EIF: Financing SMEs, creating & measuring meaningful impact

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Importance of SMEs
An essential part of the EU economy

<table>
<thead>
<tr>
<th>EU definition (EC)</th>
<th>Employees</th>
<th>Annual turnover or Balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>&lt;10</td>
<td>≤ EUR 2m ≤ EUR 2m</td>
</tr>
<tr>
<td>Small</td>
<td>&lt;50</td>
<td>≤ EUR 10m ≤ EUR 10m</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>&lt;250</td>
<td>≤ EUR 50m ≤ EUR 43m</td>
</tr>
</tbody>
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SMEs:
- 99.8% of all companies (approx. 23m)
- 90m employees (68% of total employment)
- A heterogenous group with a range of different financing needs

Source: ESBFO June 2017, based on European Commission (2016)
Financing of SMEs

Different needs in different development stages

SME Development Stages

PRE-SEED PHASE | SEED PHASE | START-UP PHASE | EMERGING GROWTH | DEVELOPMENT

HIGHER RISK | LOWER RISK

- Technology Transfer
- Business Angels
- Microcredit
- VC Seed & Early Stage
- Formal VC Funds & Mezzanine Funds
- Loans / Credit Lines / Guarantees / Credit Enh.
- Leasing, Factoring & Export Credit
- Public Stock Markets

SME Cashflow
OECD Economic Survey – Italy (2017):

«Innovative start-ups and SMEs continue to suffer from difficult access to bank and equity finance, curbing incomes for many»

That’s an area where EIF is helping and several measures are underway in Italy.
EIF: Who/what is it?

Shareholders

58.5%

FIs 11.8%

29.7%*

*European Union (represented by the European Commission)
# EIF

## Key figures & counterparts

<table>
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<th>Leveraged volumes</th>
<th>SMEs supported</th>
<th>Partners</th>
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<td>▪ EUR 3.3bn (2014)</td>
<td>▪ EUR 13.9bn (2014)</td>
<td>▪ over 1.8 million since 1994</td>
<td>▪ 600 private equity funds</td>
</tr>
<tr>
<td>▪ EUR 9.4bn (2016)</td>
<td>▪ EUR 42.7bn (2016)</td>
<td>▪ 1,000,000 jobs sustained in 2016</td>
<td></td>
</tr>
</tbody>
</table>

### Resources and mandators
- European Investment Bank
- EIF own resources
- European Commission
- Member States/regions
- Managing authorities
- Public institutions
- Other third parties

### Intermediaries and counterparts
- Fund managers
- Commercial banks
- Development and promotional banks
- Guarantee institutions
- Leasing companies
- Corporates
- Business angels
- Microfinance institutions

### micro-enterprises, SMEs and small mid-caps

**Overall commitments**
- EUR 3.3bn (2014)
- EUR 7 bn (2015)
- EUR 9.4bn (2016)

**Leveraged volumes**
- EUR 13.9bn (2014)
- EUR 42.7bn (2016)

**SMEs supported**
- over 1.8 million since 1994
- 175,000 in 2016
- 1,000,000 jobs sustained in 2016

**Partners**
- 600 private equity funds
- 400 banks, guarantee and promotional institutions
EIF’s business
Helping businesses at every stage
3 years in the making, the (ex-post) impact assessment project has brought five working papers, covering a significant share of EIF’s policy toolbox (guarantees, microfinance, VC).

The current strand of work is focused on Venture Capital. It features a pipeline of five publications, some currently in the making, all based on EIF proprietary data.

The series of working paper is titled “The European venture capital landscape: an EIF perspective”, and was started June ’16.

Studies are based on state-of-the-art methodologies, facing in-depth internal review processes and discussions with top-level academics. Freely downloadable as PDF.
**EIF’s impact in a nutshell**

For more info see [http://www.eif.org/news_centre/research/index.htm](http://www.eif.org/news_centre/research/index.htm)

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### #1: Guarantees

- **16,051** Transactions guaranteed to **14,400** SMEs in **12** CESEE Countries

- **Guaranteed SMEs in Eastern Europe faced a 15-20% increase in sales and employment** compared to the control group.

- Benefits were particularly noticeable for micro and small enterprises and for young firms.

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### #2: Venture Capital

- After the crisis, EIF intensified its VC pipeline and brought in **more VC activity** from other market players, particularly in areas with less developed VC markets.

- **152** EIF-backed start-ups **went public** in the period 1998-2015. As of 2016, EIF also backs 50% of the current European unicorns.*

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*Unicorns are defined as privately owned companies with a total valuation of USD 1bn or more*
Dispersion: average investment intensity
A geographical perspective

Dispersion: average investment intensity
Concluding remarks
The way forward

We strive to promote an «Impact Culture»:

- Establishing methodologies and spreading knowledge
- Increasing engagement with external experts from academia, private sector, think tanks, etc.
- Enhancing efforts in ImA and expanding the scope

EFSI impact assessment:

- Implementation faster than initially scheduled
- Yet too early to assess micro-level impact
- Methodologies and data-infrastructure for a timely assessment in preparation
- Current testing of these for EFSI-type-SMEW instruments
Thank you …

… for your attention!

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http://www.eif.org/news_centre/research/index.htm
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Appendices
European Fund for Strategic Investments (EFSI) - Important pillar of the Investment Plan for Europe

Investment Plan for Europe

1. MOBILISING FINANCE FOR INVESTMENT
- Boost to strategic investment and access to finance for SMEs and mid-cap companies via the European Fund for Strategic Investment (EFSI) – EIB/EIF
- Cooperation with National Promotional Banks

2. MAKING FINANCE REACH THE REAL ECONOMY
- Investment Project Portal
- European Investment Advisory Hub: single point for technical assistance and financial expertise

3. IMPROVED INVESTMENT ENVIRONMENT
- Predictability and quality of regulation
- Removing non-financial, regulatory barriers in key sectors within EU Single Market
- New sources of financing (CMU)
- Structural reforms at national level (quality of expenditure, tax system, public admin.)

Source: European Commission
EFSI

Different windows

EU Guarantee EUR 16bn

EIB EUR 5bn

EFSI - European Fund for Strategic Investments EUR 21bn

Infrastructure and Innovation Window EUR 15.5bn

Deployed by EIB

SME Window EUR 5.5bn

Deployed by EIF

Financing: EUR 61bn

Final investments: EUR 315bn
EFSI

SME Window

- **EUR 3bn** provided by EIB
- **EUR 2.5bn** guarantee cover provided by EFSI

- Accelerated and additional financing support to SMEs and mid-caps
- Removing market gap

**EUR 82.5bn** of investments at SME and mid-caps level
EFSI

SME Window multiplier analysis (Nov-17)

Targets: Multiplier 15x, Mobilised inv. EUR 82.5bn

Approved amounts (EURm)

- EFSI
- EFSI
- EFSI
- EFSI

IM \times 2.6 \quad EM1 \times 4.3 \quad EM = \times 7.6 \quad EM2 \times 1.8

\text{\textbf{\textcolor{red}{\textit{\textbf{\textbf{\$4.5bn}}}}}} \quad \text{\textbf{\textcolor{red}{\textit{\textbf{\$88.8bn}}}}}

Additional Financing

EU/EIF risk sharing

FI / Co-investors

EU/EIF risk sharing

FI / Co-investors

EU/EIF risk sharing
On 08. Nov. 2017:
• Council / Parliament agreement to extend EFSI (duration, financial capacity);
• the Parliament is now expected to approve the regulation at first reading;
• the text will then be submitted to the Council for adoption.

Draft regulation:
• extends the fund's lifespan until 31 December 2020;
• raises the investment target to EUR 500bn;
• increases the EU budget guarantee to EUR 26bn;
• increases the EIB's contribution to EUR 7.5bn (from EUR 5bn currently).
How can we represent 20 years of EIF-backed VC activity across Europe?

- As a complex network of VC firms and start-ups, spanning throughout Europe and evolving over time.
- Remarkable features of this network relate to both concentration and dispersion.
- VC hubs benefit from a significant share of total activity (40%). However, it is not the majority.
What have we learnt about EIF-backed hubs?

- VC hubs communicate: we observe consistent cross-investment routes, especially among hubs with a longstanding tradition.

- VC hubs originated 83% of all invested amounts. Of these, 63% is invested within national borders, while 37% is cross-border.

- Through promotion of cross-border oriented VC firms, EIF supports the build-up of an European VC market.

Figure shows cross-investments of EIF-backed VC hubs, cumulated values 1996-2014
ImA VC

The value of EIF-backed innovations

- Start-ups in the British Isles account for 38% of innovations. DACH* start-ups come second, closely followed by France & Benelux-based companies.
- The Nordic region shows the highest propensity to patent, while Southern and Eastern European start-ups typically lag behind in patent submissions.
- Findings are in line with the broader European patenting landscape.

*DACH: Germany, Austria and Switzerland
ImA VC

Patents: technology fields

EIF-backed innovations by technology field

- Oncology: 12.39%
- Metabolic disorders: 10.24%
- Electronic devices: 8.93%
- Medtech: 7.40%
- Neurology, psychiatry pathologies: 6.16%
- Broadcasting: 6.09%
- Audio & video: 5.35%
- Computer network, ubiquitous computing: 5.08%
- Innovative materials: 5.07%
- Transports: 5.07%

- Infectious diseases: 4.98%
- Mobile technologies: 4.84%
- Autoimmune diseases: 3.71%
- Other pathologies: 3.09%
- Nutrition, botanics: 2.99%
- Alternative energy sources: 2.56%
- Cardiovascular [...] pathologies: 2.16%
- Lasers: 1.87%
- Construction & architecture: 1.06%
- Information security, financial technology: 0.85%
Promoting an “impact culture”

Reactions from social media

Great insights from EIF: eif.org/ #startups #unicorns #fintech #Insurtech