The EIF SME Access to Finance Index

Method, dissemination, use & challenges

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• ESAF – Raison d’être
  • Convenient monitoring tool
  • No such index existed
    • Before: Commission’s SMAF index
    • Related: ECB’s “Perceived External Financing Gap Indicator”

• Product of a cooperation with London School of Economics
  • Developed by 5 students + EIF’s RMA team
  • 3 phases: literature overview, evaluation of existing indexes, construction of the index + report

• Brief summary of methodological choice, dissemination of results and challenges faced in construction and use of the index.
Methodological considerations

Definition & Variable selection

SME Access to Finance

The availability and cost of different financing instruments.

Availability: the supply of external capital, its type, range and quality, and SMEs' capabilities to access it

Cost: the price of acquiring financing

Subindicator selection

Loans
1. % of SMEs using bank loans
2. % of SMEs using grants or subsidised bank loans
3. % of SMEs not applying for a bank loan because of possible rejection
4. Interest rate for loans under EUR 250k
5. Interest rate spread (under EUR 250k vs over EUR 1m)

Credit & Leasing
1. % of SMEs using credit lines
2. % of SMEs not applying for credit lines because of possible rejection
3. Median interest rate charged to SMEs for credit lines
4. % of SMEs using leasing or hire-purchase

Equity
1. Venture Capital Investments/GDP
2. Venture capital availability index
3. Value of IPO market/GDP
4. % of SMEs using equity capital

Macro Factors
1. Gap between actual and potential GDP
2. Strength of legal rights index
3. Depth of credit information index
4. Availability of financial services index
5. Bank non-performing loans to total gross loans
6. % of SMEs "feeling that there are no financing obstacles"
Methodological considerations

Normalisation, Weighting & Aggregation

Min-Max Normalisation

\[
\text{Normalisation} = \frac{\text{observation value} - \text{minimum value}}{\text{maximum value} - \text{minimum value}}
\]

Geometric Aggregation

• Choice for limited compensability
  → very low scores on individual indicators get punished disproportionally
  → underlying theoretical assumption: different access to finance instruments are not perfect substitutes.

• Good overall results only possible if a country scores well across the entire spectrum of financing sources

Equal Weighting

• Each subindicators equal weight in the final result

• **PRO:** Choice for transparency

• **CON:** Does not take into account the relative importance of different finance instruments
  • **BUT:** no objective weighting scheme based on measurements
  • *Eg, equity might be less important in quantity, but is more important in growth potential*
    → Difficult to derive weights that incorporate such factors
Practicalities & Visualisation

- Yearly updates around June

- Construction semi-automated
  - Excel templates
  - Data wherever possible imported using Stata’s SDMX command

- Graphical representation
  - Top down approach – ensure full transparency
  - Highlight anomalies or unintuitive results
  - Some examples...
Graphic representation options

(1) General overview

- ESAF Index
- Loans Subindex
- Credit and Leasing Subindex
- Equity Subindex
- Macro Subindex

Countries: Greece, Cyprus, Hungary, Croatia, Romania, Italy, Slovakia, Estonia, Portugal, Slovenia, Latvia, Bulgaria, Ireland, Spain, Lithuania, Malta, Netherlands, Luxembourg, Czech Republic, Poland, Denmark, Austria, Belgium, France, United Kingdom, Germany, Finland, Sweden.
Graphic representation options

(2) Evolution over time
(3) Evolution over time, sub-indicator focus
(4) Selected country comparison

Graphic representation options

Loan Subindex Value

Macro Factors Subindex Value

Equity Subindex Value

Credit and Leasing Subindex Value

Greece
Germany
Netherlands
Italy
Belgium
Sweden
(5) Country focus

- **Percentage of SMEs using bank loans in the last 6 months**: 12.8%
- **Percentage of SMEs using grants or subsidised bank loans in the last 6 months**: 2.1%
- **Percentage of SMEs not applying for a bank loan because of possible rejection in the last 6 months**: 7.5%
- **Interest rate for loans under €250K (floating rate with IRF up to 1 year)**: 3.5%
- **Interest rate spread (under €250K vs over €1m for floating rate with IRF up to 1 year)**: 2.4%
Result dissemination

**External dissemination / use**
- Dedicated publication on the update
  - Around 10 pages, updated every June
  - Updated every June
- Relatively new indicator (first published late 2016)
  - European Commission thematic fact sheet on SME access to finance

**Internal dissemination / use**
- Circulate results internally to relevant counter parties (EIB Group)
  - Presentations
  - Workshops
  - Country pages
Challenges

• (Recent) data availability
  • to be relevant = to be up to date
  • Limited to t-1 data series that are available mid year t
  • Missing data

• Limited man-hours
  • Update, quality check, writing out results: 1 person, +-2 weeks
  • Not all data available through website’s API

• Policy sensitivities
  • (ab)use of results, guided by “do’s & don’t’s”
  • Unintuitive results?
  • Importance of methodological simplicity…
In sum

• The ESAF fills a void left by the discontinuation of the Commission’s SMAF index

• Updated annually and published in the European Small Business Finance Outlook

• Importance of methodological simplicity
  • Credibility stems from transparency
  • Transparency stems from simplicity & consistency

• Go to indicator for European policy makers and academics working on issues related to Access to Finance?
Thank you …

Research & Market Analysis, EIF

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