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The European Investment Bank and SMEs: key lessons for Latin America and the Caribbean

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Contents

Figures

Boxes

Tables

Summary and policy recommendations

This paper discusses the engagement of the European Investment Bank Group (EIB Group) with the financing and support of SMEs, both within the European Union (EU) as well as EU Candidate Countries and the Balkans. Indeed, lending and providing financial support to SMEs is one of the key core objectives of the EIB Group. The main focus of the paper is to describe and analyse the practises and experiences of the EIB Group in this field, to discuss the key lessons and to make policy recommendations to be considered within the Latin America and Caribbean (LAC) context.

The large role played by the EIB Group in financing SMEs in Europe shows the significance of the role the public sector needs to, and can, play in providing direct financial support to SMEs - as well as helping catalyse private financing to them, for example via bank guarantees and other risk-sharing instruments - given the large market imperfections and gaps in private financial markets for SMEs, particularly credit markets. This is the case in general, but has become particularly evident in the crisis, where the EIB Group has played an important countercyclical role in credit provision, in the face of sharply falling private credit to SMEs. It is noteworthy that the valuable role that public financial institutions need to play has been increasingly recognized since the crisis at the level of multilateral development banks (MDBs) and regional development banks (RDBs). It is important that similar conclusions are also applied to national development banks.

I. The role of SMEs in development & the issue of access to finance

A general consensus has emerged in the development community of the potential for the SME sector to play a key role in stimulating sustainable economic growth and reducing poverty, ultimately contributing to the achievement of the Millennium Development Goals (MDGs). This is due to their dominance in many developing economies, both as contributors to GDP and especially as major providers of employment opportunities[1]. For example, according to some estimates, in the LAC region the SME sector contributes approximately 70% of total jobs.[2] Growth in the SME sector can directly underpin broader gains in GDP, employment and poverty reduction as well as deepening the domestic economy. The latter can potentially diminish the exposure of an economy to international economic cycles by strengthening the domestic economy in sectors which have less exposure to international factors including commodity and foreign currency markets and to cycles of international private capital flows (Ocampo and Griffith-Jones, et al 2010).

However a number of constraints continue to limit growth in the SME sector. Critical factors include a stable macroeconomic and institutional environment. Nevertheless, a further key factor is access to financing, without which a constraint on continuing existing activities as well as new growth and entrepreneurial activities is likely (Beck et al 2008 Maksimovic, 2006).

[1] For example Beck T., Demirguc-Kunt A. and Peria M, (2008) show an average figure of 60% of manufacturing employment is based in SMEs in developing countries.

[2] See IFC (2007) 'Micro, Small, and Medium Enterprises: A Collection of Published Data'.

World Bank Enterprise Surveys consistently show that access to finance is one of the most pervasive obstacles to the growth and development of the SME sector. Available data un use of financial services suggest that less than 20% of SMEs in low income countries and about 35% of SMEs in middle income countries around the world have a line of credit with a financial institution (Ayyagari, Beck and Demirguc-Kunt, 2007). Promoting SME access to finance is therefore a key priority for the international development community. As a matter of fact, in September 2009 G20 Leaders in Pittsburgh committed to improve access to financial services for SMEs. For this purpose, a Financial Inclusion Experts Group has been established with the task of scaling up successful modes of SME financing. Amongst its tasks will be improving and further quantifying demand-side data for credit SMEs to improve further supply-side policies including institutional design.

The main focus of this paper is on SME financing; where relevant we also make reference to lending to microenterprises, though this is a somewhat separate area, often requiring different institutions or at least instruments.

Financing for SMEs can take a number of forms and sources. A basic distinction is between debt and equity, with different instruments across these two broad categories. However, the great majority of SMEs in all countries depend mostly on bank credit. Debt financing can support working capital as well as investment. Different industries have different mixtures of needs across these categories. Access to financing includes levels of credit itself, but also adequate cost of funding, the latter being particularly critical to SMEs where price sensitivity is high.

The difficulties that SMEs encounter when trying to access bank credit are due to a number of factors. Credit markets in general are characterized by information asymmetries and market imperfections. Credit markets for SMEs in particular are characterized by high transaction costs, high perception of risk, banks' limited knowledge and capacity to engage in SME lending, and lack of collateral. In addition to this, many SMEs are not able to present bankable business propositions as they lack business management skills. All this presents a strong case for public intervention. In particular, given their specific mandate MDBs and RDBs, as well as national development banks, can play a key role in minimizing market failures and improving SME financing.

Access to finance for the SME sector becomes even more problematic during periods of recession and/or financial crisis. In this context, MDB and RDB counter-cyclical financing is particularly important as private credit to SMEs dries up. Indeed there is evidence for the LAC region that during the latest crisis large companies, which normally access capital in the international markets, have been forced to borrow domestically; as a result, SMEs suffered a double crowding out, because total levels of domestic credit fell, and because their share in the total declined. SME lending-and its increase- by public institutions, national , regional and multilateral , became particularly crucial.

1. Overview of the EIB group support for SMEs

The EIB Group consists of the European Investment Bank ("EIB") and the European Investment Fund ("EIF") and is a policy-driven public bank. As can be seen in Figure 1 below, EIB direct support for SMEs is via lending, mainly thorough Global loans, but also through the Risk Sharing Finance Facility; the EIF (owned by the EIB, the European Commission and other parties,(private banks) provides participation in equity, mainly gives guarantees, and also gives financial support to microenterprises(please see overview of all its instruments in Figure 1; for a detailed description of these instruments and activities, see text below)

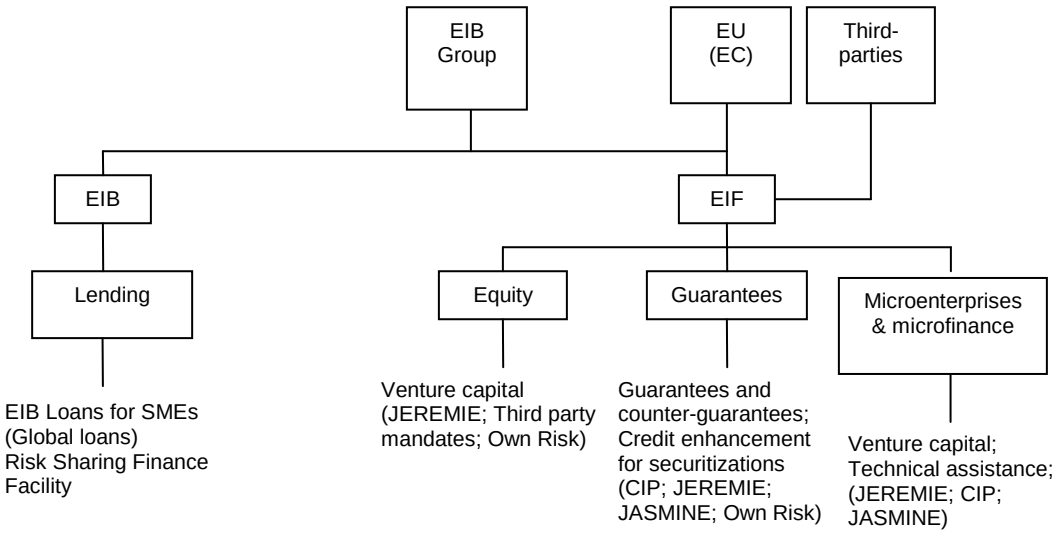
The EIB was created in the mid 1950s to support the goals of European integration (see for example, Griffith-Jones, Steinherr and Fuzzo,2006, for its main features). Its shareholders are the 27 member states of the EU and its mandate is to assist in the integration, development and economic and social cohesion of EU member countries. The EIB Group also supports convergence in EU candidate countries. By financing sound investment, it promotes EU policy objectives. It is the largest MDB in the

world by total assets, and has played a key role in European integration, especially by supporting investment in infrastructure.

The EIB is governed independently but receives capital from member governments, who sit on its Board. As at December 31st 2009 the EIB Group had over E350 billion in assets and held E164 billion in subscribed capital. The EIB raises funds independently in capital markets to finance its operations, and is the largest supranational borrower on international capital markets.[3] Between 2004 and 2009 the EIB borrowed E262 billion including E79 billion in 2009. It holds an AAA credit rating, which allows it to fund its operations at relatively low cost so that it can pass on this benefit to its clients.

The EIB Group operates on a non-profit basis by leveraging its own resources. In addition to these, it manages, particularly through the EIF, a number of mandates on behalf of the European Commission. These include use of resources from EU structural funds, which allow financial assistance for structural economic and social problems across the EU, including regional development. The EIB group is very large, and lends more than all the other MDBs and RDBs put together.

FIGURE 1
OVERVIEW OF EIB GROUP SME SUPPORT



Source: Authors' elaboration.

The EIB has put SME financing at the centre of its policy for a significant period. The EU's 23 million SMEs provide approximately 65% of employment in member countries, giving this sector a terrific strategic importance in the context of the EU economic and social policies.[4] Supporting SMEs is one of the EIB Groups' operational priorities set out in the EIB 2010-2012 Operational Strategy. In this regard, the EIB Group provides long term loans to financial intermediaries for on-lending to SMEs. The EIF is the main vehicle for more innovative SME investments and its activities include venture capital and guarantees. Further details are given in subsequent sections of this paper.

[3] The EIF does not borrow funds and its balance sheet is debt-free. However, it has in place a borrowing facility for treasury bridging purposes, which may use in the future.

[4] The EU defines SMEs as firms with between 10 and 250 employees; with less than E50 million in sales or less than E43 million in total assets (see Recommendation 2003/361/EC).

Principle amongst the advantages offered to SMEs by the EIB are availability of funds and favourable terms, including low interest rates. The EIB and EIF both benefit from an AAA rating and Multilateral Development Bank (MDB) status, which enables partner financial institutions to apply a zero-percent risk-asset weighting for the purposes of calculating regulatory capital requirements under Basel II. This rating is also the key enabler in offering these low interest rates as funding raised by the EIB in private capital markets is cheaper and this is then passed on to end user SMEs.

2. The countercyclical response of the EIB

The 2008 financial crisis highlighted the highly procyclical nature of private capital flows globally. The impact was felt throughout Europe as capital markets suffered from reduced liquidity in both primary and secondary markets and investor risk appetite suffered a sharp retraction. In the light of this, there was a request of the EU Finance Ministers in October 2008 to the EIB to significantly increase its lending to SMEs to E30bn for 2008-2011 and to front load this increase as part of the European Recovery programme.

Reflecting this, the EIBs Corporate Operational Plan 2009-2011 further strengthens its support to SMEs with a very significant increase in target signatures for 2010 vs. 2007 to reach E 11.5bn in 2010. The EIB Group responded rapidly to these events by providing an anti-cyclical response in banking and capital markets, including those for SMEs. Overall the EIB group rapidly expanded lending in 2009, as did other MDBs, including the World Bank Group. EIB's capital was increased by E67bn to support the necessary expansion of its balance sheet.

TABLE 1
EIB LENDING APPROVALS, SIGNATURES AND DISBURSEMENTS TO SMEs (EURO BILLION), 2007-2009

Euro Bn	2007	2008	2009
Approvals	5.8	8.4	15.1
Signatures	5.7	8.2	12.7
Disbursements	6.4	5.6	10.1

Source: EIB Annual Report 2007, 2008 and 2009. EIB data.

TABLE 2
OVERVIEW OF EIF SME OUTSTANDING EXPOSURE AT 2008 & 2009

	As at Dec. 2008 (Ebn)	As at Dec. 2008 (percentage)	As at Dec. 2009 (Ebn)	As at Dec. 2009 (percentage)
EIF Guarantee Exposure	12.3	78	13.6	77
EIF Private Equity Assets	3.5	22	4.1	23
EIF Total Portfolio	15.8	100	17.7	100

Source: EIF Annual report 2008 & 2009; EIB Annual Report 2008.

In fact, the de facto increase was NOT ONLY VERY LARGE, but even BIGGER THAN PLANNED with impressive growth of EIB signatures for lending to SMEs of 128% between 2007 and 2009, and growth of disbursements of 57% in the same period. (see table 2). The proportion of EIB SME lending in the total EIB lending went up significantly from 14.6% in 2008 to 19.1% in 2009. Furthermore, EIB lending to SMEs in the new member countries, mainly in Central and Eastern Europe increased even more. The EIB estimated that the additional private sector finance leveraged by its loans

was at least a multiple of 2 in the case of SMEs, which was similar, though slightly lower, to the leverage of private finance for total EIB lending.

It is interesting that the significant increase in lending to SMEs was made possible by the fact that there was no capital constraint at the time for increased lending, as the capital of the EIB had been significantly increased in previous years. An important lesson here for Latin America is that RDBs and even national development banks should be well capitalized, so they have room for quick lending expansion if the economy deteriorates. This prevents lengthy delays before increases in capital are agreed. Great efforts by EIB Management and staff, as well as greater flexibility in some of the previous EIB rules, such as most importantly lifting all restrictions on additional lending for working capital linked to investment, as well as reducing the amount of detailed information that needs to be provided, were also important factors for facilitating this countercyclical rapid increase of lending. By fortunate coincidence, the EIB, after consulting its users, had been designing changes to its SME lending, to make it simpler, more flexible and transparent, when the crisis hit, so it accelerated its implementation.

On the demand side, by banks, there was an important increase, particularly since the second half of 2008. Thus, reportedly, many EU banks had not expressed in the past an interest in obtaining funding from the EIB for SME lending, as they could easily fund themselves in the inter-bank markets. But when the crisis hit, most banks saw their sources of funding shrink dramatically and went to the EIB requesting such loans. As a result now many more European banks have lines of credit for SMEs from the EIB, and reportedly are likely to keep using them and requesting new ones(interview material). The geographical coverage of the EIB lending to intermediaries increased significantly, as result of the crisis. Thus, in 2007, banks in 16 of 27 EU countries had SME credit lines with the EIB and in 2009, this number increased from 16 to 24! For example the banks of the Nordic countries, that had never used these credit lines started to use them.

Equity activity however was more procyclical with a decrease of 21% from 2007 to 2008, although this then made a strong recovery to above 2007 levels in 2009.(see table 2). Part of the initial decline in equity was in relation to a reduction in own risk lending as risk management concerns led to a contraction of risk appetite.

The focus of EIB lending to SMEs is loans to financial intermediaries for their on-lending to SMEs(see again table 1); there is no restriction of the type of SMEs to which they should lend, (except to forbidden sectors like arms), nor is there an aim of particularly supporting technologically innovative SMEs. The aim is rather to help finance SMEs in general. The focus over a long period by the EIB on SME financing has given it a great depth of experience and expertise in the field and makes it a useful model to examine in considering lessons for other regions. For example, the EIB has a reputation for careful selection of and monitoring of financial intermediaries. However, in this type of more “plain vanilla lending” the EIB is somewhat similar to other Regional development banks, though its commitment to SME lending is particularly strong, its experience very positive and it has created some innovations, especially recently. Amongst recent innovations introduced by the EIB itself in its lending for SMEs, it has started to introduce risk sharing mechanisms, whereby the financial intermediary shares the risk – and reward- with the EIB of the portfolio of SME loans; this can be done as sharing first loss or by the intermediary assuming risks on a slice of the portfolio. Because these innovations are recent, only few transactions have as yet been made, and it has not yet been evaluated. As we discuss in detail below, the greater innovations for SME lending are via the EIF.

The EIB has three de-facto conditions for allocating resources to financial intermediaries (especially banks), which it monitors carefully. They are: 1) additionality, 2) transfer of information to SMEs and 3) Transfer of financial advantage.

As regards additionality, the EIB requirement is tapered, and increases for larger investment projects, above Euro 12.5 million. For projects below E12.5 million, the EIB can provide up to 100% of the investment. For loans above E12.5 million, the maximum EIB loan is that amount, with a minimum ratio of 50% of EIB lending to total investment.

To ensure that credit lines are used, 60% of loans by the EIB have to be allocated to SMEs by the financial intermediary , reported to the EIB and agreed by the EIB(which basically checks that the activities of SMEs are not excluded ones -eg for arms purchases) before a new loan to the financial intermediary can be considered.

In relation to transfer of information, the bank is required to inform the SME that the loans are partly funded by the EIB.

In relation to transfer of financial advantage, the intermediary bank must transfer the advantage of borrowing cheaper resources from the EIB, given the EIB's AAA rating. The transfer of financial advantage, in the case of countries with less developed financial markets, -such as pre accession countries -is mainly transferred via an extension of maturities that tend to be short in those countries. For banks in those countries, reducing their maturity mismatches, (with EIB lending typically reaching 10 years maturity, in contrast to much shorter term funding they can obtain from their depositors or on the interbank market), is extremely valuable. Furthermore, reduction of mismatches, has advantages for overall financial stability in those countries.

For most countries within the EU, long term loans, eg 7 years are typically available. The transfer of financial advantage is related to the cost of lending; this can be done via a reduction of interest payments or by an upfront straight payment by the bank to the SME, equivalent to the net present value of what the bank is saving. The bank then reports on this transfer of financial advantage to the EIB, which monitors it. As regards calculation of the financial advantage by the EIB, this is a difficult task, as there are information asymmetries, implying for example that EIB does not know exactly what the cost of funding of banks lending to SMEs is; the EIB therefore bases itself on estimates, and then negotiates with the financial intermediary what the financial advantage is, based on its estimates, on a reasonable sharing of this advantage, to allow for bank to cover their cost of dealing with the EIB, and a reasonable profit from the transaction for the bank. This stops or limits financial intermediaries free riding on EIB resources.

3. EIB Group policy and instruments in support of SMEs

In terms of instruments, the main focus of the EIB Group's lending to SMEs is on loans to financial intermediaries for their on-lending to SMEs, which was discussed in detail above .

In addition to loans to financial intermediaries, the EIB also supports access to debt financing for high technology SMEs in conjunction with the EU through its Risk Sharing Finance Facility. The facility is project-based and its aim is to support initiatives in the high-risk segment of research, innovation and technological development. The facility is built on the principle of risk sharing between the EU and the EIB. It has E2 billion capital, EUR 1bn from the EIB and the same amount from the EC under the 7th Research Framework Programme (2007-2013), enabling the EIB to lend more than E10 billion for this kind of investment. By mid-2010 already E6 billion had been committed. However, SMEs are not the only beneficiaries, which also include special purpose companies, public-private partnerships and joint ventures, research institutes, universities and science and technology parks.

As well as through lines of credit to financial intermediaries, the EIB Group provides financial support to SMEs with other products. The main vehicle in this case is the EIF. (see again Figure 1)The EIF is a specialized fund of funds dedicated exclusively to SMEs. It has a tripartite shareholding structure, comprising the EIB (64%), the EU through the EC (27%) and a number of financial institutions (9% in aggregate). The EC in particular plays a specific role. Not only was it the main driver behind the creation of the EIF, it also largely sets the developmental objectives to which the EIF is institutionally committed. The EIF represents the most important platform for SME projects from the EU budget, providing expertise and at the same time ensuring efficiency in the use of EU budget resources. Like with its parent company, EIF financing is also made exclusively via intermediaries with a financial participation usually capped at 50%.The use of portfolio guarantees remains the principal vehicle and instrument for EIF lending to SMEs with 77% of its total 2009 year end exposures being in this form.

These also include credit enhancements for securitization structures yet this kind of financing has largely been on hold since the financial crisis of 2008. Finally, the EIF provides venture capital including equity, mezzanine and other equity or quasi-equity financing. Under these operations, the EIF acts as a fund of funds, taking equity investment in private equity funds. In addition to its own-risk resources, EIF's financing is made under mandates managed on behalf of the EC as well as of third parties, which represent the larger proportion of its business. Approximately, two-thirds of the guarantee business and ninety-percent of venture capital commitments fall within this category. In return for managing portfolios under mandates, The EIF receives a management fee and, for venture capital activities, a performance fee.

BOX1
KEY FEATURES OF THE EIB GROUP SME POLICY

Definition and uses of financing:

- Policy Consistency: Required to be consistent with EU policy goals
- Size thresholds to define SMEs
- Long term financing: Minimum 2 year maturity with no maximum
- Working capital: Limited to minimum 2 year requirement, modified recently due to special needs arising from the crisis
- Tangible & non-tangible assets can be financed
- Equity focused on high technology & innovative technology start ups

Financing mechanisms:

- Top instruments: Direct lending and guarantees
- All funds through financial intermediaries
- Use of segregated legal entities and fund of fund structures
- Technical assistance provided
- New innovations in instruments and risk taking: Introduction of equity and mezzanine financing ncluding own risk funding

Source: Authors elaboration based in EIB information.

In the guarantee business, the EIF manages on behalf of the EC the Competitiveness and Innovation Program (CIP), which covers the period 2007-2013. This is a program which aims to ease SME access to finance in order to foster growth, productivity enhancements and innovation among EU small businesses. The CIP has replaced the Multi Annual Program for Enterprise and Entrepreneurship, which expired in 2006. Of a total E3.6 billion budgeted for the program, the EIF manages E1.1 billion under two facilities: the SME Guarantee Facility (SMEGF) and the High Growth and Innovative SME Facility (GIF). Up to 50% of the resources are earmarked for guarantees, with the remainder focusing on equity and microfinance. Under the CIP, the EC guarantees the first loss on SME portfolio of financial institutions. The CIP covers EU member countries, EU candidate countries and the Balkans and Turkey.

For venture capital investment, apart from using its own capital and resources from the CIP, the EIF manages the Risk Capital Mandate (RCM) on behalf of its parent company, the EIB. The RCM facility is worth E4 billion and has been operated since 2000, when the EIF became responsible for all EIB Group equity investments in the EU. The RCM represents the largest source of venture capital investments run by the EIF. In addition, the EIF manages joint investment facilities based on third-party mandates, either from public or private resources. For example, the EIF manages third-party mandates with funds-of-funds established on the initiative of partners located in Germany, Spain, Portugal and Turkey.

The EIF has also been implementing the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative to facilitate SME access to finance in those regions eligible for the use of EU structural funds. Under this initiative, EU member states and regions are able to use part of their

structural funds through the EIF to allocate these funds to more efficiently support SMEs. Finally, the EIF is implementing JASMINE (Joint Action to Support Microfinance Institutions in Europe), a new EU initiative promoted by the EC which aims to develop microcredit for those micro-entrepreneurs excluded from the banking sector. (see figure 1)The EIB has already allocated E20 million through the RCM, while technical assistance will be financed by the EC. Overall, the facility is expected to pool E50 million, with other financiers expected to contribute.

4. Summary of policy recommendations

As noted, the EIB and EIF have extensive experience in SME financing developed in the context of the EU and based in the EIBs relationship with the EU. In considering how to leverage the EIB experiences there are a number of key areas that could be directly utilised within LAC and further areas that, with modification and adaption to the context of LAC, also provide useful models. In some instance however we would recommend caution and de-emphasis of certain aspects of EIB practise.

Firstly, as noted, the EIB anti-cyclical policy is strong and we would recommend application of it in the LAC context. This is especially the case as both SMEs and developing countries have significant pro-cyclical private sector capital flows and domestic finance. We note that the IADB also implemented excellent anti-cyclical responses. However we would recommend additional policy such as "crisis planning" to provide automatic capital extensions, creating lending that incorporates "stickiness" of financing with intermediaries or co-investors in the private sector and flexible co-financing arrangements that provide anti-cyclical expansion by MDBs.

Secondly, we strongly recommend a focus on replicating the EIBs policy of direct lending and guarantees of lending[5] to financial intermediaries with co-financing and pass through of cheap funding costs. The CIP guarantee experience, described below, is particularly interesting. Key aspects of this policy that make this approach attractive include co-financing to crowd in the private sector, use of intermediaries to enable low interest rates for end users and using intermediaries to gain scale and local expertise. In addition, the appropriate risk management for such instruments uses existing internal expertise and infrastructure within MDBs.

Conversely we recommend a cautious approach to replication of complex financial structuring techniques and higher leverage financial instruments including securitizations, including their guarantee, mezzanine debt, equity and venture capital co-investments as well as complex legal entity structuring. Although these instruments can play important roles in financing SMEs, particularly in crowding in the private sector and in filling market gaps in higher risk financing such as in high technology research and development, the advantages in the LAC context need to be clear and outweigh the potential disadvantages. The latter include the potential to create systematic risk in the financial sector, including lowering of transparency and increasing pro-cyclical flows, and the need for both highly complex risk management as well as the risk of losses on impairments and write downs.

One example where we believe the advantages outweigh the potential disadvantages in the LAC context however is the support of technical innovation and in particular we discuss the replication of the EIF policy of support and financing of high technology "clusters" in partnership with universities although we would place greater emphasis on government rather than private sector partnerships.

However following these recommendations raised the issue that EIB policies rely on EU funding. In particular the CIP program which funds much of the guarantee program uses EU funds to cover expected losses. The EIB also benefits from the support of the EU in its credit rating and hence its cost of funds which enables it to pass through cheaper interest rates to end users. We would recommend consideration of how such funding and support can be replaced in LAC. For example grants or ODA

[5] Which are already active areas in LAC but not necessarily through intermediaries, use co-financing or have pass through of cheap funding costs.

could be appropriate sources for LAC especially in low income countries; national budgets would probably be the best source for middle income countries.

In addition we recommend an examination of supportive policies such as provision of technical advice and engagement in a deeper assessment of demand-side constraints for SMEs both as part of the global initiatives currently in progress and independently within the region including at a country by country level.

These policy recommendations are discussed in more detail in Section III of this paper.

II. Detail on EIB group SME financing

As discussed in the introduction, the EIB Group supports SMEs through a number of products and instruments, with its own resources as well as under mandates managed on behalf of the EC and third-parties. The EIF represents the main vehicle for SME projects using the EU budget resources, providing guarantees, venture capital and, more recently, assistance for microfinance institutions. However, more traditional lending via financial intermediaries and on a larger scale is done by the EIB itself, as discussed above. Figure 1 in the prior section summarizes the EIB Group support for SMEs. The following sections describe in more detail the main facilities used by the EIB Group to ease SME access to finance.

1. Direct lending

The EIB makes loans directly to commercial banks for SME financing. Available since 2008 the target is to lend E30bn in the 2008-2011 periods with over E20bn lent by 2009. As noted key advantages are the financing itself as well as the low interest rates which are passed on to end users. The structure of these loans is relatively simple and details of the policy elements have been discussed in Section I. However by volume these loans are very important to the financing of the sector and are a major contribution by the EIB.

2. Guarantees

Guarantees represent a major instrument for supporting SME access to finance in the EU and Candidate countries. Guarantees, which include partial loan portfolio guarantees and "wrappers" for SME securitizations, are provided by the EIF, and account for its largest exposure at 77% of its 2009 year end exposure. Guarantees are backed by EU mandates or provided by the EIF on an own-risk basis.

During the 2007-08 crisis risk aversion was high at the EIF and this resulted in a sharp fall in activity in 2007, but a quick recovery in 2008. These points are illustrated in figure 4 below. This initial pro-cyclical response, followed by a clear countercyclical one is discussed in Part III of this paper.

TABLE 3
EIF ANNUAL GUARANTEE COMMITMENTS 2006-2009[a]

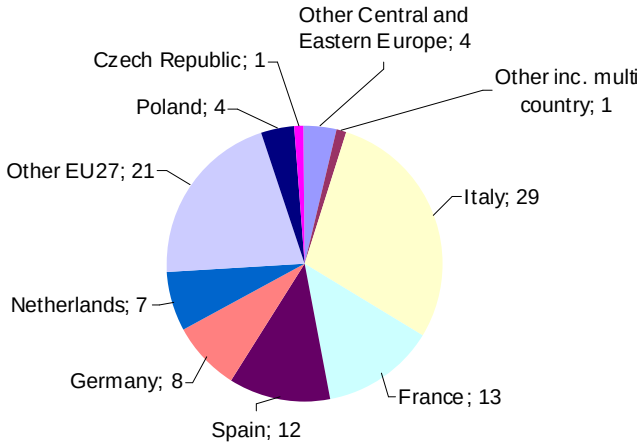
Euro millions	2006	2007	2008	2009
European Commission (MAP & CIP)	1 028.2	8.0	1 308.7	2 224.3
EIF Own Resources	1 194.3	1 397.2	834.2	0.0
Total	2 222.5	1 397.2	2 142.9	2 224.3

Source: EIF Annual Report 2008 & 2009.

[a] During 2007 the SMEGF under CIP was being finalised and MAP unwound and so EC funds were largely inactive. Due to the market condition there were no own risk signatures in 2009.

In addition the majority of EIF Guarantees are to developed countries with 91% to EU27 countries and most of the remaining 9% to Central and Eastern European countries. This is illustrated in figure 5 below. Total lending outside of the EU27 totals E0.7bn or 9% of the total and is mainly to Central & Eastern European countries. Poland and Czech Republic, some of the more mature economies in this group, are major recipients in this region with minor funds going to Bulgaria, Latvia, Romania and Hungary. In assessing relevance of EIF policy for developing countries this is again discussed further in Part III of this paper.

FIGURE 2
EIF GUARANTEE COMMITMENTS BY COUNTRY AS AT DECEMBER 2009
(Percentages)



Source: EIF Annual Report 2009.

The guarantees cover two main categories. The first are loan guarantees which cover portfolios of SME medium to long term financing. This is seen as the core activity and as noted focuses on crowding in additional private sector financing to the SME sector. The EIF offers direct primary guarantees and counter guarantees (or "wrappers") to primary guarantors of similar portfolios.

The majority of guarantees are offered through the CIP, a very innovative mechanism. CIP guarantees are offered as partial guarantees and incorporate capped first losses which are shared between the EIF and the financial intermediary ensuring an avoidance of moral hazard and crowding in of the private sector. The EIF's internal estimate of leverage created by CIP guarantees is fifteen, giving a highly effective tool for increasing SME financing.

The CIP provides funds which are used to "fund" a proportion of expected losses on the portfolio guaranteed (typically these are 5-10% of the value of the loans, but somewhat higher for micro finance). Expected losses are calculated using an EIF model of expected losses for different portfolios of loans, based on long series of historical data including on default rates and recovery rates. Although the models used are internal to the EIF they conform to the industry standards, including those used by rating agencies. However, according to EIF sources they seem to have worked better.

Guarantees are provided free of charge under the SMEGF in the context of CIP, which is funded by budgetary contributions from the EC under the CIP 2007-2013 programme and managed by the EIF of behalf of the EC. The budgetary funds available for covering these first losses are considerable, reaching E550 million and applying the multiplier of 15 gives increased lending to SMEs of over E8bn. Once these funds for covering first losses are used up, they are expected to be replenished in the next period. Commitment fees may be charged in some very exceptional circumstances, when the guarantee is not used. Normally, there is no guarantee fee, which allows the bank to lend more, to more risky SMEs and to new segments, and/or reduce spreads charged.

In addition, financing under SMEGF is provided only on incremental lending. To ensure that there is incremental funding, the guarantee only becomes operational once the financial intermediary passes a certain level of lending above its previous lending. This implies more lending than otherwise would take place. Operationally this is done by assessing a "normal" level of lending for each intermediary and then the guarantee is triggered when additional lending level above this threshold is executed. This ensures that guarantees stimulate additional lending, not risk reduction on existing or planned SME lending for the intermediary.

Prior to the crisis only medium or long term financing to SMEs was eligible to receive guarantee. However as part of the anti-cyclical responses by the EIB Group to the crisis, working capital if linked to investment became eligible for financing as well.

The CIP experience seems to offer valuable lessons for SME lending in LAC, but there would be a need for budgetary funds to be provided.

In addition to loan guarantees the EIF also provides credit enhancement for securitizations of SME portfolios. The key objective is to facilitate capital market access for unrated or low rated institutions. These include, for example, small local or national banks. Cash and synthetic securitizations are covered and a number of guarantee instruments are offered including note holders wrappers, credit default swaps and bilateral guarantees. The guarantee covers a maximum of 50% of the first loss (equity) tranche and 100% for mezzanine or more senior tranches. The majority of EIF guarantees are for mezzanine tranches. Front-end fees and commitment fees are charged.

Prior to the financial crisis of 2008, the European market for SME securitizations had been growing steadily with volumes of E170m annually, expanding geographically as well as in term of asset classes.[6] Up to 2007 the EIF participated in 5% of the total market in SME issuances and 15-20% of mezzanine issuances. Since the crisis however, the market has been severely impacted with no issuances

[6] Source:http://siteresources.worldbank.org/EXTECAREGTOPPRVSECDEV/Resources/5709541211578683837/Tappi_EIF_EIFs_approach.pdf.

in 2008 and 2009 and a very tentative return to issuance in 2010. It remains to be seen if liquidity will return to the securitization market. Therefore any introduction of securitization mechanisms to finance SMEs in LAC should be very carefully evaluated , not least due to its highly procyclical nature. This is discussed in more detail in Section III.

BOX 2
AN EXAMPLE SECURITIZATION TRANSACTION: ROOF POLAND I-III

- 2006 securitization of E167m Polish SME lease receivables.
- Receivables originated by a SME lease financier who was able to add further assets for 3 years and was thus able to recycle all the original funds back into SME financing.
- EIB purchased E50m of senior notes and the EIF proved credit enhancement through guaranteeing E8.6m of the mezzanine tranche.
- Other participants and arrangers were commercial banks.
- Transacted via ROOF Poland SPV with "true sale" status.

Source: Authors elaboration based in EIB information.

As noted, the EIF deals exclusively via intermediaries. The EIF assesses the financial intermediaries' capabilities and capacity in evaluating and managing the SME portfolio but does not assess or manage the SME end-users directly. This assessment is an important part of risk management and is again discussed further in Part III.

3. Equity

In addition to guarantee transactions, the EIB Group is active in equity transactions through the EIF. Typically they take the form of minority stakes with co-investors in the private sector. There is a focus on high growth and innovative SMEs who find private sector financing limited due to the risky nature of their activities. Funding is largely through EU dedicated funds but also through the EIFs own resources. (see table 4 for details). 56% of funds are though Venture Capital funds. Again the focus geographically is within the EU 27 representing 82% of exposure with the remainder mainly in Eastern & Central Europe.

TABLE 4
EIF ANNUAL EQUITY SIGNATURES 2006 TO 2009

Euro millions	2006	2007	2008	2009
EIF own resources	74.5	70.7	19.2	42.7
EIB Risk Capital Mandate	482.7	379.4	187.6	362.6
EIB Mezzanine Facility for Growth	0.0	0.0	0.0	159.9
European Commission	89.4	49.7	134.3	43.4
Regional Mandates	41.4	21.0	43.6	50.0
Fund of funds	0.0	3.6	24.2	50.0
Non-European Union	0.0	0.0	0.0	22.5
Total	687.9	524.3	408.9	731.1

Source: EIF Annual Report 2008 & 2009.

The major source of funds for equity signatures is the RCM and the new 2009 Mezzanine Finance Facility, the latter part of the anti-cyclical responses by the EIB. These programs are funded mandates from the EU. The decline in EIF own-resources in 2008 and only partial recovery in 2009 reflects the

risk aversion in both the EIB and its partners in the private sector during the financial crisis. However, total equity signatures were by 2009 higher than any year since 2006, which shows an encouraging recovery.

The majority of exposure relates to the earliest stages of the life-cycle of an SME with seed to expansion representing 55% of the 2009 portfolio with the majority of this being in start up and early stage SMEs. Given that this is where market gaps are highest due to the risky nature of many projects this is an especially valuable role for MDBs, RDBs and at a country level for public development banks (see table 5). A significant portion of such early lifecycle financing is provided to venture capital funds. These typically are multi sector venture capital firms with a significant percentage of private sector co-investment.

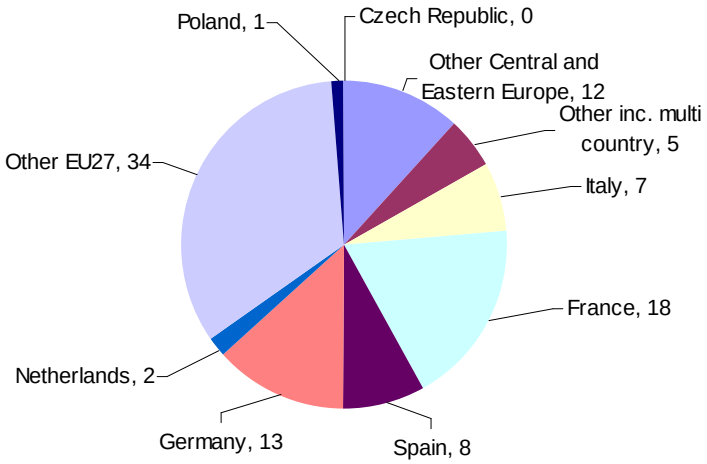
TABLE 5
EIF OUTSTANDING EQUITY EXPOSURES BY RISK CATEGORY (SEE FIGURE 4 FOR EXPLANATION OF "LIFE-CYCLE" SHOWING "EQUITY STAGES")

Equity Stage	December 31, 2008 (Em)	Percentage	December 31, 2009 (Em)	Percentage
Venture Capital (Seed to Expansion)	1 966	56	2 254	55
Lower Mid-Market (Growth, Small Cap & Mid Market)	1 189	34	1 459	40
Fund of Funds & Special Structures	381	10	402	5
TOTAL	3 536	100	4 103	100

Source: EIF Annual Report 2008.

Total equity risk outside of the EU27 amounts to E0.2 bn or 13% of the total and is mainly to Central & Eastern European countries. This includes E104m of risk in Turkey which includes a specialist fund-of-funds, Istanbul Venture Capital, Initiative where the EIF act as advisor and co-investor with private sector banking investors (see figure 3).

FIGURE 3
EIF EQUITY RISK BY COUNTRY AS AT DECEMBER 2009
(Percentages)



Source: EIF Annual Report 2009.

A particularly interesting area of venture capital products, mainly in the EU, includes equity stakes to facilitate developing the results of research and development into marketable products and services. This includes collaboration between research organizations and industry, licensing and development of intellectual property rights and start-ups including university spin-offs. Box 3 provides a discussion of these partnerships.

This experience of equity stakes to facilitate technological innovation and its dissemination seems of great interest for the LAC region.

BOX 3
AN EXAMPLE VENTURE CAPITAL FUND: 360 CAPITAL PARTNERS

- Pan European private sector venture capital firm.
- Manages E200m+ of investments in 60+ companies.
- Focus on high technology start-ups.

Source: Authors elaboration based in EIB information.

Historically the EIF has focused on early stage high technology sector and on regional or European funds but recently has sought greater diversification by balancing these early stage investments with expansion into more diverse sectors and later stage mid-market financing. The latter includes mezzanine financing and is completed via a dedicated fund, the Mezzanine Facility for Growth which in April 2009 was approved with funding of E1bn. Mezzanine debt can be used for expansion or reorganization of mature businesses and late stage technology companies.

BOX 4
THE EIF AND UNIVERSITY CO-INVESTMENTS

The EIF have partnered with a number of the top ranked universities in the EU to provide an incubator for development and commercialization of cutting edge research. The EIF provide a continuity of funding for the projects throughout their life-cycle from initial concept to full commercialization and by doing so contributes to the development of high techs sectors in the EU. Typical investment include a "umbrella" fund which manages a portfolio of various projects, some of which are in specialist fields. Such an approach also ensures appropriate diversification of risk across a range of these speculative projects. Examples of 2 such funds are given below.

Example (1) Karolinska Development Co-Investment Fund (KCIF)

- Karolinska Institute in Sweden is a very high ranking medical university & is linked to Karolinska Development (KD) is which brings medical related very early projects to "proof of concept" and into development.
- The EIF has made a E26.7m investment into the EUR 36.1m KCIF CoInvestment Fund KB (KCIF)
- The portfolio comprises 45 life science companies with 19 potential "first-in class" compounds, ten companies with 12 clinical-phase projects, of which seven compounds in Phase II clinical trials. Therapeutic areas include cardiovascular, oncology, dermatology and wound healing.

Example (2) UMIP Premier Fund

- Fund dedicated to commercialization of technology developed in research at the University of Manchester which has a "5-star" rated academic research department.
- UMIP is separate university owned technology transfer company who selected investments & partners with MTI an investment manager.
- Focus is late seed investments with 15-20 companies and investments in £250-£750k range and a maximum follow up investment of £3m.
- Investments to date have included (i) "Power Oasis" a telecom power provider for locations with limited network gird reliability; (ii) Apatech, a provider of synthetic bone graft material with MTI assisting the company in adoption by leading surgeons; and (ii) Exosect, a producer of environmentally friendly pesticides.

Source: Authors elaboration based in EIB information.

4. Jeremie

JEREMIE is the "Joint European Resources for Small and Medium-sized Enterprises", a Joint venture of EIB, EU and EIF to promote financing and a wider range of financial products to SMEs in the EU via financial intermediaries. It is implemented by the EIF. Under JEREMIE national and regional authorities can direct funds from EU structural funds to SMEs. Structural funds represent one third of all EU funds for development and were previously used as direct grants.

Multiple instruments are used with differing risk profiles including equity and mezzanine financing as well as loans and guarantees. As in this case grants provided by the EU structural funds are not used to cover losses, funds are returned to the holding fund on maturity for recycling. This has the advantage of greater leverage of these funds and the benefits of revolving funds. In addition co-financing from the private sector is sought. Both of these factors increase significantly the funds available in terms of the end level of funding to SMEs.

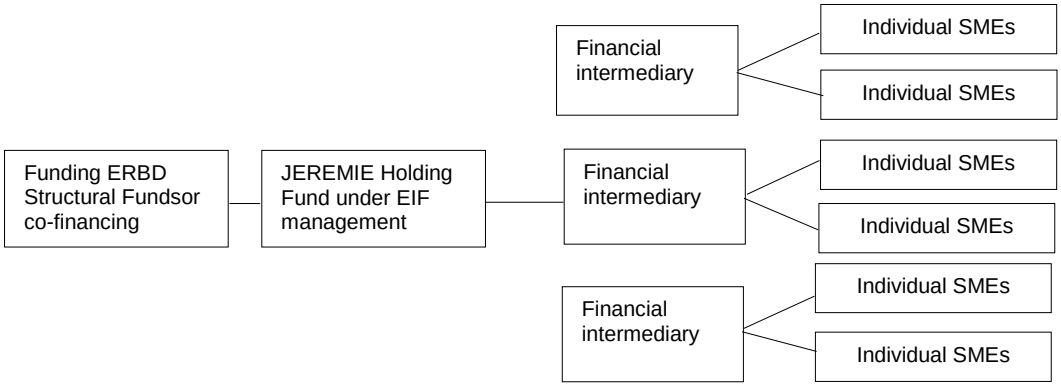
JEREMIE was established in stages with an initial evaluation stages in 2006-07, including an analysis of supply and demand gaps and market failures for credit, by country and type of SME activity. Particularly important in this aspect was that the EIF, jointly with the EC, as well as relevant countries carried out a SME finance gap analysis in the 2005-2008 period. This mapping of needs was very useful for countries, regardless of whether they adopted JEREMIE or established similar independent national funds. Based on this careful analysis, recommendations were made for countries to establish revolving funds to finance SMEs; within this they could chose to do either through JEREMIE and the EIF or their own funds. Such detailed mapping exercises could be very useful for LAC countries, where they are not available, as a basis for SME lending policy.

The funding and management structure of JEREMIE are illustrated in figure 4 below. After agreement with the national government, the EU structural funds or other sources of co-financing (e.g. from national funds or third parties) are placed into a designated "holding fund" managed by the EIF. The legal entity of this holding fund can be either a segregated legal entity (i.e. a special purpose vehicle) or a simpler "ring fenced" pool of assets (e.g. a trust or designated bank account) depending upon the level of sophistication required and the respective national legal framework.

Under JEREMIE, the EIF is then delegated responsibility for a number of management tasks including, typically, the selection and management of financial intermediaries, setting criteria for appraising and making investments and monitoring and reporting functions with the chosen financial intermediaries. Funds are then lent to intermediaries for on-lending to the end-user SMEs. The relevant national authority participates in the "investment board", which sets higher level strategy and decision-making for the holding fund.

Financial intermediaries are selected on the basis of a submitted business plan which includes review of management, efficiency and outreach to SMEs. Financial intermediaries considered include a wide range of SME financiers such as banks, guarantee funds, venture capital funds, loan funds, and technology transfer vehicles and microfinance operators.

FIGURE 4
JEREMIE INTERACTIONS WITH EIF AND INTERMEDIARIES TO END-USERS



Source: Authors elaboration.

From 2007 JEREMIE became operational and sought mandates from a number of countries, established offices in countries and, after a call of interest, started the selection of financial intermediaries. By the end of 2009, 10 agreements signed with E704m of agreed funding. These include signed mandates with Romania, Latvia, Lithuania, and Slovakia with over E600m of dedicated funds to be funded with 65% debt and 35% equity. Most of the activity is thus in Central and Eastern Europe, but they are also active in EU countries like Italy and France which have executed regional programs under JEREMIE.

TABLE 6
JEREMIE MANDATES 2007 TO 2009

		2007	2008	2009
Mandates	Number	1	6	10
Fund Agreements Signed	Euro Millions	100.0	604.0	1 082.7

Source: EIF Annual Report 2008 & 2009.

However alternative mixed approaches were adopted by other countries with JEREMIE forming a part of their SME strategy alongside nationally managed funds. For example Hungary entered discussions with the EIF but decided to setup their own national and independent fund, the "Venture Capital Hungry plc". Hungry already had a maturing network of SME financing assistance, largely under the umbrella organization of the Hungarian Development Bank ("HDB"). In recent comment by the Hungarian Ministry for National Development and Economy (5) it was noted that JEREMIE value lay in the range of instruments and its ability to respond to market gaps and new market segments but that Hungary has however engaged the EIB in other forms of SME financing. For example in May 2009 the EIB itself provided a E40m loan to be redistributed to SME via the commercial bank, Erste Group Hungry (Part of a E440m loan to the Erste Group in CEE).

Similarly Poland has undertaken a number of actions to support and develop its SME sector and these have included more sophisticated financing through CIP and market based securitization, which has involved support and participation of the EIF. For example Poland and the EIF had a facility under the Multiannual Programme ("MAP"), the CIPs predecessor, which was renewed in January 2010 under a 3-year guarantee agreement under CIP. Bank BPH is a co-guarantor in the facility with the EIF, as it had been for MAP. Bank BPH is a commercial bank whose parent is GE Capital and which specialised in innovative financing for Polish SMEs. The program provides guarantees of up to E150m to new and existing SMEs. They include lending for working capital, and longer term investment funding. In relation to JEREMIE, Poland undertook extensive discussions relating to establishing a JEREMIE holding fund with the EIF and undertook detailed evaluation studies on a regional basis as well as a

national basis. However, a lack of clarity on the legal framework was a key barrier to direct participation and subsequently the Ministry of Regional Development then setup an independent venture capital fund-of-funds with a holding fund manager and E200m portfolio of equity instruments. EIF have provided training and advisory work to the fund-of-fund in a limited capacity during setup.

Such examples from specific middle income countries indicate that a program like JEREMIE may not be suitable for all countries and highlights alternatives. In particular, for those middle income countries with SME financing markets that are relatively sophisticated JEREMIE may offer fewer advantages both in terms of financing and technical advice.

However for those countries with less developed national agencies and less mature financial markets the advantages of JEREMIE is an important contribution and can be a key model for applying in Latin America. In particular JEREMIE provides a range of instruments for end user SMEs that reflect the full "life-cycle" (See figure 18) of early stage to mature SMEs with requirements for equity, developing into mezzanine debt and finally lending and guarantees. In addition, the ability of the JEREMIE program to provide advantages to intermediaries in the form of, again, this full range of instruments, plus leverage and ability to recycle funds through securitization are key enabling factors for the participating intermediaries. The ability of JEREMIE to provide and risk manage this range of instruments in markets where other participants, both public and private, maybe find such risk management difficult or unpalatable are important advantages of the JEREMIE approach. In addition the strong emphasis on technical advice ensures the best opportunities for SMEs in the program to be successful in their business. Where the circumstance of public and private participants to provide these directly is lacking, a replication of a JEREMIE style program would be a possible model to fill these important market gaps.

5. Jasmine

Launched as a pilot project in 2007, JASMINE (Joint Action to Support Microfinance Institutions in Europe) is a joint program between the EC, the EIB and the EIF. JASMINE has been created to support microfinance institutions in order to facilitate financing of those micro-enterprises which are normally excluded from the banking sector. Like JEREMIE, JASMINE is implemented by the EIF.

As mentioned in the Introduction, the main focus of this study is on SME financing; however, given the interesting features of JASMINE and the potential for replication in other regions, including LAC, a brief description is offered below.

TABLE 7
SUMMARY OF JASMINE ACTIVITY 2008 TO 2009

		2008	2009
Mandates	Number of mandates	1	1
Fund Agreements Signed	Euro Millions	1.8	1.8
Technical Assistance	Number on institutions	0	15

Source: EIF Annual Report 2008 & 2009.

JASMINE represents a pilot project in the microfinance industry, and to date only one mandate has been signed. However the EIF plans to expand this program, particularly in EU member states, as part of their anti-cyclical responses to support economic activity and employment. Financial support is provided for those MFIs that are in development or in the process of becoming self sustaining. In addition technical support is provided by the EC. Only one investment has been signed under JASMINE to date, an E1.8m commitment to CoopEst, as well as 15 technical assistance projects to MFIs.[7]

[7] As at January 2010. Full operations for JASMINE expected from Q3 2010.

Technical assistance aims to establish European best practises on issues such as governance, information and risk management systems, planning, funding and profitability. In addition technical assistance seeks to widen the use of credit ratings for selected MFIs and a partnership with two specialised microfinance rating agencies has been established for this purpose.

The CIP also provides direct guarantees and counter-guarantees for microfinance. As discussed for guarantees earlier, this is managed by the EIF through risk sharing with funded institutions.

BOX 5
JASMINE EXAMPLE: COOPEST

- Established microfinance funder with 17 MFIs in operation in Poland, Romania, Bulgaria, Lithuania & Kosovo
- Executed in September 2009
- Increase in funding from E15m to E30m with EIF providing E1.8m commitment
- Joint support from EIF, IFC & umbrella of other EU based funders with a matched funding requirement.

Source: Authors elaboration based in EIB information.

6. EU/EIB risk sharing finance facility

The Risk Sharing Finance Facility ("RSFF") is a Joint EU and EIB facility to finance research, technological development as well as demonstration and innovation investments in a project specific form. The credit risk is shared between the European Commission and the EIB, thus increasing the ability of the EIB to lend funds. The RSFF has E2bn of capital with E1bn from the EIB and E1bn from the EC and a lending capacity of E10bn. E6bn has already been committed to a broad range of companies both in relation to sector, size and regions with an emphasis in clean technology.

The facility is for multiple eligible bodies including SMEs and including companies that are unrated, unlisted or have lower credit ratings than the usual EIB standard. Debt-based financing includes loan or guarantee forms, including mezzanine. Financing is done both directly, in conjunction with other investors, or via guarantees to intermediaries.

7. Credit and market risk management

Both the EIB and the EIF hold an AAA credit rating and enjoy the MDB status under Basel II, allowing their assets to be zero-risk weighted for calculating capital requirements. Funding costs are consequently low, and these are passed on to end users.

However the central activity of lending and investing in SMEs is inherently risky. The fundamental business and financial risk of SMEs themselves are relatively high. This is especially the case for investment in high risk start-ups (seed capital) and early stage SMEs as well as projects such as technology research and development. In addition SMEs are also potentially subject to liquidity pressures in the current environment.

As a stark illustration of the relative riskiness of the SME sector, during the crisis of 2008 and into 2009 there was significant deterioration in the EIF's portfolio quality. EIF guaranteed loan portfolios and securitizations assets on negative outlook increased from 5% to 20% of total exposure from 2007 to 2009, whereas impairments in private equity portfolios rose from 16% to 24% in the same period. In addition, from 2007 to 2009 E72m of impairment provisions were required. However no structures have actually failed and actual cash losses remained at negligible levels. See table 9 below for details of these figures.

TABLE 8
"NEGATIVE OUTLOOK", ASSET IMPAIRMENTS & RELATED PROVISIONS EIF 2007 TO 2009

	2007	2008	2009
Guarantees and Securitizations "Negative Outlook" Credit Exposure (percentage of portfolio)	5.0	14.0	20.0
Provisions for Losses on Guarantees & Securitizations	9.5	8.6	56.7
Guarantees and Securitization Defaulted Exposure (percentage of portfolio)	0.1	0.1	0.1
Impaired Private Equity Assets (Em)	65.3	91.6	101.3
Impaired Assets % of EIF Private Equity Portfolio (percentage)	16.0	21.0	24.0

Source: EIF Annual Report 2007, 2008 & 2009.

The table summarise key data on portfolio quality in the guarantee, securitizations and private equity portfolios of the EIF from the onset of the financial crisis to 2009. All indicators indicate a significant deterioration including rising "negative outlook" credits and rising impairments in the equity investments. Reserves were made as the portfolio quality deteriorated and in 2009 the losses pushed the EIF into a net loss of E7 m for the year. Realised defaults, however, remain at very low levels at less than 1% throughout the periods.[8]

For the purpose of this paper, it is important to understand the factors that allow the EIB Group to manage appropriately its risks in relation to SME lending. This is because effective risk management is a fundamental feature for a successful replication of the EU experience in supporting the SME sector in developing countries, such as in LAC.

Firstly risks are managed by an independent Risk Management and Monitoring Department through approach of limiting exposures. The EIB and EIF are also selective in choosing SMEs including a policy of only supporting strong and growth-oriented SMEs. However, they do support start ups, unlike for example some LAC national development banks, like the Banco del Estado, which only finances SMEs that are already well established. The internal risk management also carefully balances the higher risk venture capital and equity investments with lower risk guarantees and debt financing and maintains high levels of portfolio diversification across intermediaries, SMEs and countries.

Secondly some exposures are backed by EC or individual member country guarantees and overall the EIB Group enjoys support from its highly-rated (at least until early 2010) member country shareholders. These ensure that the EIB and EIF are well supported financially through paid in and subscribed capital, and politically, given the importance of the EIB Group for the achievement of the EU policy goals. The EIB Groups also continue to maintain a strong capital base with high capital ratios and doubled authorised capital in 2007.

However although EIFs risk management is highly prudent, it could be criticised as being excessively prudent and being insufficiently leveraged resulting in a lowered level of total financing to SMEs. For example a number of practises may be excessively prudent such as the very high level of guarantees vs. Equity. However, in the light of the financial crisis, prudence and conservatism in risk management including limitation on leveraged financial risk can be considered an important virtue as well.

[8] The Chief Executive of the EIF, Richard Pelly, comments in the Annual Report 2009 that "The continued deterioration of the economic conditions for SMEs resulted in downgrades ... particularly on guarantee exposures, ... this represents a prudent level of provisioning .. none of the structures have failed and no actual cash losses were incurred in the year".

III. Detailed discussion of policy recommendations

As noted in the introduction and detailed in the above section, the EIB and EIF have extensive experience in SME financing. However, much of these practises in the SME sector have been developed in the economic and political context of the EU and EU candidate countries. Furthermore, several of the mechanisms described receive implicit or explicit support from the EU budget resources. Neither such institutions nor these resources are available in the LAC context. Therefore, if applied such mechanisms would have to rely mainly on national budgets. In the next section we will discuss EIB Group practices, their relationship to the EU context, their applicability to the LAC context and the adjustments and/or selections which might be appropriate.

1. Countercyclical policy approach

As discussed in detail above, the counter cyclical policy of the EIB Group was strong and we would recommend application of it in the LAC context. This is especially the case as both SMEs and developing countries have significant procyclical private sector capital flows and domestic finance. SMEs suffer disproportionally in periods of capital droughts as large corporates crowd out SMEs from domestic markets because access to international corporate markets becomes restricted. Of course to an important extent, the Inter-American Development Bank (IADB) and national development banks have in LAC increased their lending during the crisis to counteract the fall in private lending (for the former see Griffith-Jones and Ocampo et al, 2010).

Furthermore, in countries, like Brazil, where national development banks account for a large proportion of total credit this public response was far more effective in lifting total credit than in countries where the role of public development banks had been reduced. So a lesson here seems to be that this is one important reason why the scale of public development lending should be large - to facilitate greater impact of counter-cyclical lending in recessions and crises. Of course to this countercyclical reason, we need to add market gaps and imperfections in financial markets, especially but not only for lending to SMEs, which justify clearly the need for public banks.

Active consideration of these factors in policy making will ensure that the financing to SMEs are counter-cyclical, providing funds when they are most scarce and ensuring long term stable financing which bridges short term shortages. This should include automatically building capital "buffers" into capital approval to allow rapid expansion of lending during crisis periods without the need to seek approvals. Such crisis planning could be a critical part of a counter -cyclical policy approach for both regional and even national development banks.

2. Financial structuring recommendations

2.1 Role of guarantees

As discussed, a large proportion of the EIB Group support for SMEs is in the form of guarantees provided by the EIF. We would suggest that guarantees hold significant advantages vis-à-vis other instruments and should be the main policy instrument to be implemented. Key advantages include their less complex risk profile, relative to equity or mezzanine, and anti-cyclical nature. When combined with two key features of the EIB approach, namely risk-sharing and an incremental lending requirement (especially clear in the CIP guarantee mechanism described above), this instrument would further ensure crowding in of the private sector and avoidance of moral hazard.

Guarantees are also instruments that can be used to achieve low end user funding costs easily and ensure that the cost advantage is on-lent to the end user as the cost reduction can be reflected in the guarantee fees (including if there is no fee)and the end user lending rate easily monitored. As noted earlier, the problem of high cost of financing to SMEs is particularly important in the LAC context. For guarantees to be most effective in reducing costs, budgetary support for covering relatively small part of expected losses are valuable. This would allow, for example, the provision of guarantees to financial intermediaries free of charge in exchange for stricter requirements, such as incremental lending and passing on lower costs of funding.

A further advantage is that, whilst creating contingent liabilities, the instrument is relatively simple to risk manage and execute once appropriate capacity is built. Risk management for guarantees require a special focus on screening and monitoring capacity of financial intermediaries as well as on their track record with SME portfolios. This can easily be built upon those risk management systems that are already in use within most MDBs and RDBs for their lending portfolios, which usually rely on thorough credit assessments of partner banks. Broadly, this expertise should also be available within national development banks. Nevertheless, it may be very useful for institutions like the EIF to organize or be invited to seminars with national development banks in the LAC region to discuss their risk management practices, the problems they have encountered, and how they have overcome them. Such sharing of experiences would seem very valuable. ECLAC could play a key role in organizing such meetings, possibly jointly with institutions like the CAF or the IADB, institutions which could present their own experience as well.

2.2 Role of equity and securitization

Using guarantees as a principle instrument would mean that relative to the EIB Group more complex products such as securitization or equity investments (Including venture capital) would be de-

emphasised. The advantage is that this approach would avoid both the more complex and highly leveraged risk relating to them and the procyclical impact of such high leverage.

Securitization has historically been used by the EIB Group in SME financing through the EIF offering credit enhancement for mezzanine, junior and senior tranches of SME securitizations. The EIF had E2.7bn of outstanding commitments as at March 2010. The EIF credit enhancement offers significant advantages as it enables counterparties that otherwise would not have an adequate credit rating to transact a securitization and hence recycle funds into new SME financing. The approach has been particularly effective as enablers for smaller national regional financial institutions. In addition it provides other advantages such as regulatory capital relief and development of capital markets.

BOX 6
APPLYING SECURITIZATION TECHNIQUES IN DEVELOPING ECONOMIES

Securitization has historically been used by the EIB in SME financing through the EIF offering credit enhancement for mezzanine, junior and senior tranches of securitizations. The EIF has E2.7bn of outstanding commitments as at March 2010. It offers significant advantages as it enables counterparties that otherwise would not have an adequate credit rating to transact a securitization and hence recycle funds into new SME financing. The approach has been particularly effective as an enablers for smaller national regional financial institutions. In addition it provides other advantages such as regulatory capital relief and development of capital markets.

However securitisation also has major factors that require consideration in assessing whether and to what extend this approach should be replicated in LAC.

Firstly, the financial crisis highlighted the systematic problem that can arise from financial structuring including securitization. This includes a creation of an agent-principal problem and a lack of transparency in the financial system. In developing countries where financial markets often have impaired or lack both transparency and liquidity, even outside of crisis periods, these issues are important considerations due to the fragility of the financial system. The crisis has also curtailed severely investor appetite making issuance difficult and this asymmetric investor interest is again especially acute for both the SME market and for emerging markets. Since 2008 no SME securitizations have been completed in the market (although the EIF has one in the pipeline planned but not executed for 2010).

Secondly, internally appropriate Risk Management is essential. Specialist staff & technology is a requirement. And even with the “best practise” risk management, losses can be sustained due to innate risk implicit in such products. The EIF itself sustained E54m of impairment losses in 2009 for example.

Valuation and risk management market practise also use “mark-to-model” techniques which rely heavily on statistical models using, typically, historical data relating to portfolio performance. For examples the EIF techniques require extensive historical data on recovery and default rates for SMEs in the relevant geographical markets. Significant concerns exist in the commercial market relating to the validity of these models including their reliance on historical, rather than predictive future, data. In addition such data is largely unavailable or unreliable for developing countries meaning that the reliance than can be based on the model is further undermined. These issues are especially relevant for the EIB because they based the use of funds in the CIP program in estimates of expected loses which rely on both the model and data to be valid .

Source: Authors elaboration based in EIB information.

Similarly equity investments have played a critical role in the EIF policy especially in providing funding to early stage SMEs and in sectors such as high-tech due to limited capital available in the private sector for such high risk ventures. However such investments also have a higher failure rate and are speculative in their nature and as such a cautious approach needs to be taken to committing funds to them.

Nevertheless, these instrument have important roles to play within the EIB Group policy in either crowding in private sector capital, such as using securitizations to release funds for reinvestment, or by closing market gaps, such as either providing directly venture capital funds or providing more higher leverage instruments in the form of equity or mezzanine debt which can contribute to finance start up and research and development projects.

We would therefore recommend that these instruments are included within policy in LAC, but only for very selective instances where their advantages clearly outweigh their disadvantages. A key consideration in assessing this balance is that such a selective introduction of these mechanisms are also

most appropriate only for countries with deeper financial markets which mitigate concerns relating to the systematic impact of these instruments.

BOX 7
PARTNERING WITH VENTURE CAPITAL PARTNERS IN DEVELOPING COUNTRIES

One of the conduits used by the EIF to finance SMEs has been co-financing of venture capital funds. A typical financing is where the EIF co-invests as a minority partner in a fund which specialises in high technology of innovative SME investments in a dedicated region or sector.

The technique has the advantage of crowding in the private sector into a field where financing is scarce. In addition the investments provide a potential upside gain, especially when made in the form of equity.

However we note that the business model of many VC funds is to fund investments with a predetermined exit strategy and timeframe in order to realise a significant capital gain. In addition such funds are under a legal obligation to act in the interests of investors not SMEs and during period of crisis may have obligations to liquidate investment to fund investor's withdrawals. A number of such funds made significant "fire sale" liquidations during the financial crisis when investors withdrew capital from high risk vehicles.

The EIF-style arrangement of being a minority shareholder has relatively limited control over decision making over such withdraw or liquidations.

In assessing whether to replicate these type of partnerships in Latin America we note the advantage of crowding into an important market gap. However we would emphasise that high degree of caution would be prudent in both assessing their degree of control over decision-making especially on exiting and liquidation and that an essential component of such partnerships is the reputation and reliability of funds to "stay the course" during difficulties with both individual investments and during crisis periods.

Source: Authors elaboration based in EIB information.

2.3 Partnering: co-financing and intermediaries

As discussed, the EIB Group focuses on financial intermediaries for all SME financing. This includes a broad spectrum of intermediaries including banking institutions, non-banking financial institutions (e.g. leasing companies), venture capitalist and a variety of forms of capital market participations including securitizations. This approach carries significant advantage, most importantly crowding in of the private sector and risk sharing, the latter reducing any moral hazard issues with intermediaries dealing with end user SMEs. We strongly recommend that this approach should be replicated or continue to be used in order to benefit from these advantages. In fact, institutions like the IADB use this indirect approach when serving SMEs in LAC.

In addition, use of intermediaries has significant operational advantages including the ability to scale the financing of SMEs as the approach allows the networks of branches, operational frameworks and local accumulated knowledge of intermediaries to be used to both access, assess and monitor the end user SMEs. We would in fact consider that for achieving scale across a region to a material number of end users, this is probably the only practical approach. It is important that the intermediaries chosen cover a large range of SME activities and regions.

However, the approach also entails placing significant reliance on intermediaries' operational soundness and reliability. Consequently the approach also requires careful selection and screening of intermediaries, and a dedicated risk management framework in place.

In relation to the type of intermediaries we would suggest that, given the relatively immature state of the capital market sector and the currently well established banking sector engagement in SMEs, the policy approach should focus to a great extent on currently well established banking institutions in relevant countries.

We consider that possibly a more conservative approach should be taken towards other potential partners including private sector venture capitalists. One of the key issues in considering any venture capital partner should be the stability of their commitment to the investment which should indicate a

significant fixed time period. Indeed, maybe even minimal periods of commitment could be required. See box 7 for further discussion of these points.

The EIB Group usually prefer to select intermediaries with whom they already have an established relationship and with whom they consider competence and reliability is established. The EIB Group also undertakes an assessment of the internal control and operations of the intermediary including detailed assessment of their competence in evaluating and monitoring the end user SME credit risk, accounting processes and similar internal controls. We would again recommend replication of both the selection of known intermediaries and replication of detailed internal assessments of their control environment and operational competence. Some of the criteria that could be used to assess intermediaries would include internal risk management control, accuracy and timeliness of reporting and accounting, reputation and track record of SME financing, extent and depth of local presence and knowledge and clarity of commitment to the country and sector.

Although the extent of these selection criteria is high we do believe that it would be possible to identify sufficient intermediaries to achieve scale across LAC. In particular many LAC countries have very well established national banking institutions with nationwide networks and strong reputations. Such institutions would make strong candidates for intermediaries and excellent example of similar partnership have already been executed by such institutions as the IADB and some national development banks tend to use financial intermediaries for such purposes (“Bancos de Segundo Piso”)

Finally, but importantly, we would reemphasise the EIB Group requirement for guarantees to crowd in using an incremental lending condition. As noted, guarantees are only given above an assessed “normal” level of lending for a given intermediary thus ensuring the EIB Group crowding in incremental lending from the private sector. We recommend that this approach should be replicated in the LAC context.

As described in Box 8, the EIB Group guarantee experience is being adapted by the African Development Bank to establish a regional guarantee fund . This is a valuable experience in itself, and also shows a concrete example of how the EIB Group experiences can be successfully transferred to developing and emerging countries.

2.4 Use of legal entity structures

As discussed in Part II, the EIB Group executes SME financing through a range of structures. In addition to the EIB and the EIF, these also include complex legal structures such as holding funds and SPVs as well as securitization-related SPVs and segregated funds of funds. In assessing these structures it can be commented that the creation and operation of them is resource intensive both in terms of the expertise to create the required legal entities support as well as operational complexity on an ongoing basis.

For the EIB Group these negatives are worthwhile as the drivers for them are strong. For example many of the structures within the EIF umbrella relate to EU funds that are committed to specific purposes and thus require segregation and separate management. An example of this is JEREMIE where EU structural funds of specific amounts and for a specific country are committed and the holding fund is then created to manage this appropriately. Similarly JASMINE is funded from the RCM and again a separate holding and management fund is required to implement and manage this. Finally SPVs may be created for specific transactions, such as securitization vehicles.

However we would consider that most of these rationales are quite specific to the EIB Group and would recommend simplification of legal structures that are expensive and resource intensive to maintain, unless a clear rational can be identified.

This may include, for example, use of similar legal entity segregation to create funding that benefits from a AAA status for institutions like the IADB, or allows national or sub regional development banks to maintain their existing rating, whilst incurring more risk for lending to SMES and microfinance. Where budget support or grants are made available, it seems important to make these and

their use as explicit as possible. In fact, it could be argued that the budget resources that, in the European context, are provided to the EIB/EIF could be more transparently presented.

In box 8, we can see an interesting experience by the AfDB in applying the EIF model to a developing country context, which one of the authors of this study has played an important role in designing.

BOX 8
AN EXAMPLE: THE AFDB REGIONAL GUARANTEE FUNDS FOR SME FINANCING

An interesting example of where the EIB Group practises have been successfully adapted to a developing country context is the African Guarantee Fund (AGF) being established by the AfDB and partner donors.

The AGF concept is largely inspired by the successful experience of the EIF in particular as a specialized guarantee provider for easing SME access to finance. The AGF's business model is based on the principle of risk-sharing with financial intermediaries and crowding in of private financing.

The AGF will be a newly established international financial institution, and will provide loan portfolio and portable guarantees to financial institutions, complemented by technical assistance for both partner banks and SMEs. Funding will be initially provided by the AfDB along with the Danish and the Spanish governments, with other donors and investors to join at a later stage. The expected high credit rating of the AGF will entail capital relief for partner banks, thus rising incentives in joining the scheme.

As well as replicating while adapting the EIB Group experience with SMEs, we also note that this is an example where the use of a complex SPV is justified as it provides a segregated vehicle to clarify the combination of donor and MDB funds, with a relatively simple framework for monitoring additionality and development outcomes at the same time ensuring transparency in the use of public money.

Source: Authors elaboration based in EIB information.

IV. Conclusions and policy implications of EIB experience

1. Tailoring to the financial markets for SMEs in developing countries

As noted in the above discussion relating to the EIB Group engagement with SMEs, the majority of its activity is in the high-income countries of the EU. However in considering applying this experience into developing countries we need to consider important differences in the environment that may affect the preferred approach.

1.1 Tailoring of guarantee program

Firstly SMEs in developing countries are almost exclusively financed through banks, as opposed to capital markets.9 This has been found to be especially the case for the LAC region according to the World Bank Latin America Regional Study on SME Finance in 2007.10 The survey also completed a cross-country comparison of banking fees and interest rates and found that, on average, developing countries fees and interest rates are higher. In addition the level of lending to SMEs, as measured by the level of lending to SMEs as a percentage of bank total lending, was lower. These points illustrate the barriers to financing experienced by developing countrySMEs.

9 See Beck, Demirguc-Kunt and Maskkimovic 2008.
10 As well as World Bank country surveys for Argentina & Chile, subjects of the initial survey, and Colombia in 2008.

In relation to these differences for financial markets for SMEs we would suggest that the EIB approach may need to be adjusted in LAC. In particular we would place a greater emphasis on lending via banking intermediaries and a high emphasis on the policy goal of reducing costs of financing as well as improving absolute access.

We also suggest additional approaches to facilitating an anti-cyclical policy to compensate for private capital flows in bad times and increase the "stickiness" of private sector capital crowded in. For example, it may be possible to include as a requirement for guarantees a committed maturity for lending or to limit exit conditions or net portfolio reductions across fixed time periods.[11] Although this is unlikely to be preferred by intermediaries due to the restrictions on them that it imposes, such a condition would be very useful in terms of stabilising lending to SMEs.

We would also recommend flexibility around the RDB and SRDB (sub regional development bank) participation levels in co-financing arrangements so that RDBs can provide an anti-cyclical role to fill any gaps in financing that occur on the downside of business cycles. This is what the EIB Group has in fact done quite impressively in the current crisis.

1.2 Replacing the eu subsidies in the eib programs

As discussed, the EIB and EIF receive funding from the EC. In particular the CIP program provides funds which cover expected losses on guarantees thus facilitating the implementation of guarantees programs by reducing costs, extending access to riskier SMEs and expanding maturities. In addition, EIB lending benefits from the support provided by creditworthy EU member countries, ensuring financing at longer maturities to emerging (pre-accession) economies, and at cheaper rates in EU countries.

We would recommend detailed consideration of how budget resources could be generated, channelled best and used most productively to improve SME access to financing as a replacement for the EU based capital and budgetary support that underlies several of the most successful activities to support SMEs by the EIB group such as CIP. For example it may be possible to use grants or ODA to facilitate such a guarantee program in low income countries in LAC. This would also have the advantage of potentially enabling significant leverage of donor funds. As noted, the EIB achieved fifteen time leverage, and this advantage is particularly attractive in the current environment where "doing less with more" is being emphasised at many IFIs.

For LAC middle income countries, which practically receive no grants from donors, such resources would have to come from national budgets. It seems important that the need to provide budget resources to support lending to SMEs (clearly for specific and accountable purposes) is explicitly recognized and implemented. Naturally, such resources should be transparently used, clearly targeted and limited. To avoid the private financial sector free riding on the subsidies without passing on the benefits to SMEs, clear rules should be introduced and enforced. As mentioned, for example the CIP requires and monitors that subsidized guarantees deliver additionality of lending. The EIB lending to SMEs via intermediaries requires the latter to report how they have passed on the financial advantage from EIB funds to SMEs. Similar mechanisms would need to be introduced in LAC.

1.3 Assessing demand and scope of coverage

A key issue in designing institutional mechanisms for additional SME financing is more precise quantitative of the demand-side analysis. This area is one that is being increasingly considered by a number of key IFIs and similar bodies including the World Bank. Typical approaches to data collection include firm-level surveys and further analysis of supply data. Overall results indicate that access to finance is reported as one of the top issues for SMEs[12] and that lack of finance is negatively correlated with SME growth. For Latin America specifically, a World Bank survey of "top concerns for firms"

[11] Most relevant for venture capital funds which usually select investments with an "exit strategy" and where their fund requirements may allow investors in funds structures etc to withdraw driving their requirements to withdraw capital etc.

[12] Source: World Bank. "Access to finance" is ranked 3rd key constraint globally.

ranked "access to finance" as the third most important concern for entrepreneurs.[13] The appendix includes ranking by individual country within the region from this survey.

However, although current data on demand side constraints is valuable, existing data could be improved further to assist appropriate policy design. Data collection efforts are being scaled up and include efforts to centralize the collection of supply-data by central banks and regulators as well as demand-based surveys to quantify SME financing needs. Information is also being expanded to cover all aspects of SME business and market development including age and size, to allow policymakers to tailor policy responses (see figure 4).

In this regard, a number of initiatives are being taken at national as well as global level to improve information and support in these areas. This includes the recently formed G-20 Financial Inclusion Experts Group,[14] who are recommending an action plan for a comprehensive data collection effort for SMEs, and the EU, who are undertaking a number of intra-European Community initiatives. The later include the Enterprise Finance Index with extensive data collection, SME surveys on a six monthly basis by the EIB and a bi-annual survey covering SME financing across all 27 EU countries plus Croatia, Iceland and Norway.

In relation to Latin America and the Caribbean, we would recommend that CEPAL and the IADB both seek to engage in these global initiatives and to quantity more exactly demand constraints within the region. We welcome that CEPAL has recently commissioned a major survey of SMEs within Central America as an example of appropriate initiatives of this type.

Another option to consider is replicating the assessment studies completed by the EIF as part of the JEREMIE project. This included a detailed assessment of the relevant national or regional SME market, comprising supply and demand factors, a gap analysis and an evaluation of other financing issues. This allows tailoring of policy to the circumstances of an individual country.

1.4 Microenterprises and financing

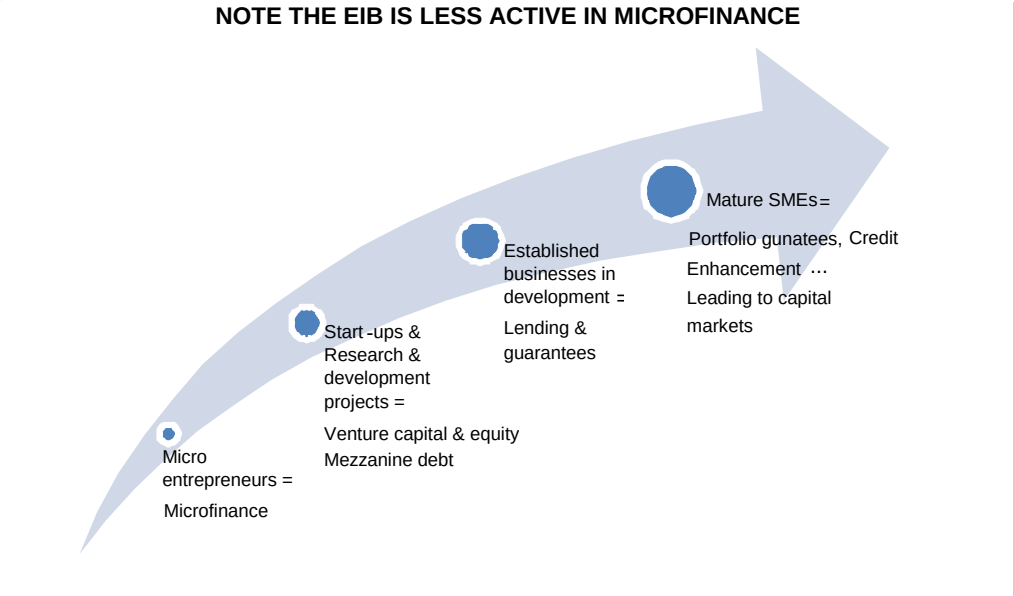
In addition, in many developing countries, there is typically a greater level of well established microfinance institutions (MFIs) which act as key enablers for micro-entrepreneurship and contributing to poverty alleviation, a key MDG. This is particularly true of LAC where many countries, including low income countries, have well developed microfinance institutions.

Although it has recently developed the JASMINE program, the EIB Group, has not been very active in the microfinance sector. In fact it is interesting that a major microfinance mechanism being launched at the EIB is largely inspired on developing country experience, a case of reverse transfer! In relation to this, we would recommend coverage of the full spectrum of SMEs including micro-entrepreneurs in LAC, and that the partners and intermediaries are extended to MFIs. We would note, however, that such MFIs should be carefully chosen to include well-established and larger, ideally national, organizations and that for small MFIs may not always be appropriate due to limitations in their scale and internal soundness.

[13] Source: World Bank Enterprise Survey 2006. Firms in Latin America rated "access to finance" as their 3rd after "political stability" and "practises in informal finance". Details for individual countries are given in the Appendix as rankings within Latin America vary by country.

[14] Author, Pietro Calice, is a member of this G20 Expert Group who provided comment based on current discussions within the group.

FIGURE 5
EIB CONCEPTUAL THINKING OF THE VARIOUS STAGES OF AN SME AND RELATED POLICY INSTRUMENTS CONSIDERED APPROPRIATE FOR THAT STAGE. NOTE THE EIB IS LESS ACTIVE IN MICROFINANCE



Source: Authors elaboration.

1.5 Support of technical innovation

As discussed, the EIB Group acts to support high-tech SMEs and develop the broader high-tech sector through private partnerships with key universities and venture capitalists. However in many LAC countries there is a gap between demand for such financing and the supply of venture capital financing from the private sector, including that linked to universities.

We would recommend a policy approach to innovation and technology through alternative policies such as public support of clustering, technological research and commercialization of innovation by government agencies rather than private sector agents. Such an approach could ensure a closure of this gap and accelerate both technical innovation and technology transfer. The models used by the EIB and EIF can offer valuable precedents.

1.6 Extending technical advise

As noted the EIB Group includes technical advice as a key component of some of its programs. In particular JEREMIE seeks to ensure technical advice is provided to assist in the success rates of SMEs. Given the limited environment in many developing countries for business experience we would recommend that all programs include technical advice, where required, as a key accompanying component of financing.

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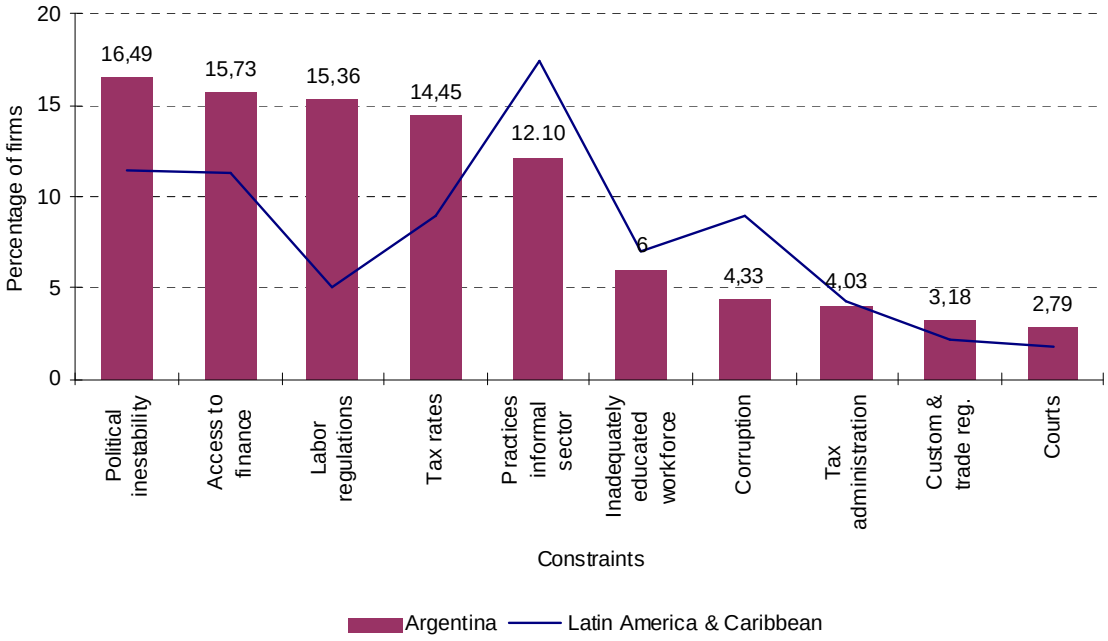
APPENDIX

Appendix 1
Corporate demand side data for key Latin American & Caribbean countries

Source: World Bank Enterprise Survey, showing ranking of "Top Concerns of Firms". Year of data for each country varies and is shown in parentheses.

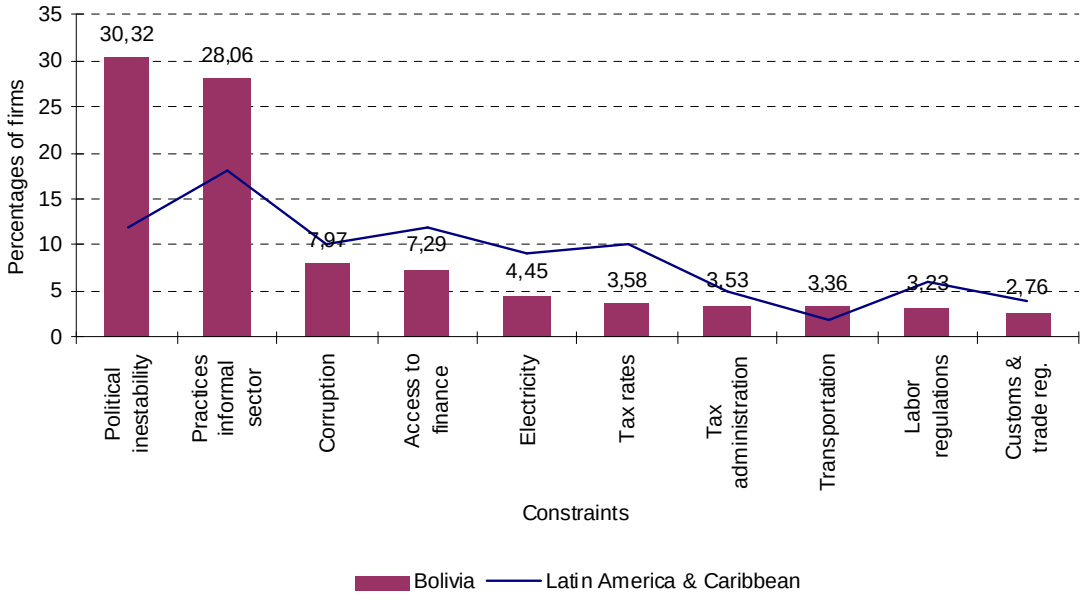
As can be seen the ranking of "access to finance" varies by country but is generally ranked as 3rd or 4th. However for some countries other factors are more important including informal sector practises, tax rates and political instability. Highest ranking for "Access to finance" is in Argentina and Nicaragua (Both 2nd) and the lowest in Venezuela (Unranked), Chile (6th) and Columbia (5th).

TABLE A1
ARGENTINA (2006)
TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS FOR FIRMS



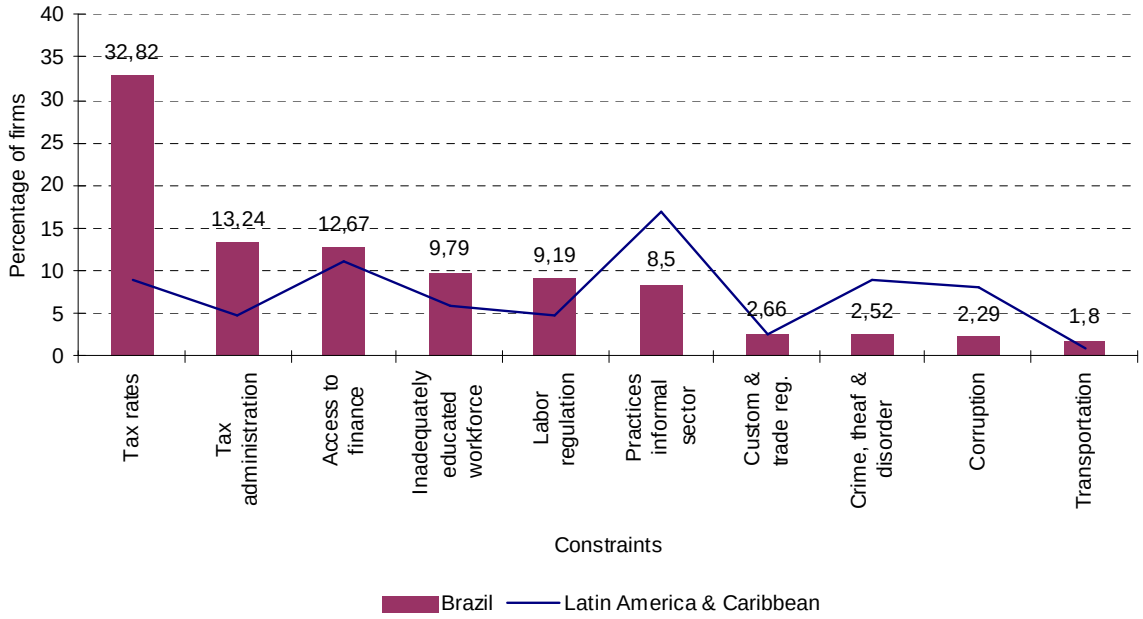
Source: www.enterprisesurvey.org.

TABLE A2
BOLIVIA (2006)
TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS FOR FIRMS



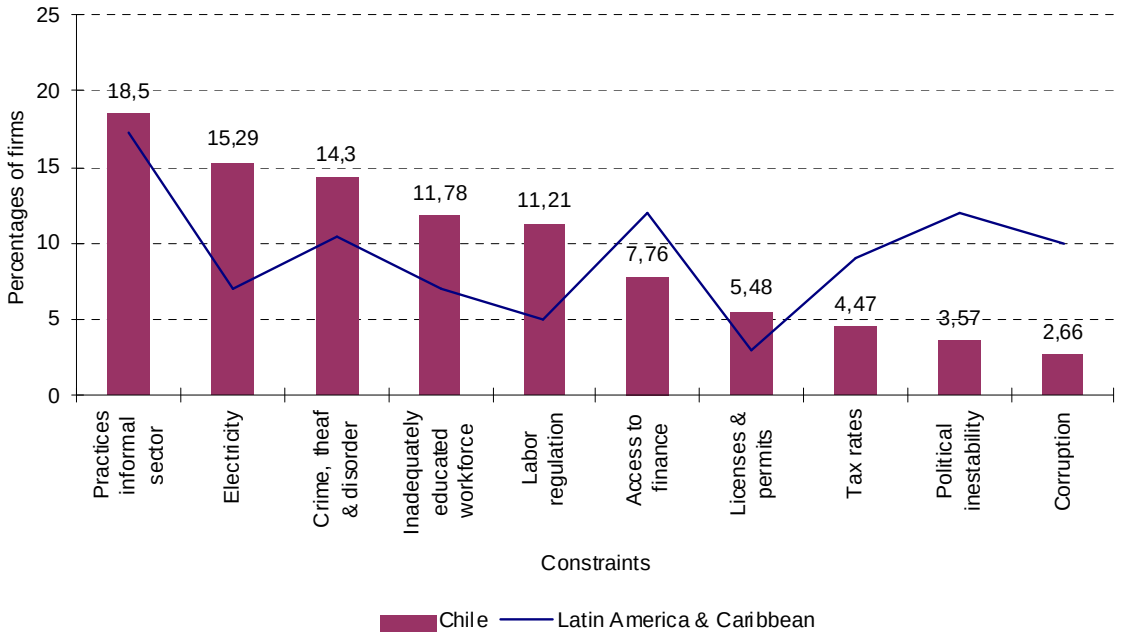
Source: www.enterprisesurvey.org.

TABLE A3
BRAZIL (2009)
TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS FOR FIRMS



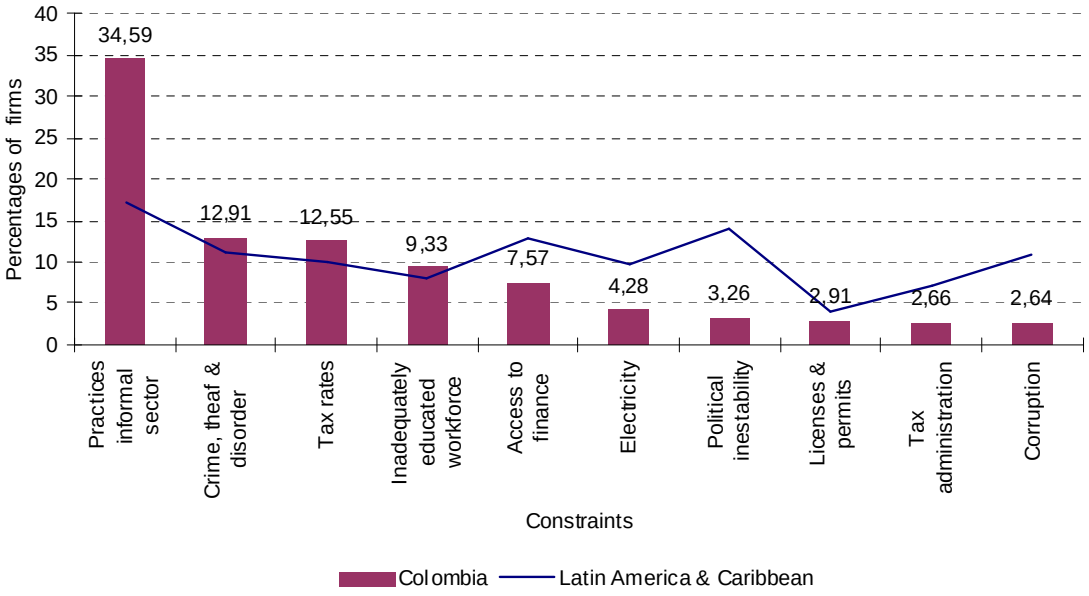
Source: www.enterprisesurvey.org.

TABLE A4
CHILE (2006)
TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS FOR FIRMS



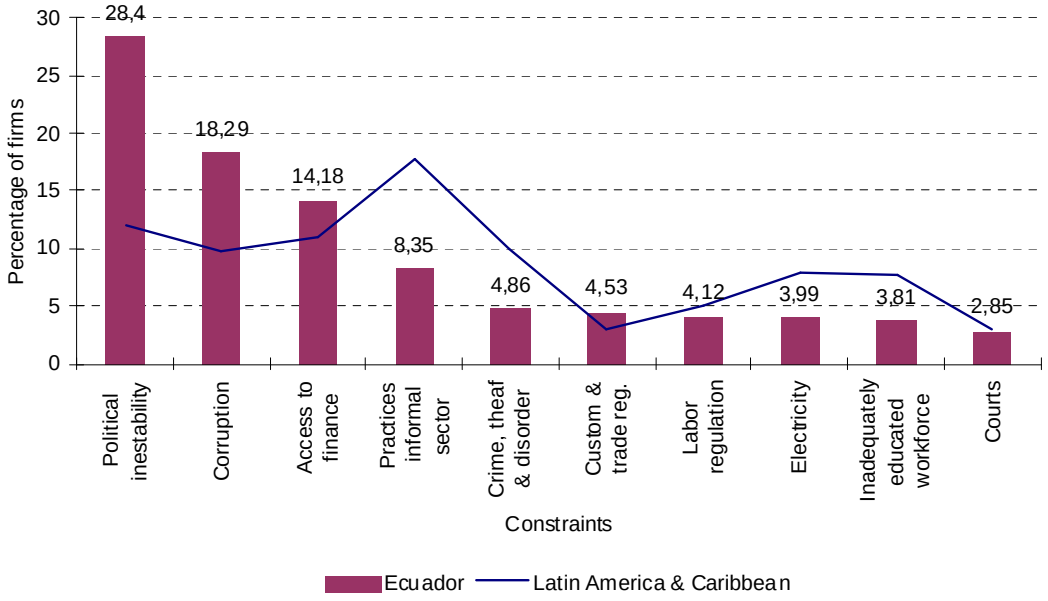
Source: www.enterprisesurvey.org.

TABLE A5
COLOMBIA (2006)
TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS FOR FIRMS



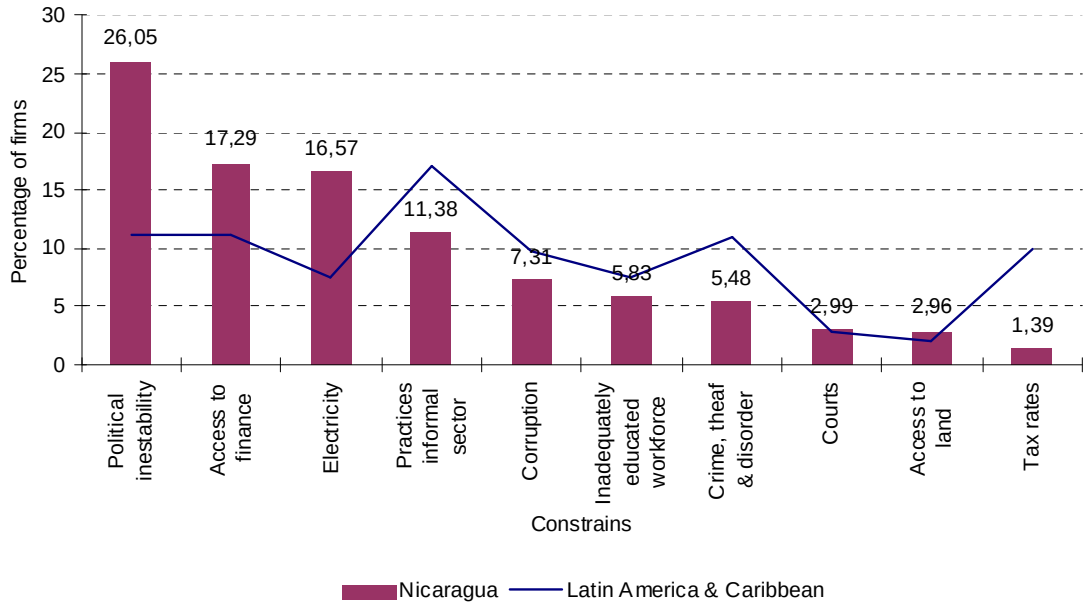
Source: www.enterprisesurvey.org.

TABLE A6
ECUADOR (2006)
TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS FOR FIRMS



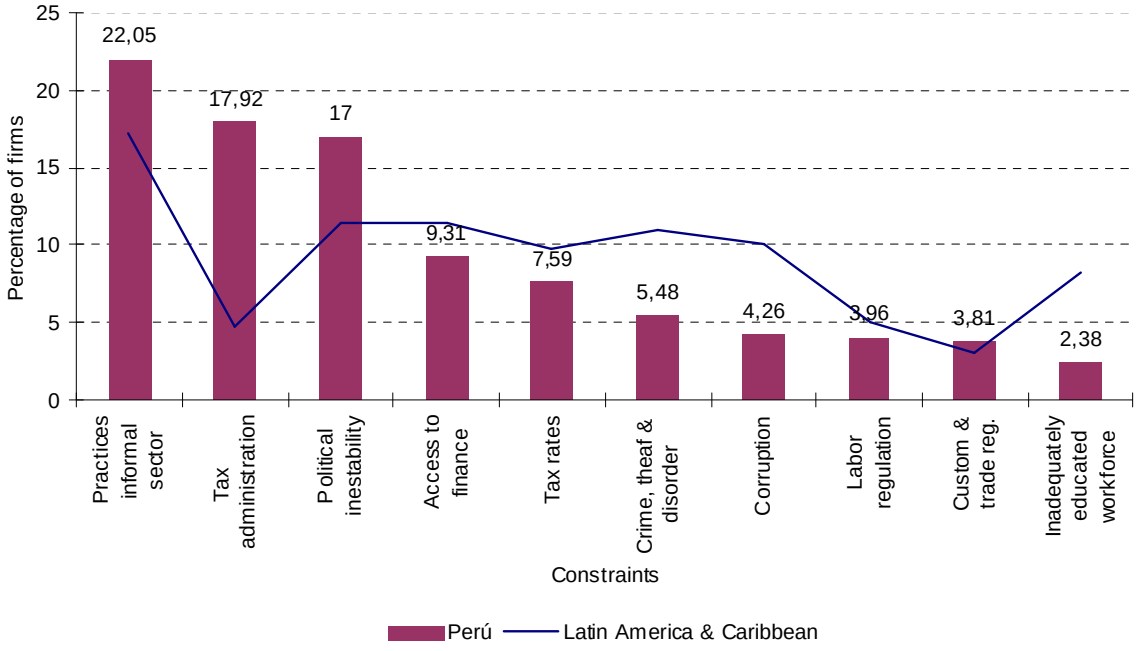
Source: www.enterprisesurvey.org.

TABLE A7
NICARAGUA (2006)
TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS FOR FIRMS



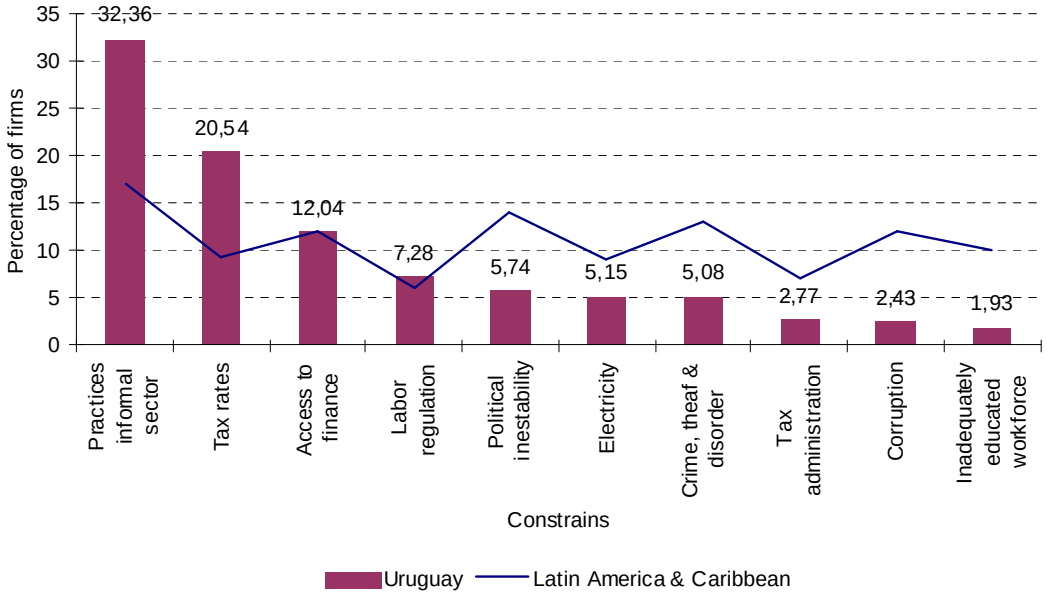
Source: www.enterprisesurvey.org.

TABLE A8
PERÚ (2006)
TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS FOR FIRMS



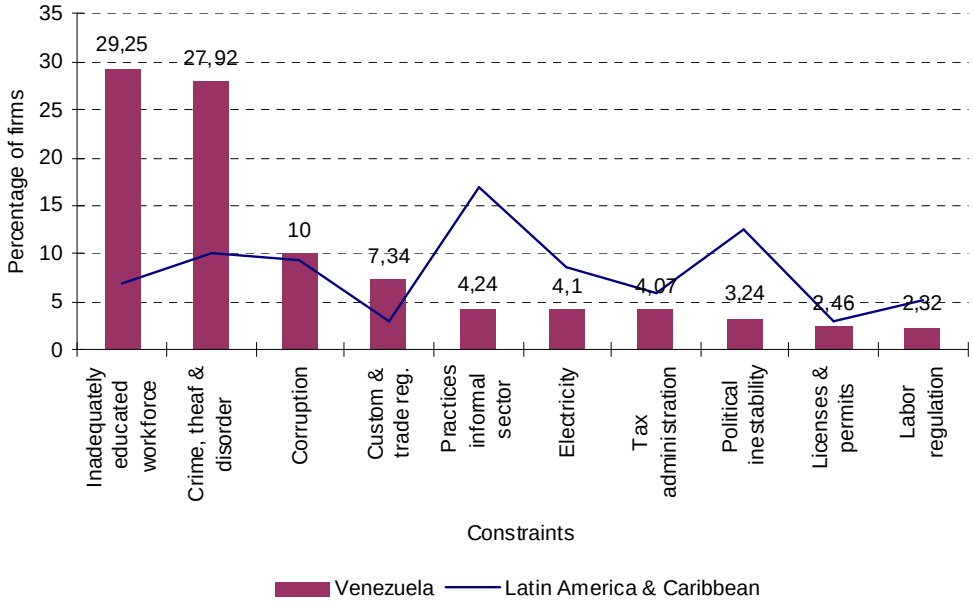
Source: www.enterprisesurvey.org.

TABLE A9
URUGUAY (2006)
TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS FOR FIRMS



Source: www.enterprisesurvey.org.

TABLE A10
REPÚBLICA BOLIVARIANA DE VENEZUELA (2006)
TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS FOR FIRMS



Source: www.enterprisesurvey.org.

Appendix 2
Acronyms

CIP	Competitiveness & Innovation Framework Program
EIB	European Investment Bank
EIF	European Investment Fund
EC	European Commission
EU	European Union
GIF	High Growth and Innovative SME Facility
IADB	Inter-American Development Bank
JEREMIE	Joint European Resources for Small and Medium-sized Enterprises
JASMINE	Joint Action to Support Microfinance Institutions in Europe
LAC	Latin America and the Caribbean
LIC	Low Income Countries
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MIC	Middle Income Countries
RCM	Risk Capital Mandate
RDB	Regional Development Bank
SME	Small and Medium-sized Enterprise
SMEGF	Small and Medium-sized Enterprises Guarantee Facility

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