



## Betting on the little guy

**Unemployment in the EU is making many politicians sit up straight. The jobless rate rose to a seasonally-adjusted 10.7 percent in January – up seven-tenths from the same month last year. As expected, EU leaders have made job creation one of their biggest priorities. The big question is how to stimulate employment in a diversified economy. Brussels believes it has the answer in small and medium-sized enterprises.**

The European Investment Bank (EIB), the long-term lending institution of the European Union owned by member states, says it increased lending to small and medium-sized enterprises (SME) to record levels in 2011 as it moved to ‘support the real economy’ and to create jobs. The bank reports it provided €13 billion in financing to more than 120,000 SMEs - a record figure in the bank’s nearly 60-year history. In total, the bank supported 5 percent more enterprises, an increase in line with targets setup by European ministers in 2008 at the start of the financial crisis.

A bank spokeswoman told INSEAD Knowledge that support for European SMEs “will remain to be of upmost importance for the EIB. Since its Board of Governors is made up of finance ministers of the EU states, “SMEs account for nearly two-thirds of private sector employment in Europe and grow more quickly than larger firms, making them an important source of new jobs.” The EIB also provides technical advice for preparation of projects.

Much of the lending in 2011 went to projects that reduce carbon emissions. Support for investments in energy efficiency and renewable energy generation

rose 30 percent to €18 billion. The EU is keen on securing energy supplies from inside and outside Europe, and is targeting renewable energy and distribution in a growing number of development schemes.

According to the European Environmental Agency, electricity consumption grew 1.6 percent per year from 1990 to 2008, an overall increase of 33.4 percent. The strongest growth was in the services sector (59.2 percent), followed by households (40.1 percent) and industry (17 percent). In 2007 alone, the Agency reports only 4 percent of SMEs had in place comprehensive mechanisms for energy efficiency, and only 30 percent of SMEs were applying basic energy conservation measures.

The rise in EIB lending is part of a wider two-year anti-crisis programme put in place by EU economic and financial ministers at the end of 2008. This year the EIB says it will gradually roll back its lending to pre-2008 levels. That is not expected to take hold immediately since financing to SMEs flows through partner or intermediary banks. Despite the relative flexibility of SMEs compared with big corporations, the EIB says smaller enterprises “are more vulnerable in times of crisis and have more difficulty

accessing finance in adverse economic circumstances.”

In 2011, the EIB signed €61 billion of new loans in 70 countries. Some €54 billion was provided to projects within the European Union and €7 billion outside. Much of the funding to investments outside the EU went to pre-accession countries and to “Arab Spring” nations bordering the Mediterranean to ensure “private sector development and the acceleration of infrastructure projects in the region.”

The bank has €232 billion in capital as stated in its 2010 annual report.

**Find article at**

<https://knowledge.insead.edu/economics-politics/betting-on-the-little-guy-631>

**Download the Knowledge app for free**

