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**Working Paper**

## The EIF SME Access to Finance Index - September 2020 Update

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# **The EIF SME Access to Finance Index - September 2020 update**



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## Executive Summary<sup>1</sup>

This European Investment Fund (EIF) Working Paper elaborates on the most recent update of the EIF SME Access to Finance (ESAF) Index, using 2019 data. The ESAF is a composite indicator that monitors SME external financing markets in the 27 EU countries and the United Kingdom. The ESAF was developed by the EIF in collaboration with the London School of Economics. The current update constitutes the seventh iteration of this exercise, resulting in a 7-year long time series that runs from 2013 to 2019. The 2019 ESAF ranking is headed by Sweden, with France and Germany completing the top 3. Greece lags the ranking for the seventh consecutive year, preceded by Romania and Cyprus. The note further provides some background information underlying the most recent update. The current update of the ESAF, using the most recent data that were available at the time of writing, does not incorporate the impact of the ongoing COVID-19 crisis. For an extensive overview of the current state of SME financing markets, including a comprehensive discussion on the impact of COVID-19, the reader is referred to the EIF's European Small Business Finance Outlook (Kraemer-Eis et al., 2020).

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<sup>1</sup> This paper benefited from the input of Salome Gvetadze, Helmut Kraemer-Eis and Virginie Varga. We are furthermore indebted to Bonggyu Chae, Mari Magnussen-Landsem, He Li, Chavi Meattle and Jacob Simunovic, who developed the initial version of the ESAF index in the context of the 2014-2015 LSE-EIF Capstone Project. All remaining errors are my own.

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## 1 The EIF SME Access to Finance Index (ESAF)

This note presents the central results of the most recent European Investment Fund (EIF) SME Access to Finance Index (ESAF) update, using 2019 data. The ESAF Index is a composite indicator that summarises the state of SME external financing markets for the EU-27 countries and the UK. It was developed in collaboration with the London School of Economics and was first introduced in the European Small Business Finance Outlook (Kraemer-Eis et al., 2016). The ESAF index provides a convenient tool to compare and benchmark country-level performances in the context of SMEs' access to finance in the EU. The current update of the ESAF, using the most recent data that were available at the time of writing, does not incorporate the impact of the ongoing COVID-19 crisis. For an extensive overview of the current state of SME financing markets, including a comprehensive discussion on the impact of COVID-19, the reader is referred to the EIF's European Small Business Finance Outlook (Kraemer-Eis et al., 2020).

### Box 1 : The four ESAF subindices and their respective SME access to finance indicators <sup>2</sup>

#### Loans:

- Percentage of SMEs using bank loans in the last 6 months
- Percentage of SMEs using grants or subsidised bank loans in the last 6 months
- Percentage of SMEs not applying for a bank loan because of possible rejection in the last 6 months
- Interest rate for loans under EUR 250k (floating rate with IRF up to 1 year)
- Interest rate spread (under EUR 250k vs over EUR 1m for floating rate with IRF up to 1 year)

#### Equity:

- Venture Capital Investments / GDP
- Value of IPO market / GDP
- Percentage of SMEs using equity capital in last 6 months

#### Credit and Leasing:

- Percentage of SMEs using bank overdraft, credit line, or credit card overdraft in last the 6 months
- Percentage of SMEs not applying for the above because of possible rejection in last the 6 months
- Percentage of SMEs using leasing or hire-purchase in the last 6 months
- Median interest rate charged to SMEs for credit line or bank overdraft application in the last 6 months

#### Macro Factors:

- Gap between actual and potential GDP
- Bank non-performing loans to total gross loans <sup>3</sup>
- Percentage of SMEs "feeling that there are no financing obstacles"

The ESAF index is composed of four subindices, three of which are related to different financing instruments, while the fourth covers the general macro-economic environment in which SMEs operate. Box 1 lists the four ESAF subindices and their respective subindicators. Each subindex contains a number of indicators relevant to the theme they are assumed to capture. All indicators are normalised using the min-max methodology and are geometrically aggregated using equal weights.<sup>2</sup>

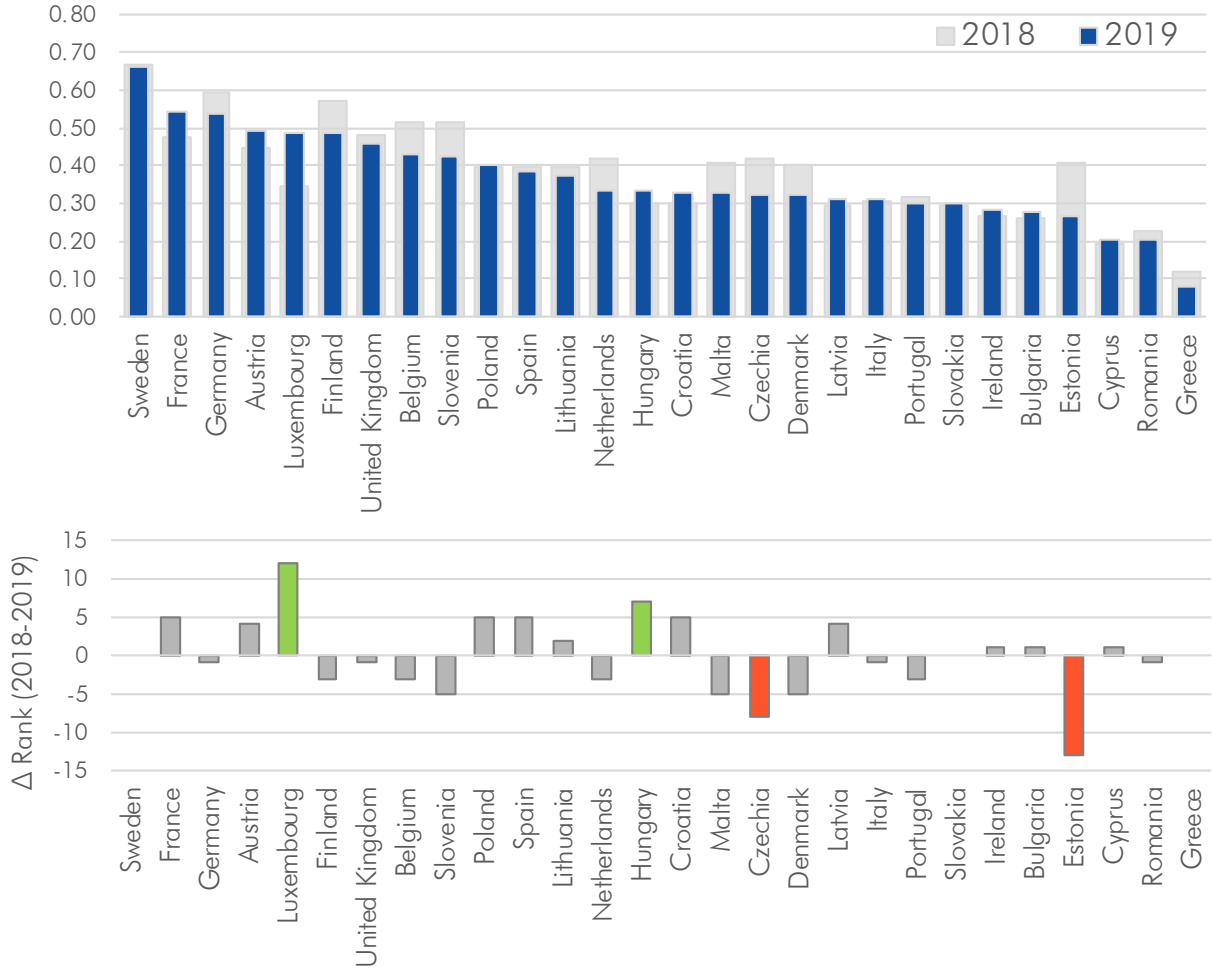
<sup>2</sup> For an elaborate discussion on the choice of indicators and methodology, see Gvetadze et al. (2018).

<sup>3</sup> Data on non-performing loans are made available with a 2 year time lag. Therefore, the ESAF index of year  $t$ , which is published in year  $t+1$ , uses information on non-performing loans for year  $t-1$ .

## 2 The 2019 ESAF results

The 2019 ESAF ranking (Figure 1, upper panel) is headed by Sweden, with France and Germany completing the top 3. Greece lags the ESAF ranking for the seventh consecutive year in a row, leaving a growing gap to the penultimate country, Romania.<sup>4</sup> The bottom panel of Figure 1 illustrates the position shifts associated with the most recent update. The underlying drivers of notable ranking changes (>5 positions) are elaborated upon in Annex II.

Figure 1: The 2019 EIF SME Finance Index

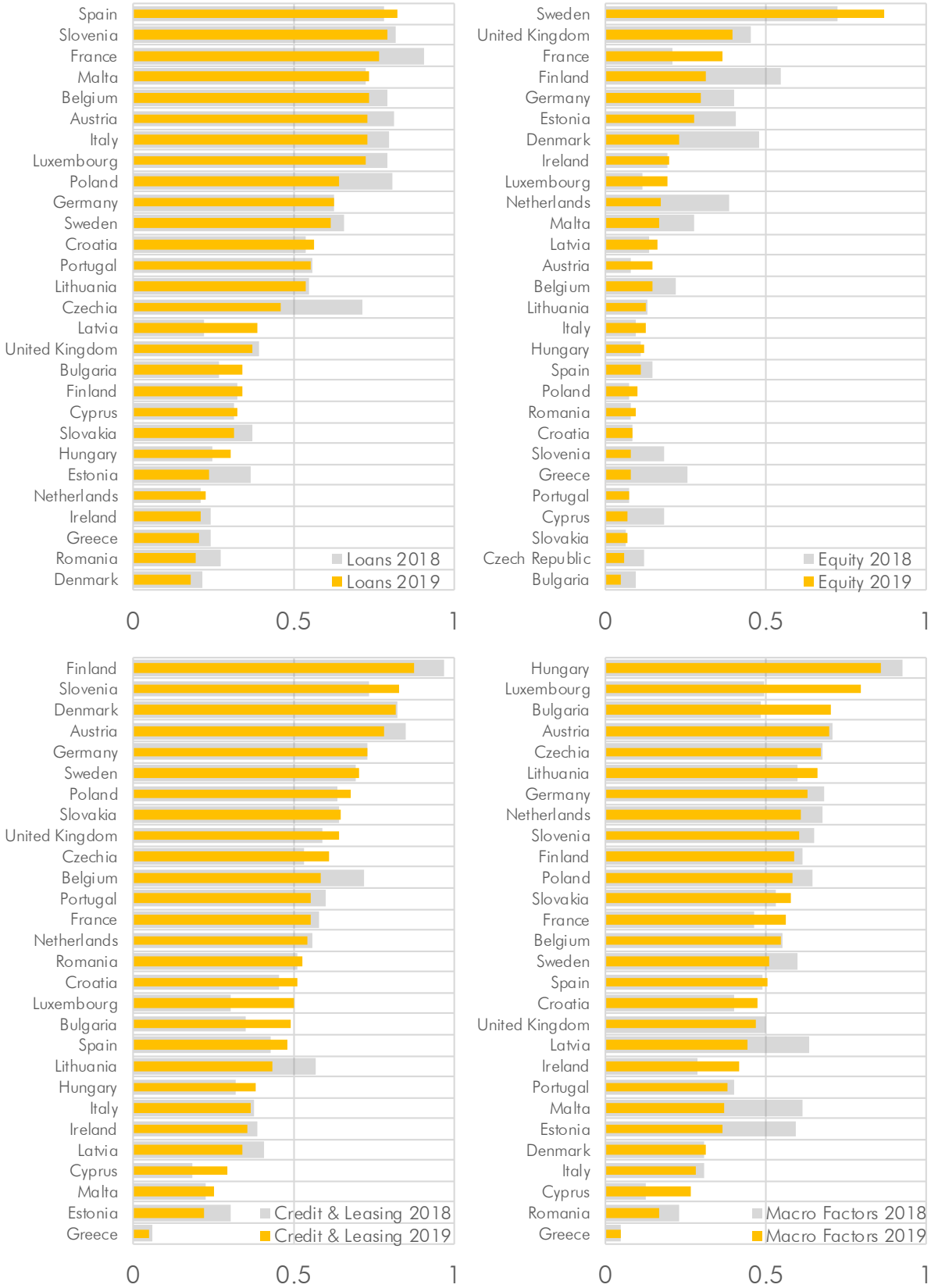


\* For those countries who experienced the most pronounced ranking shifts (>5 positions, illustrated by the red/green shaded bars), the evolution of the underlying subindicators is illustrated in Annex II.

Sweden managed to retain the highest position in the ESAF ranking despite of a slight deterioration in its macro environment (Figure 2), which was compensated for by a significant improvement in equity conditions. Sweden vastly outperforms other countries on the equity subindex, as Swedish SMEs continue to use equity financing at a rate far exceeding the EU average. The Swedish IPO market more than doubled in 2019, to 0.5% of GDP, against the background of a decrease in the average size of other countries’ IPO markets.

<sup>4</sup> Annex I illustrates how the ESAF evolved from 2013 onwards.

Figure 2: The ESAF subindexes: Equity, Loans, Credit & leasing and the Macro environment





At the bottom of the ranking, the absolute value of Greece's ESAF index further declined. This is rooted in a deterioration of its equity environment, which in turn was caused by a decline in the value of its IPO market. There were no Greek IPOs in 2019, which significantly decreased Greece's equity subindex after the successful IPO of CNL Capital in 2018. Greece continues to score poorly on the other subindicators as well, coming in last on both the Credit & Leasing and the Macro environment rankings.

Between the leader and laggard, the 2019 update brought about large position changes for Luxembourg (+12) and Estonia (-13). The marked improvement in the Luxembourgish ranking was driven by several factors. The Luxembourgish Loan environment stayed roughly constant, but the other three subindices registered marked improvements. The decline in Estonian SME access to finance conditions was driven by a deterioration on all fronts, as Estonian SMEs faced tougher conditions on all considered financing markets, as well as a deterioration of the local macro environment. Other notable ranking shifts were observed for Hungary (+7 positions) and Czechia (-8 positions). Annex II elaborates on the underlying drivers of these evolutions.

### 3 A note on the interpretation of the results

The methodological choices have a number of implications for the interpretation of the ESAF index. The min-max normalisation, for example, implies individual countries' outcome command a relative interpretation vis-à-vis the worst and best performing country for each of the subindicators. Hence, while it is possible to compare the ESAF values of countries within a given year, or compare how the relative position of countries has changed over time, it is not recommended to interpret an ESAF value isolated on a scale of 0 to 1. For example, a value of 0.5 does not in itself imply a country performs averagely in terms of access to finance. Instead, it implies a country performs averagely vis-à-vis the best and the worst performing country. It is also not possible to track the performance of an isolated country's index over time. An increase in the value of its index does not necessarily imply that SMEs in that particular country experienced an improvement in access to finance. For comparisons over time, it is advised to use the evolution of a country's ranking instead.

It is further advised against placing excessive emphasis on a country's performance on an individual subindex. Although the ESAF is carefully constructed and several robustness checks have ensured that aggregate results are not driven by relatively minor variations in individual indicators, the equity and macro subindices now consist of just three subindicators, which are in turn derived from surveys and/or are estimated. Once aggregated to the level of the aggregate ESAF index, the influence of individual subindicators is limited. At the level of a subindex, however, it can be more pronounced. Interpretation of the relative outcomes of the subindices is possible, but should nevertheless proceed with caution. It is advised to revert back to the underlying subindicators in case of doubt, which is exactly what this publication aims to do.

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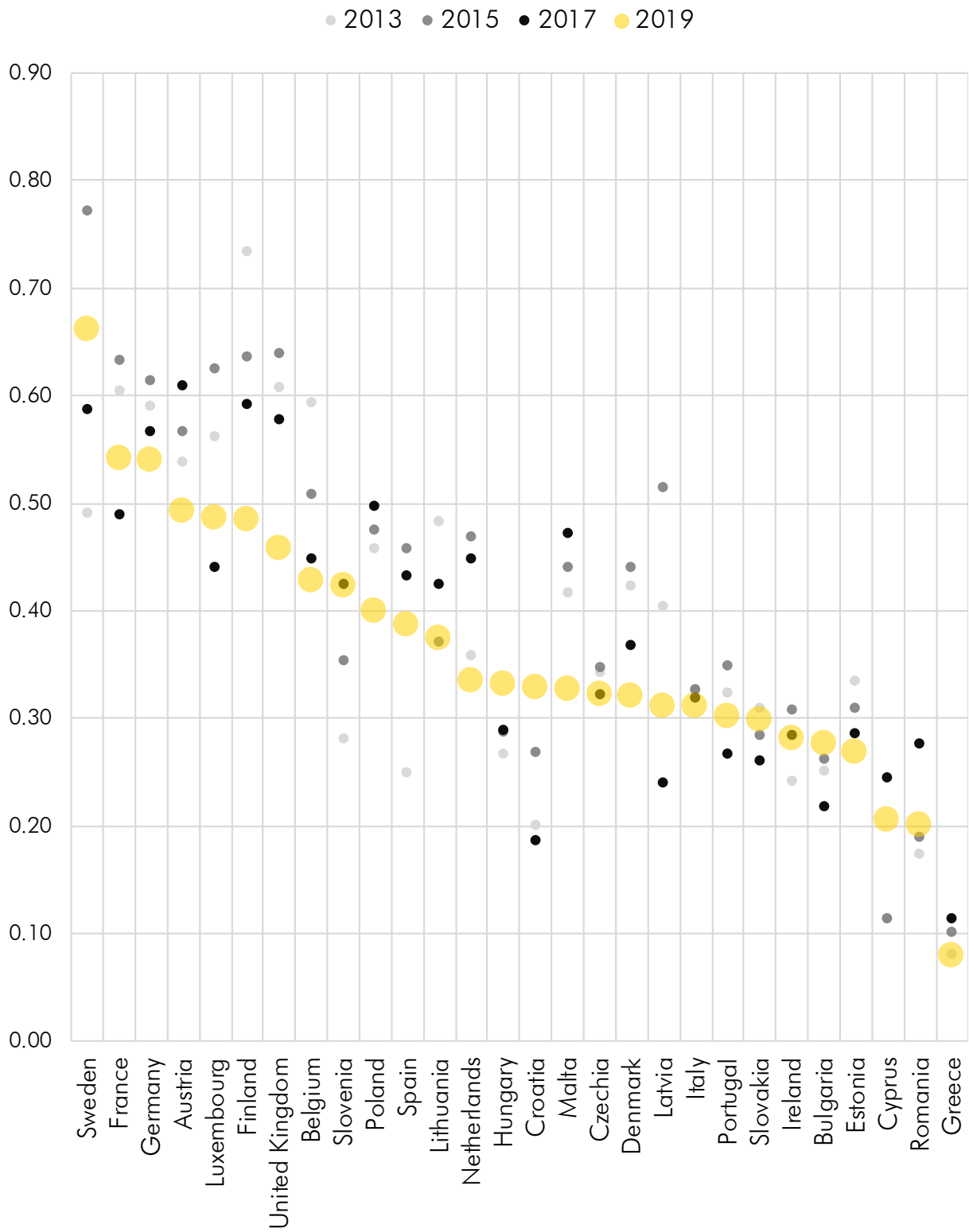
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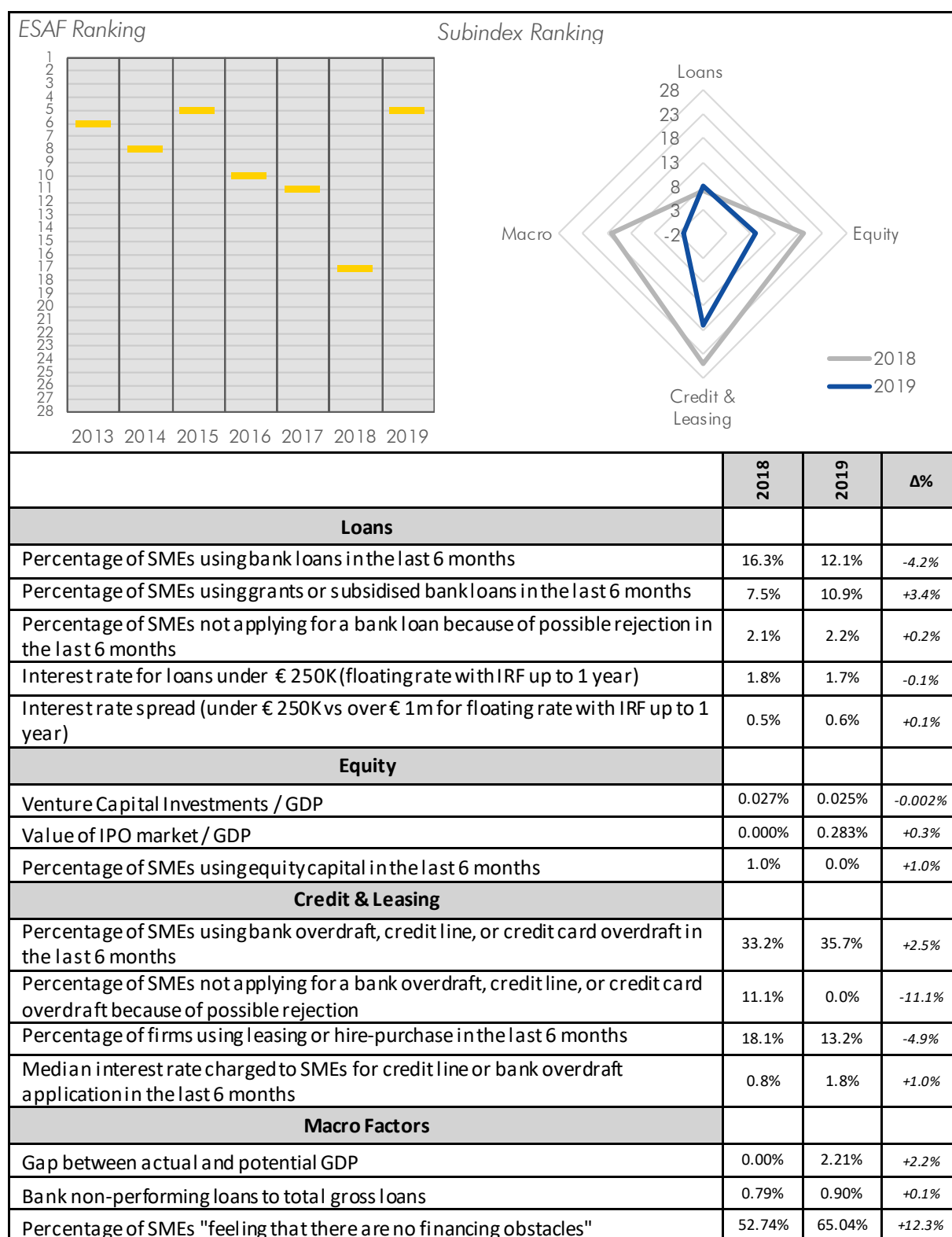
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## Annex I: The ESAF, evolution between 2013 and 2019

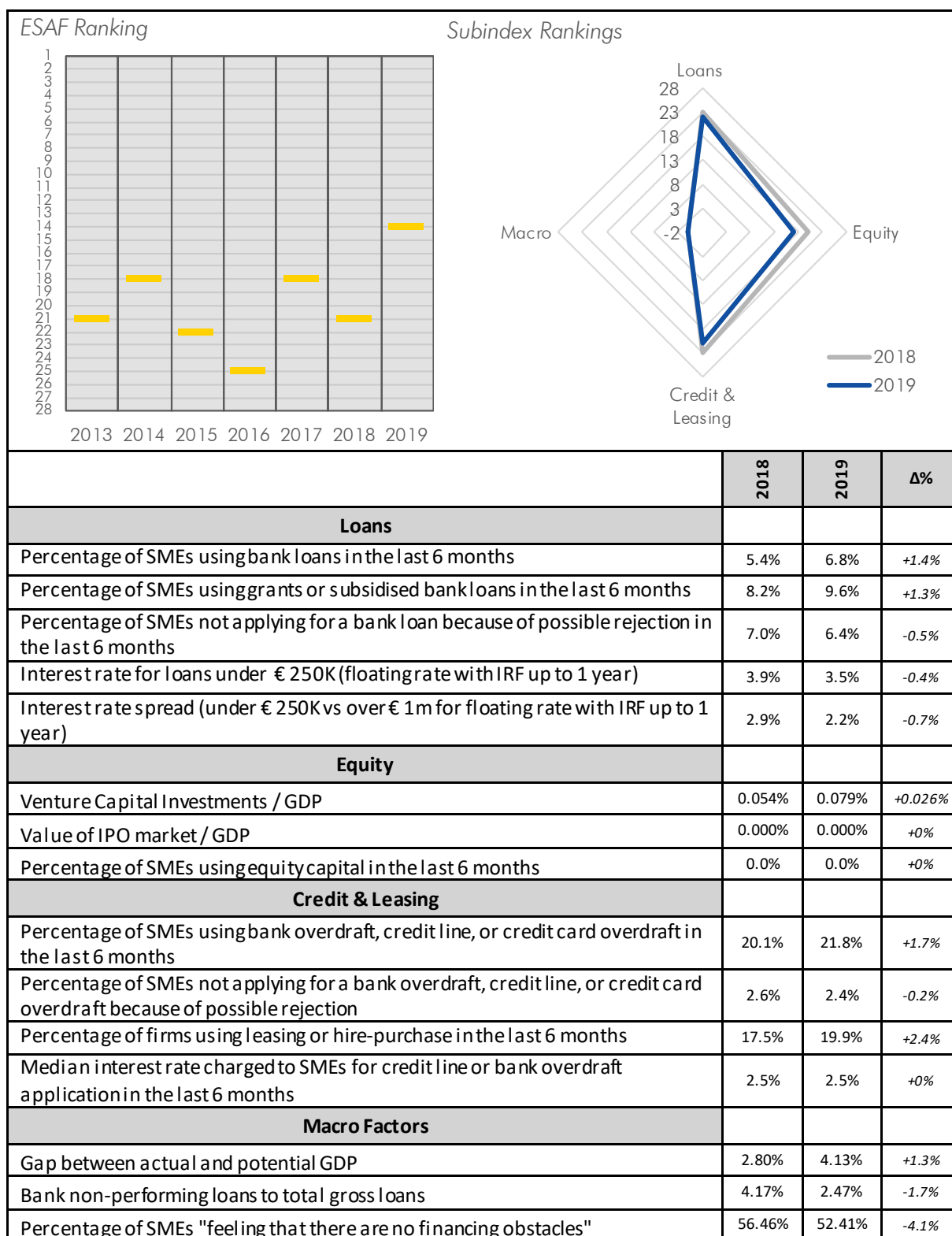


## Annex II: Focus on large position shifts

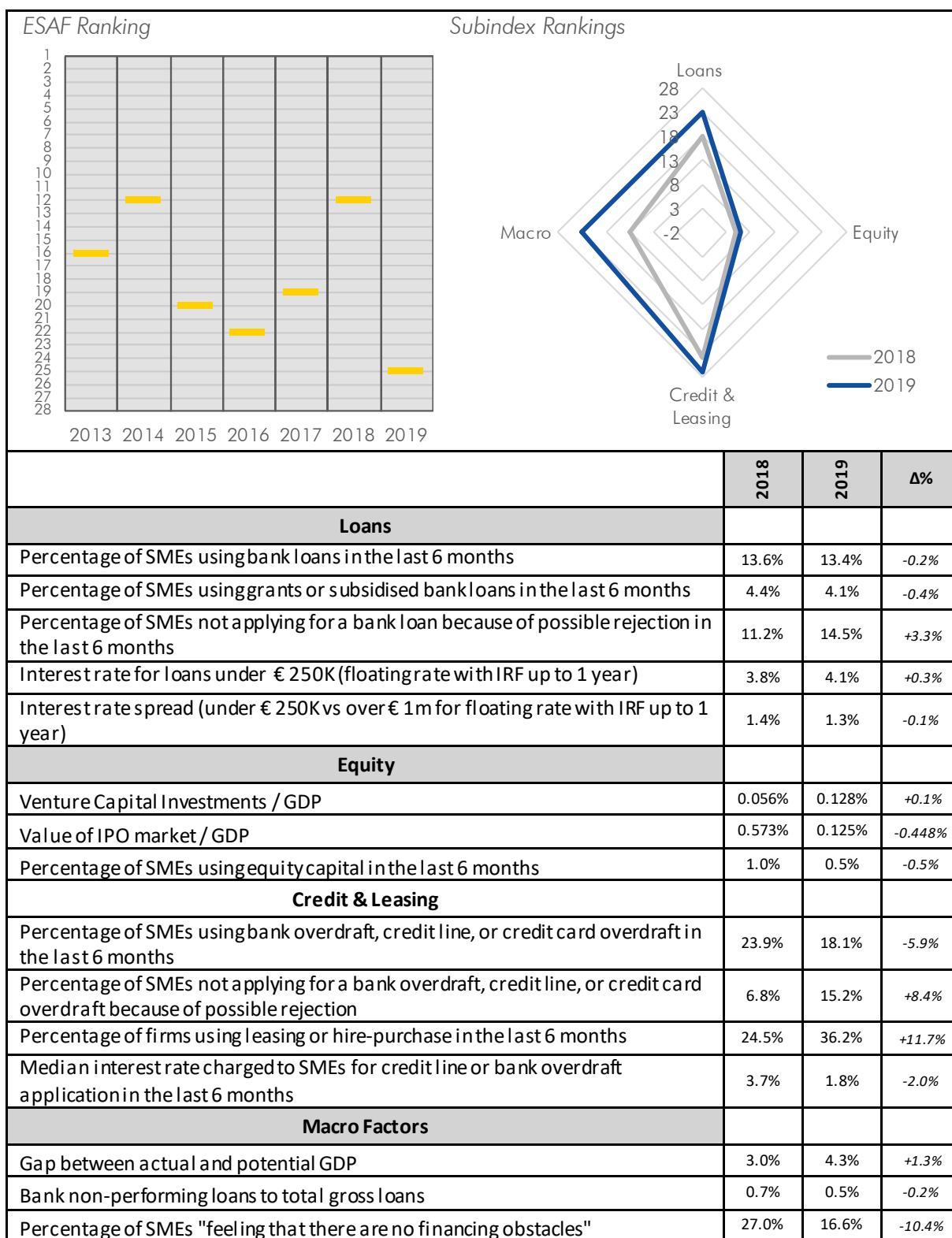
### Luxembourg (+12 spots)



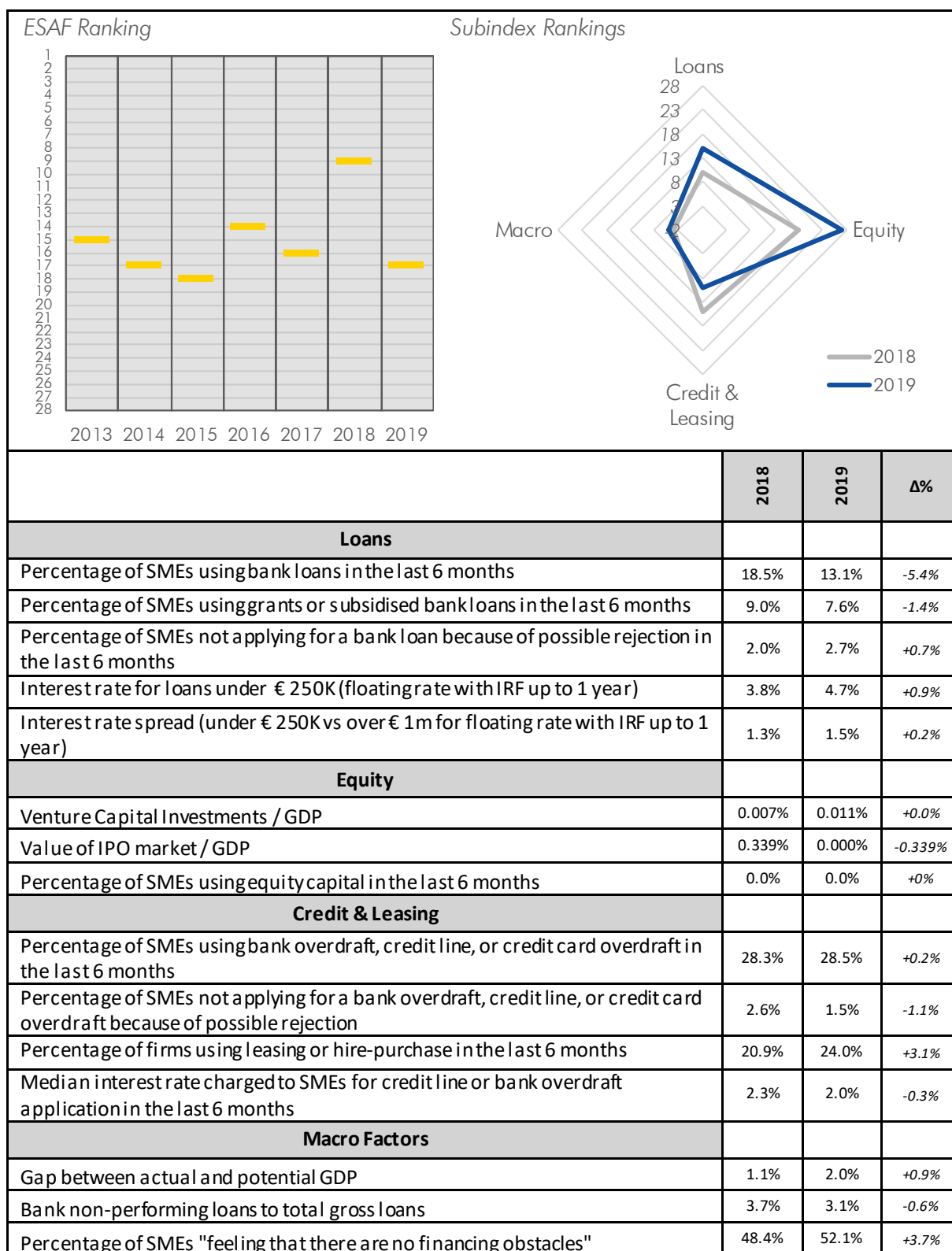
## Hungary (+7 spots)



## Estonia (-13 spots)



## Czechia (-8 spots)



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The European Investment Fund (EIF) is Europe's leading risk finance provider for small and medium sized enterprises (SMEs) and mid-caps, with a central mission to facilitate their access to finance. As part of the European Investment Bank (EIB) Group, EIF designs, promotes and implements equity and debt financial instruments which specifically target the needs of these market segments.

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