

BRIEFING

The role of the European Investment Bank in promoting foreign trade by SMEs

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1 Introduction

The European Investment Bank (EIB) provides finance and expertise for investment projects which contribute to furthering EU policy objectives.

The EIB has played a very proactive, though indirect, role in promoting SMEs within the European economic fabric.

The European Investment Bank (EIB) is the European Union's bank, namely "the only bank owned by and representing the interests of the European Union Member States".² Its remit is to "provide finance and expertise for sound and sustainable investment projects which contribute to furthering EU policy objectives".³ Through its network of intermediaries, usually private banks or public finance authorities, the EIB has been very proactive in promoting the role of SMEs within the European economic fabric. In fact, "[i]n 2014 alone, the EIB Group financed SMEs and midcaps in Europe to the tune of **EUR 25.5bn (EIB Group)/ 22.2bn (EIB)**, with a further **EUR 2.6 billion** benefitting SMEs and midcaps around the globe".⁴ However, it has never played a **direct** role in supporting foreign trade by SMEs. Its influence has instead been **indirect** as a consequence of its general process of support for SMEs. For a long time, indeed, the EIB did not adopt any specific measures aimed at promoting foreign trade as it is "a long-term lender and so trade finance products have never featured in [its] portfolio".⁵

In recent years, however, the EIB has developed two tools to promote foreign trade by European SMEs.

¹ This paper was drafted by Francesco TENUTA (intern) under the guidance of Elfriede BIERBRAUER.

² "EIB at a glance", European Investment Bank, retrieved 3 November 2015, <http://www.eib.org/about/index.htm>.

³ Ibid.

⁴ "SMEs and Midcaps", European Investment Bank, retrieved 3 November 2015, <http://www.eib.europa.eu/projects/priorities/sme/index.htm>.

⁵ "EIB first ever trade finance facility for Greece", European Investment Bank, 12 June 2013, retrieved 3 November 2015, <http://www.eib.org/infocentre/press/releases/all/2013/2013-084-eib-first-ever-trade-finance-facility-for-greece.htm>.

2 EIB instruments to promote foreign trade

2.1 EIB Trade Finance Facility for Greece

The Trade Finance Facility for Greece was introduced to revamp Greek exports in the aftermath of the financial crisis.

The EIB used this facility to try and alleviate cash constraints facing many Greek SMEs.

The facility won two 'Deal of the year 2013' awards. It will soon be extended to Cyprus.

The Trade Finance Facility for Greece was introduced in June 2013 by the European Investment Bank to revamp Greek exports in the wake of the financial crisis.

Through this instrument, the EIB offered

*EUR 500 million in guarantees for foreign banks covering 85% of their risk vis-à-vis their Greek counterparts for letters of credit and other trade finance instruments, to mitigate the risks of non-payment and default.*⁶

The EIB thus acts as a "secure bridge between international and domestic banks and boosts import and export capacities in Member States".⁷ Through this instrument, the EIB aimed to create a level playing field in order to

*alleviate cash collateral constraints otherwise imposed on most SMEs and increase access to international trade instruments at a time when trade has a significant role to play in economic development.*⁸

In this regard, EIB Vice-President Mihai Tanasescu has argued that

*[u]nder the innovative trade finance facility the EIB will play a critical role in mitigating the risk perception of the commercial banks at a time when Greece needs trade finance in order to pursue export-led growth for its economic recovery.*⁹

The success of this instrument so far has been such that it received 'Deal of the year 2013' awards from both Trade Finance Magazine and Trade and Forfaiting Review.¹⁰

According to the Bank of Cyprus, this successful instrument will soon be extended to Cypriot SMEs.¹¹

⁶ "The EIB Trade Finance Facility for Greece: your secure bridge", European Investment Bank, retrieved 3 November 2015,

http://www.eib.org/attachments/country/eib_tff_for_greece_en.pdf

⁷ *Ibid.*

⁸ "EIB first ever trade finance facility for Greece", *op. cit.*

⁹ "EIB Trade Finance Facility in Greece is enlarged in geographic scope and receives international award", European Investment Bank, 19 June 2014, retrieved 3 November 2015, <http://www.eib.org/infocentre/press/releases/all/2014/2014-142-eib-trade-finance-facility-in-greece-is-enlarged-in-geographic-scope-and-receives-international-award.htm>.

¹⁰ *Ibid.*

¹¹ "EIB Guaranteed Trade Finance Facility", Bank of Cyprus, retrieved 3 November 2015, <http://www.bankofcyprus.com.cy/en-GB/Cyprus/BUSINESS/Small-enterprises/Financing/EIB-Guaranteed-Trade-Finance-Facility/>.

2.2 EIB facilities to support the internationalisation of SMEs

In 2014, the EIB and the Inter-American Development Bank created facilities to finance the expansion of European and American-Caribbean SMEs into each other's markets.

In October 2014, the European Investment Bank (and the Inter-American Development Bank (IDB)) created two facilities to finance the expansion of European and Latin American-Caribbean SMEs into each other's markets. The facility created by the EIB

*will finance an amount of up to \$500 million (EUR 370.2 million) to promote the internationalization of Latin American and Caribbean SMEs via investments by their subsidiaries in Europe as well as **European SMEs with trading** activity or a presence in Latin America and the Caribbean.¹²*

3 Conclusion

The EIB has played a marginal role in promoting SMEs engaged in foreign trade.

The EIB has not been directly involved in the promotion of cross-border trade; however, it has been marginally involved in promoting foreign trade by European SMEs.

¹² <http://www.eib.org/infocentre/press/releases/all/2014/2014-235-idb-and-european-investment-bank-establish-facilities-to-support-internationalization-of-small-and-medium-sized-enterprises.htm>.