



## **STATUS-QUO-ANALYSIS ON THE CONDITIONS AND THE FINANCIAL ACCESSIBILITY OF THE MSEs IN VOLOS (GREECE)**

*Can a potential MFI have viability and resolve some  
of the problems that MSEs face today?*

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## Chapter 1: Initial Situation

- description of present situation that Micro- and Small Enterprises (MSE) are facing in Volos (Greece)

Volos is located in the Thessaly Region, Central Greece and it's the "capital" of the Magnesia Prefecture. According to the latest statistical data by the General Secretariat of National Statistical Service of Greece, the Magnesia Prefecture has a total population of 205,005 (1.87%) citizens of the total 10.934.097 of the country, the 110,000 of which are based in Volos. In general in Greece, according again to the General Secretariat of National Statistical Service of Greece, the potential danger of poverty is estimated to be 50.9% of the male and 49.1% of the total female population. According to the same source the unemployment rate in the Prefecture of Magnesia is estimated to be around 12.5% of the total active population, a quite high figure compared to the national unemployment rate which is 9.9%. The business context, according to the same source, is structured by 16,957 companies. These companies generate a total revenue of almost 1,928.06 million € yearly, which equals the 0.8% of the total national revenues. According to the Chamber of Commerce, it is estimated that around 1,200-1,300 start-ups on average per year and 1,000-1,100 close-ups take place per year in the Prefecture of Magnesia. Of the start-ups the most of them are in the services sector (809), second comes the manufacture sector (239), then the commerce sector (153), the hotels sector (10) and finally the industry sector (5). Most of the companies (48,7%) are established companies for more than 10 years of business life, while the 23,9% has only short business life from 0-3 years and the remaining 27,5 % has a business life of 4-9 years.

The MSE sector in Greece and more specifically in the Magnesia Prefecture is very strong. In a survey that took place in the Thessaly Region according to the National Federation of the Greek Trade (Aravitou and Nikolakopoulos, 2005), in Volos, the 97% of the total number of companies are MSE's according to the new European MSME definition (2003/361/EC) applied on 1<sup>st</sup> January 2005, which identifies as MSE any company with less than 50 employees or Turnover (Sales) less than 10



million. From the above figure, we can easily understand the critical role of the MSEs in the Greek economy.

## ■ recent performance of MSE



Since there are no available data for the general performance in the Prefecture of Magnesia, we will use the annual report (2005) provided by the National Federation of the Greek Trade, about the MSEs with S.A. and LLC legal status obligated to publish their accounts in the Thessaly Region.

According to the report, there are 224 (0.9% more compared to 2004) companies under the specific legal status. Using the relevant ratios to evaluate their performance, we can conclude the above:

- According to the income statement (Table B.10)
  - The Cash of the company increased by 5.2% in comparison to 2004
  - The Debtors increased by 21.3%
  - The Sales (Turnover) increased by 8.2%
  - The PBI&T (Profit Before Interest and Tax) was reduced by 34%

**Table B.10**  
**Thessaly: Balance Sheet and Income Statement (€ 000)**

<b>Balance Sheet</b>	<b>2005</b>	<b>2005/2004 Change %</b>
Cash	38,555	18.4
Total Assets	696,181	19.3
Debtors	505,589	21.3
<b>Income Statement</b>		
Sales (Turnover)	824,214	8.2
Profit Including Interests and Taxes	139,588	0.6
Operating Profit	15,073	-29,9
Profit After Interest and Taxes	14610	-34

Source: ICAP Databank



**Table B.11**  
**Thessaly: Financial Ratios**  
**Working Capital**

	Region			In the whole country		
	2005	2004	2003	2005	2004	2003
Liquidity- Current Ratio	1,2:1	1,3:1	1,3:1	1,5:1	1,4:1	1,5:1
Debtors days	111 days	101 days	95 days	106 days	106 days	106 days
Inventory days	95 days	92 days	93 days	66 days	64 days	65 days
Solvency -Interest Ratio	72,60%	71,40%	73%	74,50%	73,40%	73,90%
Short-term obligations	8,3:1	9,3:1	10,3:1	6,8:1	7,9:1	8,6:1
Bank obligations	42,70%	41,30%	37,80%	39,80%	39,20%	37,70%
Liquidity	1.11	1.14	1.13	1.14	1.13	1.13
Liquidity-Acid test ratio	0.64	0.66	0.65	0.76	0.75	0.76
Cash liquidity	0.09	0.10	0.13	0.11	0.11	0.11
Return on Capital Employed	3,90%	5,7%	5,5%	6,4%	7,4%	7,6%
Change in Sales	8,20%	17,20%	15,30%	5,70%	9,40%	8,80%
Change in Assets	19,30%	18,10%	11,70%	4,90%	11,70%	9%
Change in Profit before Interest and Tax	0,6%	17,2%	21,60%	3,80%	10,80%	12,90%
Change in Profit after Interest and Tax	-34%	22,60%	86,30%	-13,40%	9,20%	33,60%

*Source: ICAP Databank*

In addition to the overall performance of the company, we can use the appropriate ratios to evaluate their working capital condition as illustrated in the above table (Table B.11). The outcomes are summarized above:

- The debtors ratio, increased by 10 days to 111 days
- The Inventory Ratio, increased by 3 days to 95 days
- The liquidity-current ratio, decreased to 1.11 (still very satisfying)
- The Liquidity-acid test ratio, decreased to 0.64, showing that the companies have quite a big amount of stock
- The Solvency – Gearing ratio, increased to 72.6%, showing an increase on the bank loans which compromise the 42.7% and shown a similar increase.

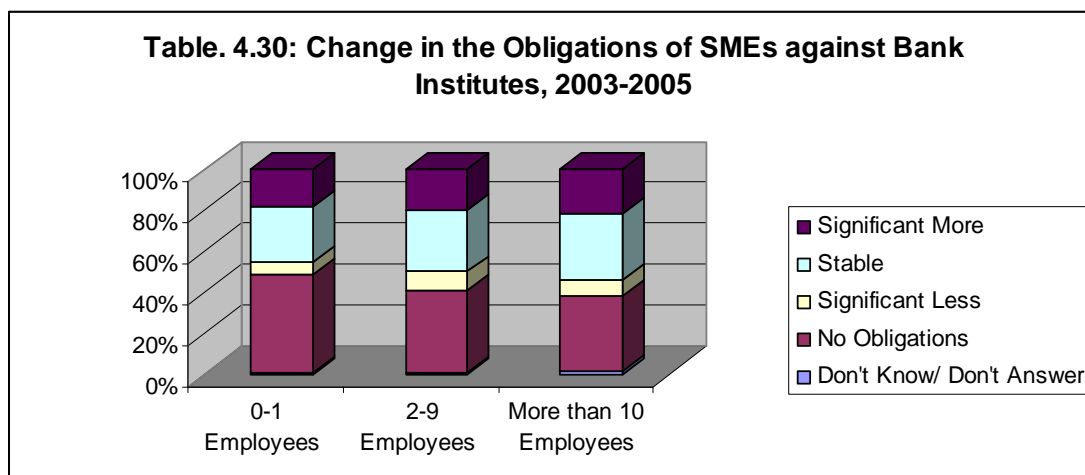
Interpreting the above data we can see that although the Greek companies (LLC and SA) do not face “bankruptcy” issues, their performance seems to fail from year to year. The bank loans and the amount of the debts that they represent, although cannot be consider extreme, it does shows that most of the companies are tied up repaying their old loans. The average interest rate for a business loan is around 7.6% (National Bank of Greece, 2006) and considered quite high, compared to the average in EU. From the above figures, we can also see that although the Profit before Interest and Tax decreased, the average cash of the company increased. This proves the



inefficiency of the Greek companies and especially their management to invest these money and thus the availability/necessity for a potential Microfinance Institute.

Regarding the rest types of companies (not obligated to publish their accounts), we can use the same source, the National Federation of the Greek Trade report. The exception is that this part of the report do not have data for the Thessaly Region, so we will focus on the results about the “rest of the country” (excluded Athens, Piraeus and Thessalonica). According to these statistics:

- 28.4% of the companies increased their Sales (Turnover)
- A significant increase in the Profit Before Interest and Taxes, took place for only the 22.4% of the companies
- The percentage of companies with bank obligation was decreased (by almost 5%)
- The 21.7% of the companies showed an increase in the liquidity.



Source: National Federation of Greek Trade, 2006 Report, available at <http://www.esee.gr/page.asp?id=1432>, accessed on 26<sup>th</sup> July 2007

Using the Bank Obligation per firms’ size table (Table 4.30), we can end up with value information about the relevance between the obligations to the banks and the number of employees. As one can see, the 48% of the companies with 0-1 employees showed no obligations against banks, while the 26.8% showed quite stable obligations and the rest 18.1% a significance increase in comparison to the last two previous years. The 40.4% of companies with working labour of 2-9 employees showed again no obligations, while the 30.0% showed stable obligations and the rest 20.0% a



significant increase. From the above data we can conclude, that the companies with less than 10 employees, which are the majority in the Thessaly Region, don't prefer to take loans and therefore to have any obligations against the banks. A research conducted in Thessaly (Aravitou and Nikolakopoulos, 2005) showed that the 38.7% of the MSE's in Volos didn't consider the financial support (from banks) to be important for their growth. Again the high interest rates can be the reason for this aversion.

The below table, taken from another research shows the level of awareness of the company owners, on the different financial options and about their opinion on each of them:

<b>Popularity of the Financing Tools and the public opinion on them</b>		
<b>Financial Tool</b>	<b>Popularity</b>	<b>Positive Opinion</b>
Bank Loans	90.9%	67%
Joint Ventures	26.4%	32.1%
Leasing	45.5%	57.5%
Factoring	29.1%	24.5%
Venture Capital	18.2%	29.2%
TEMPME SA	25.5%	53.8%
ROP	68.2%	82.1%
The Stock Market	38.2%	23.6%
Other	22%	5%

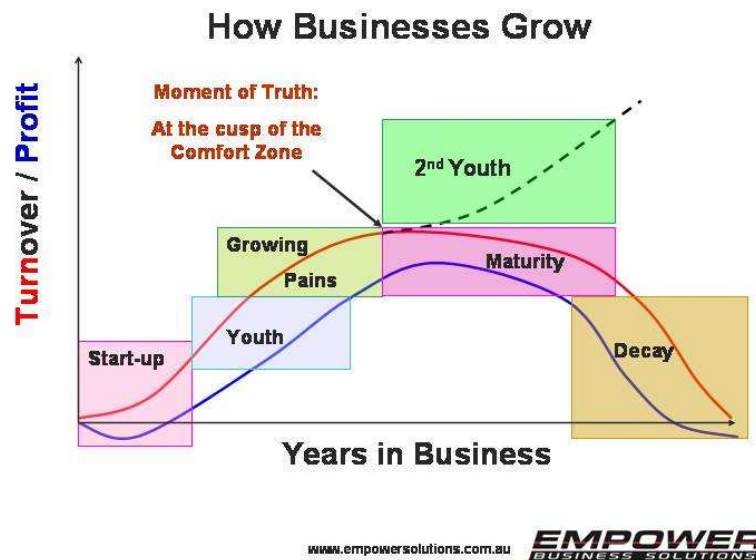
From the table we can conclude that the most popular measures for financing considered the bank loans, the financing through the ROP and the services through the TEMPME SA.

“In five countries (Finland, Greece, Switzerland, Sweden and Iceland) more than 75 % of the SMEs think that they have no need for financial support. To some extent this may point to the fact that SMEs are not aware of alternative ways to satisfy their financial needs, and therefore believe that there is no need for financial support.” (Observatory of European SME's, 2003).



## The financial support options according to the SMEs Business Cycle

In this section, I will try to illustrate the already established financial support schemes in Greece. To do that, I will use the below diagram to illustrate the potential financial support that companies can have in every stage of their business life cycle.



The below table shows which financial institutions or initiatives can support the SMEs in the different phases of their business cycle. In the table, I do not include the “decay” phase since there is limited/none financial support due to the high risk.

Financial Source	Start-up	Youth	Growing	Maturity
The Banks	X	X	X	X
Venture Capital	X	X	X	X
Leasing	X	X	X	X
ROP	X	X	X	X

<b>The Stock Market</b>			<b>X</b>	<b>X</b>
<b>TEMPME SA</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>N. 3299/2004 – Development Law</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

Although it doesn't seem to be any gap in the financial support scheme, in the next section, where I will introduce briefly the role of the bank and some of the rest financial institutions and initiatives, I will state some major difficulties (gaps) that the MSEs face in gaining financial support.

## **Introduction and Evaluation of the different options**

In this section, we will analyse the different financial services and initiatives, we will comment on the services that they offer and we will concentrate on potential problems regarding the support of MSEs start-ups.

### **The Greek Banking system**

The Banking system is considered to be the most popular financial support option. Most of the financial services are available to the public through a number of services that they offer.

#### **The Banks:**

According to the statistical data of the Hellenic Bank Association, the Greek bank sector constitutes by 61 banks with 3,587 branches and around 61.000 employees. Of them the 39 are Greek banks, while the rest 22 are foreign. In particular, in Magnesia there are 56 bank branches. The majority of them are located in the Municipality of Volos and the Municipality of N.Ionia.

According to the latest census of 2001 there are no available data for the economic contribution of the banks in the economy of Magnesia.



It is worthy stating that the total number of banks, followed the general condition in the rest of the EU member countries (where the banks are reducing in numbers) and decreased by 1 bank. The financial services that the Greek banks offer, are quite similar with that of the other European banks, and can be briefly analysed, as stated by Emporiki bank, in the below :

- **Overdrafts**
- **Loans** (with an average interest rate of 7.6%)
- **Guarantees:** “In Greece, loan guarantee schemes will start operating in the near future according to the provisions of the third structural fund-programming period”. (Observatory of European SME’s, 2003)
- **Leasing:** there are three types of leasing, the direct leasing (between the seller and the buyer), the indirect leasing (between the seller, the bank and the buyer) and the asset leasing (conducted by experienced financial institutions).

Although the banks are offering all the above services in almost every phase of their life cycle, there are some significant constraints for the MSEs and especially the start-ups to gain access to this kind of financial support. Regarding the overdrafts/loans which considered being the most common way of financing, MSEs will have to give extraordinary guarantees. Without having any financial support (cash deposits equal to the guarantee) or having any available assets, which can be the average situation of a start-up MSE, the bank does not take the “high” risk to offer its services. Thus, for the majority of the start-up MSEs is too difficult to gain financial support by the established Greek bank system. Most of the banks offer investment loans from 10.000 € or 15.000 € with an average interest rate of 7,5% To get an investment loan below this amount you will have to pay extraordinary interest rate equal to a simple loan around 11-12%. From the above, we can come to the conclusion that small and traditional companies in the Greek economy could not have access to the banks’ financial services under the established conditions.

### **Venture capitals:**

Where they can be Bank Unions and offer loans in high risk MSEs (especially start-ups). The type of loan that they offer, depend on their article of association. The loan



is covered by the buy-out of a relevant share of the ownership of the company. The venture capitals are not well established in the Greek business environment, since only in the last 5-6 years became available as financing method. Finally, although overcome the constraints that MSEs face in the financial scheme, the cost for the company compared to that of the MFIs is considerable high. According to Piraeus Bank, there are six reasons that a financing request may be rejected:

- The company would request a very small amount of money
- The management team is inexperienced
- The business plan is not considered professional
- The profit estimation is not efficient
- The company belong in a sector that doesn't interest them
- They have already invested a lot in that type of the companies

From the above we can again conclude that although that this financial method is tailor-made for MSEs, in the reality, the above six reason for rejection of the application, supports limited number of the MSEs. For a new start-up, with an inexperienced management team, without the experience to make a professional business plan (and especially if it belongs in a sector which doesn't interests them or they have already invested enough money), we can easily say that the probability to gain financial support doesn't even exist.

### **Guarantee Fund for Small and Very Small Enterprises (TEMPME SA):**

In this part we will proceed with a more in-depth analysis of the services/products for MSMEs of the TEMPME SA, which although offer loans above 10.000 € it offers similar services/products with the potential Microfinance Institute in Magnesia.

The mission of the Credit Guarantee Fund for Small and Very Small Enterprises (TEMPME SA), according to the founding law 3066/2002 (Government Gazette A' 252/18.10.2002), is to facilitate the access of Small and Very Small Enterprises to the financial system of Greece, by providing guarantees and counter-guarantees and undertaking part of their financial and commercial risk.



The fundamental principal of TEMPME SA is the allocation of risk between private and public sector (enterprises, financial institutions and TEMPME).

Based on this principal, the philosophy of TEMPME is focused on:

- The encouragement of all socio-economic groups to obtain the potential of Entrepreneurship and the elimination of the social consequences in case of a business failure. For this reason the Regulation of Guarantees and Operation of TEMPME (Government Gazette B' 1065/31.7.2003) states that the permanent and only residence of the entrepreneur shall not be burdened with a mortgage if the TEMPME guarantee is provided (under the condition that this residence is not already mortgaged)
- The satisfaction of needs of the Small and Very Small Enterprises at low cost.

The below table introduces the five different programs that TEMPME SA offers and the conditions to access finance:



## 1. BENEFICIARIES

PROGRAM	Legal Structure	Operating years	Employees per annum	Annual turnover	Independence criteria	Other criteria
<b>TEMPME 1<sub>04</sub></b>	Under establishment enterprises of any legal form (partnership, Ltd., S.A..etc.)	-	Up to 49 people (during the first two years of operation)	Up to € 10 million (for the first two years of operation)	25% or more of their stock capital or voting rights by another enterprise or jointly by a number of enterprises employing over 250 persons, with annual turnover exceeding € 50 million or total annual balance sheet of € 43 million or more.	-
	New enterprises of any legal form (partnership, Ltd., S.A., etc.)	Less than 3 years	Up to 49 people (for one or two consecutive years prior to the year of application for guarantee)	Up to € 10 million (for one or two consecutive years prior to the year of application for guarantee)	As mentioned above	They are not listed on the Athens Stock Exchange
<b>TEMPME 2<sub>04</sub></b>	Enterprises of any legal form (partnership, Ltd., S.A., etc.)	More than 3 years	Up to 9 people (for two consecutive years prior to the year of application for guarantee)	Up to € 2 million (for two consecutive years prior to the year of application for guarantee)	As mentioned above	They are not listed on the Athens Stock Exchange  Their earnings before taxes were positive for at least one of the two last operating years prior the application of



						guarantees.
<b>TEMPME 3<sub>04</sub></b>	Enterprises of any legal form (partnership, Ltd., S.A., etc.)	More than 3 years	From 10 to 49 people (for two consecutive years prior to the year of application for guarantee)	Up to € 10 million (for two consecutive years prior to the year of application for guarantee)	As mentioned above	They are not listed on the Athens Stock Exchange  Their earnings before taxes were positive for at least one of the two last operating years prior the application of guarantees.
<b>TEMPME 4<sub>04</sub></b>	Enterprises of any legal form (partnership, Ltd., S.A., etc.) which are already operating or are under establishment	-	Up to 6 people (for either operating or under establishment enterprises)	Up to € 2 million	As mentioned above	They are not listed on the Athens Stock Exchange  The earnings before taxes were positive for at least one of the two last operating years prior to the application for guarantees, for enterprises operating more than 3 years.
<b>TEMPME 5<sub>04</sub></b>	Enterprises of any legal form (partnership, Ltd., S.A., etc.) which are to proceed in merger, acquisition or transfer.	At least 3 years for the acquiring enterprises and at least 2 years for all the others	Up to 49 people (for one or two consecutive years prior to the year of application for guarantee)	Up to € 10 million (for one or two consecutive years prior to the year of application for guarantee)	As mentioned above	They are not listed on the Athens Stock Exchange  Earnings before taxes of the acquiring company were positive, for at least one of the last two operating years prior to the year of application for guarantee



The main objectives of TEMPME SA are the following:

- the support of thousands, under establishment or already operating, viable Small and Very Small Enterprises, of all sectors, in any stage of their business cycle (establishment, growth, maturity, internationalisation, restructure, succession)
- the support of enterprises that have difficulty or weakness in accessing the financial sector (eg under establishment Small and Very Small Enterprises, enterprises of "new economy", enterprises of "research culture", enterprises with insufficient collateral, enterprises with new products and services, social enterprises)
- the support of business activities, mainly medium or long term investments, with higher than the average of the market financial risk

and finally, summing up all the aforementioned *the enforcement of competitiveness of Greek Small and Very Small Enterprises while ensuring the economic viability of TEMPME SA.*

TEMPME has created 5 programs regarding short-term and/or medium-long term loans of operating or under establishment enterprises of any legal form (e.g. SA, Ltd, Individual). The guaranteed loans vary depending on the program from €10.000-€400.000, whereas the guarantee rate varies from 45%-70% and the annual guarantee fee approximates on average 1% of the outstanding loan.

**Medium-long term loans of a minimum maturity of 3 years for Programs 1, 2, 3 and a minimum maturity of 1,5 years for Program 4, benefit from a counter-guarantee issued by the European Investment Fund under the European Community's Multiannual Programme for Enterprise and Entrepreneurship and, in particular, for Small and Medium sized Enterprises (SMEs) (2001-2006). (ROP) Regional Operational Programme :**

Entities excluded from TEMPME S.A's programs :



1. Legal Entities of the Public Sector, 1<sup>st</sup> and 2<sup>nd</sup> degree Local Administration Organizations, Municipal and Public Corporations, Public Organizations.
2. Enterprises of the Credit and Financial Sector (Banks, Venture Capital Companies, Leasing, Factoring, Insurance Companies, Mutual Fund Management Companies, Portfolio Investment Companies, Stock Exchange Transaction Companies, etc.)
3. Legal Entities, Associations or non-profit organisations.
4. Companies in the **Agricultural, Fisheries, Fish-farm and Transport sectors**. However, Agricultural, Fisheries and fish-farm enterprises are eligible for microloans (Program 4).
5. Enterprises facing sanctions at the time their application was submitted or examined, due to Community Regulations or National Legislation violations.
6. Enterprises that were incorporated in any program falling under the 3rd CSF (Community Support Framework) and received in the past three years or will receive in the next three years grants totalling €100,000, when the year of application for guarantee falls in either of the three-year periods as well as grants amounted €100,000 for each enterprise (acquiring, acquired) for mergers/acquisitions.

Exclusively for TEMPME 5<sub>04</sub> program, the following is excluded:

7. Enterprises which by National Legislation are not allowed to proceed in actions of mergers, acquisitions, transfer at the year of application for guarantee, or at the year of their application is examined

TEMPME S.A. programs 1<sub>04</sub> to 4<sub>04</sub> are addressed to investments in :

- fixed assets or equipment (land, buildings, mechanical installations and machinery, software and hardware, telecommunications equipment, etc)
- intangible assets (research and development, training, etc.).

In case of investments, TEMPME 1<sub>04</sub> to 4<sub>04</sub>, programs targets to:

- New start-ups (only in Programs TEMPME 1<sub>04</sub> and TEMPME 4<sub>04</sub>).



- Modernization, improvement, expansion and fulfilment of needs and demands presented by existing enterprises.
- The promotion of modernization at technical and organizational level and the introduction of innovation in the organization and operation of enterprises.
- The creation and development of new products and services and/or the improvement of existing products.
- Improvement of marketing and the development of contemporary distribution trading and delivery networks.
- The relocation of existing units in order to obtain modernization, improvement and expansion.

TEMPME program 5<sub>04</sub> investment target includes :

- Shares, assets and liabilities acquisitions, for the smooth exploitation and operation of involved enterprises.
- Expenses covering the rights' succession or other liabilities arising from the merger, acquisition or company transfer.
- Investments in fixed assets or equipment (land, buildings, mechanical installations and machinery, software and hardware, telecommunications equipment, transportation means etc.) or intangible assets (research and development, training, etc.) which will be implemented in 18 months or less, from the date of merger, acquisition or company transfer.

TEMPME S.A. 5<sub>04</sub> program, in order to improve the competitiveness of the Greek enterprises, seeks to reinforce the SME's, while tying together various and different business cultures and experiences.

The exact general terms and conditions of these five programs are introduced in the below table:



**GENERAL TERMS AND CONDITIONS OF TEMPME's PROGRAMS**

PROGRAM	Guarantees for	Guarantee term	Remarks	TEMPME guarantee loans ranging from:	Guarantee rate *	Annual guarantee fee			
						Tangible collateral		Without tangible collateral	
						Loan amount		Loan amount	
						</= € 50.000	>€ 50.000	</=€ 50.000	>€ 50.000
<b>TEMPME 1<sub>04</sub></b>	All type (medium to long term and short term) of loans of a specific amount and expiry date	Up to 10 years	M / L term loans shall cover up to 80% of investment expense	€ 25.001 to € 250.000	55% - 60% (70%)	0,83% - 1,15%	0,93% - 1,25%	1,08% - 1,40%	1,18%- 1,50%
<b>TEMPME 2<sub>04</sub></b>	All type (medium to long term and short term) of loans of a specific amount and expiry date	Up to 10 years	M/L term loans shall cover up to 80% of investment expense	€ 25.001 to € 300.000	50% - 55% (70%)	0,75% - 1,15%	0,85% - 1,25%	1%- 1,40%	1,10%- 1,50%
<b>TEMPME 3<sub>04</sub></b>	All type (medium to long term and short term) of loans of a specific amount and expiry date	Up to 10 years	M/L term loans shall cover up to 80% of investment expense	€ 25.001 to € 400.000	45% - 50% (70%)	0,68% - 1,15%	0,78% - 1,25%	0,93% - 1,40%	1,03%- 1,50%
<b>TEMPME 4<sub>04</sub></b>	Medium to long term loans (1,5-5 years)	Up to 5 years	M/L term loans shall cover up to 80% of investment expense	€ 10.000 to € 25.000	60% - 65% (70%)	0,90%	-	1,15%	-
	Short-term loans (180-540 days)					1,15%	-	1,40%	-
<b>TEMPME 5<sub>04</sub></b>	All type (medium to long term and short term) of loans of a specific amount and expiry date	Up to 10 years	M/L term loans shall cover up to 80% of investment expense	€ 25.001 to € 400.000	50% - 55%	0,75% - 0,93%	0,85% - 1,03%	1%- 1,18%	1,10%- 1,28%



## ROP (Regional Operational Programmes)

There are 25 Regional Operational Programmes allocated in the different Regions. The ROP are responsible for the management and distribution of the EU funding under the 3<sup>rd</sup> Community Support Framework. In the Thessaly Region the main Annexes are:

- The support of the production environment
- Rural Sustainable development
- Quality of life
- Exploitation of the central position of the region and its creation as the center of networks
- Growth of Human Resources
- Application

(ROP of Thessaly Region)

The central growth target of the region of Thessaly is the strengthening of the competitiveness of the productive sectors by emphasizing quality, continuous productivity and interregional and social cohesion, as well as, increasing employment by achieving a high level of training. The growth strategy of Thessaly can be summed up within three basic strategic solutions: increasing viable growth, searching for quality elements in both economic activities and everyday living conditions and strengthening employment. According to the above strategic targets, the following measures have to be taken to increase growth in Thessaly:

1. Development of Thessaly into a composite network hub-  
The target is the utilization of the relative geographic advantage of the region through the development of transportation, communication, energy and business networks.
2. Position the production sectors towards the market-  
The target is the improvement of the competitiveness of the production sectors, especially the extroverted by improving the quality of the methods, services and products. A basic component of this target is the increase of the extroverted innovative sectors in the productive basis of the region.



3. Sustaining the balance of the productive basis-  
The target is to sustain the multiplicity of the sectors of the productive base through supporting investments in all sectors and increasing the productiveness and viability of the businesses.
4. Balanced interregional development-  
The target is the improvement of interregional cohesion and the endorsement of special activities which are adapted to the characteristics of the regions or zones with development problems.
5. Support of the environmental dimension of development-  
The target is the restructuring of the growth model so that there is an organic and two-way connection between economic growth and protection of the natural and social landscape.
6. Development of human resources-  
The target is the improvement of the adaptability of human resources to market needs, as well as, the development and strengthening of the employability of people and social cohesion.

The strategic development of the region is expressed through the execution of the Regional Operational Program of Thessaly for the years 2000-2006 which seeks to attain the following targets:

1. The development of the relative advantage of the centralized geographic position of the region and its advancement to a "network hub."
2. The restructuring and modernization of the productive sectors with an emphasis on quality and competitiveness.
3. The reinforcement of introverted and continuously productive growth and social cohesion.

The targets of each productive sector are the following:

1. In the primary sector
  - Development of mountainous and underdeveloped areas of the region
  - Development of alternative and complementary activities for the primary sector



- Modernization of the agricultural sector and its adaptation to market needs
  - Improvement of the productivity and competitiveness of the sector
  - Improvement of the quality of products
  - Development of special local characteristics and the growth of traditional products
  - Improvement of processing and commercial structures of agricultural products
  - Protection of natural resources and the agricultural environment
2. Processing and Small Medium-Sized Businesses (Secondary sector)
- Development of a new strengthened local business environment
  - Improvement of the competitiveness of the sector
  - Reinforcement and vertical integration of production sectors through the use of new technological innovations and the "Society of Communication"
  - Development of a partnership network
  - Completion and development of support structures for the productive environment
  - Creation of cutting-edge technological small medium-sized businesses
  - Reinforcement of the extroverted businesses of the region
3. Tertiary Sector
- Development of a support service network for small medium-sized businesses
  - Interconnection of research and production
  - Improvement of the quality of tourist products - development of alternative forms of tourism - development of natural and social resources for tourism

These programmes, especially the one for the MSEs, are financing the companies with almost 50% of its start-up cost (up to a certain budget limit) or the development costs. In the last year these programmes gave a boost in the creation of new companies and the improvement of the competitiveness of already existed one. Due to my experience in one of the local antennas, as responsible for the certification of the expenditures, I figured out some problems regarding their efficiency:



- Due to the “extreme” procedures for the certification of expenditures, there is a general disbelief by the investors that something will go wrong and they will lose the financial support.
- The system of the evaluation of the applications, gives a competitive advantage to the investors that can support the rest of the budget on their own funds and not by loans (in any case the 20% must be own funds), while in the case of established companies gives the advantage to the already established than more than 3 years companies
- The evaluation of the application in some cases depends on political interference.

From the above we can easily conclude, that as in any other cases, the ROP are trying to reduce their potential risk. That means that new established MSEs are difficult or almost impossible to be financed.

#### **N. 3299/2004 – Development Law**

#### **BUSINESS ACTIVITIES FALLING UNDER THE PROVISIONS OF THE INVESTMENT INCENTIVES LAW**

The investment incentives law is applicable to enterprises having business activities in the following sectors:

- Primary (e.g. greenhouses, animal farms, fisheries etc.).
- Secondary (e.g. manufacturing, energy etc).
- Tertiary:
  - tourism (hotel units, conference centres, marinas, thematic parks, golf courses, development of mineral springs, thalassotherapy centres, health tourism centres, centres for training-sports tourism etc).
  - other services (e.g. applied industrial research laboratories, commercial centers, software development, supply chain services, logistic centers etc.).

Business activities which fall under the provisions of the Law are divided in **two (2) categories** and are described in detail. The exempted cases which fall under other incentive means are also noted.



## DIVISION OF THE COUNTRY INTO ZONES

For the application of the provisions of the law, the Country is divided into **three (3) zones**, as follows:

- **ZONE A:** Includes the Prefectures of Attiki and Thessaloniki apart from Industrial and Business Areas (VEPE) and the islands of those Prefectures which fall within Zone B.
- **ZONE B:** Includes the Prefectures of the Thessaly Region (Karditsa, Larissa, Magnisia, Trikala), the Prefectures of the Southern Aegean Region (Kyclades, Dodekanissos), the Prefectures of the Ionian Islands Region (Kerkyra, Lefkada, Kefallonia, Zakynthos), the Prefectures of the Crete Region (Iraklio, Lasithi, Rethimno and Chania), the Prefectures of the Central Macedonia Region (Chalkidiki, Serres, Kilkis, Pella, Imathia, Pieria), the Prefectures of the Western Macedonia Region (Grevena, Kozani, Florina, Kastoria), and the Prefectures of the Sterea Ellada Region (Fthiotida, Fokida, Evia, Viotia and Evritania).
- **ZONE C:** Includes the Prefectures of the Eastern Macedonia and Thrace Region (Kavala, Drama, Xanthi, Rodopi, Evros), the Prefectures of the Epirus Region (Arta, Preveza, Ioannina, Thesprotia), the Prefectures of the Northern Aegean Region (Lesvos, Chios, Samos), the Prefectures of the Peloponnese Region (Lakonia, Messinia, Korinthia, Argolida, Arkadia) and the Prefectures of the Western Greece Region (Achaia, Etoloakarnania and Ilia).





- Leasing subsidy, which covers part of the payable installments by the State relating to a lease which has been entered into for the use of new mechanical and other equipment

OR

- Wage subsidy for employment created by the investment.

OR

- Tax allowance. This incentive allows income tax exemption on non-distributed gains. The allowance is effective upon completion of the investment for the first ten (10) years of operation. It is created through a tax exempted reserve.

For the investment plans, the following incentives are offered according to zone and category, i.e.:

Cash grant / Leasing subsidy

OR

Wage subsidy for employment created

<b>Investment Category</b>	<b>Zone A</b>	<b>Zone B</b>	<b>Zone C</b>
Category 1	20%	30%	40%
Category 2	15%	25%	35%

To medium size enterprises, as these are from time to time defined in the E.U. legislation, an additional percentage of subsidy up to 10% is granted.

To small and very small enterprises an additional percentage of subsidy up to 20% is granted.



OR

Tax allowance

<b>Investment Category</b>	<b>Zone A</b>	<b>Zone B</b>	<b>Zone C</b>
Category 1	60%	100%	100%
Category 2	50%	100%	100%

Employment positions relative to the investment are considered new employment positions which are created for the assistance of the investment within the first three years of its completion and start of productive operation.

The subsidy is payable on the expenses for wages for the total employment positions relative to the investment for the first two years as of the creation of each employment position. By ‘expenses for wages’ it is understood the salary “before taxes” and the compulsory contributions to social security.

Eligible for the grant are enterprises which operate in every sector of the economy, if they fulfill the criteria for the submission to the incentives system, as laid out in the Law.

## TERMS AND CONDITIONS FOR OBTAINING THE INCENTIVES

### **a) Investor’s own participation**

The percentage of the investor’s own participation in investments which are included in the cash grants and/or leasing subsidies system cannot be less than 25% of the subsidized expenses, whereas in the investments which are included in the tax exemption or the cash grant for wage expenses for the created employment, at least 25% of the cost should be covered by the financial participation of the investor, either by own funds or loan, provided that no state subsidy accompanies this part.



## **b) Commencement of realization of the investment plans which fall into the provisions of the Law**

The commencement of the realization of the investment plans may take place after the publication of the decision for submission of the investment in the provisions of the Law. However, upon submission of the application for incentives, investors may request an eligibility certificate in order to start implementing the investment, which is issued within five (5) working days.

Budget revision of the investment cannot exceed 5% of the initial cost. In the decision for eligibility under the provisions of the Law a time limit for completion is set, which may be increased by two (2) years maximum, under conditions.

### **SUBSIDIZED EXPENSES**

The determination of the expenses which are subsidized per investment category is made by a Ministerial Decision. The law contains a list of said expenses as well as of the expenses which do not fall under its provisions.

The subsidized expenses should involve consolidated assets. The subsidization of intangible investments or fees of consultants is possible, but only up to 10% of the investment plan cost. Operational expenses are not subsidized.

### **PROCEDURES AND APPLICATION OF THE INVESTMENT INCENTIVES LAW**

#### **A) Submission of petitions for obtaining the incentives under the law**

Petitions for investments (except those involving the tax exemption subsidy, for which no submission of petition is necessary) are submitted during all the year as follows:

To the General Directorate for Private Investments of the Ministry of Economy and Finance there are submitted petitions relating to i) investments for projects over four



million (4.000.000) EURO, which take place within the limits of the Region of Central Macedonia as well as ii) investments for projects over two million (2.000.000) EURO, which take place at the rest of the State as well as iii) certain investments irrespective of the amount involved, according to specific regulations.

(b) To the Directorates of Planning and Development of the Regions there are submitted petitions relating to investments for projects up to two million (2.000.000) EURO, which take place within the limits of each Administrative Region or, in case of the Region of Central Macedonia, projects up to four million (4.000.000) EURO.

(c) To the Hellenic Center for Investment (ELKE) there are submitted petitions relating to investments for projects over fifteen million (15.000.000) EURO as well as investments or business plans of three million (3.000.000) EURO or more, in case that at least 50% of the investor's own participation derives from imported capital.

(d) To the General Secretariat for Industry of the Ministry of Development, certain petitions are submitted relating to specific sub-categories and according to specific regulations.

## **B) Supporting documents of the petition**

(a) Feasibility study

(b) Evidence of payment of the required dues

(c) Any additional supporting documents according to each case

## **C) Approval procedure**

The procedure of evaluation of each petition of investment proposal is completed by the competent authority and the competent consultative committee within two (2) months, at the latest, as of the date of submission of the petition. The decision



approving the petition is issued within one (1) month, at the latest, as of the issue of the opinion by the consultative committee. Within the same month the summary of the decision is also published in the Government Gazette. For the review of the petitions by the competent consultative committee a strict order of priority is kept, according to the time of submission of each petition.



## Chapter 2: A Status-Quo analysis

- description of regulatory frameworks guiding the financial market

The bulk of the financial flow in the Greek economy always has moved through the banks. The banking system consists of three kinds of institutions. One is the central bank (the Bank of Greece), which manages and controls the country's money supply and its exchange rate with other currencies.

The main tasks of the Bank of Greece are to:

- a) define and implement monetary policy. The concept of monetary policy shall be understood to include credit policy;
- b) conduct the policy on the exchange rate of the drachma against other currencies, within the framework of exchange rate policy chosen by the government, following consultation with the Bank of Greece;
- c) hold and manage the country's official foreign reserves, consisting of the foreign exchange and gold reserves of the Bank of Greece and of the State, and carry out foreign exchange operations;
- d) supervise credit institutions, as well as other enterprises and institutions of the financial sector
- e) promote and oversee the smooth operation of payment systems, as well as of trading, settlement or clearing systems for over-the-counter (OTC) transactions in securities and other financial instruments,
- f) have the exclusive privilege of issuing banknotes which have the status of legal tender within Greece;
- g) act as treasurer and fiscal agent for the government

Bank Of Greece, [http://www.bankofgreece.gr/en/bank/legal\\_framework.asp](http://www.bankofgreece.gr/en/bank/legal_framework.asp)

The bank accomplishes these tasks mainly by regulating the liquidity of other banks and by direct interventions in money markets (including the foreign exchange market). In line with requirements of the 1992 Maastricht Treaty, which standardized the financial organizations of EU member countries, the Bank of Greece must become independent of the government, and the bank must enforce strict limits on government use of the money supply as a source of loans. European central banks also will be



jointly responsible for the management of the projected European common currency.

Commercial banks are a second type of financial institution in the Greek system. They are deposit institutions that traditionally have engaged in commercial and industrial lending. More recently, Greek commercial banks have expanded their operations to provide a wide range of wholesale and retail banking services. Their loans include commercial, industrial, consumer, and mortgage credits. They issue credit cards and travelers' checks, buy and sell foreign exchange, and issue letters of credit. They directly engage in securities underwriting. Through their subsidiaries, they also offer brokerage services and own mutual funds of Greek and foreign securities.

A third class of institution is the "specialized credit institution" such as investment banks, the Agricultural Bank of Greece, mortgage banks, and the Postal Savings Bank. The traditional role of these institutions was to offer credit in specifically designated areas. However, banking liberalization and European policies on a unified banking market have forced specialized institutions to diversify their operations. In the 1990s, specialization in a particular area must be determined by market conditions rather than by legislative constraint. The prime example of this change is the Agricultural Bank, which was legally restricted to granting agricultural credit, distribution of which it in turn monopolized.

A number of Greek credit institutions are either directly or indirectly controlled by the state. Some, such as the Industrial Development Bank of Greece, are 100 percent state-owned. A majority interest in others, notably the two largest commercial banks, the National Bank and the Commercial Bank of Greece, is held by employee pension funds that traditionally have been managed by the state. Recent changes in legislation seek to moderate state control by granting a degree of self-management to employee pension funds, and shares in the banks are now traded on the stock exchange.

## ■ characterisation of clients for a potential Microfinance Institution

### **The potential customers**



As potential customers for the MFI in Volos can be identified the MSEs and more specifically the one at the start-up phase. The lack of “small” financial support from the established financing scheme in accordance with the lack of experience, make the MFI the most suitable solution for them. The potential for a professional support to these companies in their most critical business phase, the start-up, and the ability to gain small loans on affordable interest rates, will certainly prove vital for the 97% of the companies in Volos.

Of these MSEs the most suitable for microfinance or microcredit can be identified the:

- ✚ The companies in the Tourism sector: The Tourism sector is particularly strong in the Magnesia Prefecture. It constitutes of 2.654 companies where except of the large hotels, the other are small family companies offering limited number of rooms/beds. Since the tourist market requires simultaneous changes/repairs in order to remain competitive, the MFI could provide these companies with the small amounts required in the beginning of every tourism season.
- ✚ Moreover, potential clients can be the one in the start-up phase of small companies that can be identified as small traditional family businesses and most of them are located in the Pelion mountain (agricultural, fishing etc)
- ✚ Finally, we should also consider offering support in the companies that are interested to participate in any ROP. A large number of persons although cover the potential investment cost by own funds, might need an additional small amount of loan in order to cover any difference and fulfill the conditions for participation. Today, the most common possibilities for them is to get a common loan with a high investment rate or to get an investment loan above 10.000 € even though they do not have the necessity of it.

In general we can say that the majority of the potential customers will be from the service sector which is considered the most advance (bigger) in the Magnesia Prefecture and where the investment amounts are quite small compared to the rest production sectors.

- detailed depiction of the (expected) gap between demand and supply sides (i.e. amount of credits, maturity, accounting of



## market distortion) and short picturing of recent efforts to address this problem

In Volos the absence of relevant services of a Microfinance Institution cannot give a brief depiction of the potential gap in the finance market. As already mentioned in the analysis of the financial services/products and the regional initiatives to support the MSEs, in Volos the support to the MSEs for investments starts from 10.000 €. As a result we cannot design any supply curve since there is no supply offered.

Regarding the demand, in order to have a better understanding, AN.E.M. S.A. designed and delivered some questionnaires. The results of the questionnaires can be briefly analyzed in the below:

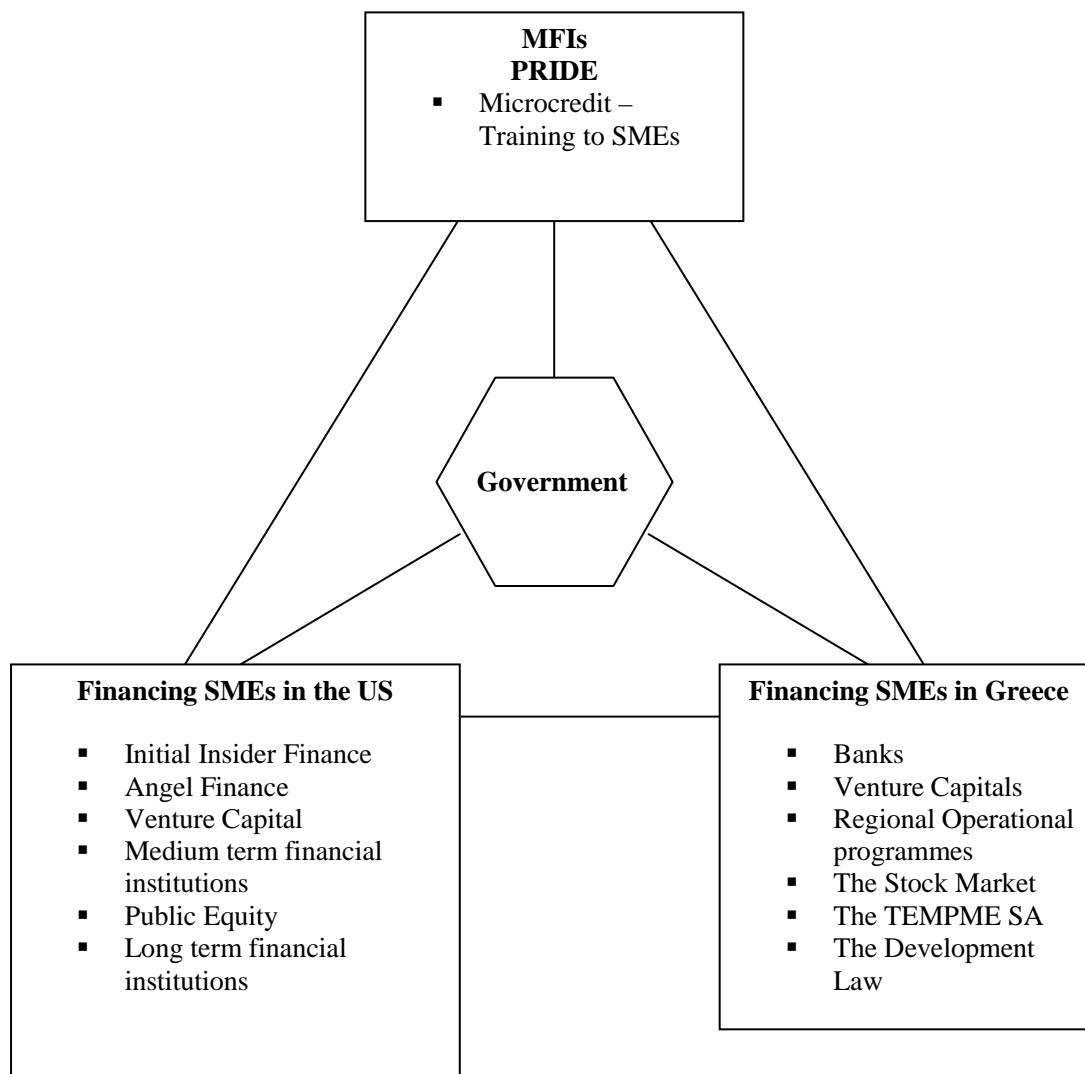
- On average most of the MSEs were interest for an investment loan of around 12.000 €
  - The majority of the companies (around 65%) were interested, if it was available, for an investment loan below 10.000 € with an investment rate around 7,5%
  - An affordable interest rate, according to their opinion, would be around 6.5% on a 10.000 € loan.
  - Finally, most of the MSEs showed more trust on getting a loan from a potential MFI instead of getting the loan from a bank.
- **list of recommendations on possible actions to address the supply gap**

After a small research on the relevant bibliography on the MFI and after analysing the relevant conditions some of the established MFIs we tried to evaluate the below model.

The START-MSEs model (as we named it) is created in order to analyze the connections between the financial support for the SMEs located in the US, the established financing scheme in Greece as introduced earlier and the evaluation of the PRIDE, Microfinance programme in Uganda, as a potential supplementary tool to fulfill the gap that appears in the SMEs financing. In this model we will try to evaluate the financing models according to the companies' business cycle and suggest



how the PRIDE programme can support them in their start-up phase, where the other methods can be considered insufficient. Especially in the case of the PRIDE programme, as we will introduce later, the governmental support is considered vital for the efficiency and sustainability of the whole system. The triangular style reminds us that none of the existing methods can be considered sufficient alone and therefore every financial scheme supplements the others.



## The PRIDE programme

The “Rural Initiatives and Development Enterprises (PRIDE) in Uganda”, will be the model that we will use and compare with the other two. PRIDE is a USAID (US Agency for International Development) financial program, aimed to provide financial services to female and male micro entrepreneurs operating businesses in rural area (Morris and Burnes, 2005). Common strategies of MFIs, included in PRIDE are:

- Formation of credit group consisting of individual member, each of whom owns and operates a business that produces weekly cash flow.
- Group guarantee of loans to individual members, with the group responsible for repayment if an individual defaults.
- Use of interest rate that supports the administrative MFI costs.
- Mandatory saving requirements
- Mandatory group meeting for loan repayment.

(Morris and Burnes, 2005)

The PRIDE procedure includes the below steps to potential “investors”:

- MECs of 50 clients (5 groups of 10)
- Client formed Groups
- Group training over a period of 6 weeks
- Compulsory attendance of weekly Group Meetings at branch offices
- Weekly/fortnightly repayment
- Forced savings to provide loan collateral

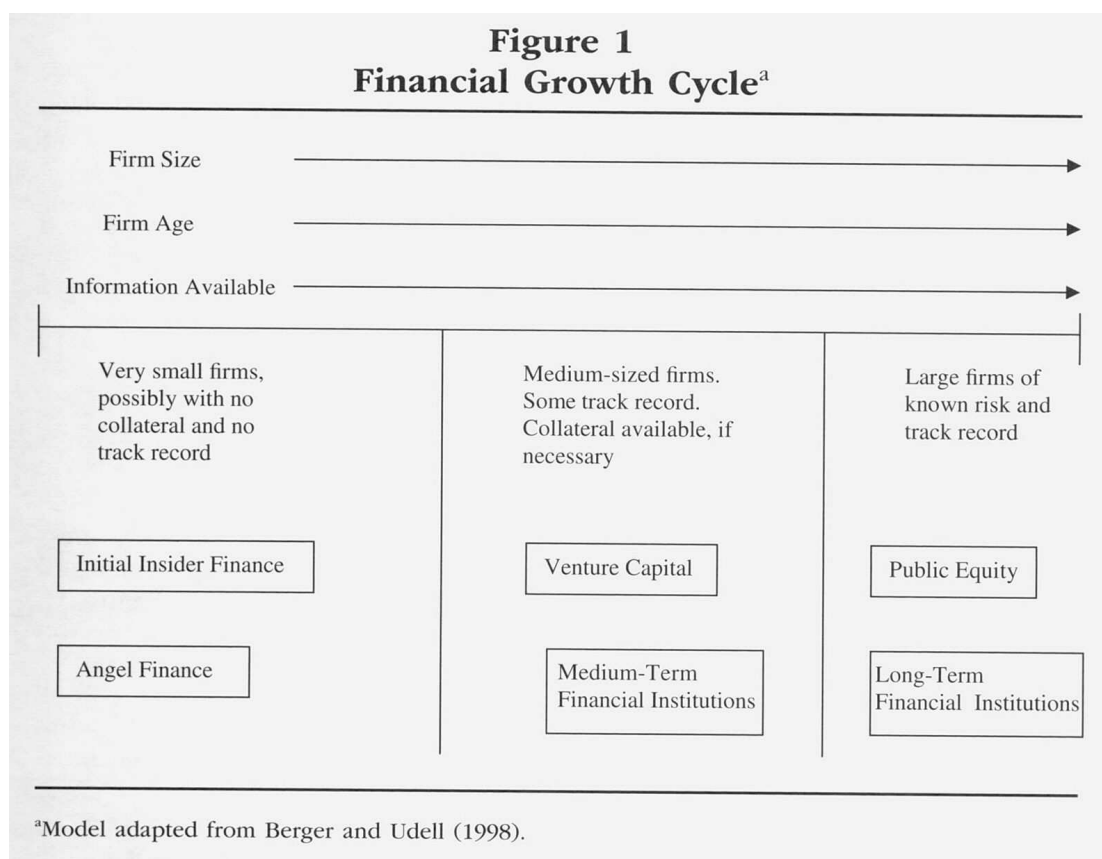
The outstanding results of PRIDE financial program and the proven efficiency of it as described in the above figures (Table 1.1), made me wonder if such an already successful financial program can be applied (with some additional adjustments) to the Greek business environment and more specifically in Volos and how it could benefit the MSE’s of the area (Micro Small Enterprises).



<b>OUTREACH INDICATORS</b>	<b>31/12/2000</b>	<b>31/12/1999</b>	<b>31/12/1998</b>	<b>31/12/1997</b>
<b>Outreach Indicators</b>				
Number of Personnel	145	133	91	36
<i>Loan</i>				
Number of Active Borrowers	25,62	19,137	12,57	3,283
Average Loan Balance per Borrower (US\$)	235	217	138	105
Loans below US\$300 (%)	79.00%	85.00%	91.00%	96.00%
Woman Borrowers (%)	59.00%	60.00%	63.00%	n/a
<i>Saving</i>				
Average Loan Balance per Borrower/ GNI per Capita (%)	83.87%	72.47%	47.75%	35.12%
Number of Savers	32,982	24,319	17,017	5,662
Average Savings Balance per Saver (US\$)	n/a	n/a	60	35

Table 1.1: Source: <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=156>

## The Financial Growth Cycle for SMEs



The second model that I am going to use is the Financial Growth Cycle (Berger and Udell, 1998), as illustrated in the above diagram. According to this, the small business finance, in the US, is depends on the size, age and information of the firm. For the start-up SMEs their financial support can be gained through their initial insider finance, trade credit or by the angel finance. According to the same research, the start-up SMEs (infant), have a total debt of around 52.10%. The 28% of this total debt is through debts in financial institutions, the 15% comes from nonfinancial business and government and the rest 9% of individuals. Moreover, the 19.61% of the equity sources comes general from insider finance and in most cases by the owner itself. Although start-up firms can gain additional financial support from “Angel Finance”, according to the statistical data of the research, that happens in only 3.59% of the SMEs. Although the 28% comes from financial institutions, only the 15% comes from banks. So we agree with the Berger’s and Udell’s point that “Conventional Wisdom argues that bank or commercial finance company lending would typically not be available to small businesses until they achieve a level of production where their balance sheets reflect substantial tangible business assets...” (Berger and Udell, 1998). From the above data we can easily conclude, that start-ups have limited financing options and their success is mainly based on their internal finance. Of course there are also some criticisms of the model since “The results of this study seem to suggest that the growth cycle of SMEs cannot be collapsed into one universal model, as Berger and Udell imply” (Gregory and Rutherford and Oswald and Gardiner, 2005), but after this analysis we can come to the conclusion, that in general even in the more advanced economic financial systems, like the one of the US, there are certain constraints that exclude the majority of the start-up SMEs from the financial scheme. In this concept, there is a necessity for a system that will fulfill this gap and offer support to the start-up SMEs or the MSEs. That system can be the MFIs.

### **Additional (innovative) services that the MFI can offer**

As we already stated in the beginning of the paper, MFI in some countries considered inefficient as result of their weakness to be sustainable. To ensure in a degree the sustainability of a potential MFI in Volos, we did find out some successful



innovations that “Based on available information, it appears that these innovations help reduce the MFIs’ transaction costs and risks” (Llanto and Fukui, 2006). Of the potential innovative systems introduced in this journal, we will focus on the CARD-MBA:

- **The Micro-insurance - CARD Mutual Benefit Association (Philippines)**

With the existing Greek insurance system which considered inefficient and it is under revision, the MFI can take the chance and offer micro-insurance services. The existing system doesn’t consider sustainable especially during the restructure of the Greek society due to ageing population. In addition, the insurance premium considered quite high. The Micro-insurance - CARD Mutual Benefit Association in Philippines, can be a good example for imitation. The management team of the CARD MBA, consists by member – clients. Their aim is to support the market niche with insurance services that the rest of the traditional companies could not offer or the segmented population could not withstand. The CARD MBA offers three major products:

- a. Life insurance program with total and permanent disability cover
- b. Provident fund/retirement saving fund
- c. All-loans insurance package

(Llanto and Fukui, 2006)

The CARD MBA, offers the above products in reduced cost and low premiums. The efficiency of this programme in Philippines cannot be questionable. The below table illustrates the development of the CARD MBA during the period 2001-2003:

	May 31, 2003	May 31, 2002	December 31, 2001	Increase %
<b>No of Members Households</b>	n/a	94,854	49,887	+ 90.14%
<b>Individuals</b>	474,270	n/a	n/a	n/a
<b>Total Assets</b>	94 million \$	n/a	27.1 million \$	+ 246.86%

The amazing thing is that, CARD MBA, managed to succeed in the growth rates, with **no funding at all** (McCord and Buczkowski, 2004) Of course, as Llanto and Fukui state: “The successful institutional innovations were not produced by market forces



*but through heavy reliance on financial support from the state and donors” (Llanto and Fukui, 2006). Our next step will be to identify the potential role of the government in supporting the MFI and ensuring in a way its sustainability.*

### **Evaluation of potential support from political side**

All the good practices in the microfinance sector have something in common, the support of the state/government. As we have already stated in our START-MSEs model the government could be considered the “heart” of the financial system. Governments have the ability to determine the fiscal policy of the country and therefore the liquidity of the financial institutions, the loan interest and the defined legal framework which determine which organizations can give loans. *“Government can create a policy environment conducive to microfinance innovations or it can introduce policy distortions that will make it difficult for MFIs to innovate or have sustainable operation” (Llanto, 2000).*

In this point, it is the responsibility of the state to understand the potential role of the MFIs and try to create a business environment able to support them. Another responsibility for the government is to support the MFIs in their start-up phase with donors or state investments. “Because pilot projects in microfinance target clients previously excluded from the classical financial system, they might face high risk and high information and start-up costs” (Lapenu, 2000). In addition, governments should try and create a supplementary financial environment. It should help MFIs to create alliances with the bank institutes. Although difficult, this can help the start up of the MFI, by introducing them into an already established financial network and giving them the boost to target immediately their target-clients. For this to happen, it will also require that the banking sector will realise that, although familiar, the two types of institutions do not have the same segmented market. So they can offer lists with people/firms whom their loans may have been rejected or they couldn’t gain access to financial support. In a few words, they must realize that the MFI customers are their potential customers in the near future. Last but not least, the government should also supervise the different financial services offered, to ensure that these institutions will operated according to their aims and their established systems, to prevent the potential for financial “crimes” and raise the peoples trust against these institutions.



- **identification of possible alliances with complementary institutions**

The ideal alliance with complementary institution was the alliance with the local banks. In that way we would overcome the potential burdens that the regulatory framework causes in the offer of microfinance. Of course, the insisted denial of these financial intermediaries to understand the significance and the benefits of microfinancing creates the necessity for the establishment of a new alternative scheme that could offer these services/products.

The difficult part in this effort in creating a new MFI is the necessary capital, a problem that we could overcome by cooperating with a bank.

If this institution finds the relevant capital it can create a cooperative system with two more “public” in a way institutions, the Centre of Entrepreneurship & Technological Development of Thessaly and the Organisation of Employment of the Working Capital. The first institution (KETA) can act as consultants on the development of the business plan or any other necessary service, while the second organisation could offer (finance and find) the required employees to work in the MFI and at the same time assist the potential companies in finding their ideal working capital which is considered vital for their future viability.

Of course we should take in consideration that an alternative system without the interference of the banks in it, could not be considered ideal and can even create questions about its future sustainability and viability.



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