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The contribution of the European Investment Fund Small Medium Sized Enterprises Guarantee Facility and of the Greek new Institution of SMEs Credit Guarantee Fund to the local Entrepreneurship and generally to the endogenous regional growth

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27th – 30th August, 2003**

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Subject: The contribution of the European Investment Fund SMEs Guarantee Facility and of the Greek new Institution of SMEs Credit Guarantee Fund to the local Entrepreneurship and generally to the endogenous regional growth

ABSTRACT: In the first part of my paper I will analyze the Initiative of SMEs Guarantee Facility of the European Investment Fund.

The second part refers to the Greek experience related to the above EIF Initiatives focussing on the new Institution of SMEs Credit Guarantee Fund.

In the last part of my paper, I will work out a comparison analysis between the EIF SMEs Facility and the Creek SMEs Credit Guarantee Fund, focusing on the co-ordination of these two Institutions in E.U and national/regional implementation level. Moreover, a global assessment of the overall analysis will be carried out, which will also include the conclusion and proposals especially in terms of contribution of the examined Initiatives to the support and development of SMEs and generally to the local entrepreneurship that play a crucial role in the endogenous regional growth process.

PART I

THE INITIATIVE OF SMEs GUARANTEE FACILITY OF THE EUROPEAN INVESTMENT FUND

1. Time evolution of the SMEs Guarantee Facility

The SME Guarantee Facility was implemented in 1998 as part of the European Union' s Growth and Employment Initiative, which is a larger programme of financial assistance to SMEs. Following the decision of the Council on 20 Decemberr 2000/819/EC, (O.J.No.L 333/84 of 29 / 12 / 2000), in December 2001, the European Investment Fund signed a new agreement with the European Commission in the framework of the Multi – Annual Programme for Enterprises 2001-2005. Such agreement extends the coverage of the facility to other products and countries.

Furthermore, in March 2002, the EIF organized a conference in Brussels to present the Financial Instruments of the above mentioned Initiative to representatives of the E.U. Candidate Countries, that became full members last April in Athens. More specifically, eligible to participate in the SME Guarantee Facility, are the Member States of the E.U., the Acceding and Accession Countries, (including Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia, Turkey) and the EFTA countries, (Norway, Iceland, Liechtenstein).

2. The 4 special windows of <<SME Guarantee Facility>>

The <<SME Guarantee Facility>> is funded by the E.U. and is operated by the E.I.F on behalf of the E.U. This Facility consists of 4 special windows, in order to make a full range of guarantee products available of SMEs. Thus, the 4 available windows under the Facility, are :

? Loan Guarantees

Purpose: the Loan Guarantee window supports SMEs with growth potential, (for more details see Table 1 of the Appendix). Under this window, the E.I.F issues partial guarantees, (directly or indirectly), to cover portfolios of loans. Its objective is to reduce the particular difficulty such enterprises face in having

access to financing because of the relatively higher risk they represent, (e.g. small or newly-established companies) and the insufficient security.

Selection of Intermediaries: Intermediaries operating in the Participating Countries¹, and they are selected among:

- primary guarantee schemes within the public or private sector, including mutual guarantee schemes and wherever possible, guarantee schemes set up primarily to help finance loans that banking system would not readily provide without guarantee cover, and
- any other appropriate financial institution.

Eligibility Criteria: As far as the election process concerns, Intermediaries will be examined and selected by the E.I.F. on a continuous basis in conformity with best business and market practice in a fair and transparent manner. Intermediary proposals will be considered for approval by the E.I.F. and the Commission, after satisfactory evaluation by the E.I.F., within the constraints of the available E.U. budget allocations. Moreover, the E.I.F. will endeavour to achieve an overall adequate geographic balance.

For being selected, the Intermediaries shall have regard to the following criteria:

- the financial standing and the operational capability of the intermediary, its ability to manage risk and its willingness to accept contractual terms complying with the requirements of the Facility.
- where appropriate, whether the intermediary guarantees loans extended by a wide range of lenders to SMEs.
- the extent to which the intermediary has a wide geographic coverage of SMEs either in the relevant country, or if the intermediary operates on a regional basis in the region concerned,
- the extent to which the portfolio includes or will include loans with less security than is customary for commercial SME lending,
- the overall risk-sharing arrangements,
- the willingness to accept the additionality criteria, and

¹ The Member States of the E.U., Norway, Iceland and Liechtenstein. Accession countries might become eligible at a later stage.

- the compliance with the state aid rules.

Final Beneficiaries: SMEs with up to 100 employees, (see table 1 of the Appendix).

Selected Portfolios: a portfolio may include guarantees, or as the case may be loans. The eligibility criteria shall be determined by the E.I.F. individually for each selected portfolio, in agreement with the intermediary and with the aim of reaching as many financial beneficiaries as possible. These rules shall reflect market conditions and practices in the relevant territory. However, each portfolio must have a composition which allows it to be treated as a portfolio from a risk management point of view and, as applicable, comply with the following criteria:

- sufficient homogeneity so as to have a loss expectation that may be predicted with reasonable accuracy,
- homogeneity between the borrowers and between the maturity of loans.

Purpose of financing: loans supporting the development of final beneficiaries, that, typically, are investments loans². Particular attention shall be given to the financing of intangible assets.

Loan maturity: priority shall be given to medium and long term financing, (i.e. loans with maturities longer than 18 months).

Evaluation of proposals: EIF will examine all proposals on an on-going basis in the chronological order of receipt. They will be considered in accordance with the available budgetary resources. The E.I.F. will evaluate the proposals according to criteria set out in the respective guarantee policies. On the basis of this evaluation, E.I.F. will establish a list of pre-selected Intermediaries which are invited to enter into negotiations with E.I.F. on their participation in the Facility. E.I.F. has no obligation to enter into an agreement with a pre-selected Intermediary. The participation of any Intermediary will depend, inter alia, on the outcome of the negotiations with that Intermediary and on the budget allocations finally made available for the Facility. During negotiations, E.I.F. may establish criteria for the inclusion of loans in the Portfolio stricter than those mentioned above, as to

restrict the E.I.F. guarantee to certain categories of debt finance and / or SMEs that most match the objectives of the Facility.

Monitoring and audit: Intermediaries must agree to allow the E.U' s agents and the European Court of Auditors to have access to adequate information to enable them to discharge their duties with respect to monitoring, control and auditing of the correct use of the Community funds. In that view, Intermediaries will be required to undertake to perform all such acts and take all measures required to provide such access to the Court of Auditors of the E.U. and the agents of the Commission. In addition Intermediaries will include appropriate provisions in each guarantee agreement to that effect, and, where relevant, obtain undertakings from each lender that it will comply with the relevant written provisions.

List of deals: 12 Member States of E.U. are participating, by Intermediaries of the public or private sector in the aforementioned window, (for more details see the relevant tables of the internet pages, in the Appendix).

? **Micro - credit Guarantees**

Purpose: the Micro – Credit guarantee window supports Small Enterprises. Particular attention should be given to financing of entrepreneurs starting up their business. Under this window, the E.I.F. issues partial guarantees, (directly or indirectly), to cover portfolios of micro – loans for borrowers with insufficient security. Its objective is to encourage financial intermediaries to become more involved in that area by offering loans of a smaller amount which have proportionally higher unit handling costs.

Selection of Intermediaries and Eligibility Criteria: Intermediaries operating in the Participating Countries³, and they are selected and examined, in the same way, as I mentioned above, for the case of Loan Guarantee window.

² Investments are defined in article 2 and eligible costs in article 4, paragraph 5 of the Commission Regulation 2001/70/EC of 12/1/2001 on the application of articles 87 and 88 of the E.U Treaty to State aid to SMEs.

³ The Member States of the E.U., Norway, Iceland and Liechtenstein. Accession countries might become eligible at a later stage.

Final Beneficiaries: Small Enterprises, with up to 10 employees, (see table 1 of the Appendix). Particular attention should be given, as it is already said, to financing of enterprises starting up their business.

Selected Portfolios:(see relative topic of Loan guarantees).

Purpose of financing: working capital and / or investment financing.

Micro-loan amount: The maximum micro-loan amount eligible under the examined Facility shall be Euro 25.000. (see Table 1 of the Appendix).

Loan maturity: priority shall be given to medium - term financing, (i.e.loans with maturities longer than 18 months).

Technical Support: it could be made to the intermediaries, in the form of a lump sum, in order to partially offset the relatively higher administrative costs inherent to micro lending. Such support shall not exceed Euro 200, per loan, guaranteed and will be payable to the intermediary, subject to the intermediary's representation that it hasn't granted or guaranteed any other loan to the same final beneficiary. The maximum aggregate amount of technical support payable to one intermediary shall be capped to a pre-set amount.

Evaluation of proposals - Monitoring and audit: The appropriate E.U.'s Authorities follow the same to other 2 procedure of proposals'evaluation and Monitoring –audit. List of deals: 5 Member States of E.U., (i.e.Belgium, Germany, Spain, France and United Kingdom), are participating, by Intermediaries of the public or private sector in the aforementioned window, (for more details see the relevant tables of the internet pages, in the Appendix).

? **Equity Guarantees**

Purpose: the Equity Guarantee window supports own funds investments in SMEs' with growth potential, in order to reduce the particular difficulties which SMEs face because, as it is well known, of their weak financial structure.

Selection of Intermediaries: Intermediaries operating in the Participating Countries⁴, are selected among financial institutions that offer equity guarantees

⁴ The Member States of the E.U., Norway, Iceland and Liechtenstein. Accession countries might become eligible at a later stage.

or intend to implement such product (primarily guarantee schemes within the public or private sector).

- primary guarantee schemes within the public or private sector, including mutual guarantee schemes and whenever possible, guarantee schemes set up primary to help finance loans that banking system would not readily provide without guarantee cover, and
- any other appropriate financial institution.

Eligibility Criteria: As far as the election process concerns, Intermediaries will be examined and selected by the E.I.F. on a continuous basis in the same manner with the other 2 windows that I have already analyzed.

For being selected, the Intermediaries, apart from the relevant to Loan Guarantee and Micro-credit Guarantees, criteria, shall also have regard to the following criteria:

- whether the intermediary provides or will provide equity guarantees to cover investments by venture capital funds, corporates or individuals in the equity of eligible SMEs, and
- the extent to which the portfolio includes or will include SMEs with a high risk profile.

Final Beneficiaries: Directly, investors in SMEs, indirectly, SMEs whose equity benefits from the guarantee.

Selected Portfolios: a portfolio may include equity guarantees extended to cover own funds investments in eligible SMEs. The eligibility criteria shall be determined and in this case in the same way with the other two. However, the Intermediary's portfolio must have a composition which allows it to be treated as a portfolio from a risk management point of view and, as applicable, except for sufficient homogeneity, that must have so as to have a loss expectation that may be predicted with reasonable accuracy, it has also to comply with an extra criterion:

- sufficient number of individual investments.

Maximum guaranteed amount: the E.I.F. cover, per individual investment in a SME shall not exceed Euro 500.000.

Purpose of the guarantee: Guaranteed investments must provide additional long term equity or quasi-equity capital, -(see table 1 of the Appendix).

Evaluation of proposals – Monitoring and audit: The appropriate E.U.'s Authorities follow the same to other 2 procedure of proposals'evaluation and Monitoring –audit. List of deals: 1 Member State of E.U., (France), is participating, by Intermediary of the public sector in the aforementioned window, (for more details see the relevant table of the internet page, in the Appendix).

? **ICT Loan Guarantees**

Purpose: the objective of ICT Loan Guarantees window is to support investments in information technology equipment, software and relevant training, for the exploration of the new possibilities presented by the Internet and e-commerce, in order to help such enterprises modernise themselves in these areas and make them more competitive.

- Selection of Intermediaries: Intermediaries operating in the Participating Countries⁵, are selected among primarily guarantee schemes within the public or private sector, including mutual guarantee schemes, and any other appropriate financial institution.

Eligibility Criteria: As far as the selection process concerns, Intermediaries will be examined and selected by the E.I.F. on a continuous basis in the same manner with the other 3 windows that I have already analyzed and they are selected and examined, in the same way to Loan and Micro credit guarantees.

Final Beneficiaries: Small and medium – sized enterprises with up to 100 employees, but priority should be given to small enterprises with up to 50 employees

Selected Portfolios: a portfolio may include guarantees, or as the case may be, loans.. The eligibility criteria shall be determined, generally, in the same way to the other three, and more specifically with the aim of teaching as many final beneficiaries as possible. However, the Intermediary's portfolio must have the

⁵ The Member States of the E.U., Norway, Iceland and Liechtenstein. Accession countries might become eligible at a later stage.

same to loan and Micro –credit guarantees composition and comply with the same criteria as well.

Purpose of financing: Loans supporting new investments in information technology, hardware and software.

Loan Maturity: Ususally medium-term financing, (i.e. loans with a maturity longer than 18 months).

Evaluation of proposals – Monitoring and audit: The appropriate E.U.'s Authorities follow the same to other 3 procedure of proposals' evaluation and Monitoring –audit.

List of deals: up to now there is no information available about the countries and intermediaries participating in the aforementioned window.

3. The contribution of the SMEs Guarantee Facility to the support of the E.U's Small –Medium Sized Firms and to their access to the Banking System

The contribution of the above mentioned new Facility to the support and development of SMEs will be of crucial importance. In particular, per window, we can observe the following:

? Loan Guarantees

The Loan Guarantees window aims to encourage intermediaries to provide:

- higher volumes of guarantees for their existing guarantee products,
- access to financing to a larger population of small companies for a wider variety of investments, and
- guarantees for riskier loans.

The results of the aforementioned efforts, are encouraging, because, as of 30/6/2002, there are 22 intermediaries active in 12 countries, (see the relevant internet pages of the Appendix). The aggregate EIF Guarantee amount committed is about Euro 2,5 billion and the estimated underlying loan volume supported is about Euro 9,8 billion. But the more important of all this is that, in this way, according to E.I.F 's statistics, 112.625 SMEs are supported.

? Micro - credit Guarantees

The Micro – credit Guarantees window, which allows a guarantee or counter guarantee of micro credit operations, aims to encourage financial Institutions:

- to become more involved by offering loans of a smaller amount, which have proportionally higher unit handling costs and as it is said above,.
- to provide access to financing to a larger population of small companies for a wider variety of investments and guarantees for riskier loans.

As a result of the above, until 30/10/2002 4 intermediaries have been active in 4 countries, (see the relevant internet pages of the Appendix). The aggregate EIF Guarantee amount committed is about Euro 55 million. More specifically, the E.I.F. has concluded 4 guarantee operations, totalling Euro 55 million, under this SME Guarantee Facility's special Window for Micro-credit. These are the first operations signed under this new Scheme, which is, as we have already mentioned, part of the Community – funded <<Multi-annual Programme for enterprise and entrepreneurship 2001-2005>>. These operations, in France, Spain, Germany, Belgium and the new one (3/2003), in United Kingdom, will contribute to increase the consideration of smaller credits by commercial banks.

? Equity Guarantees

This window, that it isn't provide direct guarantee to venture capital funds, aims to encourage intermediaries to:

- provide higher volumes of guarantees to their existing guarantee products, and
- implement such product.

Via this facility, until the end of the year 2002, only one intermediary, in France, has been active, (see the relevant internet pages of the Appendix).

? ICT Loan Guarantees

The ICT Loan Guarantees facility aims to encourage intermediaries to provide :

- higher volumes of guarantees for their existing guarantee products for ICT investments, and
- access to financing to a larger population of small companies for ICT investments,

For this facility we have not yet any results.

Generally, in my opinion, the SMEs Guarantee Facility, especially with its 2 first windows, can be identified as an important factor of business development, job creator and self employment. Therefore, if the efforts, through that Facility, towards the establishment of deals, focus on the regional financial institutions which have major importance to the reinforcement of local entrepreneurship through the supporting of SMEs activities, and during last year the E.I.F. invested in several funds dedicated exclusively to the regional industry, (examples include Mezzogiorno Fund in the south of Italy, Desarrollo in Spain and Fonds pour le Capital Investissement Regional in France. Moreover, with candidate Countries, late in 2002 a deal was concluded with the Prague –based Genes Fund, which now expands the scope of E.I.F.’s geographical coverage to the Czech Republic). I am sure that this bottom – up development strategy will contribute to an endogenous integrated development of areas, such mountainous, peripheral, rural and insular, like the <<objective 1 >> regions or hall countries. One of them, as it is well known is Greece and in the second part of my paper, that follows, I am going to examine the new Institution of Guarantee Fund for SME.

PART II

THE INSTITUTION OF SMALL AND VERY SMALL ENTERPRISES GUARANTEE FUND

1. The Greek SMEs Firms and the financial difficulties that they face

The SME enterprises have played a very important role in the economic and regional development of Greece. In fact, about 800.000 enterprises in my Country fell into the <<small business>> category. These firms accounted for 80% of total employment in Greece.

Important as they are, small business are behind large companies in terms of productivity, technological experience, financial and other areas. Particularly, they often lack creditworthiness. They have trouble securing funds needed for their business activities, such as purchasing materials and products and investing in plant and equipment. Since most small companies have only limited capital resources, they have to rely on banks and other financial institutions for their

funds. Banks require sufficient collateral or a well-established surety for their debtors to secure a loan. The lack of such assets or appropriate surety makes it difficult for many small business to obtain loans from financial houses.

2. Time evolution of the Institution of SMEs Guarantee Fund – Other examples of Guarantee Societies in E.U

Some characteristic Examples of Guarantee Schemes set up with assistance from the Structural Funds of E.U, include:

? In Italy, the Eurofidi, which is a mutual guarantee fund providing loan guarantees to SMEs. Thus, its primary objective is to facilitate access to finance for SMEs in the Piedmont Region. Moreover, it assists financial institutions in screening loan applications and in risk management.

? In Finland, Finnvera offers to SMEs three main categories of financial instrument:

- loans,
- guarantees and
- export credit guarantees.

The above case study focuses on Finnvera's portfolio of guarantee products, which are tailored according to the needs of SMEs depending on the business sector in which they operate and on their developmental needs and objectives.

The previous to the examined Institution scheme is the System of Mutual Guarantee Companies, that was founded in 1917 in France (nowadays, the relevant Institution in France is called SOFARIS e.g Societe Francaise de Garantie des Financements des PME. It is supported by the Banque du Development des P.M.E.) and simultaneously, it was developed in the majority of central Europe countries (such as Germany, where there are 2 relevant Organizations a) The Kreditanstalt für Wiederaufbau "KfW" and b) The Deutsche Ausgleichbank "DtA", Italy, relevant Organization "Mediocredito Centrale", which cooperates with "Confindi" e.g Cooperatives of Mutual Guarantee, such as Mutual Guarantee Companies, Belgium etc), during the 1980s' decade. In the early of 1990 decade, the European Community (E.U), started to support the aforementioned Institution, in order to facilitate the Small

and Medium Enterprises to obtain loans from the Banking System. In Greece, the Institution of M.G.C, was adopted in 1995, by the law 2367/1995. This System made up, in my Country, for facing the financial disadvantages of Greek Small Enterprises and reinforcing their important role, that is the creation of new jobs, by guaranteeing the repayment of their loans, which makes it easier for small businesses to borrow from the banks.

3. Problems of the relevant previous Institution

The Institution of Mutual Guarantee Companies hasn't activate in Greece, because, because no company has been established under this umbrella, due to:

- unwillingness and difficulty that face the chambers of commerce to participate in 65% of the shared fund and
- the fact that the Counter – Guarantee Institution is still pending, as the legislative framework which would govern the Mutual Guarantee Companies, has never been completed. Actually, Once the Fund was established, Companies would have to sign an agreement with it defining their rights and obligations. Moreover, an issue which might would be complicated the relationship between the Counter-Guarantee Fund and the Companies, concerned the point of activation of the Counter-Guarantee Fund. There were two possibilities, either the Fund insured each loan individually or it insured the Company as a whole. In the former case, the Fund would intervene (i.e. compensate the Company) each time a loan was not repaid. In the latter case, the Fund would intervened only once a Company had exhausted its provisions and was unable to fulfill its guarantee obligations.

4. Law governing the establishment of a S.A Company called <<Small and very Small Enterprises Guarantee Fund in Greece>>

The establishment of Small and very Small Mutual Guarantee Fund in Greece is governing by the Law 3066 / 18.10.2002, chapter A' and especially by its articles 1- 10. According to these articles:

? The objective of the examined Company, that will be activate in Athens but it can have brunches to any other town in Greece, (article 1,1 and 1,2), is to

facilitate the access of the old and new enterprises to the banking financing. This Fund will become a basic instrument for planning an economic development, in national and regional level, strategy for the SMEs., especially by encouraging the entrepreneurship and competition among them. (article 3,1). This purpose is realised by providing:

- a guarantee or a counter-guarantee to the bank, on behalf of SMEs, to cover their loan, leasing liabilities etc, enabling, in that way, these firms to access loan finance, (article 3,1a).
- relative, to the aforementioned, services, but in no case, direct credits, , (article 3,1b)..

? Members of SMEs Guarantee Fund must engage in commercial or industrial activities and their enterprises must not employ more than 30 employees, (article 3,3), As an exception, in order to facilitate the realization of its scope, the SMEs Guarantee Fund can enter into a contract with credit and financial institutions, chambers of commerce and industry and other public bodies, as well as relevant bodies of E.U's Member States and constitutional E.U Authorities, such as the E.I.F, (article 3,2).

? Minimum share capital for the establishment of a SMEs Guarantee Fund is 100 million Euro, which is publicly funded by National Authorities, through the Business Plan <<Competitiveness>> (article 4,1).

? Company shares may be transferred only after an Executive Board decision requiring only in public Institutions, (article 4), .

? The Companies revenues derive from the public sector, the E.U and commissions coming from the guarantees to the banking system, (these fees that the small and very small companies, required to pay for the guarantee are at least 1,5% and the total amount varies according to a number of factors, such as the duration of the guarantee, the granted amount, an analysis of risk factors and the proportion of the loan covered by guarantees etc, article 8,e) and from investments of the floating assets of the Company, (article 5).

? Maximum company exposure / guarantee to an individual member may not exceed the tenfold of the company's share capital, (article 8,a).

.? The SMEs Guarantee Fund covers part of the business risk . More specifiacally, according to the article 8,b, it will cover from 40% to 70% of the bank credit or loan amount. As an exception, in some special occasions (such as earth quack, fire etc) and in regions of 4rt Zone, according to the Greek Developmental Law 2601/98, which includes regions like Thrace, the mountainous and insular part of the country, as well as the Epirus Industry Park, its coverage will reach the 80% of the credit,

? The SMEs Guarantee Fund allocates reasonably the risk, among the different sectors, the bank clients and the financial business activities in Greece and Abroad, (article 8).

? The projects' evaluation, clients' solvency audits and all the rest engagement in commercial/industrial activities are left to the Banks and SME respectively (article 8,d). In the same paragraph it is also specified that guarantees cannot be granted to borrowers in financial difficulty.

? The SMEs Guarantee Fund must not waive the right of indemnity, (article 8, f).

? The guarantees provided according to the Commission published detailed guidelines, (March 2000), on the application of Article 87 and 88 of the E.C Treaty on state aid in the form of guarantees⁶. In particular, E.U's Regulations on State Aid applying to guarantee schemes, apart from the fact that the guarantee cannot be granted to borrowers in financilal difficulty, as I have already mentioned above, comprise the folowing topics:

- `Beneficiaries of assistance, (i.e. borrowers), should in principle be able to obtain a ban at commercial market rates from the financial markets without any intervention of the State.
- Guarantees must be linked to a specific financial transaction, be for a fixed maximum amount , must not cover more than 80% of each outstandinng loan or other financial obligation, (except bonds and similar instruments), and must not be open-ended.

⁶ Official Journal C 71 of 11.03.2000

- The terms of the scheme must be based on a realistic risk assessment so that premiums paid by beneficiaries increase the likelihood of the scheme becoming self-financing.
- The scheme must set out the financial terms of future guarantees and the overall financing of the scheme must be reviewed at least once a year.
- The premiums must cover both the risks associated with granting the guarantee and the administrative costs of the scheme, including, where the State provides the initial capital for the start-up of the scheme, a commercial return of capital.

5. Terms and Conditions for the establishment and operation of Greek SMEs Guarantee Fund S.A.

The Administrative – Operational Rules of the examined Institution is subject of the articles 6, 7 and 8 of the Law 3066/18.10.2002. More specifically, according to article 8, the appropriate governmental Authorities (i.e. common act/decision of Ministers of Development and Finance), are going to enact the Regulation of the Small and very Small Firms Guarantee Fund, which will be published to the Government Newspaper. We are expecting that this Regulation, will be ready by the end of July.

The above mentioned Law, (article 9), as the previous Law 2367/95 for MGCs, cedes basic responsibilities to the Bank of Greece, concerning the establishment and the operation of the New Institution. In fact, it is under the audit of the Bank of Greece. Thus, we are waiting for the issue of the relevant, Governor's of the Bank of Greece Act. It is expected by the end of September. It may be similar to the previous act N. 2434/3.6.1998, for MCGs, that ceded the following terms :

?? Before obtaining the license to start operations, the Company has to submit to the Bank of Greece the following:

? A list of all institutional shareholders and of the private shareholders holding 5% of equity or at least the ten biggest shareholders.

? The curriculum vitae of two persons responsible for the company, one of whom must be a member of the Executive Board, and of all members of the Executive

Board. These persons must have professional experience in the financial-banking sector, no criminal record and no bankruptcy record.

? Its statutes, including information on the terms under which it grants guarantees to its members and on its internal audit procedures.

? A business plan for the first five years, including expected sources of financing, expected solvency and liquidity ratios and basic balance sheet items.

?? The Company has to fulfill the following conditions throughout its operation:

? Minimum provisions equal to 3% of the sum of its outstanding guarantees, plus claims from unpaid loans minus any accumulated <<co-guarantee>> capital. The co-guarantee capital is formed by member fees and is used first to pay Company obligations to banks.

? Minimum liquid assets equal to the sum of the <<co-guarantee>> capital plus 3% of outstanding guarantees minus the portion of the <<co-guarantee>> capital not insured by the Counter-Guarantee Fund (I will refer to it below). This conditions ensures that, at all times, the Company has liquid assets at least equal to 3% of its outstanding guarantees.

? Minimum solvency ratio equal to 10%. For the calculation of the ratio, <<own funds>> include provisions in excess of the minimum required in (1) above. The denominator is calculated using the coefficients of the European Union Solvency Directive. The minimum provisions of (1) above plus 80% of guarantees covered by the Counter-Guarantee Fund are subtracted from the denominator.

6. The European Union, Small Enterprises and the Institution of Small and very Small Guarantee Fund S.A.

The Examined Institution, whose the whole legislative status has not been completed yet, because, as it is said in the above topic of my paper, its Regulation is still working out, became subject of the E.U's interest. More specifically, European Union's aid for the reinforcement of the competitiveness of Greek small medium enterprises is always of crucial importance for the development of Greek productive environment. For that purpose, during the period of the third CSF (2000-2006), in the context of Business Plan << Competitiveness >>, axis 2,

measure 2.6. for <<the financial support and encouraging of the SME>> and in cooperation with the National Sector << Ministry of Development>>, was planned the establishment of a Guarantee Fund for Greek SMEs.

The role of the above mentioned Institution is to allocate the business risk and to guarantee part of the bank loans to the SME. In particular, the aforementioned Fund will provide the SME with the following products/services:

- ? Guarantees to bank loans for operating capital for investments and generally business activities in Greece and abroad.
- ? Guarantees to short-term bank credits (such as exports financing etc).
- ? Guarantees for long term bank loans to SME.
- ? Guarantees for leasing services, etc.

The Guarantee Fund of SME (GFSME) will cooperate with the Banking System, in order to:

- ? cover part of the business risk. More specifically, according to the relevant of Law 3066 of the Hellenic Ministry of Development, that I have already analyzed above, it will cover the 40% - 70% and in some specific cases the 80%. The projects' evaluation, clients' solvency audits and all the rest engagement in commercial/industrial activities are left to the Banks and SME respectively,
- ? allocate reasonably the risk among the different sectors, the bank clients and the financing business activities, in Greece and abroad,
- ? create multiplying/additional benefits and resources than its initial share capital,
- ? reduce the cost of foreign funds of SME, and finally to
- ? support, yearly. a great number of SME.

Having a share capital of about 100.000.000 Euro, the above Institution, will aim to support and reinforcement 40.000 SME approximately and to grant guarantees of an amount of 2,5 billion Euro, within a decade.

As regards, the way of realization of the aforementioned mechanism, we can say that are the loan guarantees will be granted by the GFSME, which will perform like a financial Institution (such as the Banking System) in the context of Law 2076/92, under the audit of the Bank of Greece. The establishment of the GFSME

will be governed by a specific legislative framework, which, as it has already mentioned, has not been completed yet, but it is expected that it will be completed by the end of September 2003. In this framework will be pointed out the role and the obligations of the Institution, while the rules of its performance will be arranged by the Regulation of guarantees and loans grant which will be worked out by the GFSME. This Regulation must be sent for approval to the relevant, for the ex-ante, on going and ex- post evaluation and appraisal of the Program Committee of the E.U.

The aforementioned Institution, will replace the former Institution of Mutual Guarantee Companies.

7. How the New Institution of Small and very Small Guarantee Fund S.A. will work in Practice

The diagrams 1 and 2 of the Appendix, illustrates how the above mentioned Institution and generally the Guarantee Societies, (Guarantee Fund and Mutual Guarantee Companies), work in practice. According to this diagram:

- A small or a very small firm applies to a financial institution for a loan.
- If it is requested by the financial institution, the SME firm can ask a guarantee from the Small and very Small guarantee Fund on a proportion of the loan.
- When the Guarantee Fund, after a comprehensive analysis of the viability of the business plan and a risk assessment based on a range of criteria, agrees to guarantee the loan, provides a guarantee to the bank, by issuing a letter of guarantee to this financial institution, enabling in this way the SME to access loan finance.
- The financial institution provides the guaranteed loan for the small or very small business.
- The Small or very Small enterprise pays the Guarantee Fund or Mutual Guarantee Company a premium, (typically, 1-1,5%, per year on the guarantee outstanding). In case of a guarantee issued by a Mutual Guarantee Society, the SME subscribes to the Mutual Guarantee Society's share capital. This can, on request, be reimbursed at the end of the commitment.

- In countries like, Spain, Germany's <<no-bank>> guarantee system, Italian <<start-up schemes>> etc, SMEs can obtain a guarantee from a guarantee institution prior to approaching the lender of their choice.
- In case the Small or very Small firm cannot repay the guaranteed loan, we have to face the problem of loan default by the SME. Accordingly, based on terms clearly defined in the contract, the guarantor, (either Guarantee Fund or Credit Guaranty Company), will reimburse the lender, (financial institution), immediately upon notification of repayment default, by repaying the financial institution in place of the small business. As a result, the Guarantee Society acquires an indemnity right.
- The entrepreneur's collateral is then sold and any losses incurred are borne by the Guarantee Society.
- In the case of guarantees backed by a counter-guarantee, the Guarantee Society can recoup a proportion of its losses through its counter –guarantor and reduce its <<risk given default>>. More specifically:
 - a)The Guarantee Fund or CGC claims payment of insurance money from a Counter Guarantee Fund or a Credit Insurance Corporation, after making payment in subrogation.
 - b)The aforementioned Institutions pay the Guarantee Society 70% or 80% of the subrogated amount of principal.
 - c)When the Guarantee Society recovers money by exercising the right of indemnity, it pays the Counter Guarantee Fund or CIC the sum equivalent to the proportion covered by the insurance.

8. Advantages and Disadvantages of a Guarantee Society – SWOT Analysis

STRENGTHS	WEAKNESS
<ul style="list-style-type: none"> - Facilitates access to loan finance on improved financial terms for those SMEs,(i.e. self employed, micro-enterprises, start-ups), which cannot easily get access to finance, (poor credit history, little or no 	<ul style="list-style-type: none"> - Guarantee Societies usually cover only part of the credit risk and often apply to only a limited range of financial instruments.

<p>collateral, lack of trading record).</p> <ul style="list-style-type: none"> - Principle of risk sharing between the Guarantee Society and Lending Institution reduces risk and leverages private sector lending. It also reduces their capital requirement under the Basle rules. This becomes more important, nowadays, because according to the Basle II Accord the required capital depends on the risks. - Rigorous screening procedures and detailed knowledge of the business sectors in which clients operate, reduces risk of SMEs default. - Guarantee Societies revolve the use of their own funds. They have a high leverage ratio, (average leverage ratio is 10 times the guarantee capital) and low default rates. 	<ul style="list-style-type: none"> - The extent to which Guarantee Societies receive support from public Authorities varies across the E. U. and is mainly depended on the prevailing banking culture .
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> - Guarantee Societies provide local input and tailored business support, as well as advice. - For Public and Regional/Local Authorities, Guarantee Societies help to leverage private sector finance for SMEs promotion and wider regional development. 	<ul style="list-style-type: none"> - By reducing the exposure of banks to risk, Guarantee Schemes may also reduce the extent to which banks vet new loan applications.

From the above, it is obvious that the Guarantee Society is a strong and very useful for all the participating parties institution, that contributes to local/regional development.

PART III

1. COMPARISON ANALYSIS AND RELATIONSHIP BETWEEN THE E.I.F. SMEs FACILITY AND THE GREEK SMALL AND VERY SMALL ENTERPRISES GUARANTEE FUND S.A.

The European Investment Fund, (E.I.F.), by its SMEs Guarantee Facility, generally, provides support to Guarantee Societies, and of course, it will provide also support and to the examined New Greek Institution., in the form of counter-guarantees of commitments undertaking by Greek Small and very Small Guarantee Fund S.A.

More specifically, in the case of Greek SMEs Guarantee Fund backed by a E.I.F. SMEs Guarantee Facility, counter-guarantee, the risk is shared between the Guarantee Society and the Counter-Guarantor, without any further risk analysis. In the majority of cases, no fee is levied by the counter-guarantor, (E.I.F. SMEs Guarantee Facility), to the guarantee society, (Greek SMEs Guarantee Fund S.A.). During the period 1998-2001, the E.I.F. SMEs Guarantee Facility. offered to cover 50% of the losses incurred by guarantee funds. In return, guarantee societies are expected to increase their risk profile by supporting higher risk SMEs investments with the objective of fostering <<growth and employment>>. Assistance, was provided either directly to guarantee societies or via publicly funded intermediaries, such as our guarantee scheme.

In that view, as I have already mentioned in the first part of my paper, the Multiannual programme for 2002-2006 builds on the work of the earlier programme and provides additional support in respect of counter guarantees for micro-loans and ICT investments. However, E.I.F backed schemes cannot be used for working capital and there are only a few schemes available for the cover of equity investments. Maybe one of the SMEs E.I.F. Guarantee Facility, instrument, the Equity Guarantee could be used here.

Finishing this topic, we can say that there will be a strong relationship between between the two Guarantee Schemes. Focussing on their cooperation in the E.U's –National and Regional/Local level. Actual we can consider the E.I.F. SME Guarantee Facility as a Counter Guarantee Fund, or as a Credit Insurance Corporation and the Greek SME;s Guarantee Fund S.A., as a Credit Guarantee Corporation.

1. CONCLUSIONS AND PROPOSALS

The Institution of Greek SMEs Guarantee Fund have been endowed with the role of facilitating SMEs' access to funds needed to run their operations. Since its founding this Institution will have timely and actively responded to newly emerging policy needs for small business, thus greatly contributing to their development.

In Greece, the business environment surrounding SMEs, has become more severe, in the frame of banking system deregulation, due to the abolition of older ways of SMEs' reinforcement, such as the particular status of small industries financing (Bank of Greece Currency Committee Decision 197/78). Taking under consideration the fact that the Greek SMEs Guarantee Fund is not based on the establishment of a Counter Guarantee Fund like the case of MGC, Now, the New Guarantee Scheme has the opportunity, and that can become a great advantage for its successful implementation, to cooperate/ support by the E.I.F. SMEs Guarantee Facility, as it is analyzed in the previous topic of my paper, That presupposes, of course, that as a guarantee society which is subject to national financial regulations, by receiving public support, must also adhere to E.U. competition rules governing state aids.

So, in that view, if the Commercial and Industry Chambers decided this time to participate actively in the New Institution, we hope that the problem of SMEs access to the banking finance, will be solve by the New examined New Guarantee Society.

Generally, we can say that in establishment, development and build up of the Company of SMEs Guarantee Fund S.A. in my Country, the role of National

Aauthorities, the Chamber of Commerce, Small Industries and the Banking System, is vital and very crucial. In particular:

? The National Authorities must certify the outstanding issues regarding the legislative framework of SMEs Guarantee Fund operation, and to subsidy also this Society, by participating in its initial share capital and developing in that way the funds of Industry Business Program.

? The Chambers, acting as representatives of SMEs, must undertake initiatives for the development of co-operations and for the mobilization / activation of small business in order to support the aforementioned Institution and to become, as it is underlined before active members of it..

? The Banking System which contribution to the development of the Country is vital, passes through the reinforcement of the competitiveness of SMEs. For that purpose the banks, in my opinion must participate in the initial share capital of MGCs (the same has happened in many countries). Furthermore, banks may trust the above Institution by accepting the guarantee grants provided by the SMEs Guarantee Fund.

In conclusion, we can say that the Mutual Guarantee Companies, as financial Institutions, are obliged to rely on credibility / trust worthiness and solvency and these have to ensure, especially in the first difficult years of the new Institution operation in my Country, all the involving authorities, because, only in that way they will manage to contribute to the development of Greek SMEs as an engine developing new markets by positively overcoming the wave of structural change and by developing creative business activities through energetic and flexible entrepreneurship.

Thus, the realization and establishment of many branches of the examined Institution not only into core regions but also to poorer ones such us insular or mountainous areas, can create a network of cooperation among the SMEs and the mechanism of their coordination, that can leads to the encouragement of local entrepreneurship. Moreover, the strengthening of the above mentioned Credit Guarantee Society can be additionally considered as an effort towards the reduction of inter-regional disparities in terms of development opportunities,

business activities, investments, employment, career development, and why not health care and education. Consequently, the reinforcement of the SMEs by the SMEs Guarantee Fund can lead to the support and development of the local entrepreneurship and become the key note for the endogenous regional growth process of my Country.

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APPENDIX

TABLE 1
E.I.F. SMEs GUARANTEE FACILITY
Specifics for the 4 windows

Guarantees for	Loan	Micro-Credit	Equity	ICT Loans
Purpose of financing	Loans supporting the development of final beneficiaries typically investment loans ⁷ . Particular attention shall be given to the financing of intangible assets.	Working capital and/or investment financing.	Investments guaranteed must provide additional long term equity or quasi-equity capital.	Loans supporting new investment in information, technology : hardware and software ⁸ Furthermore, loans supporting ICT related training ⁹
Eligible enterprises				
Number of employees	up to 100	up to 10	fewer than 250	up to 100(priority will be given to firms with up to 50 employees)
Either Annual turnover not exceeding	Euro 40 million	Euro 7 million	Euro 40 million	Euro 40 million
Or Annual Balance-sheet total not exceeding	Euro 27 million	Euro 5 million	Euro 27 million	Euro 27 million
Max Loan Investment Amount		Euro 25.000	Euro 1.000.000	
E.I.F. Guarantee Rate	up to 50% of the intermediary's commitment (exceptionally up to 75%)	up to 75% of the intermediary's commitment.	up to 50% of the intermediary's commitment	up to 75% of the intermediary's commitment.
Guarantee Cap	up to 20% of the E.I.F.'s guarantee commitment	up to 40% of the E.I.F.'s guarantee commitment	up to 25% of the E.I.F.'s guarantee commitment	up to 20% of the E.I.F.'s guarantee commitment
Guarantee Maturity	final maturity of up to 10 years	Final maturity of up to 5 years	final maturity of up to 10 years	final maturity of up to 10 years

⁷ Investments are defined in article 2 and eligible costs in article 4, paragraph 5 of the Commission Regulation 2001/70/EC of 12/1/2001 on the application of articles 87 and 88 of the E.U Treaty to State aid to SMEs.

⁸ Investments are defined in article 2 and eligible costs in article 4, paragraph 5 of the Commission Regulation 2001/70/EC of 12/1/2001 on the application of articles 87 and 88 of the E.U Treaty to State aid to SMEs.

⁹ Training is defined in article 2 and eligible costs in article 4, paragraph 7 of the Commission Regulation 2001 /68/EC of 12 January 2001 on the application of articles 87 and 88 of the E.U Treaty to training aid.

