

Missing in action

The winners, the losers and the unknowns of the European Investment Bank's anti-crisis SME offensive in central and eastern Europe



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Executive summary

In the autumn of 2008, the full impact of the global financial crisis was felt around the world and it brought unexpected and deep levels of hardship to almost all economies. One of the manifestations of the crisis was a widespread downturn in the ability of businesses to access finance due in part to the loss of confidence experienced in financial markets. As a crisis response and at the urging of the EU's finance ministers, the EIB announced a stimulus package which included the immediate deployment of an additional €15 billion to its 'global loan' lending in order to help support the small- and medium-sized enterprise (SME) sector across the EU.

Global loans are a form of funding which, unlike the EIB's standard project financing, is provided to third party intermediaries (predominantly commercial banks), who then lend out the funds along with their own contribution to borrowers. The borrowers are advised that part of the loan has come from the EIB and the loans themselves carry certain financial benefits which the intermediary banks must pass on and advise to the beneficiary.

Global loans are predominantly used to help fulfil the EU's policy objective of support to the SME sector of the economy and in 2009 they accounted for almost 22 percent of the EIB's total lending portfolio within the EU.

Describing the EIB's crisis package at the Bank's annual press conference in March 2009, EIB president Philippe Maystadt pointed out that, "Although we cannot work miracles on our own, the EIB stands at the service of Europe, and will continue to play a strong and active role in spurring economic recovery."

This report focuses on the EIB's global loan funding and disbursements during 2008 and 2009 to four states within the CEE region: the Czech Republic, Hungary, Poland and the Slovak Republic. This two year period saw the most severe impacts of the financial crisis and the study therefore focuses on assessing the effectiveness of global loan lending in disbursing funds to SMEs in these four states as well as the effectiveness of global loans in providing support to the SME sector as was the intention.

A sample of 30 loans worth €1.87 billion was assessed, which amounts to 78.7 percent of the total global loans signed in these four states over 2008 and 2009. A sample of loans from five other western European states was also selected for comparison.

Key findings

From the total amounts signed in the Czech Republic, Hungary, Poland and the Slovak Republic:

- Only 74 percent has so far been disbursed by the EIB to the intermediary banks.
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- A 'best case scenario' of only 69 percent of the total amount signed has been allocated by the banks to the SMEs.
- Despite the prevailing crisis conditions, four out of the 30 signed global loans have been completely untouched.
- Only four out of the 30 global loans have been fully allocated to SMEs.
- Many intermediaries appear to be making very few allocations to SMEs despite the fact that they have often received the entire global loan amount and have had, in some instances, over two years to find SME beneficiaries.
- In spite of the EIB's promise of additional funding in the crisis, during 2008 and 2009 only the Czech Republic and the Slovak Republic had more in global loans signed while Hungary and Poland actually registered decreased amounts in their global loan signatures.
- Some global loan amounts were spent outside the state which they were signed for – this is a worrying practice by the intermediary banks, one that was not observed in the western European global loans researched.
- To June 2010, only 2946 individual SME loan allocations were made in the four countries since 2008 from the total sampled (the 78.7 percent of total global loans signed there). That's 0.001 percent of all the SMEs in those four states. This number may also include duplicates as multiple loans may be given to one SME. The EIB's statistics for 2009 alone were over 50,000 allocations across the EU as a whole, a penetration rate of 0.0024 percent – or over double the rate in half the time.
- The average individual total loan size on global loans fully allocated so far comes in at almost €380,000. An EU survey on SMEs from 2009 advised that 71 percent of SMEs require funding of no greater than €100,000. One Hungarian €20 million global loan facility had only two individual allocations and only one Slovak facility had an average total loan size of less than €100,000. In the central and eastern European (CEE) economies, these would appear to benefit the larger, more well established SMEs as opposed to the smaller end of the sector. Global loans signed in the CEE region had a much higher proportion of facilities targeted at larger mid cap companies than those in western Europe.
- During the period, only one targeted 'specialised' global loan was signed across the four CEE states for key areas including micro enterprises, R&D or renewable energy, although many such facilities were signed in the western European states.
- EIB disclosure of information on its global loans is poor and the website reporting of disbursements is inaccurate. Information was not provided on unused facilities, amounts disbursed so far or, in the case of multi-country global loans, on the actual amount disbursed in each country.

Based on the evidence, the majority of the intermediary banks have not disbursed a significant proportion of the funding they have received, perhaps because they have tightened their credit conditions or perhaps because the EIB's global loans are themselves uncompetitive compared to other lending available. In difficult conditions on the global capital markets, where banks found it not only hard to access funding but the cost of it rose dramatically too, the EIB's global loan funding appears to have provided a boost to the intermediary banks which took advantage of it. For these banks, it appears to have been easier and cheaper to hang on to the funding for as long as possible – and the EIB's flexible terms, which allow up to two years for the banks to allocate the money to businesses, has enabled them to do so. It appears that on the whole the banks are taking considerable time to disburse the EIB's funds.

In essence, the package that was designed to stimulate the SME sector of the economy appears to have provided greater stimulation to the intermediary banks who were the initial recipients of the funding. SMEs in the region have themselves reported difficulty accessing the EIB's additional funding, largely due to the tightened lending conditions and restrictions imposed by local banks.¹

The EIB's successful deployment of additional funds for its project financing operations appear to have been less successful when it comes to global loans, where the EIB is dependent on the intermediaries to allocate the funds and where it therefore has less control over the time taken to find beneficiaries and over their selection.

Recommendations

While there was much political pressure on the EIB to increase its funding to the SME sector during the financial crisis, the EIB does not appear to have in turn passed on appropriate pressure to the intermediary banks to ensure that the global loans which they signed for have been disbursed quickly and appropriately during the crisis.

The EIB has advised in its communications that since it is the intermediary banks which carry the risk so they ultimately drive the process of selecting beneficiaries. However, as global loans carry up to a 50 percent share of EIB funding, the EIB is not only entitled to but must also place more pressure on commercial banks to disburse their funding quickly. Allowing up to two years to disburse global loan monies is too long – in a financial crisis it is inexcusable. This is especially so where some of the banks are given access to and the benefit of all of this funding upfront. Allowing banks to not take up the global loan funding which they voluntarily signed for without consequences is also unacceptable.

If the EIB was willing to be used as a political tool during the financial crisis, if it then disbursed extra funding to the SMEs of European states through a global loan mechanism which it has put in place and which it controls, then it must also take responsibility for the failure of its funding to make a real impact in the crisis.

The EIB must also take responsibility for the real differences in the way it allows global loans to operate in the CEE region as compared to the way that they run in the more established western European countries.

Global loans in CEE do not enjoy the same targeted approach and operations as seems to take place in the western European states. Concerns also arise related to the fact that the EIB has allowed certain intermediaries in the region to allocate global loan funding between various states based not on what is signed for that state but on the intermediaries' operational requirements. It is also evident that a large proportion of intermediaries receive the full upfront benefit of the EIB's global loan funding with the entire loan disbursed to them at the start. However, they are then taking far too long to on-lend this to borrowers, and given the size of the CEE economies and markets, the wisdom of this needs to be questioned. Lastly, the EIB's disclosure of how global loans are being disbursed must be improved and updated beyond the signature stage.

In light of this, EIB global loan lending within the CEE region and elsewhere needs to:

- Be targeted and specialised for key sectors, including micro enterprises, research & development and renewable energies, in order to support these important sectors of the economy and the EU's stated policy objectives. Non-specialised global loans lending should be reduced in favour of these.
- Pass on greater financial and other benefits (including guarantee instruments) than is currently provided. This may mean reducing the operational or risk margins applied to global loan facilities by the EIB and ensuring a flow through of these benefits to the SME by stipulating a greater minimum benefit in the loan finance contract with the intermediary concerned.
- Implement tighter contractual obligations and compliance of global loans. Global loan amounts signed for use in a given state need to be spent there and this condition needs to become a loan covenant. If multiple states are to be served by one global loan, disbursement amounts must be set for each state as a covenant in the loan finance contract, with any variation to be treated as a breach.
- As there is a long lead time taken by intermediaries to allocate the funds to SMEs, where global loans of greater than €50 million are signed, disbursements need to be capped to no greater than €50 million or 25% of the total at a time to stop intermediaries from using all of the funds as part of their medium term capital reserves.
- Include on the EIB website the updating and publishing of data on global loans in six monthly intervals beyond the current signature stage. Such data needs to include amounts disbursed to an intermediary, the number of allocations made thus far, and the region and industry sector disbursed to. This information is presently only available under the EIB's disclosure policy on request. An inaccurate picture is being painted of the assistance that the EIB's global loans purport to give to the states and their economies because of the current practice of publishing only amounts signed. Information at an aggregate level on what the

intermediaries do with global loans and how long it takes them to do this must, therefore, also be supplied.

More widely, the EIB should look to expand its use of other means of financial support to SMEs. The bank has now started to use guarantees for borrowers to provide some of this support, and the use of guarantees should be expanded and complemented with the use of grant funding for targeted industries, as specified earlier.

Such instruments are not only crucial to supporting many SME businesses in these industries but also serve to provide the much needed collateral basis for bank funding which these enterprises require. The EIB's support to SMEs through such instruments would also directly address the difficulties many SMEs face in providing adequate collateral in order to access bank finance, especially since the onset of tightened credit conditions imposed by commercial banks in the financial crisis.

Introduction

1. Why and how the EIB has had to ramp up its lending in the last two years

In July 2007 the US sub-prime mortgage crisis hit world headlines when the American investment firm Bear Sterns announced first the bailout and then the collapse of its mortgage backed investment funds. This crisis was closely followed by the credit crunch and then the global financial crisis which spread throughout the banking system in 2008 and 2009. It caused mass liquidity and credit issues for many financial institutions including well respected giants such as the UK's Royal Bank of Scotland and America's AIG (American International Group).

The banking crisis that followed resulted in loss of trust and confidence within the sector. This spread not only to the general public and the clients of these banks (who could forget the images of the 'run' on the UK's Northern Rock) but also, crucially, to the banks themselves. Banks and financial institutions stopped lending to each other and thus, unable to gain funding for their operations and facing the threat of collapse, many were eventually forced to turn to their governments for help. This help tended to be in the form of loans or sometimes even complete bailouts, and so many became effectively nationalised by their governments.

The loss of confidence across the global banking sector also affected the lending operations of banks. In an inevitable bid to preserve their capital, many virtually froze their lending to businesses and the majority tightened their lending guidelines, thus making it far harder for many businesses to gain access to credit to support their operations.²

Recognising the need to urgently support the Small and Medium Enterprise (SME) sector of the economy with continued access to funding in the midst of the spreading crisis, in September 2008 the ECOFIN (Economic and Financial Affairs Council of the EU's ministers) asked the EU's bank, the EIB, to immediately deploy €15 billion in lending to the SME sector of the economy.³ This increase was part of an overall €30 billion, four year funding package launched by the EIB at the time specifically to support the sector. In so far as coordinated European public assistance to the SMEs was concerned, it was heavily promoted by the European Commission in its action plans and communications for European economic recovery.⁴

SME - SMALL AND MEDIUM-SIZED ENTERPRISE

In the EU, a company with between 10 and up to 250 employees, and either between €2 million and €50 million turnover or a balance sheet size of between €2 million and €43 million.

This stimulus package received wide publicity and was welcomed as the shot in the arm for a sector in need. The news website EurActiv among others devoted much coverage to the package, reporting that “SMEs have been hardest hit by the current downturn and jobs are in jeopardy due to the lack of credit from banks” and that “loans would be given to banks which would then pass credit on to small business”. As an added innovation and benefit to its existing lending regime for SMEs, “to mitigate the risks taken by banks in lending to businesses, the EIB [would] take on half of the risk, thus reducing the capital requirements of lending institutions.”⁵

More risk-taking from the EIB then to provide greater leeway for commercial banks to lend – the crisis was tough, but measures were clearly being taken to facilitate lending to SMEs. The EIB’s president Philippe Maystadt stated that “the EIB’s additional financial support will allow quick disbursements and contribute to the real economy, notably by protecting good projects and helping viable companies in these difficult times”.⁶

The general investment climate was unarguably grim, but the cards were being stacked up – with the help of the EIB – for commercial banks to do their bit for the engine-room of Europe’s economy, the SMEs.

1.1 What are global loans?

As the largest public international financial institution in the world,⁷ the long-standing rationale is that it is not practical for the EIB to assess and disburse billions of euros to individual SME business borrowers directly, and instead intermediary banks are

therefore the best option for passing on the funds to individual businesses. In view of this, the €30 billion support to the SME sector from the EIB was to come by way of an increase to its so called ‘Global Loan’ lending to third party intermediaries – predominantly commercial banks. Although the EIB officially calls these loans ‘lines of credit’, this description is a little misleading as the intermediary banks are not given an actual overdraft style facility which they are free to draw on as they please. Commonly, then, they are referred to as ‘global loans’.

The EIB has been disbursing such global loans to SMEs through intermediary banks for years. They come with certain benefits such as an interest rate discount, a longer loan term or a grace period on repayment to make them more attractive to SME businesses and easier to sell by the banks. Typically, up to 50 percent of the total loan is financed by the EIB and the remainder must be lent by the intermediary bank. In return for the funding, the intermediaries must disclose to the borrowers in their loan contract that they are receiving funds from the EIB and state the financial benefit being passed on. They must also agree to disburse the monies in an agreed timeframe (this varies from loan to loan but can be as much as 18 months to two years) and the money must not be used to fund certain taboo sectors such as gambling, real estate or arms manufacture.

The minimum size of an EIB individual global loan allocation to an SME is €40,000 and the maximum allowable is €12.5 million. The total cost of a project promoted by the SME beneficiary must not exceed €25 million in order to qualify.⁸

1.2 Aims and parameters of this report

So how effective are these global loans in achieving their objectives of disbursing funds to the SME sector and, in particular, how effective have they been in providing the much needed financial support to European SMEs during the 2008–2009 financial crisis?

This report sets out to answer these questions by analysing the EIB's global loan disbursements in selected European countries from 2008 to the end of 2009. As the EIB's global loan portfolio runs to many billions of euros annually and the report has been reliant on sourcing its data from the EIB's own communications department, the focus of the study was narrowed to four member states in central and eastern Europe (CEE): the Czech Republic, Hungary, Poland and the Slovak Republic. Global loan data was also assessed in five member states in western Europe: the United Kingdom, France, Italy, Netherlands and Germany.

The original intention had been to analyse and compare a sample of global loans from each of the nine states and as such a number were selected for assessment. In the four CEE states, 30 global loans totalling €1.87 billion were selected, a sample that represented almost 80 percent (78.7 percent to be exact) of all the global loans signed by the EIB in those four countries during the two year period. For the five Western European states, 32 global loans totalling €6.78 billion of loans were selected for assessment. This sample represented just under 44 percent (43.85 percent) of the total global loans signed in

these western European countries in the two year period.

The reason the sample size selected for the western European group was a much smaller percentage is twofold. First, there is in general a far greater volume of global loans signed in these states compared to the volume signed in the CEE region. Second, some of the global loans in these western European states were selected specifically due to their targeted focus (e.g. for renewable energy or R&D) rather than actual size. Sometimes the EIB will approve global loans to intermediaries which are intended only for a specific sector such as renewable energy or R&D, in order to support the EU's objectives in that area. Although there were many dedicated 'leasing' global loans signed in the CEE region during this timeframe, and although the EIB considers these to be specialised facilities supporting targeted objectives (much like R&D or renewable energy loans might target support to policy areas that are identified as a priority within the EU), leasing is in fact simply a subset (type) of business lending. Under the EIB's own Corporate Operational Plan (COP) objectives, both the general global loans as well as the leasing global loans fall under the same 'SMEs or Micro' category'.⁹

LEASING GLOBAL LOANS

Many commercial banks operate leasing divisions as part of their overall business lending operations. However, leasing per se does not support any specific targeted policy area that is different to what the generalised global loans themselves do. Leasing global loans support the same SME segment of the economy as non-specialised global loans and as such ought not to be classified in the same category as targeted

loans for R&D, renewable energy or even micro enterprises. In case there is any remaining confusion, the leasing global loans target the same overall SME segment of the local economy as do the standard global loans and the eligibility criteria is the same for both types of global loan.

There were no targeted global loans for R&D or renewables signed in any of the four CEE states in the two year period in question. There were however a number in the western European states; a sample of these was included in the present analysis.

The overall sample size of 30 loans in the CEE region and 32 loans in western Europe might seem small given the amount of overall global loan lending done by the EIB (€18.34 in 2009), but it is more representative by far than the sample sizes used by the EIB in its last four dedicated global loan evaluations.¹⁰

1.3 Data source and disclosure

Due to commercial and privacy provisions of the EIB and the intermediaries, it was not possible to obtain specific information regarding either individual loans allocated by the intermediary banks or the beneficiaries that received the loans. Based on the EIB's latest transparency policy, it is however possible to obtain aggregate information on total loan disbursements, the country in which disbursement occurred, industry sectors, and the numbers of beneficiaries who received global loan funds from the EIB¹¹ – and this was indeed the information which was sought for this report.

What happened next...

Despite best intentions, the process of gathering data and information from the EIB left a lot to be desired.

The exercise of requesting information was begun in April 2010, yet despite open and ongoing contact with the EIB's communications team, it became evident that on the loans selected, the EIB had not only serious issues with disclosure but also with record-keeping and data integrity. In summary, aside from contradictory information which was provided regarding the operation of global loan facilities, after some months of clarifying various issues regarding the original data set received for the CEE region, the EIB advised in September 2010 that unfortunately the information regarding the loans – and more importantly the actual figures it had originally provided – were not correct. This included incorrect data on the amount of global loan funding allocated to SMEs, the disbursements of global loans to intermediaries as well as the industries which received funding.

Of particular concern in this instance is the fact that the EIB only advised of the error after it had received follow up queries regarding the original data. It would therefore appear that only scant attention was paid to checking and understanding the information before it was originally released.

Despite the fact that the EIB as a public institution has a policy of providing aggregate data on its lending operations, a further month elapsed while the EIB's legal department clarified whether the bank could release the information regarding the five western European countries. It was not

made clear why a legal opinion was sought regarding the release of data for these western European states. The information sought for these was the same as that which was initially requested for the CEE region.

When the revised data for the CEE region was finally sent, the EIB team provided the updated information only on those global loan facilities which had 'closed', in other words, which had been fully disbursed and allocated to the SMEs. So although the EIB had originally provided data on facilities in this region that were still open and in the process of being disbursed (some 82 percent of the sample for CEE), it now refused to provide the updated information on these global loans, arguing that such data would be meaningless and would not provide an accurate picture on the state of global loan disbursements for this report.

This is of course not valid since clearly in a report into how much has been disbursed during the global financial crisis by the EIB and the intermediary banks, it is also necessary to have information on those global loans which have not been disbursed at all or are still in the process of being disbursed. We will leave it up to the readers of this report to draw their own inferences and assess why the EIB chose to restrict the information.

In summary, due to the disclosure and lack thereof by the EIB, it was possible to assess the data on all of the 30 global loans in the CEE region, both for partially and fully disbursed facilities, however in western Europe, only data for seven 'closed' global loans out of the 32 requested was provided.

As a result of this obfuscation on the part of the EIB, the focus of the study will

consequently be on the CEE region, with the information derived from the western European states being used largely for comparison.

To reiterate, the information and data analysed in this study on individual global loans was the maximum which the EIB was willing to provide. However, as stated, the CEE sample represents 78.7 percent of global loan lending signed in those states in the course of the last two years while the western European sample represents 43.85 percent of the total signed in the five states there.

A further and final note. Although requested, no further breakdowns on sectors or regions were provided by the EIB under its existing disclosure framework. Needless to say, and despite requests to many of the intermediary banks in all of the member states analysed, no specific information on where global loan money has gone or is going was provided by these banks on the basis of commercial confidentiality or privacy. While this is understandable when dealing with information at an individual borrower level, in fact the intermediary banks were regrettably not even willing to supply the same aggregate data which the EIB provides.

Since EIB global loans are essentially backed by EU taxpayers,¹² this lack of disclosure at an aggregate level is shameful.

Show us the money

There have been some big promises made regarding the assistance that global loans would provide to the SME sector and how they would inject much needed capital to the banks acting as intermediaries. These intermediary banks would then be able to

quickly lend this money out to the business sector at a time when banks in general were having to cut back their lending to SMEs.

Did the promises become a reality?

Table 1 CEE global loan sample

Loans in bold indicate facilities that have been fully allocated to SMEs

Country	Loan name	Date signed	Total amount on EIB website	Total disbursed to intermediary	Number of loan allocations to SMEs so far	Country disbursed
Czech Republic	VUB Convergence & Mid Cap Loan	30/07/09	8,750,000	0	N/A	N/A
Czech Republic	Immorent CEE Regional Loan for SMEs	19/05/09	40,000,000	20M from 100M	39	Austria
Czech Republic	Ceska Sportelna Loan for SMEs I	19/05/09	200,000,000	200,000,000	91	Czech Republic
Czech Republic	VUB Convergence & Mid Cap Loan	17/03/09	10,000,000	40,000,000	4	Slovakia
Czech Republic	SGEF Global & Mid Cap Loan III	15/12/08	100,000,000	45,000,000	403 (total) not provided	Czech Republic 87% Slovakia 13%
Czech Republic	UniCredit CZ Global & Mid Cap Loan	07/11/08	100,000,000	0	N/A	N/A
Total			458,750,000			
Slovakia	SZRB - Loans for SMEs	15/07/09	50,000,000	25,000,000	27	Slovak Republic
Slovakia	Immorent CEE Regional Loan for SMEs I	19/05/09	15,000,000	20,000,000	No allocations in Slovakia	Austria
Slovakia	VUB Convergence & Mid Cap Loan	17/03/09	30,000,000	40,000,000	4	Slovak Republic
Slovakia	CSOB leasing Slovakia GL II	10/10/08	20,000,000	20,000,000	324	Slovak Republic
Slovakia	Unicredit Leasing Slovakia GL	03/06/08	70,000,000	70,000,000	1407	Slovak Republic
Slovakia	Unicredit Bank Mid Cap	27/02/08	50,000,000	50,000,000	4	Slovak Republic
Total			235,000,000			
Poland	Bank Ochrony Srodowiska GL III	03/12/09	75,000,000	25,000,000	No allocations received	Poland
Poland	Fortis Bank Polska Loan for SMES	30/11/09	50,000,000	0	N/A	N/A
Poland	BRE Bank Loan for SMES I	31/07/09	100,000,000	50,000,000	46	Poland
Poland	PKO BP Global Loan II	31/07/09	150,000,000	150,000,000	75	Poland
Poland	BRE Morgage Municipal GL II	18/08/08	31,188,597	100,000,000	12	Poland
Poland	Dexia Kommunalkredit CEE & SEE	15/12/09	75,000,000	75,000,000	16	Slovakia
Poland	BGK Global Loan II	05/06/08	100,000,000	50,000,000	98	Poland
Total			581,188,597			
Hungary	SGEF HU SMEs and Other Priorities	15/09/09	50,000,000	0	N/A	N/A
Hungary	CIB GL III	15/07/09	100,000,000	100,000,000	10	Hungary
Hungary	MKB Global and Mid Cap Loan	01/07/09	100,000,000	100,000,000	2	Hungary
Hungary	MFB Mid Cap Loan	08/06/09	100,000,000	50,000,000	8	Hungary
Hungary	Immorent CEE Regional Loan for SMEs I	19/05/09	15,000,000	20,000,000	No allocations in Hungary	Austria
Hungary	ERSTE Bank Hungary GL II	02/04/09	40,000,000	40,000,000	24	Hungary
Hungary	Unicredit HU Global and Mid Cap Loan	29/12/08	40,000,000	40,000,000	19	Hungary
Hungary	Unicredit Leasing Hungary GL	16/12/08	50,000,000	50,000,000	314	Hungary
Hungary	Volksbank Hungary GL II	14/11/08	30,000,000	30,000,000	1	Hungary
Hungary	MKB Global Loan	18/04/08	20,000,000	20,000,000	2	Hungary
Hungary	CIB GL III	25/03/08	50,000,000	50,000,000	16	Hungary
Total			595,000,000			

Table 2 Western Europe loan sample
32 loans requested, only information on these 7 closed facilities provided

Country	Loan name	Date signed	Total amount on EIB website	Number of loan allocations to SMEs
Netherlands	Rabobank loan for SME I	30/07/09	300,000,000	333
United Kingdom	None closed so far			
France	PG Caisse d'epargne petite entreprise	26/06/08	100,000,000	Not provided
France	BNP Paribas PG PME VIII	08/10/08	300,000,000	1197
France	Socgen pret pour PME I	05/12/08	300,000,000	2782
Germany	Deutsche kreditbank umwelt GD	19/12/08	75,000,000	32
Germany	Rentenbank micro GL renew energy II	19/06/08	200,000,000	18
Italy	Gruppo Unicredito SME PG	27/10/08	300,000,000	3382

2.1 Global loans signed versus global loans spent

Although there has been a sizeable amount of crisis-induced global loan agreements signed between the EIB and the intermediary banks, not nearly as much of that money actually reached the SMEs themselves.

As of June 2010, out of the almost €1.9 billion in global loans signed and examined in the period covered by this report, there were only 2946 individual SME business beneficiaries of the EIB's global loans across the four CEE countries – after almost two years since many of the facilities were signed in 2008. To put this in perspective, there are some 3,048,805 SME businesses in the four CEE states in question.¹³

This means that out of that €1.9 billion, only 0.001 percent of the SMEs across those countries have benefited from the EIB's global loan funding during the two year crisis period. And it needs emphasising that even the 2946 individual SME allocations may not represent 2946 unique SME

businesses, since it is quite possible that the figure may include multiple loans to the same entities.

The EIB has recently published some statistics of its own on global loans:

“In 2009, the EIB made €12.7bn available in credit lines to intermediary banks for on-lending to small businesses, an increase of 55% compared with the year before. The Bank reached more than 50 000 SMEs across the EU.”¹⁴

The most current and publicly available information on the number of SMEs in the EU gives the total number as 20.7 million.¹⁵ To translate the above EIB figure into a percentage, that gives a penetration rate of 0.0024 percent across the EU for 2009. This is also far from earth-shattering. Moreover, this figure is for one year only and is double the 0.001 percent achieved for almost two years of disbursements on a sample of three quarters of the total global loans signed in the Czech Republic, the Slovak Republic, Poland and Hungary.

So while the EIB is patting itself on the back regarding its penetration rate of 0.0024

percent for all SMEs in the EU, our four CEE states are seemingly achieving penetration rates of significantly less than this.

The answer as to why this rate is so small may lie in the following:

Out of the €1.9 billion examined in the CEE, only 74 percent was actually disbursed by the EIB to the intermediary banks and even less than that has actually been lent out by the banks to the SMEs.

What does this actually mean? A 'disbursement' is a tranche (or parcel) of money from the global loan which the EIB gives to the intermediary bank. That bank then has to make 'allocations' of this money to individual business borrowers. Often when the intermediary is a 'trusted partner' bank then the EIB will give that bank the entire global loan upfront, but if not the EIB will lend the money out in smaller tranches and ask for confirmation of the allocations made before it hands out the remainder. For

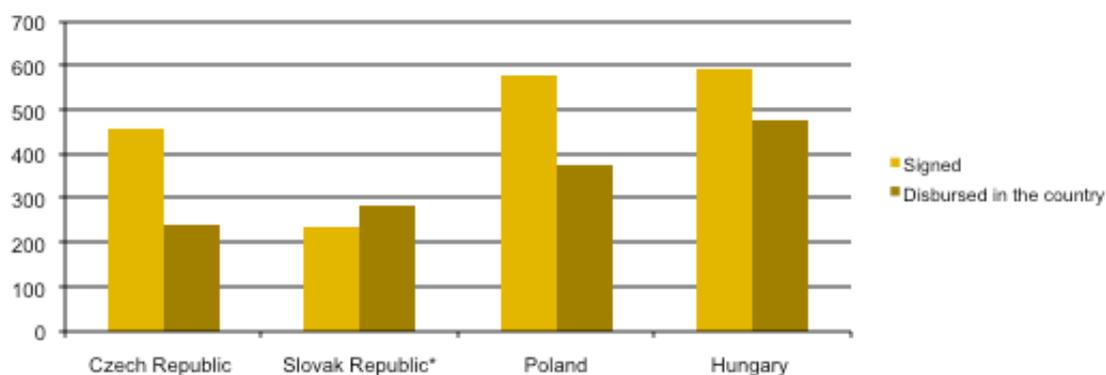
our sample this means that, as of June 2010, only 74 percent of the €1.9 billion global loan money examined in the Czech Republic, Hungary, Poland and the Slovak Republic has actually reached the banks with which it was signed.

On receiving the funds, the banks are then given anywhere up to 24 months to allocate this money out to borrowers. Judging by the number of individual loan allocations made (a total of 2946), a best case scenario for the amount which has so far reached the SMEs is 69 percent of the original €1.9 billion, and this is being truly generous with the numbers.¹⁶ It's quite likely however that the real level of EIB money actually lent out to the SMEs is far less, perhaps closer to 50 percent or even lower.

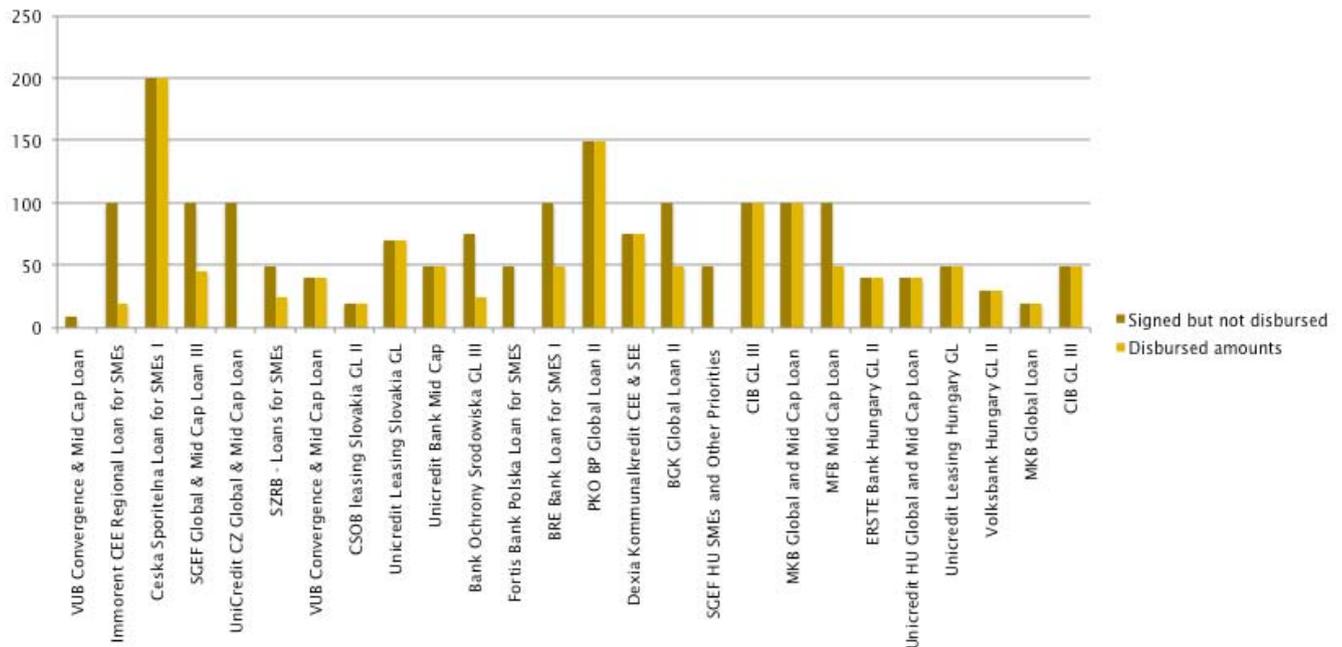
Although this situation was better in some countries, it was also of course worse in others.

Graph 1 CEE disbursements per country (in millions of euros)

** Amount disbursed for Slovak Republic includes allocations from Polish and Czech global loans*



Graph 2 CEE levels of disbursed amounts per global loan signed (in millions of euros)



For instance, in the Czech Republic, out of the €458 million in loans examined (approximately 75 percent of the total global loans signed for the Czech Republic in the two year timeframe), only 52 percent was actually disbursed to the banks and even less of that amount was loaned out by the banks to the Czech SMEs themselves.

And what happened to the rest? Some 35 percent - or €163 million - has not been handed out at all and there are two global loans, the VUB Convergence & Mid Cap Loan signed on 30/7/2009 and the UniCredit CZ Global & Mid Cap Loan signed on 7/11/2008, that have been signed but have stood completely untouched.

It might be thought that perhaps the banks were not given enough time to find worthy Czech SME recipients for this money. The

UniCredit facility for €100 million was however signed in the midst of the crisis in November 2008, over 18 months ago, and the other smaller VUB facility was signed in July 2009 for only €8.75 million, not a hugely imposing amount. As stated, the EIB generally gives the intermediaries up to two years to spend the money. How is it then that one bank - UniCredit - couldn't find businesses to take up their €100 million in 18 months when another, Česká Spořitelna, which was given €200 million in May 2009, was able to disburse the entire amount in a year?¹⁷

Comparisons aside, how is it that in the midst of a profound financial crisis, a Czech €100 million EIB global loan facility signed in November 2008 right after the rescue package announced by the EU Commission can stand completely untouched? Perhaps

more staggering, however, is the fact that out of the six global loans examined for the Czech Republic, only two actually made any disbursements in that country (see Table 1).

Lets stop and examine this in a bit more detail. A global loan intended for and signed for one country – yet it ends up either untouched or being spent somewhere else!

Why would global loans for one country end up in another?

This was another significant factor as to why the EIB's global loan funds failed to reach significant numbers of Czech SMEs. Even though the EIB signed global loans with intermediary banks for allocation in the Czech Republic, some 14 percent of the monies signed in the Czech Republic have so far ended up in other countries, namely in the Slovak Republic but also in Austria.

While it does sometimes happen that a larger global loan is signed for one international intermediary bank to benefit more than one country where that bank operates subsidiaries in those countries (for instance an Immorent CEE Regional Loan for SMEs was intended to be split between eight countries), it also seems to happen from time to time that the individual amounts assigned for only one country (or a number of them) end up somewhere else. So for instance, that same Immorent CEE facility assigned €40 million of its total amount of €100 million to the Czech Republic, yet none has been spent there so far. In fact only €20 million of that total loan amount has actually been disbursed, and even this was only in Austria. This means that not only has the Czech Republic missed out on the much needed funds, but so has the

Slovak Republic, Hungary, Poland, Romania, Bulgaria and Slovenia, the other six states which had been promised disbursements¹⁸. The EIB has advised that this facility is not yet closed and as such disbursements may be made in the other countries. All the same, since the global loan was signed in May 2009, one might reasonably ask when this will be.

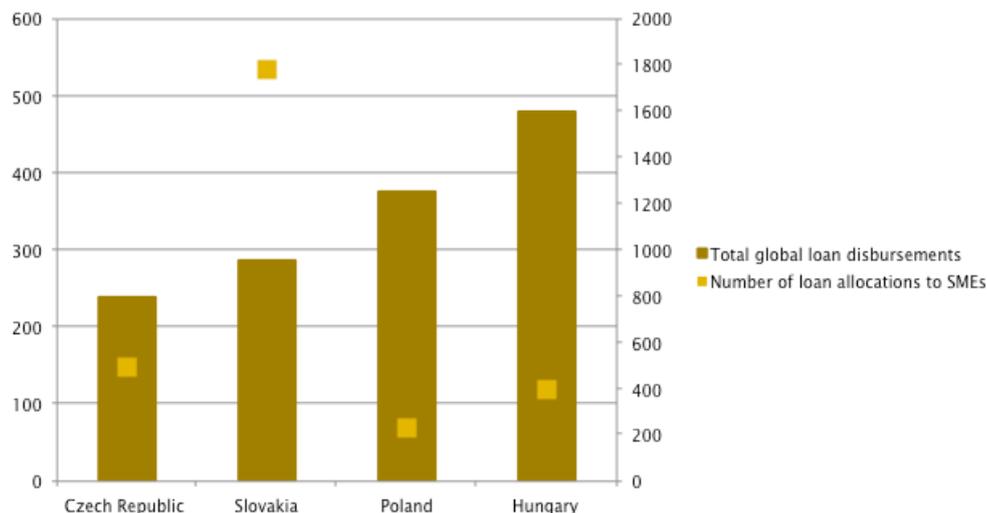
Incidentally, it is also noteworthy that Austria was allocated only €10 million of the overall global loan but in fact has now received more than double that at €20 million, obviously to the detriment of the other countries' allocations.

In another instance, the €40 million VUB Convergence & Mid Cap Loan which was signed for both the Czech and Slovak Republics was entirely disbursed to VUB in Slovakia. That's hardly fair to the Czech SMEs one might conclude. And to show that this didn't just happen to the Czechs, the Dexia Kommunalkredit CEE & SEE signed in Poland for €75 million has had the whole amount disbursed to Dexia Bank in Slovakia.

Interestingly, this pattern of spending global loan money intended for one country in an entirely different one was only observed in the CEE region and not in any of the other western European states where information was requested.

When this anomaly was queried with the EIB, the bank advised that from time to time intermediary banks would negotiate with the EIB the possibility of being able to spend their global loan in multiple countries even where such a loan is intended for one country only.

Graph 3 CEE number of individual allocations per country (in millions of euros)



Clearly this is an advantage for large multinational banks such as the Erste Group, Dexia or Société Générale which operate subsidiaries in many countries. However it is somewhat misleading of the EIB to report on its website a global loan amount signed for and supporting one country when that amount is spent somewhere else.

One might legitimately also ask the question, why should intermediaries in the CEE region be allowed to have such clauses in their finance contracts with the EIB? And why is it that the intermediary banks in western Europe seemingly do not have similar issues of distributing their funds nationally to SMEs?

Surely the EIB should be policing the money it distributes to the individual banks to make sure that it is actually spent – and spent where it should be.

Now back to the example of the neglected Czechs. So it would seem that the Czech

SMEs have been short-changed in terms of the amount of global loan money actually taken up by the intermediary banks from what was signed with the EIB, the amount then allocated out by the banks to the sector and finally also on where the money which was promised to them actually ended up.

In all, so far the promises of almost €460 million signed by the EIB under the six global loan facilities has effectively turned out to be just under €240 million in actual EIB monies distributed to the local intermediaries, and an even smaller amount subsequently lent out to the Czech SMEs. That's significantly less than they were due to receive from the EIB and the banks. Yet it is the signed amounts totalling €460 million which are reported on the EIB's website, not the significantly smaller total sum that has actually been disbursed to the Czech intermediaries, or the even smaller amount received by the Czech SMEs.

Only roughly 497 Czech SME beneficiaries have so far received global loan funding

from the sample examined, and even this figure is too generous. It includes a global loan which the intermediary chose to share with its Slovak counterpart bank and the Slovak SMEs, but where the EIB would not provide a split of allocations between the two states.¹⁹

As hard as it is to fathom that only some 500 SME businesses have so far actually benefited in the Czech Republic from the €460 million which was initially signed and promised, the case of Poland is even worse. A sample of approximately €581 million in global loans was examined across seven facilities (approximately 87 percent of Poland's total global loan lending for 2008 and 2009) and there only some 247 reported individual SME allocations have been made so far. And this figure of 247 includes 16 allocations made in Slovakia! Since there are apparently roughly 1.5 million SMEs in Poland,²⁰ that would represent a penetration rate of a miniscule 0.0001 percent.

Many of the global loan facilities examined are still open (they have not been fully allocated to the SMEs) yet the intermediary banks have received much, if not all, of the funding and have made very few allocations so far.

For instance, in Hungary the Volksbank Hungary GL II was signed on 14/11/2008, in the midst of the economic meltdown. The bank received the full €30 million global loan amount, however up until June 2010, it has managed to make only one SME allocation from this loan. Still in Hungary, the CIB GL III which was signed even earlier on 25/3/2008 for €50 million is still not fully allocated. Once again, the bank has received all of the global loan funding and

up to the end of June 2010 had made only 16 allocations.

A Slovak global loan facility, the UniCredit Bank Mid Cap loan signed on 27/2/2008 for €50 million, is also still open and this time the intermediary has managed to make only four allocations in over two years from the €50 million it has received!

However by far the slowest at lending out money to SMEs are the Polish intermediaries. In Poland, from the seven global loan facilities examined, none have so far closed and, as mentioned earlier, only 247 allocations were reported to June 2010. Finally, bear in mind that every country of the four examined had at least one global loan which was not spent there and three of the four had global loans which were untouched.

2.2 Are global loans truly attractive to SMEs or is it the banks that find them sexy?

It is hard to know what the situation with allocations is like in the western European states reviewed since the EIB would not provide data on global loans which are yet to be fully allocated to SMEs. However there is one telling indicator which points to the answer to this question:

Almost two years on from the announcement of the European Commission's rescue package and the EIB's increased global loan lending, out of the 62 global loans which were examined across nine EU states, only 11 had been fully allocated to SMEs. That's only 18 percent. Or to be precise, 14.81 percent in the CEE

states²¹ and 21.8 percent in the western European states.

Of course, some of these global loans have been signed significantly later than others and therefore have had much less time to be fully allocated. Yet a great deal of the sample were signed during 2008, quite often at the same time or well before the signature dates of other global loans which have been fully lent out to SMEs.

While it could be the case that the intermediaries might have found it hard to distribute the funds, they may have even tightened their lending criteria for SMEs during the financial crisis which could have further exacerbated the situation. It must be asked though why the EIB does not put greater pressure on them to distribute the funding, or instead find better intermediaries that can? After all, these appear to be large banks with national and sometimes international operations who willingly seek out and sign for the EIB funding. And ultimately, it bears asking: why would these banks sign for a global loan with the EIB if they didn't think they could find suitable businesses to on-lend it to?

A word on those global loan discounts and other benefits

But perhaps there is another reason why the intermediaries had such a hard time finding a home for the money. Perhaps the real reason is that the EIB global loans simply do not carry enough of a financial or other benefit to make them a compelling and competitive loan product for the intermediary banks to sell in the market.

One of the biggest selling points of global loans to the SMEs is the interest rate discount they carry as well as the potential of a longer loan term or a grace period on repayment. This was a point which the EIB repeatedly stressed in its correspondence during the research for this report. It was keen to emphasise that it is a non-profit motivated institution with an excellent AAA credit rating, and because of this it is able to pass on the benefits through loans priced at fine (here meaning exceptionally small and competitive) interest rates. The interest rates it offers are apparently "based on EIB's borrowing cost with a small margin to cover administrative expenses and other costs".²²

Table 3 Eleven closed global loans across CEE and western Europe

Country	Loan name	Date signed	Total amount on EIB website	Number of loan allocations to SMEs	Average loan size
Czech Republic	Ceska Sporitelna Loan for SMEs I	19/05/09	200,000,000	91	2,197,802
Slovakia	Unicredit Leasing Slovakia GL	03/06/08	70,000,000	1407	49,751
Hungary	Unicredit Leasing Hungary GL	16/12/08	50,000,000	314	159,236
Hungary	MKB Global Loan	18/04/08	20,000,000	2	10,000,000
Netherlands	Rabobank loan for SME I	30/07/09	300,000,000	333	900,900
France	PG Caisse d'epargne petite entreprise	26/06/08	100,000,000	Not provided	
France	BNP Paribas PG PME VIII	08/10/08	300,000,000	1197	250,626
France	Socgen pret pour PME I	05/12/08	300,000,000	2782	107,836
Germany	Deutsche kreditbank umwelt GD	19/12/08	75,000,000	32	2,343,750
Germany	Rentenbank micro GL renew energy II	19/06/08	200,000,000	18	11,111,111
Italy	Gruppo Unicredito SME PG	27/10/08	300,000,000	3382	88,704

Missing in action: the winners, the losers and the unknowns of the European Investment Bank's anti-crisis SME offensive in central and eastern Europe

It is difficult however to get an accurate gauge on the exact details of the interest rate discount or of the other benefits. When asked, the EIB advised that the minimum discount to be offered is not a set amount but rather negotiated separately between the EIB and the intermediary bank (and therefore confidential). The minimum discount to be given to the SMEs is specified in the loan finance contract that the intermediary signs with the EIB, and while it is free to offer more, the intermediary must offer at least this minimum. The amount or size of benefit provided to the SME is also confidential.

And how much is the discount? Seemingly it varies from bank to bank, and from client to client. However of those banks which were willing to publish their discounts, the amounts ranged from 0.20 percent to 0.40 percent.²³

Hardly earth shattering, is it?

Why, from a publicly backed institution, with such an excellent credit rating and a not-for profit mantra, isn't it more? The EIB was coy on this point but, as already pointed out, it seemed to suggest that there wasn't really much scope for further discounting by the intermediary banks due to the interest rates they had to pay to the EIB. And why would that be when the EIB promises 'fine' rates? Apparently this is related to risk margins needing to be applied to those fine rates by the EIB.

So let's get this straight. The discount isn't much because, well, there isn't much to give but apparently there are other benefits to take into account, such as longer loan terms and grace periods on repayments of the loan principal.

Specifics about these benefits were even harder to find but appeared to vary from bank to bank, with one offering up to 11 years for repayment and up to two years interest only repayments from the start of the loan,²⁴ and others such as Česká Spořitelna, the predominant global loan intermediary in the Czech Republic, offering up to 15 year loan terms.²⁵ In reality then, these benefits would appear to be somewhat arbitrary, based on the willingness of the bank to provide them to the clients and of course on their assessment of whether the project and SME qualified for such a benefit.

Perhaps more importantly, these benefits might not be as relevant to many SMEs for whom a greater guaranteed interest rate discount would undoubtedly be far more beneficial than the possibility of a loan term of over 10 years.

Why then doesn't the EIB, the world's biggest public international financial institution, provide its global loan funding at more competitive interest rates to the intermediaries and simultaneously then insist that they pass on a greater discount to the SMEs?

Global loans add a funding source for the banks in tight times

Perhaps, when we get down to the nitty-gritty, the appeal of the EIB's money to the intermediary banks during the financial crisis was primarily as a result of the difficulty they experienced accessing capital (that is, money to maintain their operations). In a highly unusual and unexpected environment, where adequate access to credit for the banks was difficult and expensive,²⁶ the EIB's money suddenly became more attractive because it was

accessible and perhaps even cheaper than what was being offered in the interbank market.

Banks typically source a large proportion of their funding from short term wholesale markets, and with the cost of these funds rising dramatically due to the many banks which suddenly found themselves near collapse and needing bailouts, an EIB global loan facility providing funding for up to two years would certainly be an added bonus for banks in the CEE region. Of course, while a single global loan facility of say €50 to €100 million is not a huge amount to a bank, it is still a handy sum which the bank does not need to look for from somewhere else. To a bank operating in one of these CEE economies, it would also represent a much bigger benefit than to its counterpart in western Europe.

So although the global loan money provided by the EIB to the intermediaries was likely not as cheap as one might imagine, it was certainly readily accessible given the increase to global loan lending announced by the EIB (despite the EIB's AAA credit rating and repeated claims that it acts as a public not for profit institution, it apparently adds significant 'operating' and risk margins on to the loans it provides, and these are based on the profile of the region and borrower).

In fact, due to the rapid increase in the amount of money the EIB borrowed during the financial crisis in order to 'prop up' certain regions and sectors of the European economy (such as the car industry), the costs of its own borrowings on the financial markets were reported to have skyrocketed.²⁷ Essentially, then, the EIB's debt-fuelled rescue package was costing it more through higher interest rates which

investors on the markets were now demanding as a response to all that extra debt.

Whether through choice or necessity then, the EIB's global loan product does not appear to have been very financially attractive to the intermediaries – but it did provide another avenue of access to funding for these banks at a time when this was scarce.

Ultimately, the fact that only 2946 SME beneficiaries in these four countries have so far benefited from those 30 global loans over the last two years, and coupled with this that a significant amount of the global loan funding provided is yet to be allocated, only strengthens the case for the conclusion that global loans in the CEE region fundamentally provided greater stimulation and support to the banks in the region than the SMEs.

It makes a mockery of the EIB's promises – and subsequent claims – of massively ramped-up assistance to SMEs at the time of the financial crisis.

2.3 But who would know or care? Non-disclosure and non-compliance

Anyone accessing the EIB's website (www.eib.org) to check what has actually been disbursed in each country would remain none the wiser as to these actual results of how much and where the global loan money had gone. The information on the EIB's own website is not updated from the time the loan contracts are signed with the intermediaries. Classified under a general heading of 'Projects financed', all global loan facilities are listed there as at

the time the finance contracts are signed by the EIB with the intermediary bank. However no further information is updated to show the actual amounts spent, the number of SMEs who received funding along with the region in which funds were spent and the dates when the global loan facility closed. Even loans which are never taken up and remain unspent are not updated and are still recorded under the same 'Projects financed' category.

When the actual differs so much from the promised amount, though, it is little wonder that the EIB chooses to not freely publish the results.

It is well documented that the EIB uses the statistics of the amounts signed for a country as part of its press releases and to highlight how much has already been spent in a particular region or sector of the economy. Clearly, as the examples above show, not correcting or clarifying the information on its website is grossly misleading when it comes to the assistance the EIB claims to have provided to states and their struggling SMEs via global loans.

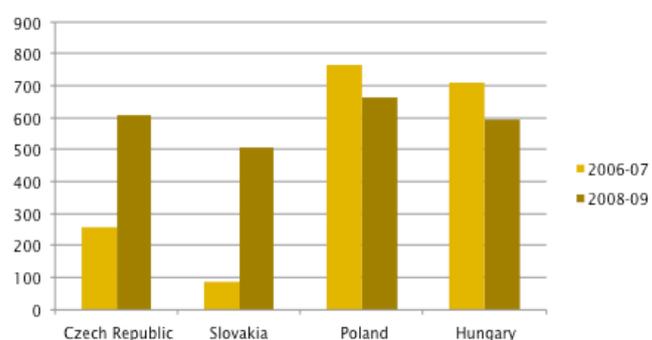
2.4 Did the EIB lend more in global loans during the financial crisis?

A good question. As noted in the introduction, the EIB announced an immediate deployment of an additional €15 billion to its global loan lending in late 2008. This was to be followed by further increases over four years up to a total of €30 billion.

The short answer, once again, is that it depends – and this time on the country examined. Since this study is concerned

with global loan contracts signed in 2008 and 2009, it would only be fair to make the assessment by comparing the loan amounts signed per country in the two year period prior, ie 2006 and 2007. For good measure, 2010 was also checked to see where the trend was headed.

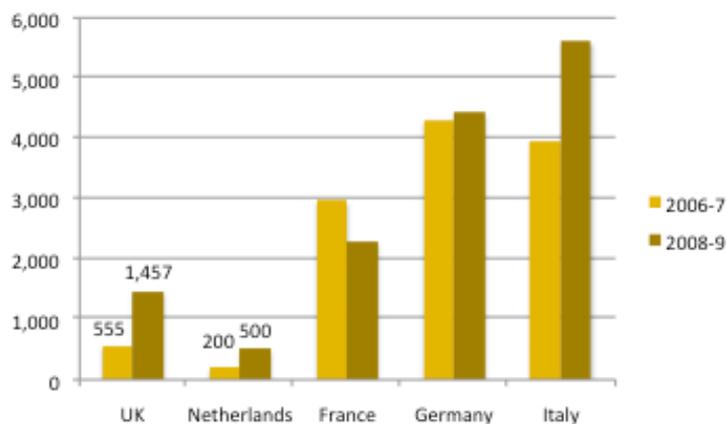
Graph 4 Global loans signed per country 2006-7 and 2008-9 (in millions of euros)



The results above show that while the Czech Republic and the Slovak Republic both registered very strong increases to their global loan portfolios (234 percent and 563 percent respectively), both Poland and Hungary actually received less from the EIB. In the case of Poland, there was a decline in the amount of global loans signed by just over 13 percent while in Hungary it was a little higher at 16.4 percent. In the latter cases, this may not seem like a significant enough decrease to warrant a mention, but remember the economic meltdown which occurred during the global financial crisis and the ensuing promise of greater funding from the EIB to relieve the pressure on SMEs.

In light of these promises the decreases look inexcusable. Did Polish and Hungarian SMEs not warrant increased assistance during the crisis? How is it possible that there could be countries which benefited

Graph 5 – Global loans signed for western European states in 2006–7 and 2008–9 (in millions of euros)



and had their global loan portfolios increased and others that not only missed out on an increase but actually had less in global loans signed?

How could the EIB have such an inconsistent approach to its allocation of global loans in the region?

Turning to global loans signed for 2010 (albeit for only the first ten months of the year), all states except for the Slovak Republic show an increased trend on an annualised basis. In the Slovak Republic, a total of just over €506 million was signed in 2008–09, however for the ten months of 2010, only two global loans totalling €12.5 million have been signed so far. Once again, there is evidence of a fair bit of inconsistency in the approach of the EIB towards its global loan funding in the region.

The situation in the western European states examined showed a similar inconsistency in approach. As can be seen above, while a couple of states such as the UK and Netherlands showed significant increases (albeit distorted in the case of Netherlands by the low base) the global loan lending to Germany remained virtually unchanged while lending in France actually decreased over the two year period.

But size isn't everything – or is it?

Individual loan allocations versus what SMEs need

Is it possible, even with the lower amounts of money which were actually disbursed in each country by the EIB and eventually allocated out to the SME businesses by the intermediaries, that the sector was well supplied with attractive EIB money and therefore there was no need (or call) from businesses to borrow more? Perhaps with the number of individual loans made from each global loan combined, the monies spent in each country by the EIB and its intermediaries has been spread widely enough throughout the sector.

One way to verify this would be to see if the businesses themselves felt that they had good access to finance and that all their financing needs were being met in the crisis.

3.1 Do the SMEs think they're getting enough?

The European Commission, in conjunction with the European Central Bank, conducts regular surveys on the funding needs and experiences (among other things) of small, medium and large enterprises in the EU. Their most recent report from mid 2009, entitled 'SME Access to Finance', reported that after finding customers, the second "most pressing problem" for the managers

was access to finance.²⁸ Apparently so much so that the short summary of this report that was released separately positively screamed this finding with its headline "Access to finance worries small and medium enterprises".²⁹

More tangibly and tracking the businesses' real experiences with bank funding, the findings of the report were that only 55 percent of SME businesses that had recently applied for bank finance received the funding they had requested.³⁰ Given that the surveys were conducted in June and July 2009, at a time when many of the global loans analysed here had already been signed, it would be reasonable to assume that the results they reported were up to date and relevant, reflecting the experiences of businesses in obtaining funding in the midst of the financial crisis. It also seemingly points to the fact that there was still plenty of capacity for further lending to the SME sector during this time.

3.2 Number and size of individual loan allocations

Back to global loans. The other way to check the penetration, or saturation, of EIB funding through global loans to the SME sector of these countries would be to check the number and average size of individual loan allocations from each global loan signed and fully disbursed.

Table 4 Average individual loan size and number of loan allocations per global loan on all closed global loans

Loan name	Number of loan allocations	Average loan size
Ceska Sportelna Loan for SMEs I Czech Republic	91	2,197,802
Unicredit Leasing Slovakia GL	1407	49,751
Unicredit Leasing Hungary GL	314	159,236
MKB Global Loan Hungary	2	10,000,000
RABOBANK LOAN FOR SME I NETHERLANDS	333	900,900
BNP PARIBAS PG PME VIII FRANCE	1197	250,626
SOCGEN PRET POUR PME I FRANCE	2782	107,836
DEUTSCHE KREDITBANK UMWELT GD GERMANY	32	2,343,750
RENTENBANK MICRO GL RENEW ENERGY II GERMANY	18	11,111,111
GRUPPO UNICREDITO SME PG ITALY	3382	88,704

Remember too that these include companies in Hungary, the Slovak Republic, Poland and the Czech Republic, not only the more mature economies of the western European states. The relative size and actual wealth of the CEE economies (and SME sectors) would be far less than some of their western European counterparts. When also taking into account the relative value of the local currencies against the Euro, (Slovakia is the only country out of the four which uses the Euro, adopting it on January 1, 2009) converting the average loan sizes into such currencies to gauge their size in the local market reveals their magnitude even more. A particular standout is the Hungarian MKB Global Loan facility for €20 million signed on 18/4/2008 which had only two allocations.

The European Commission's 2009 survey of businesses detailed that a third of all loans obtained by businesses in the last two years had been for loans of less than €25,000 and that almost 40 percent of businesses received finance of between €25,000 and €100,000. Combined, across the EU, that's 71 percent of all businesses which required

funding of no more than €100,000 to run their operations. In fact, overall only 4 percent of all of the surveyed businesses across the EU received loans of over €1 million.

These survey results include many of the economically wealthier EU states such as Germany, the UK or France. The results for the four states being examined here naturally reveal an even greater proportion of businesses which received funding of less than €25,000.³¹

This survey included not only SMEs but also large (mid cap and above) EU enterprises. It might therefore be anticipated that the results above have also taken into account the larger borrowings from such companies. Despite this, when these average global loan allocations in our sample are multiplied by two to obtain the full loan amount which was actually provided to the SMEs, it is plainly evident that the vast majority of the funding from the global loans examined did not benefit the 71 percent of SMEs who required loans under €100,000.

Looking at the average loan allocation size in our sample, once the global loan allocation is multiplied by two to obtain the full loan amount given, only one global loan facility, the Slovak Unicredit Leasing Slovakia GL for €70 million (signed 30/6/2008) fulfilled this need.

In fact it is somewhat strange that many of the CEE global loans signed in the period were also targeted at the larger mid cap companies (4 out of 9 in the Czech Republic, 3 from 12 in Slovakia, 3 out of 11 in Hungary, with none in Poland), when in the western European states examined, these were far rarer: none in the UK, France and Netherlands, only one in Germany (out of 39) and two (out of 36) in Italy.

It may seem that it is the larger companies and businesses which form the backbone of most European economies. In that context, it would be appropriate to give such large companies the bulk of the available global loan funding. However this is not the case. Once again, according to the European Commission:

“What usually gets lost [in the headlines] is that more than 99% of all European businesses are, in fact, SMEs. They provide two out of three of the private sector jobs and contribute to more than half of the total value-added created by businesses in the EU. Moreover, SMEs are the true back-bone of the European economy, being primarily responsible for wealth and economic growth, next to their key role in innovation and R&D.

What is even more intriguing is that nine out of ten SMEs are actually micro enterprises with less than 10 employees. Hence, the mainstays of Europe's economy are micro firms, each providing work for

two persons, in average. This is probably one of the EU's best kept secrets!”³²

Indeed! And their poor access to EIB's global loan funding would have to be another one of those best kept secrets.

These loan allocations hardly seem to constitute the genuine support and assistance to the business sector which the EIB promised and which these global loans were talked of as providing. What is apparent is that for the most part the smaller end of the business sector does not get a look in with global loans. And this surely can't have been what the EIB had in mind when it handed out the money to the intermediary banks. This begs the question then, why doesn't the EIB monitor the global loans it hands out more effectively to ensure that the money is spent where it promises it will be spent and where it is genuinely needed?

And why too does the EIB support so many mid cap global loan facilities in the CEE states when the evidence overwhelmingly points to the fact that it is the SMEs which form the bulk of those economies?

3.3 Targeted global loans for specific industries

During the two year period under assessment, across the four CEE states there was only one global facility signed in Poland with a specific focus on key areas such as micro enterprises, the environment or R&D.³³ This contrasts with the experience of global loans signed in many western European states where such targeted funding is quite common. The targeted funding recognises the need to support specific sectors of the economy

that might otherwise be overlooked because they are perceived as 'niche', 'marginal' or difficult to lend to.

It also recognises that one of the best ways of doing this through global loans is to mandate that an entire global loan be spent in such an area rather than leaving it up to the bankers to decide where the funds will be allocated.

Such targeted loans are commonplace in Germany (where practically every second loan written over that period was specifically targeted) as well as in France, the UK and Italy, the other western European countries assessed in the study.

Why is it that in these states the EIB is able to provide targeted assistance to the sectors which need it there, but it can't or won't do the same in the Czech Republic, Slovakia, Poland and Hungary? Are these four CEE countries deemed not worthy of such targeted assistance? Or is it simply too much work for the EIB?

At face value, what emerges in the CEE region during the crisis is overwhelming 'targeted' support to the mid caps at the expense of support to the micro, renewable energy or R&D enterprises which needed support just as much, if not more than the mid cap companies.

3.4 And the winner is...

Of course this is not a race, and so the proper answer ought to be that everyone's a winner. But well, it's hard not to notice that during the crisis SMEs in some countries did better out of global loans, while others really drew the short straw.

The undisputed winner overall would have to be Slovakia. It received a fivefold increase in signed global loans from the EIB, the highest of the group. It also had the highest disbursement level of all four and it managed to pick up some extra 'under the table' global loan funding from its friendly neighbours, the Czechs and the Poles. With these added extras, it was pretty much the only one country in the group that managed to spend more on its SMEs than it was promised.

But where the Slovak intermediaries really stood out was in the number of individual allocations to SMEs. With a total of 1782, they had more than triple the amount of SME beneficiaries than the second place country, the Czech Republic. All this when the Slovaks received the lowest amount of signed funding out of the four states.

But lest the others feel jealous and think they've been short-changed (and lets face it, they have) from 2010, the global loan 'good times' have definitely ended for the Slovak Republic. A quick perusal of the EIB's signed global loans for the Slovak Republic in 2010 show only two signed facilities totalling €12.5 million. That's quite a drop from the lofty numbers of €140 million in 2008 and €366 million in 2009, even if it is only November so far. But wasn't there something about the EIB increasing its support to the SMEs with €30 billion over four years?

Then again, maybe with the EIB's relaxed rules about disbursements, the Slovakian SMEs are currently picking up some extra global loan funding on the side from other countries.

What's wrong with global loans?

From examining the process of global loan allocations in the four states during 2008 and 2009, a number of trends emerge.

Let's summarise these briefly.

Chaos, chaos, chaos

There is no doubt that as a bank, when it comes to assessing the credit and repayment worthiness of its clients, the EIB does a great job. This is obvious not only from the very low default rates which the bank enjoys but is also one key positive highlight of the recent external "Wise Persons" panel mid-term review of the EIB's operations.³⁴

However various aspects of the global loan process suffer from lack of discipline. In fact it's safe to say that there appears to be quite a lot of chaos in some areas of the administration and reporting related to global loans.

As evidenced in this report, there are often vast differences between the amount of money signed and the amount of money actually spent, as well as the region it is spent in. That begs the question, where is the compliance or follow up mechanism to ensure that the intermediaries actually adhere to the agreement with the EIB to disburse the funds.

Compliance, or lack thereof

In the same way that a credit contract stipulates the terms and conditions of the loan, so it also stipulates the terms or consequences of non-compliance. These appear to be missing in global loans.

The EIB stressed in its communication that it was unhappy with any intermediaries which failed to disburse the global loan funding it provided. However, in the context of a financial crisis and the support which was promised to local businesses through global loans, 'unhappy' is somewhat inadequate. For such 'trusted financial partners' who are carefully chosen prior to them receiving any global loan funds, not disbursing large chunks or even any of the loan is reprehensible.

Suffering no consequences or penalties for such non-compliance is inexcusable. The EIB is after all a publicly owned bank and its global loan funding is therefore public funding which is specifically targeted to offer assistance where it is deemed necessary.

If the global loan funding is provided to the intermediaries in order to assist a particular segment (in this instance SMEs) and this is clearly outlined in the credit contract with the intermediary, then failing to disburse the funds and provide this assistance to the SMEs is a breach of the contract. As such and as with any private borrower who

breaches the terms of their loan contract with a bank, penalties and consequences should apply. Presently there are no specific penalties for intermediaries who do not disburse the funds they have received from the EIB. The EIB being merely 'unhappy' with a bank is hardly a deterrent.

By its own admission, the EIB spends a lot of time and expertise in due diligence on the credit worthiness and repayment capacity of the intermediary bank, but not much on the actual suitability and follow up of the bank to ensure that it can and does disburse the monies.³⁵

Intermediaries allowed to choose where they disburse funds

It is also evident that, perhaps uniquely to this region, funding at times has not been spent in the country for which it is designated. The EIB advised that loans may sometimes be written for a number of countries, especially where there is a large multinational bank involved. Thus a loan to say the Erste Group may have a number of countries allowed in its credit contract with the EIB where it can disburse the funds.

More often than not, however, there is no contractual obligation for the intermediary to spend money in each of the countries specified in the loan finance contract. So even where there is a specific global loan amount signed for a country, there appears to be no obligation for the intermediary to spend that actual amount in that country (see our examples in table 1). So long as the funds are spent in any of the countries listed in the loan finance contract, the actual amount spent in each of them or whether some states miss out altogether in favour of others is not deemed to be a breach of contract.

This practice is even more shameful as it allows misleading reporting of the amount of EIB support to each country. As we have seen, in none of the CEE countries examined did the amount of EIB funding signed correspond to the amount of money the state actually received.

If the EIB publically states and shows on its website that a specific amount has been signed for, say, Poland then that amount should be spent in that country. If it is not possible for the intermediary to disburse the monies in that country then one needs to question the methodology the EIB employs to find its local trusted expert intermediaries to disburse the funds.

Compliance and follow up mechanisms therefore also need to be put in place to ensure that the amounts signed are in fact spent where they are promised to be. Again, our contacts at the EIB did emphasise that they preferred that the money be spread among the countries specified in the contract, however if this did not happen, there were no formal contractual ramifications for the intermediary.

There is a need for compliance to ensure that monies are spent which have been signed but there is also the need to ensure that the EIB better monitors where funding has been spent by the intermediaries.

Targeting of loans for key industries and areas of priority

Another key area which requires attention in the CEE region is the signing of more specialised global loans targeting sectors such as renewable energy, R&D or micro enterprises. These are far more common in the more mature economies of the western European states examined yet are

conspicuously absent from the CEE region where, ironically enough, these sectors of the economy require even more support than in their western European counterparts. It has been noted that in particular since 2010 a small number of such facilities have been signed – this is still well short of the structured and targeted approach taken in states such as Germany, France or the UK. If, by its own admission, the EIB's global loan product struggles to provide a 'value add',³⁶ then targeting

global loans to sectors which need financial support is one excellent way of doing this.

Indeed the EIB conducted an SME consultation process in May 2008 to gauge the value and effectiveness of its product offering for the SMEs. The findings and conclusions of this process clearly outlined the diverse nature of SME markets in the various member state economies, and the need to target and tailor the EIB's financing solutions more effectively in order to provide a better value add.³⁷

Recommendations

Ultimately, did global loans provide the support during the financial crisis as promised by the EIB? Based on the figures analysed above, it would seem highly unlikely. Support yes, but nowhere near the levels of expectation.

In light of the issues raised above, global loan lending within the CEE region and elsewhere needs some wholesale restructuring if this rather peculiar type of lending is to provide some of the benefits that the EIB and European parliamentarians would like it to.

It needs to:

- Be targeted at and specialised for key sectors, including micro enterprises, R&D and renewable energies to support these important sectors of the economy and the EU's stated policy objectives. Non-specialised global loan lending should be reduced in favour of these.
- Pass on greater financial and other benefits (including guarantee instruments) than is currently provided. This may mean reducing the operational or risk margins applied to global loan facilities by the EIB and ensuring a flow through of these benefits to the SME by stipulating a greater minimum benefit in the loan finance contract with the intermediary.
- Have tighter contractual obligations and compliance of global loans. Global loan amounts signed for a state need to be spent there and this should become a loan covenant. If multiple states are to be served

by one global loan, there must be a setting of amounts for each state as a covenant in the loan finance contract, with any variation to be treated as a breach.

- As there is a long lead time taken by intermediaries to allocate the funds to SMEs, where global loans of greater than €50 million are signed, disbursements of no greater than €50 million or 25% at a time should be introduced to stop intermediaries using all of the funds as part of their medium term capital reserves. The EIB should also seriously consider reducing the amount of time given to intermediaries to allocate the funds in order to encourage faster disbursement of money to SMEs.

- Update and publish data on global loans on the EIB website in six monthly intervals beyond the current signature stage. Such data needs to include amount disbursed to the intermediary, the number of allocations made thus far, the region in which money was disbursed and the industry sector disbursed to. This information is presently available under the EIB's disclosure policy on request only. Currently an inaccurate view is being painted of the assistance the EIB's global loans purport to give to the states and their economies by the current practice of publishing only amounts signed. Information on what the intermediaries do with global loans and how long it takes them to do this must also be supplied.

It is acknowledged that during the financial crisis the EIB was indeed able to quickly increase the amount of funding to many EU states and sectors of the economy through

its direct project funding. The quick, effective deployment of funds to CEE SMEs via global loans has been less successful. This is in large part due to the fact that third party intermediaries are used to disburse the funds and carry the risk.

The EIB should look to expand its use of other means of financial support to the SME sector. The EIB has now started to use guarantees for borrowers to provide some of this support – this use of guarantees should be expanded and complemented

with the use of grant funding. Such instruments are not only crucial to supporting many SME businesses but also serve to provide the much needed collateral basis for bank funding which such enterprises require.

Most importantly, however, the EIB should implement the recommendations and advice of its own reviews and SME consultation surveys that simply highlight many of the same issues that this report has uncovered.

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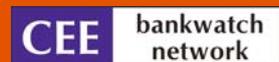


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The EIB's global loan package that was designed to stimulate the SME sector of the economy appears to have provided greater stimulation to the intermediary banks who were the initial recipients of the funding. The EIB must take responsibility for the failure of this funding to make a real impact in the crisis.



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