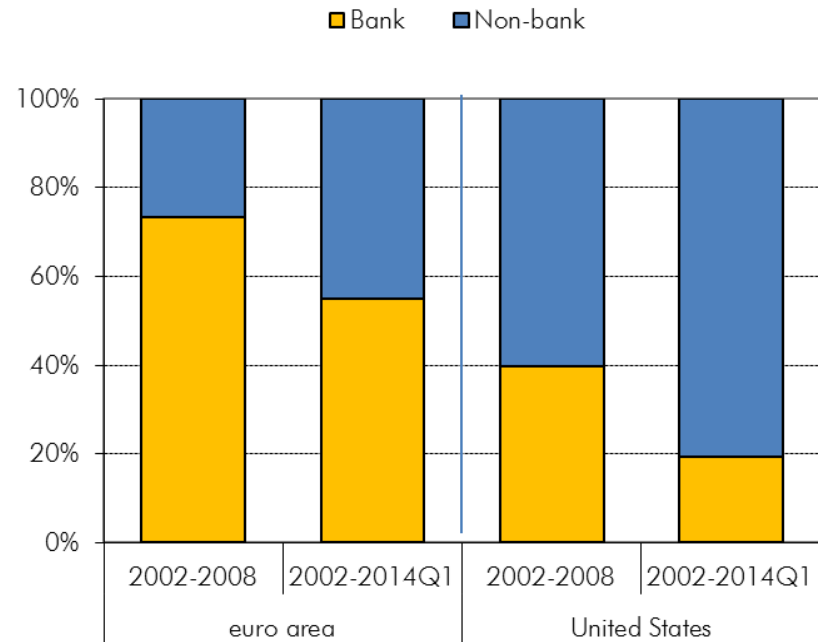
# Reliance on bank financing

## Reliance on bank financing by non-financial corporations (in %)



Source: IMF (2012), based on data from ECB, Eurostat, Federal Reserve, Halver analytics

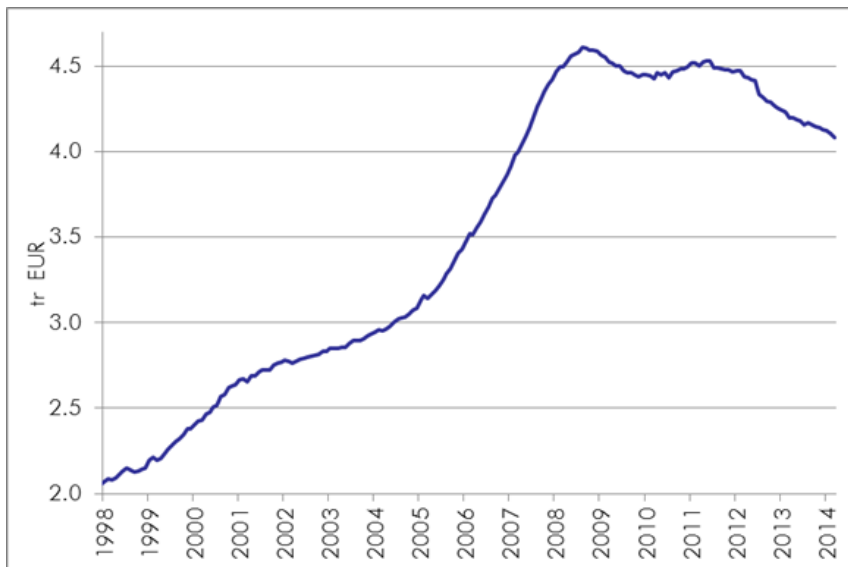
## Funding of non-financial corporations in the euro area and the United States (shares in accumulated debt transactions)



Source: Based on Cour-Thimann and Winkler (2013)



## Outstanding loans to non financial corporations



Source: Kraemer-Eis, Lang, Gvetadze (2014), based on ECB data

- Deleveraging of NFCs was a necessary process to some extent, leading away from potentially unsustainable levels
- On-going process; significant differences from country to country; sometimes as well demand driven
- Risk of exaggerating to the downside

Availability of loans to SMEs seems to slightly improve; at least the tightening of credit supply starts to ease:

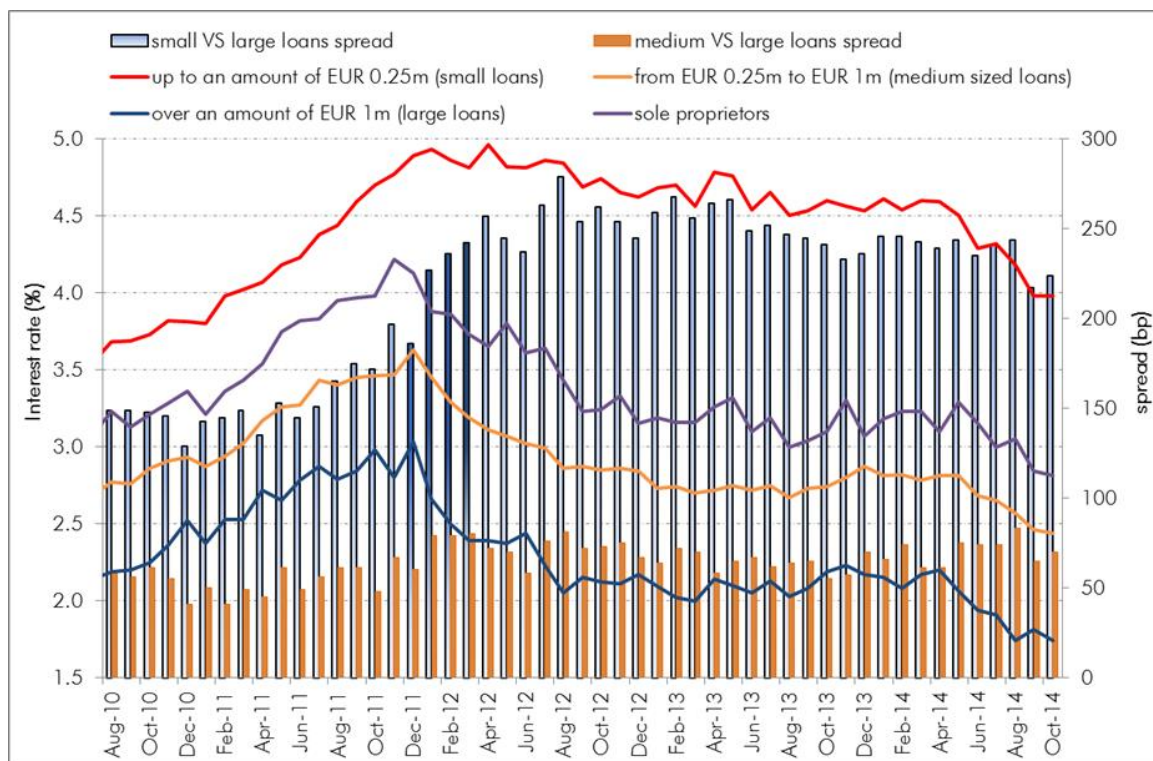
- will banks be able and willing to provide loans once the economy picks up?
- credit is allocated away from “risk”, eg from smaller & younger companies

⇒ Guarantee solutions

⇒ Securitisation

# Interest rate statistics

## Evolution of monetary financial institutions interest rates on new loans to non-financial corporations



**No information on SME  
loans available, but  
approximation possible!**

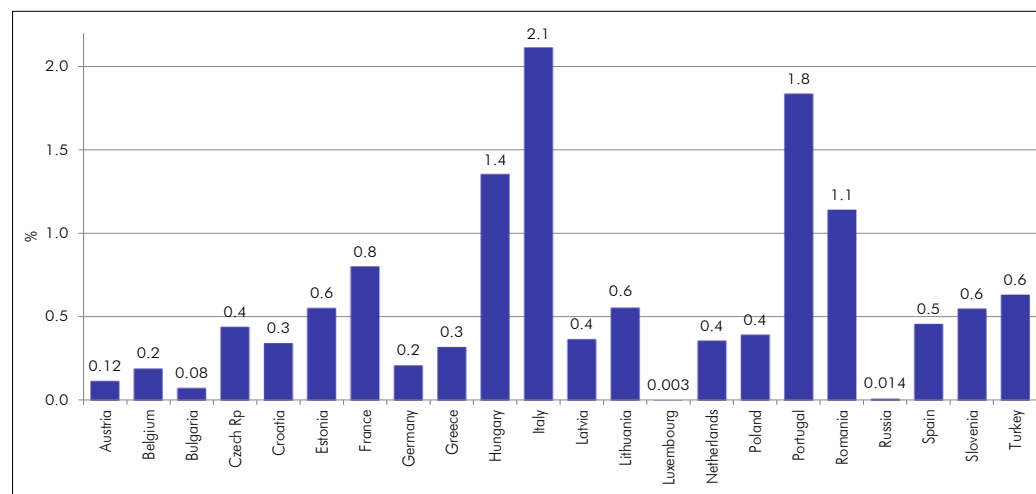
Source: Kraemer-Eis, Lang, Gvetadze (2014), based on ECB data

# Guarantee schemes

- Credit guarantee schemes (CGS) are a widely used policy instrument (OECD, 2013/14)
- Anti-crisis measure: significantly increased activities
- The design and delivery mechanisms of CGS are highly heterogeneous, but are crucial: avoidance of moral hazard is key
- Variations across countries reflect different policy priorities and market needs, as well as diverse legal and economic framework conditions
- Public support to the credit guarantee system is common and possibly essential for its long-term sustainability
- Vienna Initiative 2

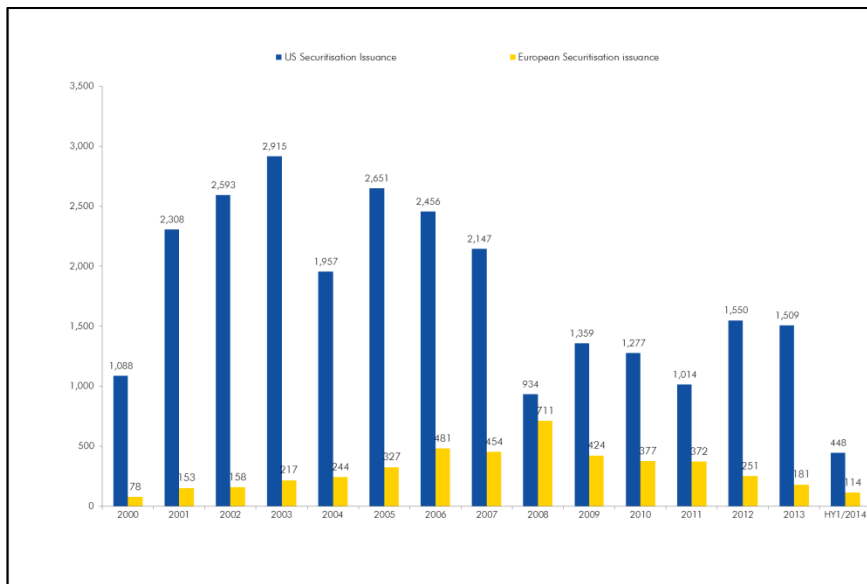
## Volumes of outstanding guarantees in portfolio scaled by GDP, 2013 data

Source: Kraemer-Eis, Lang, Gvetadze, 2014



# SME Securitisation (1/2)

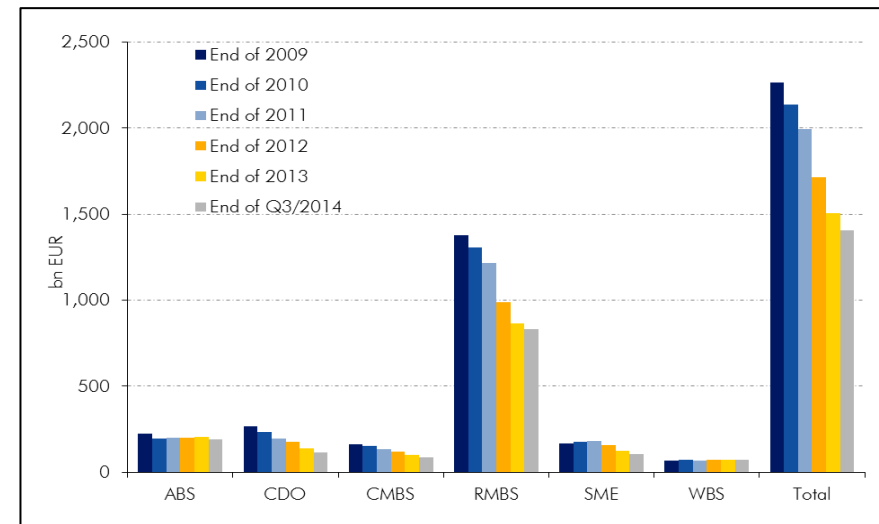
## Securitisation issuance Europe versus US (annual issuance 2000 - 2014, bn EUR)



Source: Kraemer-Eis, Lang, Gvetadze (2014), based on data from AFME/SIFMA

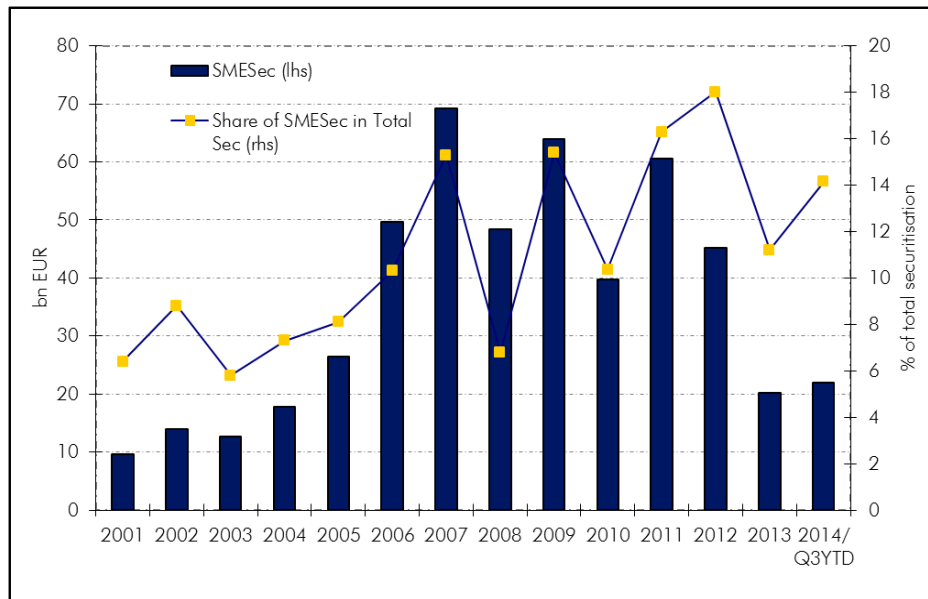
Market size much smaller than in the US, dominance of RMBS

## European outstanding securitisation transactions (by collateral, bn EUR)



# SME Securitisation (2/2)

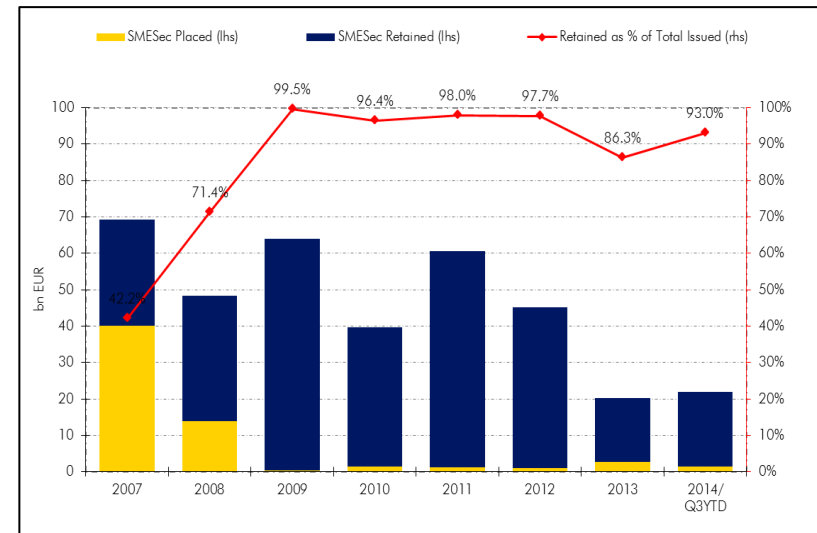
## SMESec transaction volumes in Europe and share of SMESec in total securitisation



Source: Kraemer-Eis, Lang, Gvetadze (2014), based on data from AFME

Low volumes, but strong performance!

## European SMESec by retention (bn EUR and %)



# Bank lending will continue to dominate external financing, ...

... but the number of alternatives is growing

- SME bonds / minibonds:
  - Mixed experiences
  - SMEs?
  - Moral hazard?
  
- Loan funds / institutional non-bank lending:
  - Many different types
  - SMEs?
  - Rather trend than fashion
  
- Crowdfunding:
  - Many new platforms, debt & equity
  - High attention
  - Asymmetric information?

- Support to SMEs is EIB Group core business: ensure continued availability of financing for SMEs through banking partners and non-banking financial intermediaries.
- Based on market analyses - continue to address specific market-gaps in SME finance, using a toolbox of instruments and expanding the range of solutions.
- Continue strengthening cooperation with the European Commission, Member States, international organisations, national and multilateral development financing institutions, and also SME and banking associations.
- External financing is only one element of the problem - long term fundamental changes are necessary (enabling environment).
- Juncker Plan will also address SME finance issues.

**Thank you  
for your attention!**

**Helmut Kraemer-Eis**

**[h.kraemer-eis@eif.org](mailto:h.kraemer-eis@eif.org)**

**More information: [http://www.eif.org/news\\_centre/research/index.htm](http://www.eif.org/news_centre/research/index.htm)**

Next topics:

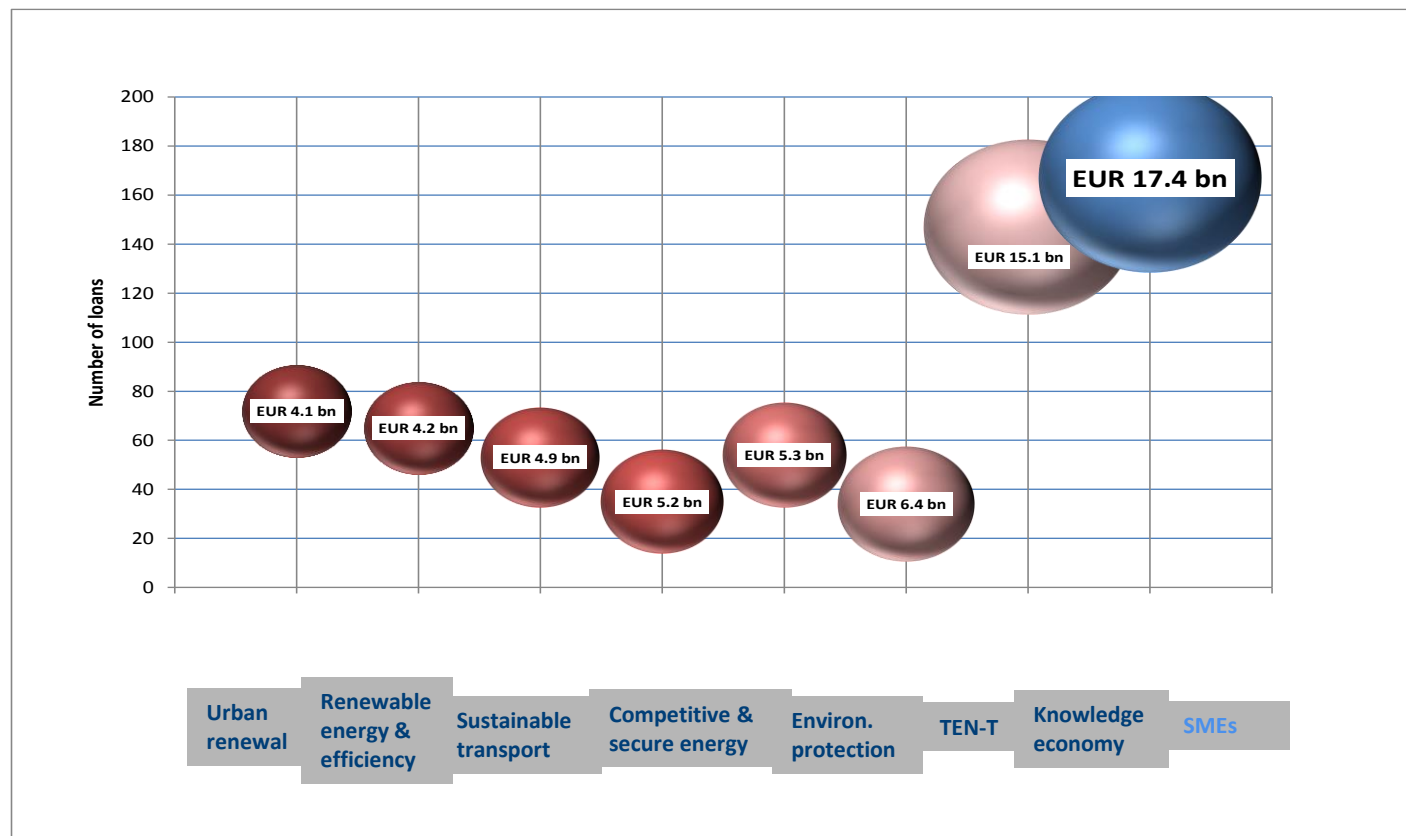
- European Small Business Finance Outlook (Dec-14)
- Impact assessment for SME guarantees (Jan-15)



# Annex 1

## SMEs: EIB Group's single largest EU policy objective

Finance for SMEs in the EU represents the most significant EIB Group policy focus in terms of lending volumes (EUR 17.4bn signatures in 2013) and **the sole focus of EIF policy**



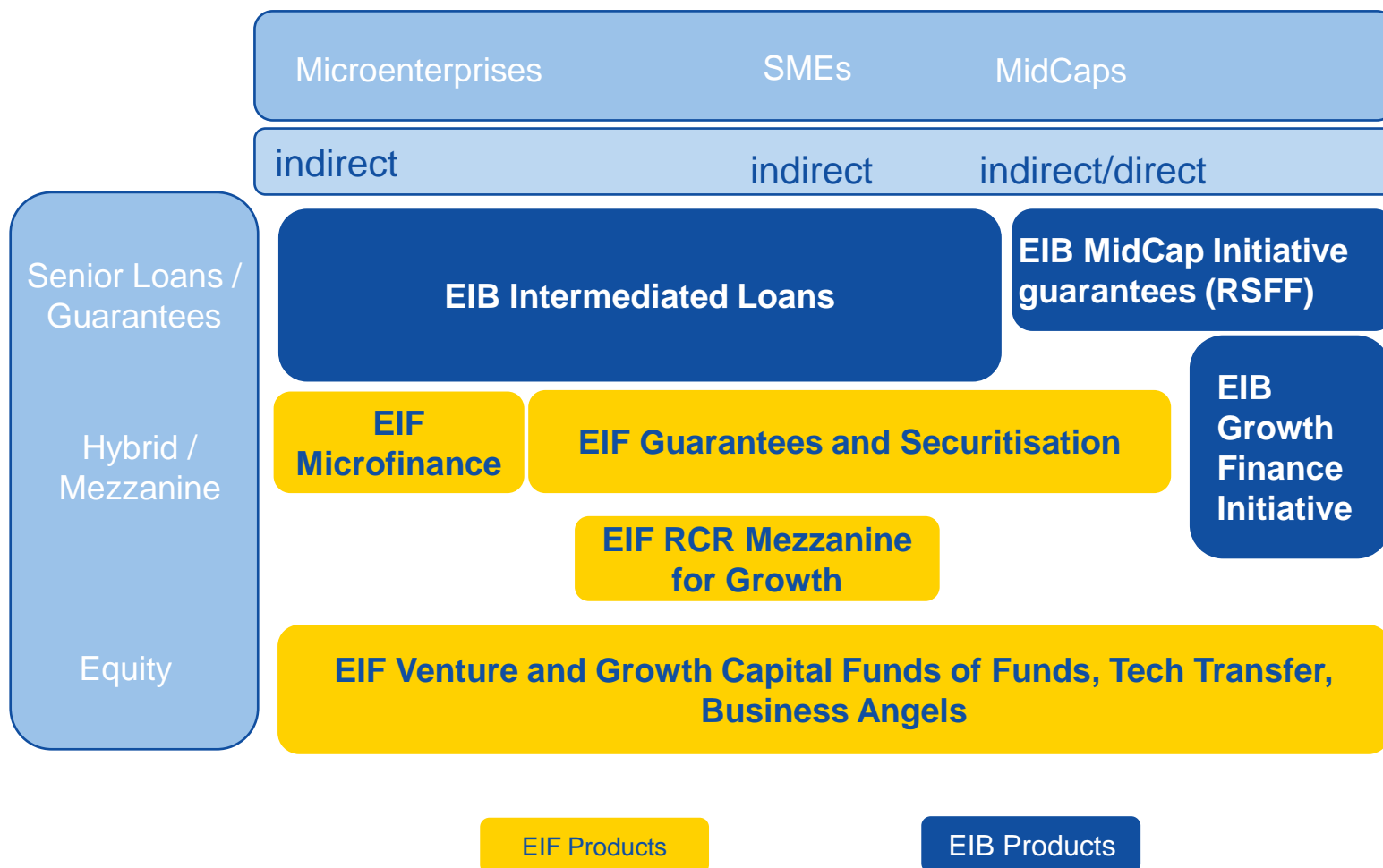
**EUR 3.3 bn**

guarantee and equity  
signatures in 2013



# Annex 2

## EIB Group's SME Product Range



# Annex 3

## EIF activity volumes



### Assets under management

of over EUR 13bn

### Europ. Council Conclusions in 2013!

EIF's capacity to be increased

### Capital Increase

In 2014 to EUR 4.5bn, ensuring strong capital base

### New mandates in 2014

Incl. EREM, Cosme, Innovfin ...

### Equity

2013 commitments: EUR 1.4bn  
Which mobilised EUR 7.1bn

### Guarantees & Securitisation

2013 commitments: EUR 1.8bn  
Which mobilised EUR 8.6bn

### Microfinance

2013 commitments: EUR 53.8m  
Which mobilised EUR 201m

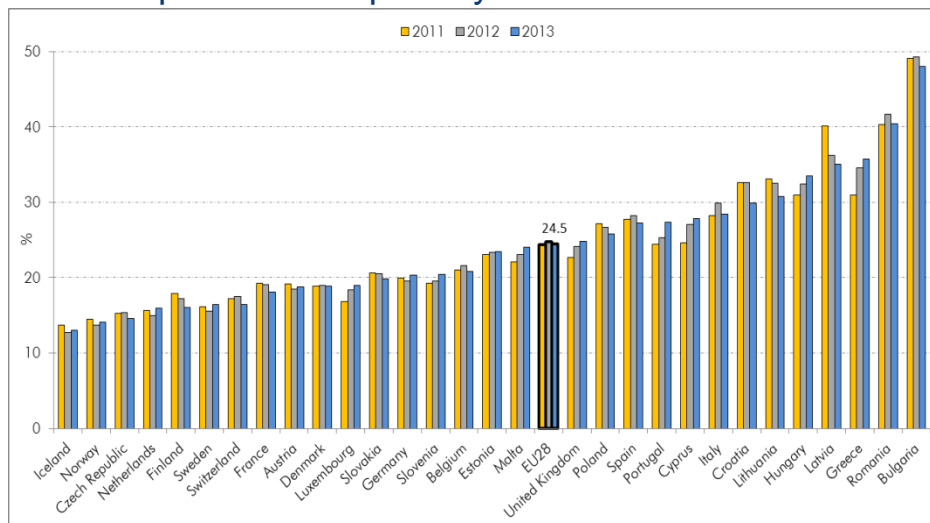
**480** venture and growth funds  
**306** banks, guarantee and promotional institutions  
**27** fofs and holding funds

**EUR 13.5bn** in total outstanding commitments **mobilised EUR 79bn**

# Annex 4

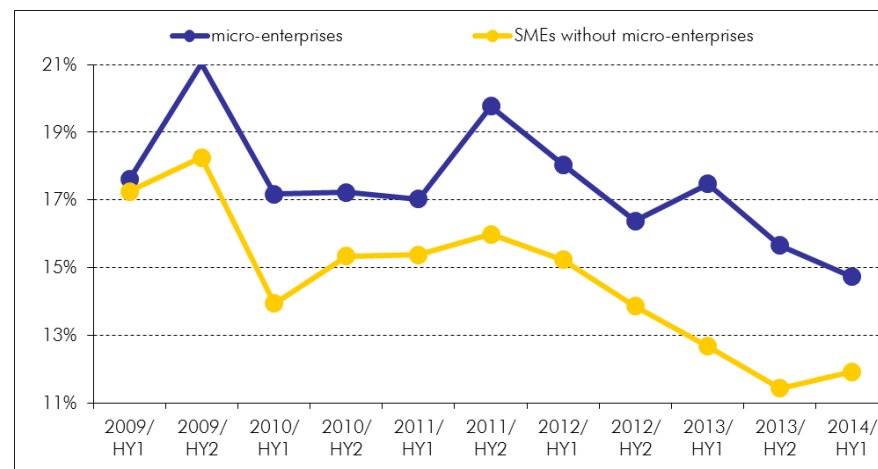
## Microfinance: Heterogeneous market environment

People at risk of poverty or social exclusion



Source: Kraemer-Eis, Lang, Gvetadze (2014), based on data from Eurostat (top) and ECB (right)

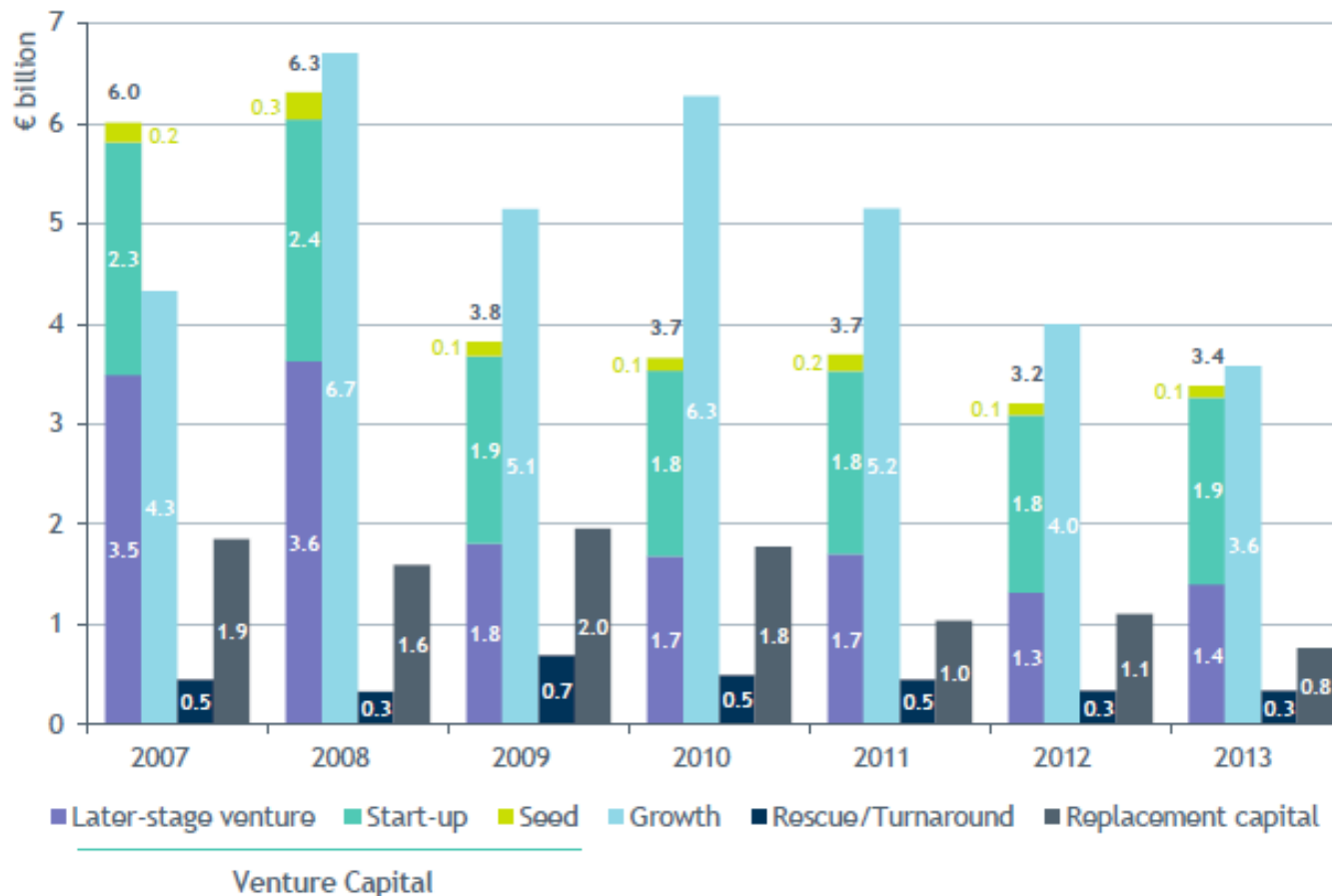
Share of enterprises reporting access to finance as their most pressing problem



# Annex 5 (1/3)

## Market activity: Investments by stage focus

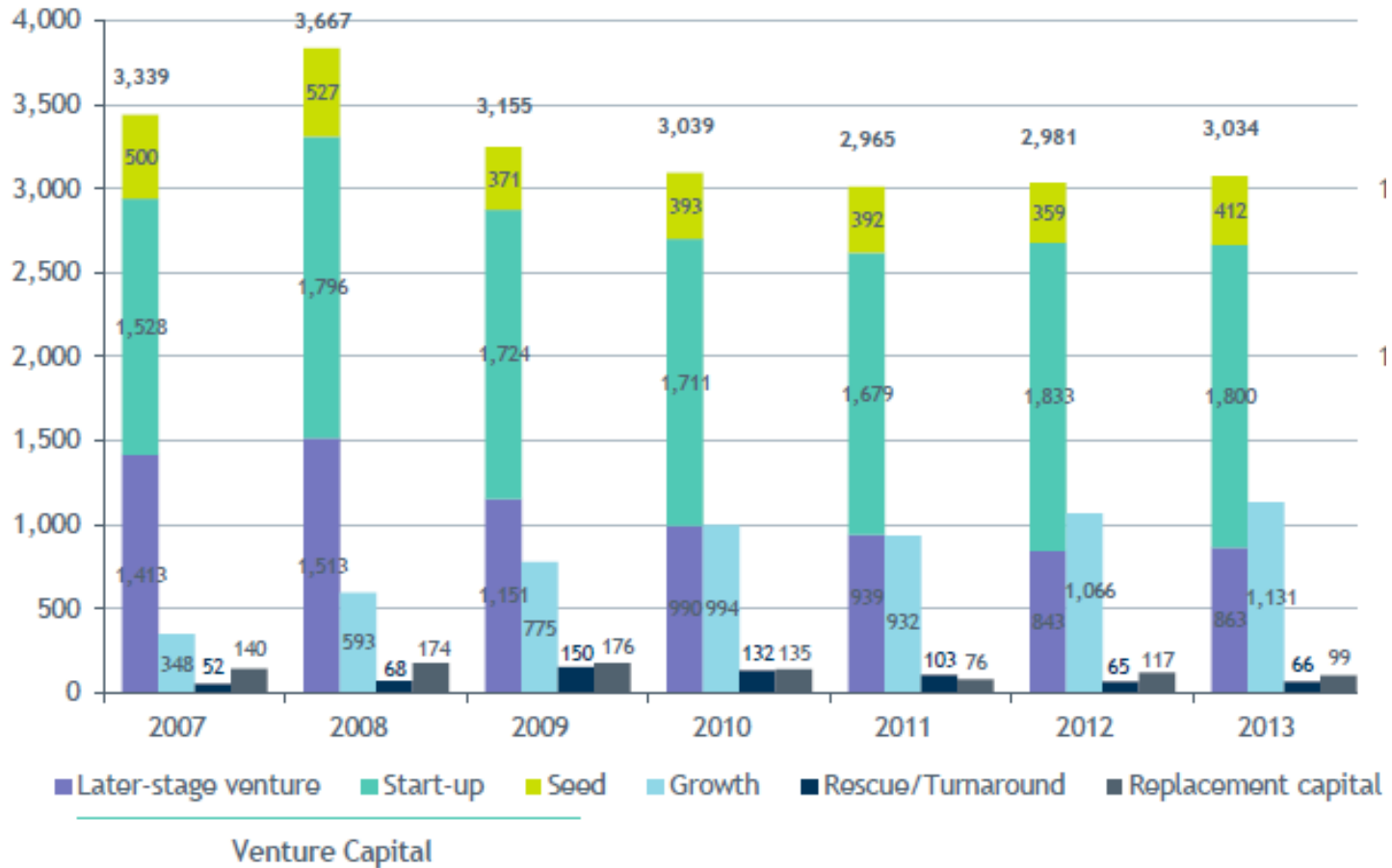
(2013, amount, bn EUR , source EVCA)



# Annex 5 (2/3)

## Market activity: Investments by stage focus

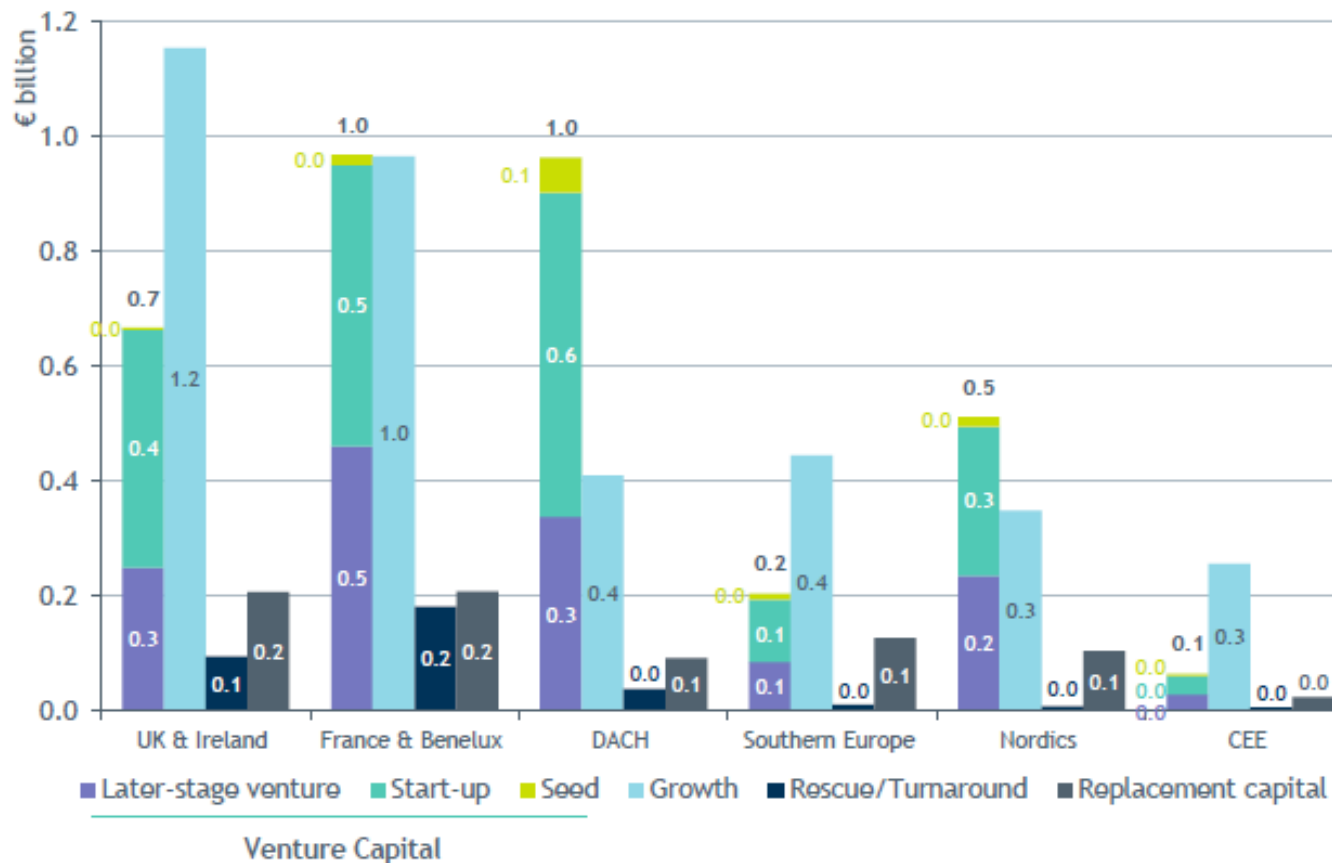
(2013, number of companies , source EVCA)



# Annex 5 (3/3)

## Market activity: Investments by stage focus & region

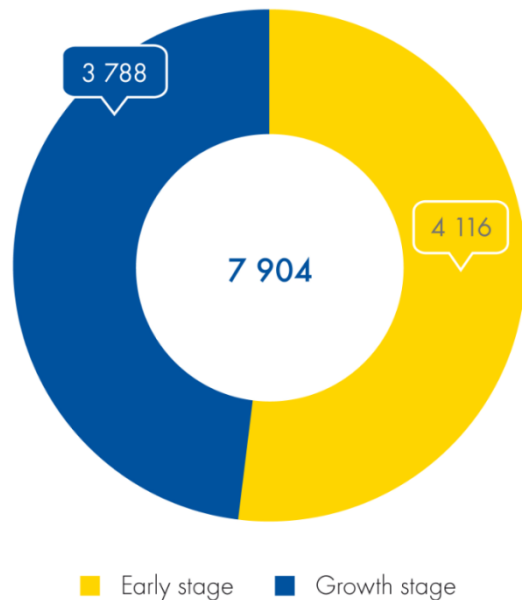
(2013, amount, bn EUR, source EVCA)



# Annex 6

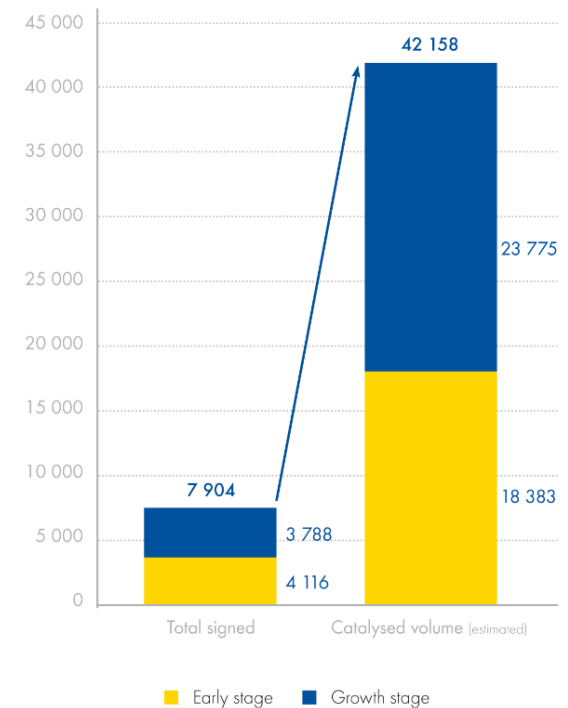
## EIF's equity portfolio

### Total equity portfolio by stage (at 31.12.2013, mEUR)



Source: EIF Annual Report 2013

### Total equity portfolio and catalysed amounts (at 31.12.2013, mEUR)





## Annex 7

### How is public support provided?

- Is it addressing identified market gaps?
- Is it countercyclical?
- Does it attract other investors? Mobilisation of additional resources? Or does it make the market dependent on public money?
- Are investment decisions delegated to market-oriented professionals who look at the underlying investments and who can pursue their defined investment strategy without public interference?