

## Financial Services for Micro and Small Enterprises in Volos

### Development of a Proposal of Action and Legal Framework Analysis

Following the first step, the implementation of the “Financial Services for MSMEs in Volos, Status-Quo-Analysis” we managed to determine the conceptual framework under which can the creation of a MFI be achieved. The status quo analysis and the questionnaire distributed to the potential clients, gave us the opportunity to identify opportunities that should be taken in advantage and potential constraints that could postpone or even cancel the implementation of a MFI. The list of the next steps/actions identified was:

#### 1. Study of the Legal Framework in Greece

The abovementioned study was considered necessary since it will allow us to identify the different possible business models of the MFI and therefore the necessary eligible cooperation with the potential investors. Necessary parts of the study would be:

- The general legal framework in the field of financial services
- Legal Regulations affecting microlending in Greece
- The identification of the legal model of the MFI
- The identification of potential “cooperation” between the banks, the regional authorities and the MFI approved by the legal status

#### 2. The discussion with potential investors

By the status-quo analysis we pointed out the necessity of the potential investors and mainly the necessity that an existing bank should become the main responsible institution to offer these services. Alternatively, in case that the local banks would not be interested, although quite difficult, private or regional funding could be another possible solution. By meaning regional funding, since there is not any Regional Programme able to finance the MFI

deployed, we intend to ask for the financial contribution of local policy makers such as the Magnesia Prefecture, the Chamber of Commerce, local Municipalities and others. Finally, AN.E.M. S.A. will also wait the launch of the JEREMIE initiative to find out if it can support the whole effort on its own and create a pilot MFI as separate part of its activities. Aim of AN.E.M. S.A. in this step will be to:

- Introduce the project to the potential investors
- To analyze the findings of the status-quo-analysis and point out the necessity for MFI services
- To analyze the financial products of the pilot MFI
- To match the appropriate group of shareholders that will maximize the efficiency of the potential pilot institution

#### 3. The adjustment of the MSME loan appraisal technologies and the financial products to Greece

After finding the necessary financial support of the potential investors the third step was to introduce the appraisal technologies and the financial services developed through the project phase 2 of ChaBaLEU in collaboration with the rest of the partners. Utilizing the outcome of the status-quo-analysis in the depiction of the existing financial services, aim of AN.E.M. S.A. was to adjust the financial technologies and products introduced by the partners to the Greek reality and create the best combination of financial products capable to secure the competitiveness of the MFI in the financial market and thus its long-time efficiency.



#### **4. Elaboration of specific regional options for MSMEs financing for Magnesia**

During the fourth step the aim of AN.E.M. S.A. will be the in-depth evaluation of the outcome of the supply –demand side produced during the status-quo analysis, the utilization of the existing MSMEs support initiatives, the update of the MSMEs support agenda with new support initiatives for MSMEs deployed under the 4th European Community Framework and finally the adjustment of the character based technology in the financial products identified in the previous stage. Under this framework AN.E.M. S.A. will continue to distribute the questionnaire created for the status quo analysis purposes and be updated about the demands of the potential customers. The adoption of the character based lending approach in the financial products is considered vital since at a brief analysis it will save time and reduce the bureaucratic procedures which are identified as the basic constrain that does not allow the MSMEs support scheme to exploit its full potentials. Final step of this action will be the development of an integrated financial support agenda for the MSMEs which allow them to evaluate the different support initiatives and choose the appropriate for their needs.

#### **5. The discussion with authorities, circulation of findings**

The fifth step has as main priority to engage the regional authorities and the local banks or private institutions in a negotiation framework that will involve the innovative methodologies and financial products introduced in the previous actions of the project into the regional support initiatives or into the products offered by the MFI. The involvement of the regional authorities in the design of the MSE support strategy and for the implementation of the MFI pilot project is more than necessary and without their support we will not be able to secure the efficiency of the MFI. Of course in the circulation of findings we cannot underestimate the contribution of the banks, since as already told they are considered the main potential investors and the institutions with the know-how of the financial market, the financial support initiatives and the available financial products. In this step minutes of

meetings will be elaborated and circulated and as well as reports on lessons learned in order to incorporate recommendations, certain perspectives of the authorities will be included.

#### **6. The creation of the Marketing plan**

A multi – faceted approach should be adopted in the marketing plan of the micro-finance institute with the aim to finance public and private agents as well as small and medium enterprises. Communication with local private and public agents such as chambers, local authorities, cooperatives is prerequisite for the success of the plan. These agents are the prospective collaborators of the institute and they operate networks for the dissemination of information and know-how to the public. Collaboration with these agents will prove beneficial for the micro-financing institute. Informing the public is another prerequisite for the success of the institute. This will be achieved through seminars, pamphlets and speeches on the parameters, operations and benefits of the institute. Publicity can also be achieved with the use of electronic media, through the post and by renting a free of charge telephone line to answer citizens' queries.

#### **7. The political dialogue meetings**

Since there is no clear opinion yet, on whether the implementation of a pilot MFI is possible and only if the compilation of all the above steps can guarantee the effort, aim of the least final action is the dissemination of the project results at European and national level. On European level the dissemination includes the presentation of the project outcomes to the rest of the project partners while at national level includes the presentation of the project outcomes to all the involved parties during the implementation phase of the project. In case that the implementation of the pilot MFI would not be achieved the outcomes introduced to the involved parties and at the project partners will incorporate the outcome and further steps required on national level for the deployment of a MFI. The last will be supported by the deployment of the JEREMIE initiative which will be support the recommended actions and hopefully will be launched the summer of 2008. Finally, the



dissemination of the results will involve the realization of the financial support for MSMEs agenda to the public in order to support them in gaining access to funding.

### **Different Scenario - Risk Management**

After the implementation of the Status Quo Analysis for the Magnesia Region the main risk identified was that for the successful implementation of an efficient MFI model the active involvement of a local bank is required. Of course that could not be considered easy since the financial products of the potential of a MFI contradicting the financial products that the banks offer. By saying “contradicting” we mean that the financial products offered by the banks can be considered as “low risk” products while the financial products of the MFI could be considered by them as “high risks” products. In case of a denial of the banks to adopt MFI services or support the operation of a MFI there are as already stated some alternatives opportunities for finding of the necessary capital. These are:

**Private Support:** Aim will be to find out private investors interested in the implementation of the pilot MFI. Interested parties in this can also be private associations created to support MSMEs or poverty.

**Regional Public Support:** Support by different regional public authorities, such as the Prefecture, Municipalities, Region and local Chambers. In this third possibility, we must also take in consideration that the type of the MFI should be adjusted to the social character of the investment. Therefore, the financial products of the MFI should aim in the combat of the Regional poverty and the interest rates should be adjusted in such a way in order to cover the administrative cost of the MFI and not to focus on profitability.

## **Analysis of the Legal Framework**

The legal framework of the EU member states does not appear to be suitable for the growth of micro-credit. Statistics on micro-credit are not sufficiently developed in the EU, which is due to the fact that micro-credit is not foreseen either in national or in EU-legislation.

Growth of micro-credit could be achieved through a wider range lending guarantees. Another condition to achieve growth of micro-credit is to allow credit unions or similar institutions that are involved in the action of micro-credit to maintain or receive the authorisation to assemble savings and to be eligible to finance activities that produce income. Another way to promote micro-credit is to allow credit unions or similar institutions to abstain from maximum limits of interest for loans in enterprises, which annihilates any probability to cover the cost of micro-lending.

According to EU legislation (Article of 4 directive 2006/48), MFIs are subject to the rules of preventive monitoring, if they receive deposits and other returnable capital from public. If the MFIs do not receive deposits and other returnable capital from the public, they are not subject to centralized preventive monitoring from credit institution, since the EU-directive on capitalized requirements does not compel them to meet concrete harmonised capitalized requirements.

The fragmentary efforts in Greece to achieve growth of such initiatives made by institutions of social economy, mainly crash into important institutional problems, among which the weakness of access in traditionally and modern means and mechanisms of financing. Cooperatives of women, non-profit companies, cooperatives, NGOs with enterprising activities, start and close their circle of life without knowing ever the usual and conventional tools of financing of small enterprise, and thus depend solely on subsidies from EU part-financed projects.

There are no reports in the founding and constitutive texts of these institutions on the financing tools to support business dexterity. Social economy does not constitute a particular field in the Greek government’s policies to promote and



support business dexterity in the country. The problem of access in the mechanisms of financing in Greece it is not exclusive “privilege of” social economy. The problem of limited access of small enterprises to banking lending remains equally important regardless of the new financing means of bond and enterprising capital.

The question of financing of SMEs and more specifically of small enterprises is certain to grow and occupy future policy-makers for the growth of business dexterity the next years in Greece. Although banks require high rate cover of lending guarantees through various EU-funds (up to 50%), this does not provide sufficient motives for an ambitious generalisation of bond and for access of enterprises to the banking lending.

The slow growth of bonds is, according to the representatives of Union of Greek Banks, attributed to the right in the favour of the Greek State which lies among the conditions to activate the guarantee provided by the Fund, which actually prevents Greek Banks to have access to guarantee-fund in case of entanglement of the lending convention.

The lack of integration of bond in complete finance services goes not and thus finance policies do not take into consideration the needs of enterprises in parallel tools, such as unencumbered offer of enterprising capital, access to leasing tools by small, without past and without capital enterprises. Mainly, however, what continues to be absent is a realistic and specialised confrontation of the needs of young persons, small, even individual enterprises, which are unable to meet bank lending requirements.

#### **Contact**

AN.E.M. S.A.

Mr. Panagopoulos Fanourios

Tel. +30 24210 92608, Fax. +30 24210 92619

[anem@anem.gr](mailto:anem@anem.gr)

[grpanagopoulos@anem.gr](mailto:grpanagopoulos@anem.gr)



Co-financed by the  
EUROPEAN UNION  
European Social Fund  
Article 6 Innovative  
Measures

