

Access to Finance for SMEs in Greece

Report of High Level Meeting of Representatives

July 2013

TABLE OF CONTENTS

Executive summary

I. General overview

II. The current situation

- A. Introductory remarks
- B. Designing and implementing FEIs in Greece

III. State of play regarding absorption & reprogramming

- A. Introductory remarks
- B. Analysis per Fund
 - 1. ERDF
 - 2. ESF
 - 3. Cohesion Funds

IV. Proposed measures to facilitate activities

- A. Introductory remarks
- B. Proposals for DG REGIO – Commissioner Hahn
- C. Involving the TFGR
- D. Measures that can be taken by the Ministry, ETEAN, EIB, and EIF
 - 1. Overall assessment
 - 2. The ministerial level
 - 3. ETEAN
 - 4. EIB
 - 5. EIF
- E. Measures available to banks and SMEs
 - 1. The operational environment for banks after recapitalization
 - 2. Refinancing loans for SMEs

3. Combining grant schemes with lending facilities
4. New approaches to collateral requirements by banks and SMEs
5. Improve Bank – SME coordination

V: Lessons learned from the current financial period

VI. Specific recommendations for the next programming period

- A. Introductory remarks
- B. Implementation of Operational Programmes
- C. Eligibility of working capital
- D. *Pari passu* principle
- E. *De minimis* threshold
- F. Financing the Financial Engineering Instruments
- G. Improve support instruments for an effective SME policy

VII. Designing a comprehensive SME policy in Greece

Annex:

Proposed Work plan – Roadmap for the next Meetings of the Working Group

1. Bi-lateral initiatives between countries
2. EIB options for collateral enhancements
3. Options for geographical re-allocation
4. Provision of technical assistance facilitated by the TFGR
5. Institution for Growth
6. Refinancing loans for SMEs

Executive summary

This report by the Working Group has been tasked with two objectives:

- (i) looking into access to finance facilities currently available to SMEs in Greece, and
- (ii) propose alternative approaches to this process ahead of the expiration of the current NSRF programming period at the end of 2013 and the designing of the new NSRF programming period 2014-2020.

The report builds on the proposals submitted in June 2013 to the High Level Meeting of Representatives.¹

We expand a number of recommendations to different decision making authorities with a view to improve access to finance for SMEs. Our focus rests on seven pillars:

1. The need for more flexibility in future NSRF programmes. This concerns the geographical reallocation of Financial Engineering Instruments and the simplification of administrative requirements that are associated with existing FEIs, in particular regarding the application, monitoring, reporting and evaluation process. The emphasis should be on limiting the number of thematic objectives and ensuring timely lending to SMEs with measurable results;
2. Maximize the impact of FEIs in Greece through a strong increase in the availability of working capital facilities for SMEs. Without working capital solutions we see a high risk of failing to strengthen the liquidity position and demand side of viable Greek SMEs;
3. New approaches towards the valuation of collateral in connection with FEIs. The provision of collateral by SMEs in Greece is largely based on real estate property. We table recommendations on how to structure the re-valuation of collateral instruments;
4. Future financial engineering actions should be assigned to the various implementing bodies after taking into account the expertise and value added that they can bring in the different structures, both at the level of financial intermediaries as well as the level of SMEs. The joint ability of the EIF, EIB and ETEAN to enhance portfolio guarantee products, thus potentially achieving capital relief for the intermediary banks and better pricing/collateral conditions for the SMEs, was particularly noted.
5. Improved coordination efforts of different activities and instruments at the European, national, regional and local levels. Strengthening these efforts and increasing the operational visibility as well as performance levels of FEIs is of utmost importance for the recovery process of the Greek economy.

¹ The High Level Meeting of Representatives is composed of representatives from the Ministry of Development, the SMEs, the EIB, the EIF, the ETEAN, the TFGR and the Hellenic Bank Association.

6. The need for effective communication to the end-user SMEs of the difference between non-reimbursable grants and reimbursable funding. A clear distinction between the two instruments can become a catalyst for the transformation of the SMEs operational model.
7. The need to design a comprehensive SME policy for Greece that informs the priorities of the new NSRF programming period 2014-2020. Such an SME policy is also a contribution to transforming the country's development model from one of consumption to a competitive, outward looking and growth-oriented one.

I. General overview

These proposals are the result of intense deliberations of a Working Group at technical level tasked with making joint proposals for the improvement in the access to finance for SMEs in Greece. The Working Group has met eight times between April and July 2013. At the level of principals four High Level Meetings of Representatives have taken place in Athens.

The Working Group comprises participants from the four leading domestic banks (NBG, Alpha Bank, Eurobank, Piraeus Bank), SME representatives (EBEA, GSEVEE, ESEE), officials from the Ministry of Development, the EIB, EIF, ETEAN and the Task Force for Greece. The Hellenic Bank Association (HBA) invited and chaired the meetings.

In June 2013, the Working Group at technical level submitted joint proposals to the High Level Meeting of Representatives. The current report seeks to streamline these proposals by prioritizing action points, placing a stronger political emphasis and identifying recommendations towards what specific actions are expected at what level of decision making and by whom.

We understand that all stakeholders at different levels have to contribute and engage in this joint effort. Every authority and stakeholder is aware of the fact that they need to provide suggestions as to what can be done by themselves and what is achievable in cooperation with others.

Our report seeks to raise awareness of the problems with access to finance for SMEs in Greece. We are committed to finding constructive solutions proposed to all involved parties, in Athens and Brussels. We wish to underline the fact that our deliberations constitute a serious and unprecedented effort at finding workable and commonly agreed proposals that improve access to finance opportunities for SMEs in Greece. We are willing to continue our work and provide input for those authorities in Greece and at the European level working towards the same objective.

II. The current situation

A. Introductory remarks

The key challenge for access to finance in Greece today – be they larger or smaller businesses – concerns the issue of a lack of liquidity. The prolonged credit crunch, now lasting for the better part of two years, risks to undermine the effort to get the Greek economy back on track. This has particularly adverse consequences for the credit conditions of SMEs.

The Financial Engineering Instruments (FEIs) made available to the Greek authorities through the 2007-2013 NSRF programme are considerable. A total of €1.7 billion has been committed from ERDF funds in various FEIs. Despite the existence of these funding instruments, disbursement has been slow and payment levels remain low.

The regional allocation of funds for FEIs remains a major challenge, if not an obstacle to improved utilization and faster absorption. Considerable difficulties remain among and within the 13 regions of Greece in utilizing and absorbing the related funding instruments. There are highly dynamic regions (e.g. Attica and Central Macedonia) where demand exceeds available supply and resources.

In short, SMEs in both regions remain without further financing facilities supported by a network of FEIs. Meanwhile in other regions across Greece the respective regional operational programmes for FEIs are underutilized in a whole range of programme categories (see our Joint Proposals from June 2013 which underlined this fact and provided data accordingly).

Besides problems affecting the use of FEI's, SME's are also challenged with barriers in accessing subsidy facilities. More specifically concerning the grant program "ESPA for SME's" (EUR 500 million state aid scheme for SMEs in the 13 regions) currently being implemented, more than 23.000 SME's applied despite the fact that the process was overly bureaucratic.

The program is currently in the evaluation phase and the intermediary is requesting even further paperwork from applicant SME's. This bureaucratic burden is extremely heavy on SME's and could be the cause for rejections and voluntary dropouts.

We therefore propose that specific guidelines be send as quickly as possible to the intermediary in order to make the process more flexible in the current phase. The credibility of the applications will be further monitored and verified during the implementation and payment phases.

Furthermore, the most important problem that a large number of SMEs is currently facing, due to the prolonged recession, is to ensure their sustainability. This may be aided by the availability of loan programs aimed at reducing the existing lending cost (currently viable businesses with sufficient collateral face interest rates ranging from 8 per cent to 11 per cent). The existing FEIs, that are offering low lending costs, prohibit the refinancing of existing (non-delinquent) loan facilities. The Working Group proposes to allow –under specific credit criteria- to refinance their debts by the FEIs, which will result in a substantial reduction of the lending cost incurred.

Also, the Working Group proposes another program that will help maintain business sustainability through capital guarantees in the existing non-delinquent loan facilities, which are covered only by personal guarantees. Today, businesses that remain viable despite the 5 years recession period are servicing loans with interest rates of 11 per cent to 14 per cent. A three year capital guarantee would offer lower lending costs of up to 5 per cent and would provide the possibility to companies to continue being viable until the economic recovery materializes.

The conclusion drawn from these observations is clear: the existing restrictions in the FEI allocation limit the efficiency and flexibility of implementing available resources.

B. Designing and implementing FEIs in Greece

The proposals and recommendations tabled in this report to different national and European levels of decision making therefore seek to make sure that valuable investment capacities are not lost because of a failure to deliver on time during a time of sustained economic crisis: either through administrative weakness in the design and execution of FEIs, lack of political will or poor cooperation between key stakeholders involved in the process.

We also want to emphasize that FEIs constitute forms of 'repayable assistance' (funded and un-funded products) such as loans, support to venture capital, grants and guarantee mechanisms. It is our view that new consideration should be given on pooling these resources, i.e. how these instruments can be combined, e.g. grants with guarantees and loan funding.

We view FEIs as investment instruments whose design, coordination, communication and implementation entail thorough consultation with and participation of all stakeholders concerned, public and private, European, national, regional and local. This inclusive approach is critical for the new programming period in Greece. We support the notion that FEIs must be geared towards generating private sector participation, i.e. leverage supplementary to EU and national funding.

Looking ahead on the basis of lessons learned and applied, the 2014-2020 period should seek to use available funds and FEIs in a more concentrated manner, targeted towards fewer priority areas that underline a coherent contribution to smart, sustainable and delivery-oriented performance. An effective co-ordination among the relevant ministries and regional authorities is of paramount importance.

The Working Group proposes the following measures to simplify administrative reporting requirements linked to FEIs:

- For the new financing period only one organization in Greece should be responsible for the design of EU-related FEI policies.
- Create a Framework Agreement, providing for the accession of co-investors and diversification in financial products (i.e. loans, guarantees, equity, grants, etc.).

- Establishment and operation of one Fund Portfolio, which will contribute resources of all EU Structural Funds. Such a Fund Portfolio requires independence and professionalism, compliance with the relevant European Union and National rules & regulations (i.e.: state aid issues, public procurement procedures, anti-money laundering, tax fraud etc.).
- One central information system provided by the Fund Manager with access for all participants (co-investors, Managing Authority, Committee). This would include a digital platform for all available FEIs in terms of promotion/information sharing, application procedures, control mechanisms and disbursement/payment levels.
- Establish coherent reporting requirements in order to reduce administrative burdens for participating banks and SME clients, in particular concerning the documentation of receipts, licenses, business plans, financial statements and accounting standards.

We have repeatedly looked at current programmes and existing FEIs. Our overriding conclusion is that any new initiatives for the next financing period must be based on a set up that is simple and efficient, ensuring ownership, accountability and transparency. This requires a holistic approach to FEIs with coordinated and innovative actions. Using the funds available is based on a Partnership Agreement with the Commission. This spirit of partnership should also be at work when designing, structuring and implementing such instruments in the coming years in Greece.

III. State of play regarding absorption & reprogramming

A. Introductory remarks

The experience of the current programming period has produced mixed results at best. The counterproductive system of delegations is part of this performance assessment. The various administrative reforms at the national, regional and local levels should be taken into account in designing the architecture for the new programming period. In particular the Ministry of Development has a key role to play in coordinating the line ministries, the regional authorities, the research communities and the business environment.

The final date for eligibility of expenditure for the 2007-2013 Greek Operational Programmes under the Structural Funds Regulations is 31. December 2015. Closure (of the programmes) is set for 31st March 2017. However, in practice, for physical projects to be totally paid by 31st December 2015, the individual project has to be completed earlier (approximately 0.5 to 1 year sooner); the reason being that Managing Authorities or the intermediate bodies will not be able to carry out the compliance procedures prior to approving final payment requests.

Commission Services, Ministry of Development and the TFGR are therefore asked to provide timely information on the deadlines for the application, disbursement and payment calendar of funds in financial engineering instruments considering the remaining, limited eligibility timetable of the current financing period.

B. Analysis per Fund

1. ERDF

In ERDF there is an **overbooking** at the approval stage, since more projects have been approved than funds available. Approved projects represent **135.3%** of total funds available. The percentage of **approved, but not contracted** projects for ERDF is **35%**. This implies that **€6.8 billion** are **approved** (including the overbooking), **but do not constitute contracted projects**.

2. ESF

In ESF the **overbooking** with approved projects currently represents **112.5%** of total funds available. The percentage of **approved, but non-contracted** projects for ESF is **22%**. This corresponds to **€1.2 billion** that are **approved** (including the overbooking), **but not yet contracted projects**.

3. Cohesion Funds

In CF there is also **overbooking** at the approval stage, with approved projects representing **161.9%** of total funds available. The percentage of **approved but not contracted** projects for CF is **47%**. This means that **€3.2 billion** are **approved** (including the overbooking), **but not yet contracted projects**.

Any reprogramming efforts towards un-freezing funds require a de-commitment of approved projects. The Working Group would welcome an overview from the Greek authorities that includes data on 'sleeping projects' and 'sleeping contracts'. Such non-executed contracts could potentially represent further funding options for the current financing period, subject to the cancellation of these contracts by the relevant authorities.

IV. Proposed measures to facilitate activities

A. Introductory remarks

The Working Group has also taken note of various proposals by individual EU Member States on how to finance cheaper lending facilities towards SMEs. Most recently, the Spanish Prime Minister, Mr. Mariano Rajoy, has called on the European Central Bank to create a programme to provide convenient conditions for funding to small businesses.

This initiative has been employed outside the euro zone to stimulate credit flowing to SMEs. To illustrate, since mid-2012 the Bank of England is implementing a project titled "*Funding for Lending*" that encourages banks to lend by providing them with inexpensive financing.

B. Proposals for DG REGIO – Commissioner Hahn

Implementation experience for the 2007-2013 financing period in Greece shows a significant mismatch between market supply and SME demands across regions. More specifically, substantial demand is being expressed in the Regions of Attica and Central Macedonia, higher than actual budget allocations of the various financial instruments, whereas lower demand is expressed in the other regions.

The primary recommendation of the Working Group towards DG Regio on this subject matter is to allow sufficient flexibility within the financial engineering **Holding Funds** to shift resources between regions on the basis of actual demand experienced during the implementation stage.

We therefore propose that the Ministry of Development in cooperation with the relevant Commission services, in particular DG Regio, should consider the possibility of lifting existing restrictions of the regional allocation of available resources for FEIS in the current financing period. This could be put in place through a COCOF Note by DG Regio.

One way this can be achieved is to permit the use of available amounts originating from one category of region/priority axis (financing source) to other categories of regions or even across the entire country (inclusive of all 13 regions). In the case of the Cohesion Funds such an application is possible and currently in use.

We are aware of the need to safeguard the longer-term benefits to the regions to which such funding instruments were initially allocated. The Financial Regulations cater to this need and we agree with its rationale. Thus we propose that the returns of these original amounts are administered on the basis of revolving paybacks by the beneficiaries to the FEIs e.g. through a revolving fund architecture). We are convinced that this arrangement can be monitored and remains accounted for to the region from which the resources initially originated.

To illustrate: Using the most recent available data of SMEs activity in Greece and comparing with allocations made to the JEREMIE Holding Fund (JHF), it is immediately evident that a large deviation is recorded in the areas of Attica (40 per cent under-allocation) and the 8 combined convergence regions (32 per cent over-allocation). Therefore the ability of using committed funds from the 8 convergence regions to Attica, after demand in 8 regions is fulfilled, would have an immediate positive impact in the utilization of the funds under management (and support to the needs of SMEs, see the data attached to our Joint Proposals, June 2013).

C. Involving the TFGR

The Working Group proposes that the TFGR can be involved as a facilitator for Greek reprogramming requests vis-à-vis DG Regio. It can use its network of Commission services to identify potential contact points for Greek authorities and possibly provide information sharing experiences from other programming countries.

In the next programming period, the ex-ante conditionality on SME support needs to be addressed as a matter of urgency. Failure to do so before the approval of each programme risks leading to the suspension of payments.

In this area the TFGR could facilitate the provision of technical assistance regarding non-compliance and administrative capacity building efforts. The World Bank is providing constructive input to Greek authorities regarding simplification procedures in the business environment which the Working Group would welcome to know more about.

A smart coordination of targeted interventions must be ensured. This requires steps to be taken in a timely manner in order to strengthen the administrative capacity in the delivery and implementation of the FEIs at all levels, central, regional and local.

D. Measures that can be taken by the Ministry, ETEAN, EIB, and EIF

1. Overall assessment

A recurring issue addressed in the Working Group at technical level concerns the administrative requirements that are associated with existing FEIs, in particular regarding the application, monitoring reporting and evaluation process demanded by ETEAN, EIB-global loan and EIF-JEREMIE products.

All participants agree in the observation that these requirements and procedures are deemed excessive, frequently discourage potential SME clients from applying and have ample scope for simplification as well as streamlining options. The Working Group submitted specific measures to simplify administrative requirements linked to FEIs in its June 10th 2013 Joint Proposals.

2. The ministerial level

We suggest that the Ministry of Development should take initiatives for fast-track changes in FEIs for the current programming period. Supporting these changes must be strong and take place now. The minister should raise once more this issue in his forthcoming meetings with Commissioner Hahn, e.g., options regarding geographical reallocation and the letter already sent (June 11th 2013).

Furthermore, in order to ensure the best possible allocation of resources and avoid programme overlapping, the General Secretariats in the Ministry of Development have, definitively, a strategic role to play in defining the most appropriate and efficient allocation mechanisms.

Current reform efforts also need to reach completion at the legal stage and implementation levels. This includes to simplify, codify and monitor relevant legislation to comply with the *Small Business Act*. While the reduction in the timing of licencing has been achieved, other work streams remain a work in progress, e.g.

- The appointment of a SME policy coordinator across line ministries;
- the SME test still remains to be implemented.

3. ETEAN

The main programme for collateral is the 1st loss portfolio guarantee programme provided by ETEAN. It was recently reduced to 1/3 of its original size, but has yet to be implemented in the market. We strongly recommend that ETEAN should finalize the 1st loss portfolio guarantee programme before the summer break. Furthermore, Greek authorities should seek to re-programme the Structural Funds towards an increase of the 1st loss portfolio guarantee facility.

We welcome the recent announcement by ETEAN that a €50 million 1st loss guarantee programme will be signed with 14 banks, including 70 per cent coverage ratio for investment loans and between 70 per cent and 80 per cent working capital coverage.

4. EIB

Under the current challenging circumstances in Greece, a significant share of EIB SME global loans to banks have been signed or activated since November 2012 for a total of, to-date, EUR 590 m: currently EUR 440 m (National Bank of Greece EUR 250 m, Alpha Bank EUR 140 m and Pancretan Cooperative Bank EUR 50 m) under the State Guarantee Facility and EUR 150 m (Eurobank EUR 100 m and Piraeus Bank EUR 50 m) under the Guarantee Fund for Greek SMEs.

- (a) Under the State Guarantee Facility, EUR 225 m has already been disbursed to SMEs and Midcaps. Further disbursements to National Bank of Greece and Pancretan Cooperative Bank (Alpha Bank already fully allocated and disbursed) will depend on presentation to EIB of eligible allocations by these two banks.

- (b) Concerning the Guarantee Fund for Greek SMEs, EUR 150 m have already been signed to-date but remain undisbursed because of a number of “teething” issues, all of which are in the process of being resolved as mutually acceptable solutions have been agreed. These issues mostly stem from Structural Funds constraints requested by the European Commission. It is important to note that EIB played an instrumental role in solving most of these issues even though all but one, which was easily solved in March 2013, were not linked to EIB requirements.

The last pending issue, not solved at the March meeting, regarded the need (or not) for a guarantee fee. This was eventually resolved between the Hellenic Republic and the European Commission (DG/Comp) and determined to be 0.90 per cent per annum as communicated officially to EIB on 14 May 2013. The EIB and the Hellenic Authorities are now in the process of finalizing the necessary amendments and other relevant documentation in order to implement the aforesaid fee.

Assuming the above will be solved, the EIB, the Investment Board (through the Fund Manager) and the Greek banks (Eurobank and Piraeus Bank) will sign the relevant amendments to the already signed documentation shortly, then enabling disbursements to begin. To be noted that disbursements will occur following the presentation by the two Greek banks of eligible SMEs and their approval by EIB in order to avoid a situation where a bank requests a disbursement but does not allocate it to eligible SMEs.

The Working Group reiterates its assessment provided in the June 2013 Joint Proposals that immediate implementation of existing funding facilities is paramount, even if certain administrative and technical details remain to be finalized.

- Participating banks submit regular disbursement and other reports to the EIB, most of which are following specific requirements of DG Regio, including repayment levels, NPL formation and refinancing options;
- No geographical restrictions should apply as regards the allocation and disbursement of EIB SME global loans. Rather, the products should be market driven and therefore respond solely to demand. EIB strongly supports this position.

Furthermore, the Greek government and the EIB signed in June 2013 a €500 million trade finance facility to support foreign trade oriented SMEs in Greece. The structure of the agreement includes leading Greek and foreign banks providing lending facilities to Greek SMEs in the import-export sector. The facility comes at a critical time and is most welcome because it:

- Helps to mitigate the risk perception of commercial banks;
- Enables trade facilitation services at a time when Greece needs trade finance in order to pursue export-led growth for its economic recovery;
- Provides foreign banks with appropriate guarantees in favour of the Greek banks for letters of credit and other trade finance instruments.

The Working Group welcomes this trade facilitation agreement between the Greek authorities, domestic and foreign banks as well as the EIB.

Following fact-finding missions by EIB in mid-2012, the EIB Board approved this operation in September 2012; the preparation of the relevant documentation for this (first time ever) operation for EIB, and its ensuing negotiation with the counterparts (i.e. the Greek issuing banks on one side and the foreign confirming banks on the other) was concluded in early June 2013.

5. EIF

EIF representatives supported a rationalization of operational programmes and agents involved in the process of designing, managing and implementing FEIs. There should not be any overlap of players, strategies and programmes that created institutional as well as administrative confusion for banks and SMEs in the application and execution process.

EIF also recommends that future financial engineering actions should be assigned to the various implementing bodies after taking into account the expertise and value added that they can bring in the different structures, both at the level of financial intermediaries as well as the level of SMEs. The ability of AAA organisations to enhance portfolio guarantee products, thus potentially achieving capital relief for the intermediary banks and better pricing/collateral conditions for the SMEs was particularly highlighted.

E. Measures available to banks and SMEs

The Working Group is in favour of simplifying collateral requirements and injecting flexible working capital arrangements in combination with guarantee products for SMEs, particularly for export oriented viable SMEs.

1. The operational environment for banks after recapitalization

The return of the Greek banking sector to greater stability following the completion of the recapitalisation process offers an opportunity for domestic lenders to reduce their deposit rates and lower the spread between loan rates and deposit yields.

2. Refinancing loans for SMEs

The Working Group proposes to take full advantage of existing negotiation instruments between banks and SMEs as regards refinancing and/or restructuring existing loans. In particular a focus on a feasible reduction of interest rates is paramount.

In our view it is important to establish a level playing field, i.e. to what degree the national authorities in Greece can provide SMEs with the same kind of refinancing options (e.g. debt settlement repayment in a larger number of installments) as private citizens and households. The current legal framework does not provide for such an option.

3. Combining grant schemes with lending facilities

The Working Group shares the view that EU grant schemes should be combined with lending facilities provided by domestic banks in the support of liquidity to the real economy in Greece. Improving direct support to SMEs including conditions to have access to grants and financing is shared by the Working Group. The Working Group endorses the following:

- The availability of data on direct support instruments that highlight the progress made on the disbursement of grants to SMEs.
- SMEs in Greece are currently supported by various schemes-calls issued by different implementing bodies. We see a strong need to elaborate a coherent strategic plan which would serve the funding priorities of the forthcoming programming period.

The combination of grants with loan funding and guarantee schemes should be clarified. Most importantly, the process should avoid excessive administrative complexities and delays.

4. New approaches to collateral requirements by banks and SMEs

The collateral requirements for SMEs participating in NSRF funding programmes need to be re-worked in terms of its levels and valuations. Frequently, the only collateral SMEs can offer to banks is real estate properties. But this asset is subject to declining valuations in Greece, thereby making the value of the collateral insufficient and/or unacceptable for banks vis-à-vis SMEs.

The Working Group proposes to introduce, in accordance with state aid framework, an unprecedented risk sharing instrument with the dual aim of increasing the medium-term value of provided (real estate) collateral and in consequence augment the availability of *new* loans for SMEs through improved pricing levels. Such a risk sharing facility is a product that seeks to guarantee the future projected value increase of the provided collateral over a defined period of time.

The collateral requirements currently in operation in Greece need to be revisited in terms of their applicability and valuation methods. The current procedure to apply existing/prevaling market prices constitutes an obstacle to increase lending volumes to SMEs. We propose three different options for consideration:

1. The value of the real estate provided as collateral is based on the taxation levels of the asset during the past 5 years.
2. Additionally, in order to increase the value of the provided real estate collateral, the incurred construction costs should also be taken into consideration when assessing a pricing level. Proper application of bank accounting standards remain essential.
3. A risk sharing instrument for micro loans and SME lending introduced through a public entity. This would include a specific budget to issue a guarantee towards domestic lenders within the next five years linked to an (assumed/expected) increase in the value of the provided collateral by 25 per cent. This risk sharing instrument would be issued on a loan collateral basis.

- a. Further clarification is requested by the Working Group, in particular concerning the issuance of such a facility in favour of the bank or towards the SME?
- b. The Working Group agrees that such a risk sharing facility should not be adopted to support existing guarantees, nor it should not be used to supplement current loans.

The risk sharing instrument would guarantee the difference between the market price of the real estate provided as collateral and the revised value using one of the aforementioned calculation options.

5. Improve Bank – SME coordination

Both domestic banks and SME representatives need to work closely together to improve joint efforts on reporting to each other what programmes are currently available on the bank side and what are the specific needs/demands coming from the SME clientele. A renewed and accelerated process of data transparency between all stakeholders involved is key here.

Specifically, SME representatives and commercial banks should jointly define the exact methodology to be followed and dataset to be periodically collected and analyzed. Data should refer to both sides of demand and supply of FEIs and loans in general. There are best practices implemented in other Member States that could serve as examples. These renewed coordination efforts should also include a monitoring mechanism that tracks:

- the costs of loans,
- obstacles to their availability from banks for SMEs, and
- rejection levels and the reasons given by domestic lenders (this should be done on a global level, not on an SME-by-SME level).

The objective of these improved bilateral coordination efforts is to share information, identify potential stumbling blocks, providing possible solutions and avenues for an improved collaboration between both parties. The Hellenic Banking Association can play a key role in that respect. It can serve as a major contact and information point between participating domestic lenders and SME organization in terms of data collection, sharing, monitoring etc.

V: Lessons learned from the current financial period

The Working Group welcomes initiatives at the national level and with Commission services to establish a **Steering Committee** with a view to monitoring disbursement progress, proposing, where appropriate, *Plan B solutions*, and setting up clear recommendations on how these will be used in the next programming period.

Such a Steering Committee should include, to the Working Group's view, representatives from Greek authorities (in particular the Ministry of Development), the SMEs, the DG REGIO, the EIB, the EIF, the ETEAN, the TFGR and the Hellenic Bank Association.

It is wishful that the Steering Committee would take into consideration the present Report, when finalised, with a view to:

- simplifying procedures for FEIs (more specifically, measures that seek to restructure and retarget existing schemes, simplification and grouping of available FEIs in a smaller number of key and flexible products),
- avoiding overlapping, duplication and fragmentation of FEIs by ensuring appropriate targeting of FEIs through the early inclusion of all stakeholders in the design process of such facilities,
- monitoring data about contracted, disbursement and payment levels sent to all relevant stakeholders at the national level and to Commission services, and
- ensuring that future FEIs should be based on a comprehensive funding gap analysis with needs assessment from SME representatives essential.

VI. Specific recommendations for the next programming period

A. Introductory remarks

The inclusion of social partners in the drafting and design of the next NSRF programme is shared by all participants of the Working Group. In our deliberations at technical level we have gained first-hand experience how such an attempt to include different stakeholders in the design of FEIs in the next programming period can operate. Members of the Working Group are therefore prepared to participate in an advisory board that can be established and which would serve to provide input on programme design and FEIs.

Ex-ante GAP analysis for FEIs of 2014-2020 should be addressed on a common basis to all involved parties (ETEAN – EIF – EIB). This GAP analysis will take into consideration real economy situation and will be binding for all involved parties.

B. Implementation of Operational Programmes

The Working Group has considered the issue if there is a need for a new coordination authority or why the existing authority architecture does not work, i.e. deliver in terms of coordination requirements and timely disbursement levels.

Some members of the Working Group suggested the establishment of a General Secretary in the next programming period for FEIs that would guarantee continuity (beyond the political calendar) and independence. The Working Group asks the Greek authorities to consider the following recommendations:

- Could the Ministry of Development identify a representative who would be the main contact point for stakeholders with the sole responsibility for FEIs to SMEs?
- How can the coordination among line ministries and these with regional authorities be ensured, e.g. in the field of shared roadmaps and the administrative capacity of the (regional) implementing bodies of ERDF, ESF and CF projects?

C. Eligibility of working capital

The Working Group supports the change in regulations for Structural Funds from 2011 specifically for so-called programme countries that these funding facilities should also be used for working capital loans. This single change significantly affected disbursement levels within a short period of time.

The Working Group agreed that under current market conditions in Greece the financing needs of SMEs continue to focus largely on working capital needs. Investment activities have reduced significantly. It is therefore crucial to ensure that Structural Funds would continue supporting working capital financing needs for as long as the negative economic conditions continue.

This should be reflected in the governing rules and provisions of the new Programming Period (2014-2020), currently being finalized. Working capital financing in FEIs should continue to be made available *in separation from* investment capital and may enlarge the eligible expenditure for working capital.

D. *Pari passu* principle

Abolition of the *pari passu principle*. The FEI can guarantee the part of the loan contributed by the co-financing bank in a Loan Fund, in accordance with the state aid framework.

E. *De minimis* threshold

At present the *de minimis* threshold on the new regulation proposal remains at €200.000 over any period of 3 fiscal years (€100.000 for freight transport), despite the fact that most Member States demanded the abovementioned limit to increase to €500.000.

- The Working Group supports the proposed increase up to €500.000.
- According to existing regulation provisions: “*When an overall aid amount provided under an aid measure exceeds this ceiling, that aid amount cannot benefit from this Regulation, even for the fraction not exceeding that ceiling*”.
- This provision in combination with the use of a *de minimis* e-registry since 30/06/2013 means that the above-mentioned threshold will be closely verified. As OAED (unemployment agency) uses *de minimis* for all of its actions there is not enough additional “space” for the use of *de minimis* for lending to SMEs.

F. Financing the Financial Engineering Instruments

Financial Engineering Instruments (hereinafter 'FEIs') are primarily lending facilities such as loans and guarantee mechanisms. The utility of these products should address SME's financing needs in a variety of areas, including working capital, investment or operational purposes, risk capital instruments such as equity and quasi equity, irrespective of the state's priority axis or state aid programs. We therefore propose that

- The FEIs' financing to be directly generated through the Public Investment Programme, co-financed by the European Union and the Greek state, as a separate action (axis) for the country as a whole, instead of coming through the Operational Programmes ('O.P.') or Regional Operational Programmes' ('R.O.P.') budgets.

The geographical re-allocation through the revision of O.Ps or R.O.Ps remains an option, as proposed in section I.

G. Improve support instruments for an effective SME policy

Enhancing the cross-industry lending dataset is key to improving access to finance for SMEs in Greece. We need a broadening of available statistics on lending available for wider bands of business activity: e.g. lending in remote areas, national and regional data on the provision of bank support to business start-ups.

The Working Group has therefore accepted that two of the main reasons for the low absorption of FEIs during the current programming period in Greece are the following:

1. The process of designing FEIs is not based on specific data that should explore the real financing needs of SMEs;
2. The fact that SMEs organizations do not have access to whatever data is available or to the decision making process in cooperation with banks and other intermediary bodies when designing new FEIs.

SMEs representatives have raised these two concerns and emphasize that since they receive on a daily basis information from the client side of FEI users, they could significantly contribute in jointly designing FEIs that would be expected to be more efficient, leading to higher absorption rates and increased levels of access to finance for SMEs.

SMEs representatives support the idea of developing a data collection mechanism following the example of other banking associations in the European Union.² The precise format should be subject to further discussion among members of the future Steering Committee. The objective is to establish best practice examples from similar initiatives taking place, among others but not exclusively, in the U.K. The methodology should be agreed between the Government and business groups, in order to provide an agreed and comprehensive set of data on business finance demand and lending supply.

The Working Group proposes to establish an IT tool that identifies what EU funding instruments are available for SME financing. More specifically, could technical assistance from current structural funds be made available to establish such a digital platform?

The exact data set (monthly and/or on a quarterly basis) to be collected should be discussed and jointly accepted by all stakeholders (i.e. banks, financial intermediaries and SME organizations). Furthermore, SMEs organizations should be included in the decision making process of designing new FEIs for the next programming period. The HBA could play a coordinating role and use its distribution channels for further data dissemination.

The Working Group therefore supports the following specific recommendations addressed to European Commission services, national authorities and local stakeholders:

² See e.g. the British example: <http://www.bba.org.uk/statistics/article/banks-support-for-smes-quarter-1-2013> as well as quarterly reporting data from the *Business Finance Task Force*: <http://www.bis.gov.uk/analysis/statistics/business-population-estimates> as well as <http://www.sme-finance-monitor.co.uk>.

- The publication to stakeholders (HBA and SME representatives) by the Ministry of Development of already existing information and statistical data on the implementation/absorption/payment of FEIs.
- The development and implementation of a SME Finance Monitoring Mechanism.
- Based on such information sharing recommendations are proposed to National and Commission services concerning possible reprogramming options of existing resource allocations and FEIs.
- Develop an effective combination of grants, loan financing and support mechanisms.
- Working capital financing in FEIs should continue to be made available in separation from investment capital and may enlarge the eligible expenditure for working capital.
- Cooperate with the Greek authorities on how to improve indirect support procedures and the optimal use of FEIs in time of sustained economic crisis.
 - The COSME work programme should be considered for the possibility to support measures improving framework conditions for SMEs (e.g. technology transfer, SME cluster cooperation, internationalisation);
- Expand web-based tools with information about EU funding options per country, region and SME type. It is strongly recommended that the Ministry of Finance should establish a user-friendly central webpage with an overview of current programmes (grants, loans, guarantees, advisory capacity), administrative requirements, timetables and form of FEI, to be regularly updated. A specific interface link providing feedback options from the SMEs point of view and regional chambers of commerce is also highly desirable.

VII. Designing a comprehensive SME policy in Greece

In light of the lessons learned from the current financing period and the protracted economic crisis affecting bank lending capacity and the availability of affordable credit for SMEs the Working Group considers it essential that the Greek authorities formulate in cooperation with all stakeholders concerned a comprehensive SME policy for Greece as soon as possible. Such a policy framework would seek to

- (i) Establish a needs assessment,
- (ii) Identify development actions,
- (iii) Be inclusive regarding the consultation process of relevant stakeholders,
- (iv) Highlight the priority areas for the new NSRF programming period 2014-2020.

We therefore recommend to:

1. Establish an integrated National Development Plan for SMEs, inclusive of a SME policy coordinator across line ministries;
2. Formulate a comprehensive SME policy that takes on board considerations and expertise on how the new economic growth model of Greece should look like, who are its change agents and what financing facilities are necessary to support it;
3. Effective public – private collaboration in the design of FEIs supporting a SME policy framework in Greece. A genuine smart specialization strategy promoting innovation through bottom-up procedures needs to be established, promoted and tested in practice;
4. The sectoral focus of such an SME policy framework needs to be addressed, e.g. in terms of export orientation, value added and innovation capacity. Sectors contributing to these benchmarks exist in Greece, e.g. SMEs focus on nutrition and bio-agro foods, the environmental sector, textiles and clothing industry as well as information and communication technologies and SMEs operating in the health sector.
5. A coherent SME policy for Greece will need to recalibrate the cooperation between industry and research networks, making extensive use of the academic expertise and research innovation available in the country. Strengthening the links between research and (SME) businesses is a vital element for innovation and entrepreneurship in the years ahead for Greece.

Annex:

Proposed Work plan – Roadmap for the next Meetings of the Working Group

The issues listed below have been recognized by the members of the Working Group as important. But we require additional direct information on these issues in order to form a common understanding and work towards joint proposals. Hence, we propose these issues as forming part of the agenda when continuing our meetings in the Working Group.

1. Bi-lateral initiatives between countries

- The German Ministry of Finance and the public investment bank *KfW* have recently agreed with the Spanish authorities a plan to grant SMEs financial assistance totaling roughly €1 billion. We have seen press reports suggesting that Portugal and Greece have expressed interest in the same kind of lending support for SMEs. The Working Group would welcome additional direct information on such bilateral initiatives.

2. EIB options for collateral enhancements

- The Working Group inquires if EFSF bonds can be used as collateral enhancements for banks through the EIB? More specifically, could such bonds currently held by the Hellenic Financial Stability Fund (HFSF) be used as additional guarantee instruments to banks when providing SME financing?

3. Options for geographical re-allocation

- The geographical re-allocation through the revision of O.Ps is another option. The Working Group would want to understand in greater detail how re-allocation processes could be made operational taking into account the economic activity of enterprises in Greece as reflected via their turnover. This solution needs time and it does not cover potential demand for FELs to the regions with reduced economic activity.

4. Provision of technical assistance facilitated by the TFGR

- The Working Group would like to know in greater detail at what level, towards which stakeholders the facilitation of technical assistance would be located? How would such assistance be provided, through what procedures and channels?

5. Institution for Growth

- If the proposed *Institution for Growth* currently under discussion is established in Greece, the Working Group would welcome the opportunity to receive first-hand information on its concept, structure, financing priorities and lending/investment focus, in particular how such an Institution's activities would benefit SMEs.

6. Refinancing loans for SMEs

- The Working Group would like to explore existing out-of-court **credit mediation schemes**, their implementation in Greece and best practice examples from other countries, e.g. in Ireland.
- In this context another option concerns the application of the **Teresias (credit) system** for SMEs under the current crisis conditions. The weighting of the Teresias data to bank-specific credit risk methodology is a matter of banking policy which may not be regulated externally, at least for facilities funded by the banks

The Working Group also proposes to study in greater (legal) detail if and what kind of **settlement extensions for loans provided to SMEs** are possible. We agree on the observation that any legal changes to the existing framework is only a means of last resort.

Meeting of High Level Representatives

- **Ministry for Development and Competitiveness**
Eleni Gioti - Head of the Office of the Secretary General for Public Investments - NSRF
Zoe Georgopoulou – Head of Competition and State Aid Unit, Ministry for Development and Competitiveness , General Secretariat of Public Investments – NSRF National Coordinating Authority, Special Coordination Service for the implementation of the OPs
- **European Investment Fund (EIF)**
Georgios Hatzigrigoriou – Regional Business Development, Mandate Manager
Xenia Dimou - Regional Business Development, Mandate Manager
Eirini Mpotonaki – Regional Business Development, Mandate Manager
- **European Investment Bank**
Constantin Synadino - Head of Lending Operations in Greece
F kpp { ukqu'Mcunctgrku"/'Nqcp'Qhleg II tggm'Dcpnki "Ugevqt
- **Alpha Bank**
Theodore Kalantonis – Executive General Manager
- **Eurobank**
Byron Ballis – Deputy Chief Executive Officer
Evangelos Kavvalos – General Manager, Head of Small Business Banking
- **Piraeus Bank**
Spyros Papaspyrou - Deputy Managing Director
- **National Bank of Greece**
Andreas Athanassopoulos – General Manager, Retail Banking
- **Hellenic Fund for Entrepreneurship and Development**
Georgios Gerontoukos – President of the Board of Directors and CEO
Anastasia Avgerinou – General Manager
- **European Commission**
Panos Carvounis - Head of the Representation of the European Commission in Greece
- **Athens Chamber of Commerce and Industry**
Constantine Michalos - President

- **Hellenic Confederation of Professionals, Craftsmen & Merchants**
Giorgos Kavvathas – President
- **National Confederation of Hellenic Commerce**
Vassilios Korkidis – President
- **Task Force for Greece (TFGR)**
Horst Reichenbach – Head
Georgette Lalis – Head/Athens Office
Maria Velentza - Member
Jens Bastian – Member
- **Hellenic Bank Association (HBA)**
Christos Gortsos – Secretary General
George Kambourakis - Director

Working Group

- **Ministry for Development and Competitiveness**
Eleni Gioti - Head of the Office of the Secretary General for Public Investments - NSRF
Zoe Georgopoulou – Head of Competition and State Aid Unit, Ministry for Development and Competitiveness, General Secretariat of Public Investments – NSRF National Coordinating Authority, Special Coordination Service for the implementation of the OPs
- **European Investment Fund (EIF)**
Georgios Hatzigrigoriou – Regional Business Development, Mandate Manager
Xenia Dimou – Regional Business Development, Mandate Manager
Eirini Mptonaki – Regional Business Development, Mandate Manager
- **European Investment Bank (EIB)**
Dionysios Kaskarelis - Loan Officer/Greek Banking Sector
- **Alpha Bank**
Georgios Chytiris – Senior Credit Officer
- **Eurobank**
Kyriakos Chatzioannoglou - Deputy General Manager
- **Piraeus Bank**
Panagiotis Matzapetakis – Senior Manager (SMEs Loan Department)
- **National Bank of Greece**
Christos Sourilas – Head of SMEs Loan Department
- **Hellenic Fund for Entrepreneurship and Development**
Anastasia Avgerinou – General Manager
- **Athens Chamber of Commerce and Industry**
Thomas Katsadouros – Special Advisor to the President
- **Hellenic Confederation of Professionals, Craftsmen & Merchants**
Nikos Daskalakis – Head of Market and Entrepreneurship, Small Business Institute
Dimitris Bibas – Scientific Advisor, Small Business Institute
- **National Confederation of Hellenic Commerce**
Nikolaos Tritaris – Special Advisor
Nick Georgokostas – Advisor

- **Task Force for Greece (TFGR)**
Jens Bastian – Member
- **Hellenic Bank Association (HBA)**
George Kambourakis - Director