

Report on options for the implementation of a micro-financial instrument in Greece

Final Report

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comments made by the Commission and
the Greek Ministry of Labour, Social
Security and Social Solidarity

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Disclaimer:

Although a range of stakeholders were interviewed to collect, verify, update and supplement relevant information, it was not possible to consult all relevant stakeholders within the constraints of the study.

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Executive summary

As in many European countries, access to finance in Greece is rather limited for micro and small enterprises, the self-employed, social cooperatives and social enterprises. In access to finance, the European Commission's SME Performance Review gives Greece the lowest score of all EU-28 countries by a wide margin and states that since 2008 conditions have substantially worsened, at a faster rate than the EU average. Microenterprises play an important role in the Greek economy. Compared to the EU average (29.2% of total employment), Greek micro and small enterprises employ twice as much people (58.7%). However, the European Commission estimates that more than half of all microenterprises are in danger of closing because of the precarious state of the economy.

Against this background, the European Commission and the Greek Government show high interest in setting up a financial instrument to provide access to finance for start-ups by disadvantaged groups and micro-enterprises, including social enterprises.

In order to identify and assess options for the implementation of a suitable micro-finance instrument in Greece, the European Commission contracted DMI to explore the key elements of a sustainable delivery model. To this end, DMI conducted two field visits in July and November 2015, organised web-meetings and conducted telephone interviews with more than 40 organisations in Greece, Brussels and Luxembourg (ministries, banks, ESIF management authorities, development agencies, foundations, social enterprises, small enterprises, public administrations, scientists), and conducted extensive background research.

The result of DMI's work is that a microfinance system based on a Partnership Model is the most appropriate model for Greece. It will facilitate access to finance not only for start-ups and microenterprises, but also for small and social enterprises.

The trust-based partnership model rests on four pillars of distributed services, which mutually reinforce each other:

- The bank, which disburses the loans. It takes over all tasks, which can only be handled by banks according to the Greek banking regulations (formal approval of the loan, finalising the loan contract with the clients, disbursing and administering the loans, carrying out formal collections until write-off). Its role is similar to that of a 'credit factory'. This creates a highly standardized workflow permitting high numbers of microloans to be handed out. However, as the complete process of handling of the loans is the responsibility of the MFIs, the bank has no direct contact with the client;
- A guarantee fund, which bundles all risk-sharing arrangements. It tries to have public, private and not-for profit investors and to provide risk guarantee up to 100% to the bank;
- Microfinance institutions, which are affiliated to organisations that are regionally anchored or trusted by the target group. They assume the role of the operator by providing complete client support starting from the client acquisition and assessment of the loan application to the loan decision and to monitoring and supporting clients during loan repayment, intervention in case of payment incidents, and training and advising clients
- A Quality Risk and Network Manager, which assures the quality of the partners and of the whole system. Its main tasks are to set transparent rules and document these in a common accreditation order; coordinate and monitor common rules; accredit MFIs and ensure quality

management; further develop the system (regarding products, methods, procedures), consolidate data and reports, notably on social impact; and provide networking, training, advice and other services to its partners. Its governance structures represent all partners involved.

The Partnership Model operates on the premise that every partner only does what comes naturally and what he can do best. It is based on trust, check and balances where each partner commits to following the same principles and guidelines (such as for example the Code of Good Conduct for Microcredit Provision).

This Partnership Model creates a solution to the main challenges that an effective micro-finance system has to tackle:

- providing financial services which are not “bankable”, because including the real costs in interests and fees would lead to prices that are not acceptable for clients, for people which are not “bankable” because they lack conventional collateral, a positive track record or the necessary entrepreneurial skills;
- filling a market gap for a social purpose: to move people out of family or welfare support into a situation where they can earn a living from their own enterprising activities;
- combining loans with start-up and business development services, which is often organised in the form of partnerships between not-for-profit organisations, public institutions, philanthropy and stakeholder banks;
- mobilising additional resources and engagement from the public, philanthropy and voluntary sector, in order to fully cover transaction, capacity building and quality assurance costs;
- exploiting systematically synergies between the core activities of the partners and their microfinance related operations, in order to reduce transaction costs; and
- developing trust-based relations between the partners, and between the MFIs and the borrowers as an essential step to create social capital, which reduces risks of individual loans and risks related to the cohesion of the overall microfinance system.

The report concludes by presenting a roadmap to set up a sustainable and self-regulating system for providing microfinance throughout Greece, with a focus on setting-up of a trust-based partnership of institutions and organisations that can over the four essential role of the Model through a moderated and participatory process divided into 7 phases.

This report is divided into 5 chapters.

- Chapter 1 sets the frame and maps microfinance and social finance in a European context.
- Chapter 2 describes the actual situation of micro and social enterprises in Greece, their obstacles to development and growth, financial needs as well as current approaches of support.
- Chapter 3 clarifies some basic terms and conceptual issues.
- Chapter 4 describes the Trust-based partnership Model for Greece, which takes up key elements of successful models in Europe, and describes the respective roles and functions of the four pillars of the model.
- Chapter 5 provides a roadmap and work programme for driving the process, through capacity building, co-development and setting up pilots as a basis for organised learning and creation of social capital.

1 Background and context

1.1 Technical Assistance mission - objective and tasks

Objective

In order to design and implement a microfinance financial support scheme in Greece in the period 2014-2020, the European Commission contracted Deutsches Mikrofinanz Institut e.V. (DMI) providing technical assistance to the Greek administration starting from 16th of June until 29th of December 2015 (service contract number VC/2014/0995 and prolongation VC/2015/0442).

The aim of this contract is "to advise and support the Greek authorities in creating a public financial instrument for microfinance, building on experience from other Member States which have a legal framework for lending similar to that of Greece, in particular Germany. Policy recommendations should include the structure and management of the financial instrument, but also non-financial areas such as risk management, certification of intermediaries or information and technology systems."

DMI is expected to provide an assessment of the Greek market gap, state of play of the sector, institutional setting as well as potential funding sources (in particular European Regional Development Fund and European Social Fund).

Globally and in Europe microfinance is seen as a powerful tool to boost business start-ups, job creation and social inclusion.

Issue

Microfinance is understood as the provision of financial services with alternative collateral arrangements to groups with limited access to the conventional credit market. The aim is to increase access to finance for micro¹, small and social enterprises with particular focus on unemployed and disadvantaged people.

In Greece, just like in several other EU Member States, only banks are legally entitled to disburse loans. Banks have however withdrawn from lending to micro and small enterprises at all, and have only limited experience in financing social enterprises or micro and small enterprises in the social economy.

The **structural market gap in the provision of microfinance** is the result of deficiencies on the supply and on the demand side:

- On the supply side, including the real costs in interests and fees would lead to prices that are not acceptable for clients:
 - Relatively high transaction and monitoring costs due to the small size of the loans
 - Relatively high costs for covering the risks of people or small enterprises which have no or a negative track record
 - Costs for building capacities to handle microfinance operations
- On the demand side, many potential borrowers are not "loan-ready", as they lack basic financial, business management and negotiation skills, and have high costs for searching and assessing suitable loan offers.

¹ As defined in Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises [Official Journal L 124 of 20.05.2003]:

- A microenterprise is defined as an enterprise, which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.
- A small enterprise is defined as an enterprise, which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

In Greece, these market failures are even more severe.

In order to overcome these deficiencies in Germany, DMI had developed and implemented – over a period of 7 years - a system for financing start-ups, microenterprises and small enterprises excluded by banks despite banking monopoly, by separating and balancing the main roles and service functions of sustainable microfinance provisions and implementing them through cooperation between a range of different partners.

Tasks and their performance

The technical assistance mission under this contract was carried out in close cooperation with the Greek Ministry of Labour, Social Security and Social Solidarity in charge of coordinating all policies regarding microfinance and social economy in Greece. From 20th to 23rd of July, 2015 DMI staff members Ms. Stefanie Lämmermann and Mr. Jörg Schoolmann made a first on-site visit to Athens. During this first visit, in addition to meeting Alternate Minister of Labour and Social Solidarity, Mrs. Rania Antonopoulou and her advisors Ms. Sofia Adam and Mr. Giannis Barkas, the following meetings were arranged covering the below mentioned groups of stakeholders (meeting schedule attached in the Annex).

- Other ministries (including Structural Fund, especially ESF, authorities)
- Experts on financial support tools
- Banks and other financial institutions
- Social cooperative and solidarity networks
- Potential funders

Following the first visit, DMI issued an 'aide mémoire' in September 2015. This interim report did not only aim at flagging and raising awareness on key financial and non-financial issues that need to be addressed to design a comprehensive support system for microenterprises, including assessment of the current situation, lessons learnt in Greece and in other countries. It also brought forward first considerations regarding concrete options for setting up a microfinance instrument in Greece.

From 9th to 11th of November 2015 DMI Director Markus Weidner and DMI expert Jörg Schoolmann carried out the second on-site visit to Athens as specified in the Contract. The aim of this mission was to discuss the recommendations contemplated in the 'aide mémoire' (meeting agenda attached in the Annex) with representatives of the relevant public authorities and stakeholders.

During the second on-site visit, DMI was given the opportunity to present its approach during the Greek Social Entrepreneurship Forum in the panel on "Alternative financial tools for the support of Social Enterprises" on 10th of November 2015.

The interim report submitted on November 13th 2015 integrated responses to the first comments on the 'aide mémoire' by the Greek Ministry of Labour, Social Security and Social Solidarity (received by e-mail on 03/11/2015), and by the European Commission Services (received on 12/10/2015). It also contained some first implementation considerations gained during the second on-site visit.

The interim report fed into a draft final report on 'options for the implementation of a (micro-) financial instrument in Greece' (submitted on 29th of December 2015) which was discussed in Brussels (January 8, 2016) with representatives of the Commission (Structural Reform Support Service, DG Employment, DG Regional Policy) and the Greek Ministry of Labour, Social Security and Social Solidarity

This revised final report takes into account the comments and observations made during the presentation of the final report to the Commission's Structural Reform Support Service and the Services responsible for ESF and ERDF in Greece.

1.2 Deutsches Mikrofinanz Institut e.V. – mission and activities

DMI is a fully independent, not-for-profit German network organization that was set up following a bottom-up approach in order to find a financing solution for self-employed people and small enterprises excluded from bank finance. Today, DMI has 44 member organisations and individual members on a German-wide level. The main pillar of DMI's membership base is made up of 32 German microfinance institutions (MFIs).

Since the 1990s it has become more and more evident that a funding gap exists for small business in Germany, not only in the start-up phase, but also post-start-up when it comes to business consolidation and growth. At the same time, full and part-time entrepreneurship and self-employment have become more and more popular job options - caused by a steadily growing importance of the service sector as well as a changing social structure based on flexibility. In addition, more and more business starters come from unemployment and other economically difficult situations.

However, private banks have largely withdrawn from financing small business with credit needs of up to 25,000 EUR. The regulatory processes are too extensive for these small amounts. Moreover, standardised loan decision processes are not adapted to the individuality of small business. Likewise, public promotional loan programmes do not have the desired effects.

Against this background regional and local microfinance pilot projects have emerged since the 1990s, supported mainly by the European Social Fund, several foundations, German authorities as well as banks. The involved actors were aware that – in order to develop a sustainable microfinance solution for Germany – a common, nationwide structure would be needed. Thus, they joined forces and founded Deutsches Mikrofinanz Institut e.V. (DMI) which has been registered as an association (e.V.) in April 2004 in Berlin.

DMI's main mission is to support its members in providing sustainable, responsible and high quality microfinance services to their clients. Therefore, we provide various services, i.e. (re-) accreditation, trainings, networking opportunities and carry out research and development projects. From the very beginning, due to its strong involvement in EU-funded projects, DMI integrated a European perspective into its work. Since 2006 DMI is a member of the European Microfinance Network (EMN). From April 2010 to June 2012 DMI carried out the large project 'IDA microfinance work package Germany' funded by the German Federal Ministry of Labour and Social Affairs. The aim was to gather and transfer microfinance knowhow from Europe to Germany and establish a large knowledge base on microfinance in Europe.

Moreover, until the end of 2012, DMI acted as the German expert for the 'EU COPIE network' (Community of Practice on Inclusive Entrepreneurship). The lead partner ESF Flanders Agency contracted DMI to draft the 'Manual on Access to Finance using EU structural funds', April 2012², which was widely circulated.

1.3 Microenterprises and microcredit in the EU

Microenterprises and self-employment represent the backbone of the European economy. More than 92% of European enterprises are microenterprises³. Across Europe 33% of new businesses are created by unemployed people. However, microenterprises and self-employed people have to cope

² www.mikrofinanz.net/fileadmin/user_upload/dateien/pdf/dokumente_veranstaltungen/COPIE_ESFManual_Access_to_Finance_print.pdf

³ Annual Report on European SMEs 2014 / 2015. SMEs start hiring again. SME PERFORMANCE REVIEW 2014/2015. November 2015
<http://ec.europa.eu/DocsRoom/documents/13942/attachments/1/translations/en/renditions/native>

with high administrative burdens and experience particularly harsh difficulties in accessing the mainstream financial market.

'Banks finance business plans. We finance people', is the motto of DMI. Microfinance differs from bank finance not only regarding the size of the transaction, but also when it comes to the applied methodology and the expected outcomes. DMI considers **microfinance as a tool with a social added value aimed at combating unemployment and social exclusion and promoting economic development.**

Microfinance institutions (MFIs) use specific methods of assessing small business' financial needs and repayment capacities.

- MFIs accept alternative forms of guarantees, use particular lending methods and carry out extremely close monitoring of their clients.
- MFIs ensure low loan default rates despite higher risks because they base their business assessment and support on client proximity, solidarity and trust as well as involving social networks of their customers.
- MFIs deal with different kinds of financial services such as loans, insurances and savings, which are most effective if combined with additional non-financial support services such as business counselling and advice ('microfinance plus').

In Europe **microcredit** is the most common form of micro-financial services. According to the European Commission, *'micro-credit is the extension of very small loans (micro-loans) to entrepreneurs, to social economy enterprises, to employees who wish to become self-employed, to people working in the informal economy and to the unemployed and others living in poverty who are not considered bankable. It stands at the crossroads between economic and social preoccupations. It contributes to economic initiative and entrepreneurship, job creation and self-employment, the development of skills and active inclusion for people suffering disadvantages.'*⁴

Microcredit is defined by:

- its **target group**: micro-entrepreneurs, self-employed, and socially excluded people having no access to traditional sources of capital;
- its **objective**: the creation or expansion of income-generating and job-creating activities of micro-enterprises, whose principal need is usually the financing of initial investment or of their working capital;
- its **size**: the small amount of the individual loans required, which in turn relates to the limited debt servicing capacity of the target clientele. Typically, this amount does not exceed EUR 25,000. The average micro-loan provided by MFIs in Europe is approximately 9,350 Euros⁵;
- its **delivery system**: more labour-intensive loan acquisition, assessment and monitoring services, through providing mentoring and general business support, involving greater knowledge of borrower capacity and a close relationship with the borrower, especially during the start-up phase of the micro-enterprise.

Furthermore, micro-credit has also proven its **cost effectiveness** as a public policy tool, costing a fraction of equivalent passive labour market measures: the average cost of support for micro-credit

⁴ European Commission, A European Initiative for the development of microcredit in support of growth and employment, COM (2007) 708 final, November 2007

⁵ European Microfinance Network (EMN): Overview of the Microcredit Sector in the European Union 2012-2013; Authors: Mirko Bendig;;Michael Unterberg;;Benjamin Sarpong; September 2014;
http://www.european-microfinance.org/docs/emn_publications/emn_overview/Overview2012-2013_Oct2014.pdf

schemes in Europe is reported to be under €5,000 per job created.⁶ Experience shows a survival rate of well over 60% after two years for businesses set up thanks to micro-credit. In purely economic terms public support for micro-credit is worthwhile even if the job created only lasts a year (ibid).

European Commission Initiatives

In order to strengthen the microfinance sector in Europe, the European Commission launched the JASMINE initiative in 2007 (Joint Action to Support Microfinance in Europe). From 2007-2013, JASMINE provided capacity building as well as funding possibilities to microfinance organisations in Europe and also aimed at improving the regulatory framework for microenterprises and microfinance.

In 2010, the European Commission launched the European Progress Microfinance Facility, which is funded by the Commission and the European Investment Bank (EIB), and implemented and managed by the European Investment Fund (EIF). It aims to increase access to finance for micro-entrepreneurs, including the self-employed. It has a particular focus on, but is not restricted to, groups with limited access to the conventional credit market, such as female entrepreneurs, young entrepreneurs, entrepreneurs belonging to a minority group, entrepreneurs with a disability, etc. The Progress Microfinance Facility was established in view of the fact that access to finance is one of the most pressing problems of microenterprises in the EU. Rejection rates of loan applications by microenterprises are three times higher than these of other firms. Progress Microfinance tries to mitigate this problem, by providing different types of financial instruments to financial intermediaries and facilitating their offer of microcredit to micro-borrowers.

The overall volume of the Progress Microfinance adds up to EUR 203 m, 180 m of which have been allocated to funded instruments (fonds commun de placement, FCP), whereas EUR 23,8 m have been employed to back credit guarantees. In either case, financial intermediaries from EU Member States, both banks and non-bank institutions (known as microcredit providers), could apply for funded instruments (loan and equity instruments) or guarantees from Progress Microfinance in order to strengthen or expand their microfinance portfolio. They consequently disburse the funds to applicants looking to grow or start a business (known as final recipients), with financial needs of up to EUR 25,000. As of 31 March 2014, the EIF had signed 30 agreements on the basis of guarantees and 27 on the basis of funded instruments.⁷

Moreover, in 2013 a widely recognized 'European Code of Good Conduct for Microcredit Provision' was published, which subsequently was adapted by microfinance providers.⁸

Since 2014, the successor instrument providing financial guarantees, funded instruments and capacity building services to microfinance intermediaries and providers has been integrated into the new EU programme for Employment and Social Innovation (EaSI). In this context, "fi-compass"⁹ has been established by the European Commission in partnership with the European Investment Bank. It provides a platform for advisory services on financial instruments under the European Structural and Investment funds (ESIF) and microfinance under the Programme for Employment and Social Innovation (EaSI). Fi-compass is designed to support ESIF managing authorities, EaSI microfinance providers and other interested parties, by providing practical know-how and learning tools on financial

⁶ Estimates of between €1 000 and €8 000 - Financial Instruments of the Social Economy in Europe and their impact on job creation, 1997; under €5 000 - Finance for Local Development 2002:
<http://www.microfinancegateway.org>

⁷ For details, see: European Commission, Interim evaluation of the European progress microfinance facility, final report by Ramboll 05/05/2015; <http://ec.europa.eu/social/main.jsp?catId=738&langId=fr&pubId=7760c>

⁸ http://ec.europa.eu/regional_policy/sources/thefunds/doc/code_bonne_conduite_en.pdf

⁹ <https://www.fi-compass.eu/>

instruments. These include “how-to” manuals, factsheets for quick reference, case studies, e-learning modules, face-to-face training seminars and networking events.

The European Microfinance Network conducts regular surveys to measure and assess the state of development of microfinance operations in Europe.¹⁰

1.4 Social enterprise and social finance in the EU

Social enterprises can play a pivotal role in tackling social and economic challenges and fostering inclusive growth in Europe. The social and environmental impact of social enterprises has gained wide recognition, by the European Commission¹¹ which, in 2011, adopted the Social Business Initiative with its Action Plan aiming at giving more visibility, optimizing the legal environment and improving access to finance for social enterprises¹².

However, across Europe, depending on a member state’s history, culture, legal framework and national policy, social enterprises take a variety of legal forms (NGOs, foundations, cooperatives, limited liability companies etc.) and provide a variety of goods and services. What characterises social enterprises, as highlighted in the Commission’s Social Business Initiative is threefold:

- They are entrepreneurial, meaning that they are engaged in regular trading activity;
- They are social, meaning that they have a primary and explicit social aim; and,
- They have specific governance rules, meaning the existence of mechanisms to anchor those social objectives into the organisation (e.g. participatory and democratic, transparent and accountable, profits mainly redistributed and/or assets locked, independent from State and for-profit organisations).

The mapping study¹³ done by the European Commission in 28 Member States plus Switzerland shows that national definitions of social enterprises vary strongly and are often too narrow (focusing for instance on ‘work integration social enterprises’ only). Thus, they often fail to capture the whole spectrum of social enterprise activity, which, in addition to work integration and social services of general interest or for disadvantaged, handicapped, discriminated or excluded groups (notably social, care and health services) cover also:

- environmental products and services (e.g. reducing emissions and waste, recycling, using resources efficiently, renewable energy; etc.);
- food production, distribution and consumption;
- education, competence development and learning;
- empowerment and entrepreneurship;

¹⁰ However, the European Microfinance Network (EMN) does not provide any data on microfinance operations in Greece, neither in its Overview of the microcredit sector in the European Union 2012 - 2013, nor in the Overviews “microfinance-by-country”. For a global overview and perspective, see also: Microfinance Outlook 2016 <http://www.responsability.com/investing/data/docs/en/17813/Microfinance-Outlook-2016-EN.pdf>

¹¹ European Commission, Social economy and social entrepreneurship - Social Europe guide - Volume 4, 2013; <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7523&type=2&furtherPubs=yes>

¹² European Commission, Social Business Initiative - Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation, 15 October 2011 <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0682&from=EN>

¹³ European Commission, A map of social enterprises and their eco-systems in Europe - Executive summary, Synthesis report and 29 country reports, 2015 <http://ec.europa.eu/social/main.jsp?catId=89&langId=en&newsId=2149&furtherNews=yes>

- neighbourhood, community and regional (development) services (e.g. counselling, youth outreach, housing for homeless etc.);
- microfinance and social finance,
- cultural, tourism, sport and recreational activities;
- empowerment to participate as citizen in community and society, and in the digital world; and
- fair trade.

Social enterprises rely on a mix of revenue streams stemming from private sources (e.g. through sale of goods and services to other business and end consumers, membership fees, sponsorship and donations) and public sources (e.g. public contracting, grants and subsidies). This is also true for MFIs.

Given their specific characteristics (dual purpose, hybrid business models, specific governance), social enterprises find it particularly difficult to access finance from the mainstream financial sector. Governments can play a key role in designing dedicated financial instruments for social enterprise. Interesting examples can be found in Belgium, Denmark, France, Germany, Poland and the UK. Moreover, as described in the Country reports of the Mapping Study, social investment markets, specialist investors and intermediaries are currently developing all over Europe.

The European Commission's definition of social enterprises in the Social Business Initiative provides a framework leaving room for national and regional adaption and also ensures that a large variety of social enterprises are covered and may be eligible for financial and non-financial support schemes.

1.5 Linkages between microfinance and social finance in the EU

In this context it has to be noted that across Europe, most Microfinance Institutions, i.e. organisations providing microfinance and related services, are social enterprises as defined by the European Commission:

- They are **entrepreneurial**, as they generate revenue by providing financial and non-financial business start-up services to microloan borrowers, through contracts with borrowers and financial institutions, and through grants from public institutions and philanthropy.
- They have a **social aim** which is to assist unemployed or disadvantaged people on their way to self-employment, or to create and sustain microenterprises, through facilitating access to microfinance, thus generating income and jobs for socially excluded people that have no access to traditional sources of capital.
- They have **transparent and accountable governance** rules, have committed themselves to base their operations on a Code of Good Conduct¹⁴, and re-invest profits mainly to support their social aim.

In addition, quite a few microfinance schemes include social enterprises as potential borrowers. For the European Commission's Progress Microfinance Facility, **social enterprises** were stated as a main **target group**, alongside self-employed and microenterprises. However, only some financial intermediaries participating in the Progress Microfinance Facility¹⁵ managed to successfully disburse microloans also to social enterprises. Others developed a parallel start-up and business development

¹⁴ http://ec.europa.eu/regional_policy/sources/thefunds/doc/code_bonne_conduite_en.pdf

¹⁵ European Progress Microfinance Facility for employment and social inclusion, Decision No 283/2010/EU of the European Parliament and of the Council of 25 March 2010, Article 2 (1)b
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:087:0001:0005:EN:PDF>

support service for social enterprise, based on the experience in using the support mechanisms of their microfinance and accompanying training, coaching and mentoring services.

2 Microfinance and Social enterprise in Greece

In Greece, most social enterprises are microenterprises established in the last few years. As such, they do not only have to face the challenges of traditional start-ups and microenterprises, but also specific problems resulting from their double objective of having to survive on the market, and generating a social impact in line with their social mission.

Therefore, the situation of social enterprise has to be given specific consideration in the assessment of access to finance for microenterprises, because

- The legal frameworks in place recognise only social cooperatives and impose additional barriers;
- There is, as stated in the mapping report, *"no level playing field for social enterprises regarding public support for starting, developing and expanding a social enterprise, because Koi.S.P.E.s and Koin.S.E.p.s are not eligible for mainstream start-up and SME support available under programmes promoted by the Ministry of Development [now: Ministry of Economy]"*;
- There are no dedicated financial instruments in place to facilitate the start and development of social enterprise;
- Across Europe, most Microfinance Institutions, i.e. organisations providing microfinance and related services, are social enterprises as defined by the European Commission.

2.1 Legal frameworks and public action to support social enterprises

Since the beginning of the financial and economic crisis in Europe, Greece is undergoing particularly heavy debt crisis, hard economic downfall and degradation of the social situation. Greece is experiencing extremely high levels of unemployment, particularly amongst its young generation, credit crunch and low performance of many enterprises and economic activities. Lending by banks has been curtailed drastically. Especially micro and small enterprises - including those in the social economy – experience very difficult access to finance.

However, up to now, Greek Governments made no attempts to establish a microfinance scheme. Yet recently, a few initiatives in the third sector have started to generate interest and commitment around the necessity to generate, and facilitate access to, a microfinance facility for Greece, which will be shortly outlined in section 2.4.

Regarding social enterprise finance, the situation was even more difficult in view of the low number and weak economic performance of social enterprises. The Greek Government therefore tried first to stimulate the creation of social enterprises as a means to strengthen social inclusion by enacting a law on 'Social Economy and Social Entrepreneurship' (Law 4019/2011) intended to give legal status and empower social cooperatives. According to the Law the responsibility for coordinating all policies related to Social Economy is in the hands of the Special Agency (or Service) for Social Inclusion and Social Economy, under the Greek Ministry of Labour, Social Security and Social Solidarity. The Law puts forward a legal definition of 'social cooperative enterprises' and introduced a Registry where social cooperatives shall enlist¹⁶.

¹⁶ According to information provided by the Ministry in July 2015, the Social Economy Registry is blocked, due to the high number of new entries. The Ministry could therefore not provide any data on the types and numbers of social cooperatives, their fields of activity, jobs created or impact measured and reported.

According to Law 4019/2011, social cooperatives are categorised in three types:

- for the socio-economic inclusion of persons belonging to 'vulnerable groups of the population' ('Inclusion Koin.S.Ep.'),
- for provision of goods or services in the field of social care ('Social Care Koin.S.Ep.') or
- for the satisfaction of 'collective needs' such as culture, environment, ecology, education, common interest services, traditional trades, local products etc. ('Koin.S.Ep. of Collective and Productive Purpose').

Social cooperatives have to:

- have at least 5 (or 7 in case of Inclusion Koin. S.Ep.) founding members,
- be registered at the Social Economy Registry (SER) of the Ministry of Labour, Social Security and Social Solidarity and at the Tax Registry,
- submit annual reports and business plans,
- have no minimum level of capital or assets,
- follow specific management and governance processes,
- distribute 35% of surplus annually to employees.

In addition, women agro-tourist cooperatives established under Law 1541/1985 and Limited Liability Social Cooperatives (Koi.S.P.E.), which according to Law 2716/99 are work integration social enterprises for people with mental health problems could also be seen as social cooperatives.

Law 4019/2011 has been criticized since its enactment of further complicating the already fragmented cooperative sector. Moreover, the restricted definition of social cooperatives is seen as neither reflecting the complete range of actually operating cooperatives (such as urban, consumer and agricultural cooperatives) nor more generally social enterprises in Greece. A major shortcoming of the law is that it limits social enterprises to social cooperatives, and "should thus be considered as cooperative legislation strictly speaking".¹⁷ According to the EC's definition, a social enterprise can take a large diversity of legal forms. While the law already covers quite a lot of fields of activities of social enterprises, the restriction in terms of legal forms has to be considered as a major obstacle for the development of social enterprises. However, on several occasions the Ministry of Labour, Social Security and Social Solidarity has announced its intention to adjust the law so that also other legal forms could be considered as social enterprises.

In order to underpin this law, the Greek Ministry of Labour, Social Security and Social Solidarity made several attempts in developing a strategy:

- In January 2013 a European and Greek expert group drafted a strategy and a rapid action plan for the development of social enterprises in Greece.
- In addition, the Greek Special Service for Social Inclusion and Social Economy EYKEKO issued a draft strategic plan to develop social entrepreneurship in Greece in February 2013. This strategic plan is structured around three strands encompassing 13 priority pilot actions which are:

¹⁷ International Organisation of Industrial, Artisanal and Service Producers' Cooperatives (CICOPA), Promoting cooperatives and the Social Economy in Greece - How to promote the social economy in Greece through social cooperatives, worker cooperatives, and cooperatives of artisans and of SMEs, report to ILO, 2013
http://www.cicopa.coop/IMG/pdf/Promoting_cooperatives_and_the_social_economy_in_Greece_Sep_2013.pdf

- Support for the social economy by creating a central support mechanism and social economy observatory, regional support mechanisms and coordinating body (4 actions)
- Financial support to start-up social enterprises mainly by non-repayable grants for training and coaching, acquiring shares and for employing target groups (5 actions)
- Financial instruments such as reimbursable grants support for the establishment of microfinance providers (2 actions).

It seems however that former misconceptions of social enterprise are still influential (as for example in the above mentioned law) and might hinder the development of social enterprise. Also, the planned strategic actions were either not implemented so far or had not had notable positive effects on the development of social enterprise.

2.2 Obstacles for social enterprises in Greece

Administrative Burden

It seems that hundreds of new social cooperatives have been created in Greece during the last couple of years, not least due to the recent regulatory changes and planned policy initiatives. However, so far most of these **social cooperative enterprises tend to remain microenterprises** with no or only a few employees¹⁸ and show a rather low level of innovativeness, mainly reproducing traditional economic sector activities. It would not be too far off to assume that some of these cooperatives do not show any economic and/or social activity. Therefore it is fair to say, that actions to support social enterprises have not shown any considerable impact yet.

According to our findings, it is still extremely difficult for social enterprises, and even for social cooperatives to find adapted support services. Information about registration issues and administrative procedures to pass in order to set up a social cooperative is primarily provided on a centralized website by the Ministry of Labour, Social Security and Social Solidarity. Social cooperatives need to register directly to the Ministry and send all required documents in printed format to the Ministry. There are no local and/or regional training and coaching possibilities, neither for social enterprises in the start-up phase nor in the consolidation phase when it comes to accessing new markets and developing new products. There are no or very few providers of support for business start-up and growth specifically targeted to social enterprises. Networks of social cooperatives were only recently created in Central Macedonia and also East Macedonia.

Moreover, administrative burdens are currently still very high and costly for social cooperatives. Cooperatives have to pay corporate tax from the first day of registration even in case they do not yet generate any turnover at all. Payment of taxes is currently not graded and not proportional to the actual business turnover. Last but not least public procurement procedures include difficult-to-fulfil prequalification requirements and enterprises working with public procurement contracts have to cope with important payment delays.

Limited access to finance

As in many European countries, access to finance in Greece is rather limited for micro and small enterprises, the self-employed, social cooperatives, and social enterprises. In access to finance for SMEs, the European Commission's SME Performance Review gives Greece the lowest score of all EU-28 countries by a wide margin, and states that since 2008 conditions have substantially worsened, at a faster rate than the EU average. Microenterprises play an important role in the Greek economy.

¹⁸ The experts interviewed could not provide data on the number of operational social cooperatives, their turnover and employment

Compared to the EU average (29.2% of total employment), Greek micro and small enterprises employ twice as much people (58.7%). However, the European Commission estimates that more than half of all microenterprises are in danger of closing because of the precarious state of the economy¹⁹.

For social enterprises, the situation is similar. According to recent studies (notably EC Mapping Report 2014) as well as interviews carried out by the authors, one of the main hindering factors for the development and growth of social enterprises in Greece is lack of finance. Especially seed financing and investment capital is needed, but also financing cash flow seems to be of high priority. However, private banks are very reluctant to finance social enterprises.

In general, banks tend to avoid financing social enterprises. Banks consider it to be too risky and hardly understand the specificities and funding needs of social enterprises, which need to be assessed on an individual basis rather than using an automatized scoring system. This deficiency on the supply side of the finance market is reinforced in the Greek context where banks currently cope with extremely high portfolios of non-performing loans, capital controls and experience stark liquidity problems.

Moreover, social enterprises do not only have difficult access to private funding, but are also largely excluded from access to mainstream public support schemes aimed at SMEs in general. Some Koin.S.Ep.s are therefore currently exploring crowd-funding possibilities. However, in the current uncertain economic climate, it is very unlikely for social cooperatives to be able to attract any funding from individual citizens.

Social (cooperative) enterprises in Greece today still face the challenge of growing and diversifying their activities and engaging in new business opportunities in order to contribute to the restructuring of the Greek productive and service sectors and contribute to the strengthening of Greece's social tissue and economic competitiveness. Former public programmes to stimulate start-ups reserved to unemployed people such as TOPEKO and TOPSA have not given enough incentives for innovation and seem to be of low effectiveness, too²⁰. In order to strengthen the development of social enterprises, a comprehensive support package is needed. Such support should aim at promoting opportunity rather than necessity entrepreneurs - people who decide to effectively use the social enterprise spirit in order to set up or develop an innovative and sustainable social enterprise, preferably in non-traditional business sectors.

2.3 Financing needs of social enterprises

According to our discussions with the Ministry of Labour, Social Security and Social Solidarity, as of July 2015, around 700 – 1,000 social cooperatives are currently registered in the 'Social Economy Registry' (SER)²¹. It can be assumed that most of them belong to the third category ('collective and productive purpose'). The EC Mapping Report 2014 shows that among the 530 Koin.S.Ep.s registered by May 2014, 77% fell under 'collective and productive purpose', 19% under 'Social Care Koin.S.Ep.' and 3% under 'Inclusion Koin.S.Ep.'. Moreover, 17 Koi.S.P.E.s were registered, employing 150 people

¹⁹ European Commission, 2015 SBA Fact Sheet Greece, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs 2015 http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/files/countries-sheets/2015/greece_en.pdf

²⁰ The Ministry could not provide an evaluation of these programmes, nor an assessment of the numbers, types, employment effects or cost per job created

²¹ A break-down of these figures and an analysis of the annual reports which the registered social cooperatives have to submit are not available.

and having more than 1,500 members. At the same time, it is estimated that out of all the registered social cooperatives, only 30-50% are actually operating.

In order to do a first, preliminary estimation of financing needs, we spoke to Greek public authorities in charge of promoting social enterprises, several experts as well as to various Greek social and consumer cooperatives and/or representatives of cooperative networks about their support needs in terms of financing. However, in order to get a clearer picture of the financing needs of social enterprises, it will be very important to access more (statistical) data about the characteristics of currently active social cooperatives in terms of their maturity, size, business volume and previewed business development.

2.4 Short appraisal of existing Greek microfinance and social finance initiatives

In recent years three new, private micro-/social finance initiatives have been or are currently in the process of being set up. They envisage or try to offer different solutions to the key elements of any financial instrument.

2.4.1 Governmental Initiatives to promote entrepreneurship and to provide guarantees for SMEs

ETEAN

The current Investment Incentives Law (3908/2011) of February 2011, in addition to providing investment incentives primarily through tax exemptions, establishes a framework for providing subsidies and soft loans and guarantees to SMEs with a focus on sustainable investment projects that are environmentally friendly, promote innovation, regional cohesion, youth entrepreneurship, and create jobs.

The soft loans are administered by ETEAN (National Fund for Entrepreneurship and Development): the amount to be covered by a bank loan may be funded by soft loans from credit institutions that cooperate with ETEAN enterprises.

"ETEAN is Greece's new national fund to support enterprises, particularly small, medium, and innovative enterprises. ETEAN operates as a Société Anonyme in order to provide leverage financing, through revolving debt, bank guarantees and counter guarantees, joint ventures and equity participation.

ETEAN does not deal directly with businesses. Businesses contact partner banks, which are selected by ETEAN through an open international tender. ETEAN is designed to improve the access of finance to enterprises for their development, to help create new enterprises, to enable and enhance productivity, and to facilitate the entry of new products and services to market.

ETEAN is co-funded by the Operational Programme Competitiveness and Entrepreneurship and other NSRF programmes, supported by the European Regional Development Fund and the European Fisheries Fund.

Under the ETEAN umbrella, funds are created for green development, entrepreneurship, outward-oriented business activities, fisheries, agricultural development, and social entrepreneurship. For every Euro the state guarantees, the banks shall guarantee two. The capital is available to firms in the form of friendly and soft loans, through the banks. With

guarantees from ETEAN, enterprises may borrow total secured business loans with significantly less collateral than normally required by banks without the ETEAN guarantee.”²²

So far ETEAN and its partner banks have not been engaged in microfinance.

Guarantee Fund for Greek SMEs

In March 2012, the Greek Government established the Guarantee Fund for Greek SMEs, which is financed by the European Regional Development Fund in the context of the National Strategic Reference Framework for Greece 2007-2013, by using EUR 500 million from unabsorbed Structural Funds for Greece. It aims to guarantee EIB loans meeting medium and long term working capital needs (with a maturity of up to 8 years; preferential fees) to SMEs (with fewer than 250 employees) via a network of five Greek banks (Alpha Bank, Eurobank, National Bank of Greece, Piraeus Bank and the Pancretan Cooperative Bank). The total budget of the Guarantee Fund is up to EUR 1 billion. Within the first two years (i.e. by May 2014), 15% of the allocated amount could be disbursed.²³

No microfinance operations have been reported under the Guarantee Fund for Greek SMEs.

2.4.2 Public Grants to cover start-up costs for unemployed people from vulnerable groups

The Self-Employment for the Vulnerable Unemployed²⁴ provides grants to cover business start-up costs. Especially for tackling the high unemployment rate in Greece this scheme is considered²⁵ to be more successful than any other labour market policy scheme so far. One of the key success factors of this scheme is the establishment of a business plan requirement. Also, the focus on new ideas, products and services contributes largely to reduce displacement effects and has the potential to minimize abuse of such a scheme.

2.4.3 Third sector Initiatives to deliver microfinance

At the end of 2011 the Pancretan Cooperative Bank and EIF (European Investment Fund) signed a senior loan under the PROGRESS Microfinance Facility. Due to difficulties within the Pancretan Cooperative Bank, such as liquidity issues, PROGRESS funds could not be made effective until recently. Currently, it appears that the Pancretan Cooperative Bank provides microloans on a small scale.

Currently SESNet and the Cooperative Bank of Karditsa (CBoK) are in the process of laying the ground for establishing a microfinance facility. To this end, CBoK has applied successfully for EaSI Technical Assistance, and applied for an EaSI Guarantee for future microfinance operations.

²² http://www.enterprisegreece.gov.gr/files/investment_law/EN_INTERNET.PDF

²³) No further data could be provided by the Ministry.

²⁴ The OECD report refers to data obtained between 2007 and 2011. No current data could be obtained during the course of this study.

²⁵ See: http://www.keepeek.com/Digital-Asset-Management/oecd/industry-and-services/the-missing-entrepreneurs/greece-self-employment-for-the-vulnerable-unemployed_9789264188167-23-en#page2

2.4.4 Private Initiative to deliver microfinance

Action Finance Initiative (AFI)²⁶ is a private microfinance institution registered in January 2014. AFI was founded by Action Aid Hellas and Adie with the support of Stavros Niarchos Foundation, Solidarity Now and the US Embassy. AFI aims at making entrepreneurship accessible to everyone who has a good idea and wants to develop it. It has no specific focus on social economy enterprises but targets all kinds of micro-entrepreneurs and sole proprietors.

AFI provides microloans based on the most important principles of microfinance, which are trust and social solidarity. The organisation works in cooperation with diverse Greek business support initiatives as well as a variety of social NGOs in order to attract potential clients.

AFI's microloans are provided in cooperation with Greek banks. Additional non-financial business support services are offered by AFI's large volunteer network. AFI declares to respect the ethical principles of microfinance adhering to the Client Protection Standards as well as the European Code of Good Conduct for Microcredit Provision.

AFI lobbies for a change in the Greek banking legislation in order to be able to provide microloans itself, without being dependent on a cooperating bank. So far, no amendment to the banking law could however be achieved. Moreover, AFI highlights the existing complex bureaucratic start-up processes as well as high tax and social security burden as among the main reasons hindering people to engage in entrepreneurship in Greece. AFI is currently in the process of becoming a member of SESNet.

The Business and Cultural Development Centre **KEPA** is a private regional business support centre based in Thessaloniki with substantial experience in financing SMEs. KEPA was founded by the Federation of Industries of North Greece (ΣΕΒΕ) and the Greek International Business Association (ΣΒΒΕ) in 1991. It has been an Intermediate Managing Authority for the Region of Central and Western Macedonia, on funded programmes for SMEs under the Operational Programme "Competitiveness" and NSRF 2007-2013. Until today, KEPA has disbursed more than € 1 billion of public funding to 16,000 final recipients over the last 20 years.²⁷

KEPA is trying to establish an MFI as part of its work and has started to develop a microcredit offer targeting unemployed people that want to start their own business, and small businesses without the access to meet their financial needs. To this end, KEPA has joined MFC as a member and recently signed the MoU of SESNet to cooperate with its partners in this respect.

2.4.5 The European Commission's initiative to explore the potential for microfinance in Greece

This new opportunity also had the potential to facilitate access to finance for start-ups out of employment and micro-enterprises. In view of this opportunity, and in view of the slow start of the Microfinance scheme of the Pancretan Cooperative Bank supported by Progress Microfinance, the Commission's Task Force for Greece, in late 2012, launched a study to explore the potential to develop microfinance in Greece.²⁸ However, "the Greek authorities have not expressed any interest in proceeding with a particular follow-up, notably to launch pilot projects in this area".²⁹

²⁶ <http://www.afi.org.gr/>

²⁷ <http://mfc-highlights.blogspot.be/2014/09/sowing-seeds-of-new-microcredit.html>

²⁸ Nowak & Palermo: Report on the potential to develop microfinance in Greece, January 2013,

²⁹ Task Force for Greece, Seventh Activity Report, July 2014, p. 8

<http://ec.europa.eu/greece/pdf/7thtfgactivityreporten.pdf>

2.4.6 Governmental initiatives to develop social finance

2007- 2013 Programming period

The national ESF OP "Human Resources Development 2007-2013", under its Thematic Priority Axis 4: 'Complete Integration of all Human Resources into a Society of Equal Opportunities', included measures to utilize social entrepreneurship towards the integration of socially vulnerable groups in the labour market. Around €60 million were earmarked to implement a strategic action plan to develop social entrepreneurship in Greece, but the envisaged budget could not be spent because the action plan was not pursued any further.

2014- 2020 Programming period

For the current period, the responsibility for allocating and managing ESF for thematic objective 9³⁰ has been moved primarily to the 13 regional multi-fund OPs, and further allocations to develop social enterprises and their ecosystem have been made under the national ERDF OP "**Competitiveness, Entrepreneurship and Innovation**" and the national ESF OP "**Human Resources Development, Education and Life Lifelong Learning**".

2.4.7 Third sector Initiatives to develop social finance

SESNet, the Social Entrepreneurship Supporting Network, emerged in the region of Thessaly as a pilot project co-funded by the EC/DG Employment in order to establish a social finance partnership and develop a social finance instrument to support the development of social enterprises in all Greek regions. Besides carrying out a demand side study on national level, a Memorandum of Understanding has been successfully set up that was already signed by a range of actors committed to social finance³¹. Others are expected to join. The aim is to commit key stakeholders from across Greece, (such as the Hellenic Agency for Local Development and Local Government (E.E.T.A.A. S.A.), other cooperative banks and development agencies as well as cooperative networks) to a joint action towards developing the supply and demand side of a Greek social finance market. This multi-stakeholder initiative addresses financial and non-financial needs of social enterprises. SESNet plans to establish a financial instrument that would be able to cover financial needs of social enterprises of more than 25.000€ and would therefore serve as a complementary part to the (financial and non-financial) instrument proposed in this report:

- Lending institutions: Joint venture of Cooperative Banks of Karditsa, Epirus and Chania, and others if needed
- Instrument: EaSI Microfinance and Social Finance as counter guarantees
- Distributor: branch offices of the participating Cooperative Banks

PRAKSIS Business Coaching Center (BCC)³² is an initiative launched by the NGO PRAKSIS aiming to support the unemployed from socially vulnerable sectors by helping to get them back into meaningful employment – specifically self-employment. The PRAKSIS BCC functions as a support centre for the

³⁰ Objective 9 ("Promoting social inclusion, combating poverty and any discrimination" includes the investment priority "Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment")

³¹ The Cooperative Bank of Karditsa, the Development Agency of Karditsa (AN.KA S.A), BVBA Helder, Not for Profit Network of Social Cooperative Enterprises of Central Macedonia, Association of Greek Cooperative Banks, Cooperative Bank of Epirus, Cooperative Bank of Chania, KEPA and 180 Moires

³² <http://www.praksis.gr/en/our-programs/current-interventions/item/business-coaching-center>

selected candidates offering training, coaching and consulting in order to help materialize their entrepreneurial goals. The benefits of small businesses expand beyond the individuals and their families, and into their local neighbourhoods and society as a whole. Candidates benefit by becoming active and productive members of society while creating financial injections and other multiplier effects into their local economies. PRAKSIS cooperates with the crowd-funding platform ONE-UP in order to raise the seed capital for its clients that want to start a business.

2.4.8 Research by Adie International

The main barriers identified to develop microfinance in Greece, as described by Adie International in its studies, conducted between 2012 and 2014, have been

- Lack of understanding of the concept of microfinance amongst stakeholders and public authorities³³
- Lack of interest of the public institutions providing loans and guarantees to start-ups, micro and SMEs to establish a microfinance guarantee facility
- Lack of (suitable regulation on) new sources of finance (e.g. crowd-funding or peer-to-peer lending)
- Reluctance of private and cooperative banks to grant microloans to disadvantaged people because of the high risks perceived
- Reluctance of private and cooperative banks to grant microloans because of the relatively high transaction costs
- Lack of capacities to deliver microfinance in close cooperation with NGOs providing assistance to move from unemployment to self-employment
- Cultural barriers, as inclusive entrepreneurs often fall out of the prototype of a typical bank client, or face language and social barriers to building a close and confident relationship with banks (migrant and ethnic minority entrepreneurs).
- Lack of skills in submitting a loan application, business planning, business management as well as financial literacy
- Extremely complicated, time-consuming and expensive³⁴ registration procedure of newly formed businesses
- Social security payments are not linked to profit/income

The description provided by Adie International still has its value and the regulative framework, i.e. for registering a new business, still leaves a lot of room for improvement in comparison to other European countries. Also, the banking sector in Greece is still vulnerable and it remains to be seen which bank will actually survive the crisis. However, the socio-economic situation in Greece does not allow for a fast developing financial instrument such as micro-finance. Nevertheless, the latest SBA fact sheet³⁵ underlines the urgent necessity of implementing such an instrument.

³³ see: Nowak Maria, and Palermo Justine: Report on the potential to develop microfinance in Greece, January 2013, The study also describes the rather time consuming and difficult way to register a business.

³⁴ In comparison, a German entrepreneur would have to pay a fee of around 30,-€ to register a business. The procedure is streamlined and does not take longer than 30 minutes.

³⁵ http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/files/countries-sheets/2015/greece_en.pdf

2.4.9 Conclusion

To overcome those barriers, the most important task appears to be bringing together the different stakeholders, public authorities and initiatives in order

- to assess the effectiveness of alternative solutions and
- to team up to prove the effectiveness of alternative models through conducting pilot projects in Greece.

The setting up of a specialized financial support mechanism that takes into account and builds on the knowledge and structures of existing initiatives will be crucial for the start-up, consolidation and growth of Greek micro- and social enterprises.

However, establishing a stand-alone financial instrument will not be sufficient: what is needed is its combination with a suitable business development support and grant scheme.

In Germany, DMI developed a financial model, called '**Microfinance Cooperative Model**' that successfully fills the financing gap of micro and small enterprises since 2004. This model has the potential of being transferred and adapted to other contexts and also to be used for financing social economy entities. For the Greek context we will refer to "**Trust-based Partnership Model for Microloan Provision**".

In the following chapters we will therefore analyse whether a Trust-based Partnership Model for Microloan Provision could be a suitable design for setting up a microfinance instrument, the structures of which could also facilitate access to finance for social enterprise in Greece. We will discuss the structure, potential stakeholders as well as partners and financial sources of such a financial instrument in the next chapters.

3 Conceptual and empirical considerations

During our interviews and field research it became quite obvious that key terms need to be clearly defined and explained to avoid misunderstandings. Therefore, before going into detail describing a possible financial instrument we would like to clarify some basic elements of the proposed solution in advance.

3.1 Volumes and target groups

The aim of DMI's proposals presented below is to initiate and promote a dynamic growth in microfinance provisioning.

However, given the current economic situation, we do not recommend introducing a delivery model in a single step, and to aim at serving all credit needs below 25.000 Euros all over Greece. Rather we recommend to start with a few pilot projects in a first step, monitor the results of different configurations, and, in a second step, scale the most promising and successful concepts to a nationwide system, which could serve several thousand customers annually.

A returning question during our meetings was if the system would be suited primarily for self-employed, micro and small enterprise in general, or serve the needs of social enterprises as well.

A multi-role trust-based partnership model can eventually serve both groups, as such a model addresses the market deficiencies of the mainstream-lending model through banks for customers that are excluded from traditional banking services.

A Trust-based partnership Model, as described below, which integrates different roles and service functions (notably: guarantor; distributor; bearers of risk of failure, transaction costs, capacity building and quality management) through cooperation between different partners can be used to establish a delivery system for both microfinance and social finance services.

We therefore recommend designing the trust-based partnership model in Greece from the very beginning in a way that different target groups and different objectives can be reached simultaneously. Operational costs will be significantly lower if several financial assistance programmes are delivered through the same model, i.e. a programme for social enterprises, a programme for cooperatives and a programme for self-employed.

3.2 Social Enterprises

When we referred to "social enterprises" during our interviews, we realised that this term seems to have different meanings amongst Greek stakeholders and within the government. We will briefly point out what we mean when using this term:

3.2.1 What are „social enterprises“?

Most stakeholders seem to have a rather narrow understanding of the scope of social enterprises, limiting it to a specific legal form (social cooperatives under law 4019/2011), or to social enterprises with the primary aim of integrating or serving disadvantaged people.

For the purpose of this study, we apply the common definition of the Social Business Initiative (SBI)³⁶, which becomes more and more accepted across Europe. According to the SBI, social enterprises are organisations:

³⁶ European Commission, Social Business Initiative - Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation, 15 October 2011
<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0682&from=EN>

- Whose purpose is not maximising profits, but fulfilling a social mission. In particular, this includes social, societal, ecological, as well as measures to promote equality and democracy in economics and society.
- Which apply economic principles and instruments to fulfil their mission.
- Which, in a sustainable way, finance themselves primarily by income from private or public markets based on performance and reward, alongside grants and subsidies
- Which reinvest profits into the organisation and have no or only a limited profit distribution to owners or members.
- Which have established transparent and accountable governance.

Based on this definition, it has to be stated that a social enterprise does not need to be established by disadvantaged target groups, or that predominantly disadvantaged persons need to be employed or that the beneficiaries need to be disadvantaged people. In a European and international context, services of general interest for all, solidarity with future generations through promoting renewable energy or circular economy would be equally regarded as social objectives driving social enterprises.

Regarding the 3rd criterion of the above list, it should also be noted that an organisation which has a dedicated social mission, but needs to be financed primarily by private donations or public grants should not be considered to be an enterprise, but a non-profit NGO. This basic understanding is important since it has significant influence on suitable financial instruments. Only in exceptional cases a loan would be appropriate for an NGO.

3.2.2 How to integrate socially disadvantaged groups?

During our interviews we dealt with the question if it would be expedient to stipulate socially disadvantaged people as entrepreneurs, customers or employees of a social enterprise. Obviously, it is useful if this target group is attracted by and shows interest to have a relation with a social enterprise, but a mandatory rule should not be established. A mandatory rule for a social enterprise has to be the social mission, not the target group.

That means that social enterprises can be operated by necessity-driven entrepreneurs as well as by opportunity-driven entrepreneurs.³⁷

3.2.3 Social and inclusive entrepreneurship

Entrepreneurship is a concept that is widely understood in Europe. Broadly speaking, entrepreneurship refers to the attitudes, skills and willingness to take risks and to invest a lot of time, resources and energy in developing new ideas for products, services or production processes, evaluate them, identify market opportunities, develop new business ideas and implement these in the form of new business models or through creating a new business.

Promoting entrepreneurship is a priority for all ESF and ERDF OPs in all countries. It is also seen as an important element in all Greek strategies for economic recovery.

³⁷ The Global Entrepreneurship Monitor (GEM) differentiates between two types of entrepreneurial activity: opportunity driven entrepreneurial activity is characterised by individuals "who (1) claim to be driven by opportunity as opposed to finding no other option for work; and (2) who indicate that the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income." Therefore necessity-driven entrepreneurs "claim to be driven by necessity (having no better choice for work) as opposed to opportunity". Compare: GEM Global Report 2014, p. 24.
<http://gemconsortium.org/report/49079>

In the last fifteen years, based on a broad set of measures developed and tested under the ESF EQUAL Programme, the concept of **inclusive entrepreneurship** has gained ground³⁸. Inclusive entrepreneurship, or “entrepreneurship for all” involves business start-ups and self-employment activities that contribute to economic growth and social inclusion to give all people an equal opportunity to start up and operate businesses. Target groups are those who are disadvantaged and under-represented in entrepreneurship and self-employment, including youth, women, seniors, ethnic minorities and immigrants, disabled people and many other groups - notably of the unemployed and disadvantaged. Inclusive entrepreneurship covers any type of business; the aim is to move people out of family or welfare support into a situation where they can earn a living from their own enterprising activities.

More recently, the OECD has taken up that issue and published reports on the state and development of inclusive entrepreneurship that provide data and policy analysis, by target social groups across the European Union.³⁹

By contrast, **social entrepreneurship** is characterized by the endeavour to develop new (combinations of) approaches or practices for resolving societal challenges through mobilising civil society actors to further inclusive, socially fairer and environmentally sustainable economic development and social change. The object and purpose of the entrepreneurial activity is not profit or maximization, but creating a social benefit. Social Entrepreneurship is the driver of social innovation, which means re-designing and re-engineering business models and value chains, new relationships or collaborations between public, private and third sector organisations, and delivery mechanisms for public policies.

In DMI’s experience, inclusive entrepreneurship is mainly driven by so-called necessity entrepreneurs, most often starting a business out of unemployment. In comparison, social entrepreneurship is mainly driven by so called opportunity entrepreneurs, which want to develop new solutions to meet social needs by using a business approach. In the European context the difference between these two types of entrepreneurs is distinct, and therefore these two types are usually addressed in different public support programmes and policy strategies, which again result in distinct responsibilities of different ministries/public entities (often Ministry of Labour for necessity entrepreneurs, and Ministry of Economy for opportunity entrepreneurs).

It is fair to say that the vast majority of **support schemes for necessity entrepreneurs** focus on developing an entrepreneurial mind-set and skills and intend to provide the basic know-how and resources for starting and running a microenterprise so that the entrepreneur will be able to make a living out of running a business.

In many countries we see – especially in the beginning of the entrepreneurial activity – a tendency towards moonlighting. It seems that some countries tolerate undeclared work as long as it is temporary and the amount of declared work increases along with the development of the business. However, one possible indicator for the need to provide incentives for microenterprises through necessity entrepreneurship is the market size of undeclared work. According to statista.com⁴⁰ the market size of undeclared work in Greece of 22,4% in comparison with the European average of

³⁸ http://www.wikipreneurship.eu/index.php/Inclusive_entrepreneurship

³⁹ OECD/European Union (2013), *The Missing Entrepreneurs: Policies for Inclusive Entrepreneurship in Europe*, OECD Publishing, Paris; <http://www.oecd.org/cfe/leed/missing-entrepreneurs.htm>
OECD/European Union (2014), *The Missing Entrepreneurs 2014: Policies for Inclusive Entrepreneurship in Europe*, OECD Publishing, Paris.

DOI: <http://dx.doi.org/10.1787/9789264213593-en>

⁴⁰ Compare: <http://de.statista.com/statistik/daten/studie/163720/umfrage/schattenwirtschaft-in-der-oecd-2010>

12,2% indicates the urgent need for action to transfer undeclared work into legal entrepreneurial activity. Access to microfinance might play a crucial role in this context. Of course, this topic is much more complex and not as simplistic, but experience supporting microenterprises and necessity entrepreneurs in Europe indicates, quite clearly, that suitable support schemes encourage the transfer from undeclared into legal, declared work.

Support schemes addressing opportunity entrepreneurs with a primary social objective focus on start-up support, social impact management (planning, monitoring, measuring and reporting), business development and consolidation, networking, increasing investment readiness and scaling up their activities and social impact. A common denominator of social entrepreneurs is that they have to balance their business (development) activities aiming at generating income with their social mission. The focus on investment readiness highlights the need to be able to access external finance that suits their specific business model and helps to become sustainable.

A strong business case needs to be presented by regular businesses and social enterprises as well. Obviously, social entrepreneurs would need additional, much more specialised support to develop their business case, but mainstream business development services often provide the basics for necessity-driven and opportunity-driven entrepreneurs. However, in many countries responsibilities for business development services are spread over different ministries and different levels of government (national, regional and local) and thus we see difficulties to combine financial and non-financial support schemes into a coherent support package, which reduces the effectiveness of public measures.

3.2.4 What legal form should the organisations have?

Regularly, the project team was asked what legal forms should be eligible for the instrument, especially against the background of financing social enterprises. From our point of view these issues should be dealt with separately. Fulfilling the social mission has to be possible in every legal form, as a limitation to only one legal form would reduce the possibilities for doing business in a social way significantly. The European Commission's definition leaves the same margin.

3.3 Categorisation of micro-loans as an instrument to promote entrepreneurship

This study is about microfinance as a tool to promote inclusive entrepreneurship. During our conversations we also discussed opportunities and limits of other instruments to promote start-ups, social enterprises or entrepreneurial spirit in general. The following paragraphs summarise our discussion on this issue and provide an overview of classical instruments to promote entrepreneurship: loans, grants and business development services.⁴¹

It should be noted from the start that an integrated support package of these instruments is much more effective than each instrument in isolation.

⁴¹ A substantial piece of work has been done by OECD, which produced a series of policy briefs on inclusive entrepreneurship (on Sustaining Self-employment, Informal Entrepreneurship, people with disabilities, Financing inclusive entrepreneurship, Senior entrepreneurship, Youth entrepreneurship, and Evaluation of inclusive entrepreneurship programmes; see: <http://www.oecd.org/cfe/leed/inclusive-entrepreneurs-in-europe.htm>

3.3.1 Loans

3.3.1.1 Microloans

As already mentioned in section 1.1, newly founded organisations with capital requirements below 25.000€ do not have access to the traditional financial market in general because such small loans with high risks are not profitable for banks. The reason for that is that their operating and risk costs exceed income through interests and fees considerably.

The solution to this market imperfection is the way microloans organise and distribute risks and transaction costs. Microloans are not processed as traditional banking services, and lending decisions are based on different principles than applied by traditional banks.

Broadly speaking, **microfinance institutions** (MFI) play a key role in the provision of microloans,⁴² in that they are

- Operating as social enterprises and not seeking profit, but pursuing the social objective of promoting entrepreneurship for all;
- Taking over most or all work related to due diligence and monitoring of repayments as well as capability building for business development and avoidance of over-indebtedness, and thus minimising transaction costs for the bank;
- Taking over (part of) the risk of default for example by pledging cash deposits.

The role of Microfinance Institutions changes the role of the banks considerably. They are either not needed (where MFIs can grant loans directly), or just process the loans technically (with limited or zero liability) in countries where only banks can disburse loans such as Greece or Germany. In the latter case, MFIs cooperate with banks to establish a seamless processing of the loan, from application to (non-) payments.

Microloans are regular loans: they yield appropriate interest, they need collaterals (but collaterals could differ significantly in comparison to what banks usually request) and they need to be repaid duly.

3.3.1.2 Promotional public loans

In contrast to microloans, promotional public loans work via the regular banking system. They are regular loans, which are subsidised by public authorities by, for example, granting preferential refinancing conditions, interest rebates or co-liability. Loan decisions are based on standard banking principles and practices. In any case, banks would need to receive an extra fee for handling such loans, as only the provisioning of larger loans pay off for banks.

3.3.2 Grants

3.3.2.1 Bridge Money – Grants to cover living costs

While microloans are used to cover company requirements, bridge money is used as a grant to cover living costs of entrepreneurs and (partly) their families during the period of setting up an enterprise or becoming self-employed. The aim of such a grant is to reduce the risk of over-indebtedness for the family of the entrepreneur. The underlying principle is that the family's life can continue even if the business fails. Or to put it in bold terms: Life has to be possible when the business fails.

⁴² This is especially the case in European countries where only banks can disburse loan. It should be noted that microloans address social problems and are not designed to make a profit. Making a profit out of microfinance operations would lead to interest rates, which are considered to be unethical or illegal in countries where interest cap-rates are in place.

Targets, scope and conditions of bridging grants need to be particularly well designed at forehand. In particular, the design of a bridge money scheme has to be considered in relation to other transfer payments to the unemployed or disadvantaged person that engages in setting up a business (e.g. what welfare payments and other transfer income can be combined or not).

Effective schemes do not request that income generated by self-employment leads to a reduction of the grant, not even a proportionate reduction. First of all, for reasons of efficiency: it would be very burdensome for the entrepreneur to prove and also very difficult to prove by the grant donor. But even more important, for reasons of motivation: it would be understood as disincentive and put the brakes on in the entrepreneur's head.

3.3.2.2 Investment grants

Investment grants are used for larger operational investments. The grant only finances a part of the investment, such as 50% or 75%, or even less depending on the ceilings stipulated in the relevant state aid rule. This partial financing bears the advantage that:

- additional private financing is mobilised (out of a public grant of 50.000€ results an investment of 100.000€) and, because of that,
- only investments the entrepreneur considers to be necessary and economically reasonable will be realised. This is even more the case the higher the own contribution will be.

Compared to promotional public loans, investment grants proved to be especially useful:

- if additional private investments should be made
- if investments should be channelled towards a specific sector, industry or region,
- if first-movers should be supported, since they have to cover significant development costs, which the followers will not have to cover.

In contrast to micro-loans, the usage of earmarked grants is hardly verifiable. Therefore loans have been the preferred instrument for microfinance.

3.3.3 Support services

Effective policy measures have complemented financial instruments with the provision of suitable support services. Below, the most important aspects are described briefly.

3.3.3.1 Business Development Services (BDS): Consulting, Coaching, Training

Business founders, in particular from disadvantaged groups or out of unemployment, often lack entrepreneurial know-how when planning and starting their business activity, in particular regarding marketing, business economics, financing, accounting or sales. Almost everywhere some skills are missing. Therefore, in many countries, "drop-in centres" have been established, where candidate founders can develop the entrepreneurial capacities needed, above all through:

- Entrepreneurship Consulting: solutions for specific legal, technical, marketing etc. problems,
- Entrepreneurship Coaching: individual support and building competence for regularly occurring tasks,
- Entrepreneurship Training: building competence via seminars and workshops.

Financing of BDS has often been organised as follows:

- Institutional funding for service providers: This option bears the advantage that blanket coverage can be achieved relatively quickly. Experience shows that institutional funding risks that service providers do not have sufficient incentives to engage in delivering high quality and customer-centred services, and insufficient flexibility in adjusting their approach, methodology and tools to new challenges.

- Fee per item: This system is very flexible by design. No long-term commitments are necessary. It allows easy access to and cooperation with high performing service providers. Service providers delivering poorer quality have to leave the system due to lack of demand. The big risk is misuse in case "friends" deliver services among themselves.
- Accredited service providers: Highly effective systems have left the process open in principle but service providers need to be accredited. Criteria for accreditation meet highest standards and any violation leads to exclusion and loss of accreditation immediately.

3.3.3.2 Business incubator

While BDS has a focus on the level of know-how, many business incubators focus on the level of material resources and shared services. Incubators offer office space at an affordable price as well as business services (such as accounting, web presence, marketing, networking etc.).

3.3.3.3 One-stop-shops

The basic principle of one-stop-shops is to receive all start-up and business development services from a single source. One-stop-shops provide services to business starters ranging from registration via bookkeeping to financing under one roof and therefore save a significant amount of time which is needed to fully concentrate on tackling and managing core business issues. But the efficiency gains for the business start have their price: the effort and costs for coordination and cooperation of a range of private service providers, business agencies, networks and associations and public authorities under one roof. Therefore, in many cases, one-stop-shops have chosen to be a place where the relevant public authorities cooperate in order to speed up the process of starting under one roof, providing non-proprietary information and advice. In this case, all services to tackle company specific needs will then be provided externally through specific service assignments.

3.3.3.4 Online-Platform

Some public agencies or business networks have established online platforms for business starters, offering comprehensively relevant know-how, opportunities for business links and opportunities, skills development (networks, webinars), online-market places and good practice examples. In principle, these platforms intend to improve entrepreneurial skills, support drafting a business plan and provide access to important information. In some areas, those platforms are needed to cover larger distances, in some to provide additional support in addition to already existing services.

3.3.4 Campaign

Some regions have supported campaigns to promote inclusive entrepreneurship and self-employment. The results observed are not straightforward, as outcomes are difficult to measure and costs are rather high.

3.4 Options for delivering key elements of microfinance

The conceptual reflections above and the empirical evidence from over 100 microfinance institutions across Europe⁴³ can be summarised as follows:

- Microfinance means the provision of **social finance services**:
 - which are not "**bankable**", including the real costs in interests and fees would lead to prices that are not acceptable for clients,

⁴³ European Microfinance Network: Overview of the Microcredit Sector in the European Union 2012-2013; Authors: Mirko Bendig; Michael Unterberg; Benjamin Sarpong; September 2014

- for **people** which are not “**bankable**” because they lack conventional collateral, a positive track record or the necessary entrepreneurial skills.
- Microfinance tries to fill a market gap for **a social purpose**: to move people out of family or welfare support into a situation where they can earn a living from their own enterprising activities.
- By its very nature, microfinance is therefore more related to **organisations supporting business starters from disadvantaged groups and micro-enterprises** than to mainstream banks, because client proximity and trust are key to delivery of microfinance.
- Microfinance cannot be organised on a strictly **commercial basis**, because both the supply and the demand side show market deficiencies, with the implication that total costs of providing Microfinance cannot be covered by interests and fees.
- Combining loans with start-up and business development services is crucial. Across Europe, microfinance is mostly organised in the form of **partnerships** between not-for-profit organisations, public institutions, philanthropy and stakeholder banks.
- Regarding involvement of public sector institutions, **collaboration** between ministries and departments on national level and with regional governments and agencies is of crucial importance.
- Recognition of microfinance operators depends on their ability to demonstrate the social and economic values generated. To this end, **evaluations** based on robust **financial and social performance indicators** are crucial.
- In order to serve people or micro-firms facing difficulties in accessing banking services with small loans to start or develop their small business activity, microfinance organisations in general tend to pursue the following **priorities** in parallel:
 - Creating businesses (economic objective),
 - Economic and social inclusion of specific target groups (social objective),
 - Delivering sustainable and low risk financial services (operational objective).

To focus only on one of the priorities as soon as an organization experiences difficulties or losses in repayments has significant strategic and operational implications.⁴⁴

- Any **delivery model** for microfinance has therefore to find a **sustainable solution** for the following issues:
 - On the supply side: Costs are too high
 - Relatively high transaction and monitoring costs due the small size of the loans,
 - Relatively high costs for covering the risks of people or micro enterprises which have no or a negative track record,
 - Costs for building capacities to handle microfinance operations.
 - On the demand side: Potential borrowers are not “loan-ready”
 - high costs for searching and assessing suitable loan offers,
 - lack of basic financial, business management and negotiation skills, and
 - lack of confidence into one’s own entrepreneurial venture and lack of trust in financial institutions.
- All Microfinance schemes in Europe are based on models of **multi-role and multi-actor schemes**, which integrate different roles and service functions through cooperation between different partners.

⁴⁴ For a detailed discussion on the strategic and operational implications, see: European Parliament (2010)

- In these models, partners in a microfinance scheme assume **key functions** in sharing risks and costs.

Relevant roles include:

- the **lending institution(s)**, which in most countries needs a banking license.
Its core role is to process loans in a cost-effective way, in full compliance with banking rules, through highly centralised and automated credit risk assessments, to cross-check the client data without direct client contact, and highly standardized workflows. The term “credit factory” has been coined for this approach to lending.
Some banks have extended their core role of a lending institution by also assuming some of the functions of the guarantor and the loan operator (MFI).
- the **loan operator**, which supports the borrower throughout the whole loan cycle from client acquisition to full repayment; this role has been coined as that of a **Microfinance Institute (MFI)**. It has been assumed by a range of organisations, such as:
 - NGOs working in the fields of economic inclusion of unemployed or disadvantaged people by helping them to develop an income-generating activity, assisting microenterprise and promoting local development, complementing their advisory services by microfinance,
 - Cooperative and savings banks that are able to combine several microfinance services (credits, savings, money transfer and other non-financial services) which enables the transaction costs to be kept very low and makes the loans both cheap and secure,
 - Business development agencies which are offering microfinance products to complement their business advice and training activities,
 - Public finance institutions or development financial institutions on national, regional or local level which implement programmes to assist the formally registered unemployed in starting their own businesses, thus serving the higher end of the microcredit segment,
 - Banks and bank foundations, whereby stakeholder banks tend to offer microfinance as a way of fulfilling their social mission prescribed by their constitutions, and commercial banks as part of their CSR policy.
- the **guarantor**, which bears the risk of failure, as conventional collaterals often cannot be provided. Microfinance schemes have implemented many different ways and forms of guarantees, such as:
 - peer-lending (to small groups as practiced by the Grameen Bank, or to an extended network of members of a cooperative bank),
 - creation of, or access to a guarantee fund,
 - a combination of different (types of) guarantors, sharing risks on equal levels, or in a cascade system,
 - personal guarantors securing loans either financially (i.e. securities on first demand) or non-financial (encouraging the borrower to find a solution with MFI such as rescheduling loans, adjust repayment to current financial situation),
 - creative forms of collateral (asymmetrical collaterals).
- the **bearer(s) of transaction costs**, which include the costs notably for searching and assessing potential deal partners, for negotiating and contracting, and for monitoring, reporting and ensuring repayments, both for the lender and the borrower. Transaction costs are relatively high due to the small size of the loans and can only partially be covered by interests and fees. Therefore, across Europe, microfinance providers have established a

variety of income generating solutions, and/or secured contributions from different funding sources, such as:

- ESF grants for counselling and crisis intervention of business starters and micro-enterprises
 - ERDF grants for providing or using start-up and business development services
 - Donations from foundations or Corporations (CSR grants) for services towards micro-entrepreneurs (often in selected fields such as energy efficiency, for selected target groups such as women with an immigrant background, or for specific activities such as maintenance and care of the elderly, etc.)
 - Voluntary work of experts attached to the loan operators, often from corporations or financial institutions, NGOs or civil society initiatives working with the target group(s) in question;
 - A successfully operating loan fund, which generates income from its interest.
- **the bearer(s) of the launching costs and the costs of building capacities** for cost-efficient micro-or social finance deals both on the side of the lender and the borrower, and on the side of financial intermediaries and MFIs.
- To this end, the same (mix of) funding sources observed for grants to cover transaction costs have been tapped for covering the launch and capacity building costs.
- Finally, **the bearer(s) of the costs for quality management** (QM) throughout the entire process of lending and repayment, which is indispensable as microfinance services are not a standard banking activity. An important element of QM in microfinance are structures and procedures that ensure that approved standards for the benefit of customers, investors, funders, owners, regulators and partner organisations in terms of management, governance, risk management, reporting, and consumer and investor relations are followed, based on the European Code of Good Conduct for Microcredit Provision.⁴⁵
- Again, **costs for QM** cannot be covered by interest and fees alone. In some cases, the development of such a quality management system has been paid from public grants for projects (such as EQUAL development partnerships, transnational or national networks, pilot projects in entrepreneurship etc.), donations from foundations and obligatory contributions from all partners in the national microfinance system that are using the services of the organisation entrusted with QM.

As we have highlighted above, any sustainable microfinance system cannot be organised as purely commercial activity.

To ensure sustainability, we propose that:

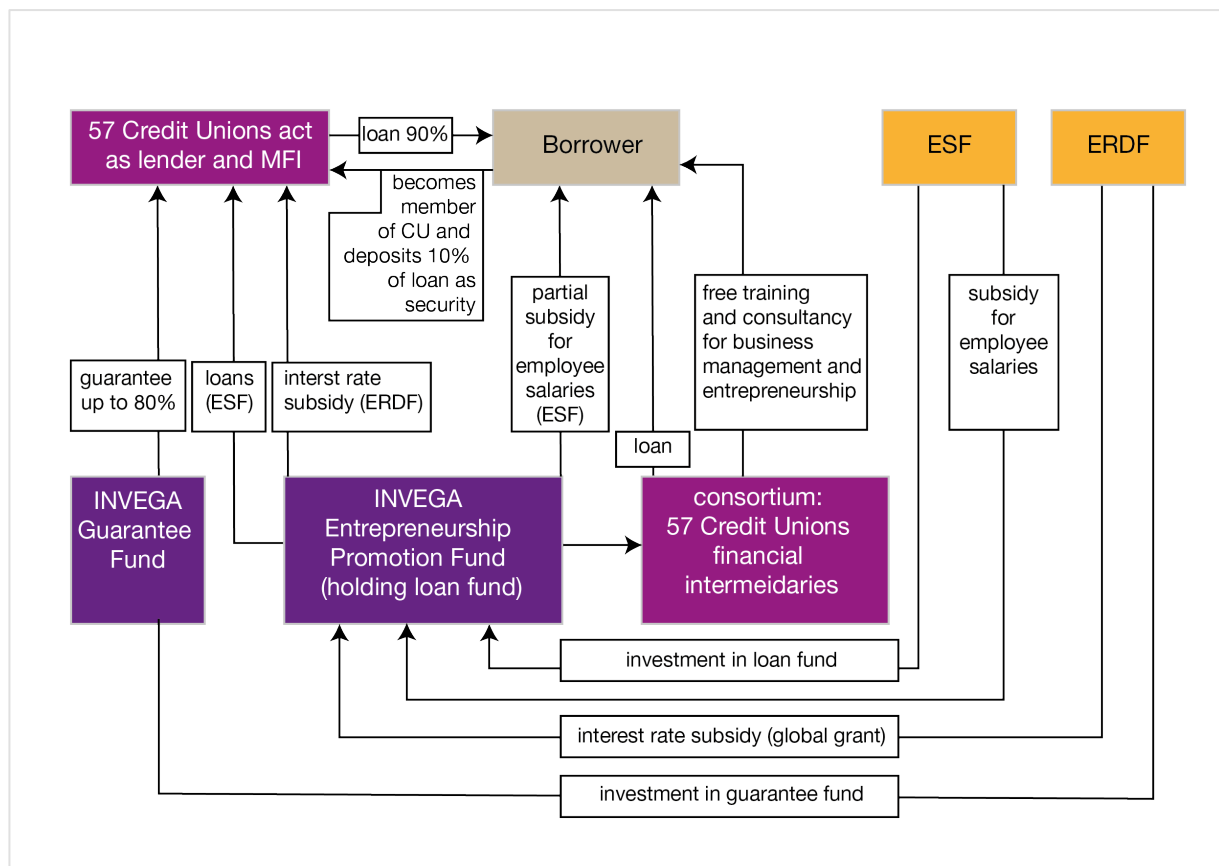
- Additional resources and engagement will be contributed from the public, philanthropy and voluntary sector, in order to fully cover transaction, capacity building and quality assurance costs;
- Synergies between the core activities of the partners and their microfinance related operations will be systematically exploited, in order to reduce transaction costs; and
- The development of trust-based relations between the partners, and between the MFIs and the borrowers will be systematically organized as an essential step to create social capital, which reduces risks of individual loans and risks related to the cohesion of the overall microfinance system.

⁴⁵ http://ec.europa.eu/regional_policy/sources/thefunds/doc/code_bonne_conduite_en.pdf

The challenge for any microfinance scheme is to calibrate and balance the parameters for each of the functions listed above and to attribute these functions to the most suitable organisation(s) to achieve sustainability of the overall system.

Hereafter are some examples to illustrate the options that have been realised in Europe, taking into account legal frameworks (can MFIs act as lenders?), availability of qualified non-financial service providers (can complementary start-up and business developments services be provided?), and organisation of standards for operations and governance (who is endorsing the European Code of Conduct?), and access to European funding sources (ESF, ERDF, Progress Microfinance and EaSI):

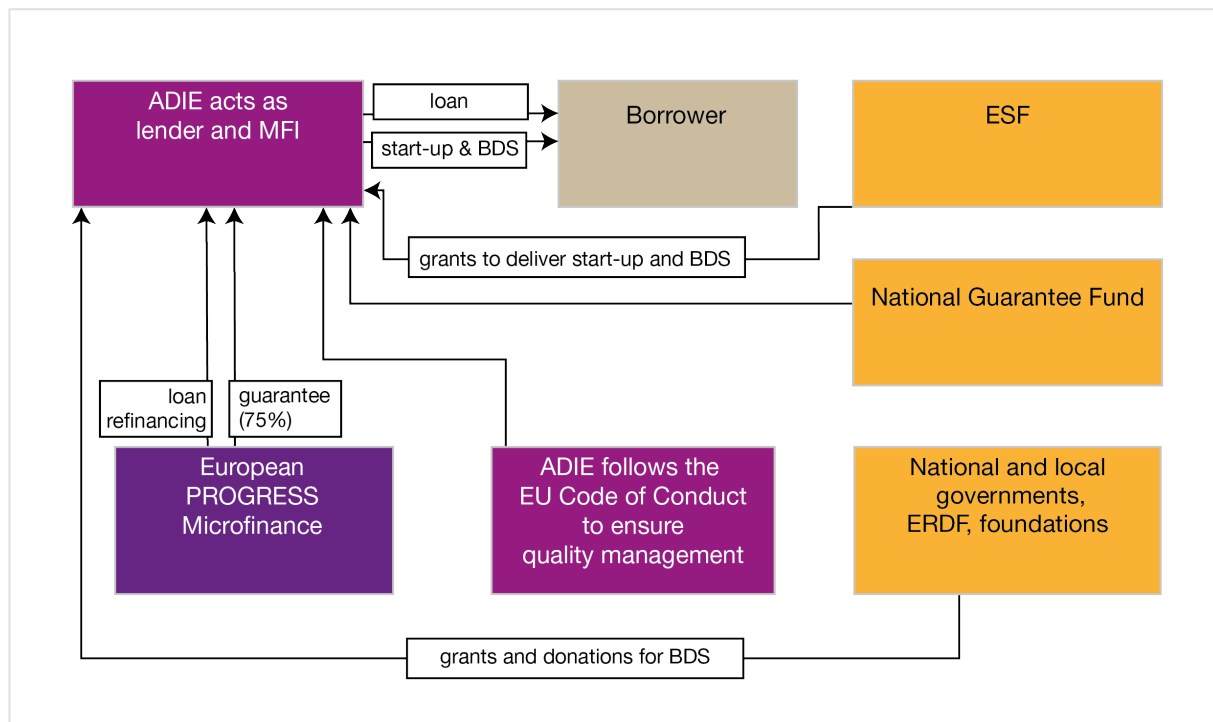
Lithuania- cooperation between public resources and financial cooperatives



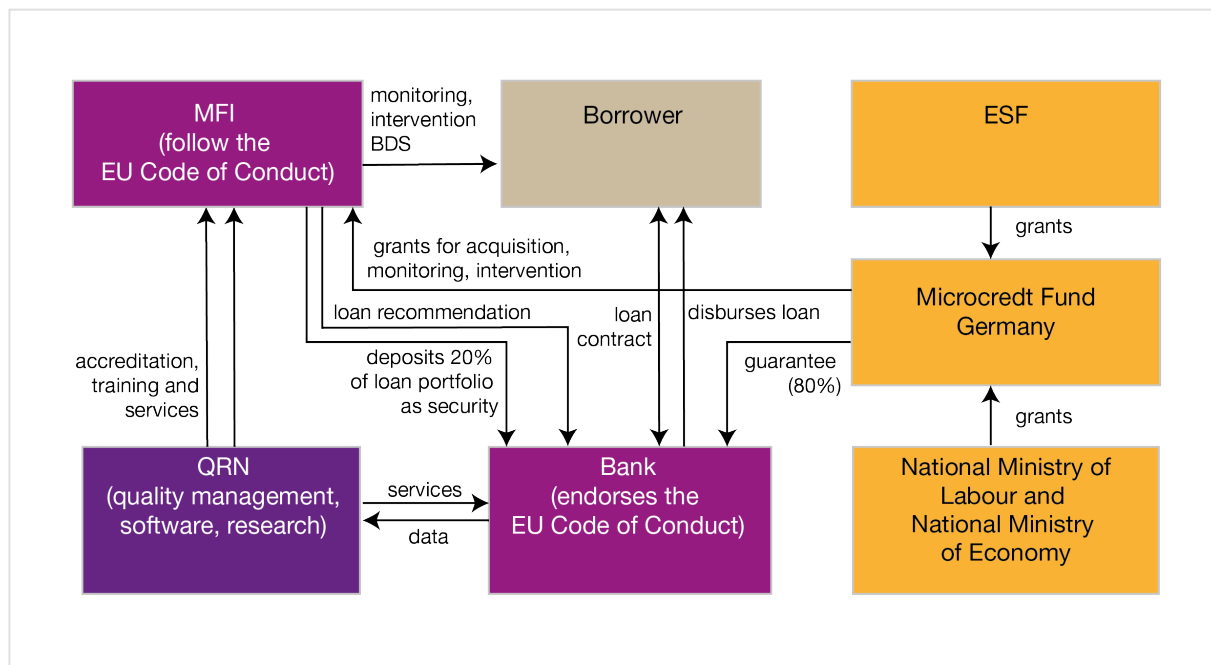
Sources:

http://www.cop-ie.eu/sites/default/files/TG_Access_to_Finance-Meeting_Report_Lithuania_19th_20th_january.pdf
https://www.fi-compass.eu/sites/default/files/publications/case-study_entrepreneurship-promotion-fund_lithuania_0.pdf

Adie: an MFI with a license for micro-lending cooperating with a broad range of funding sources⁴⁶



Germany: a multi-actor cooperation model



⁴⁶ See also: https://www.fi-compass.eu/sites/default/files/publications/Presentation_20160203_Brussels_Marie_Degrad_Guillaud-1.pdf
https://www.fi-compass.eu/sites/default/files/publications/Presentation_20160203_Brussels_Marie_Degrad_Guillaud.pdf

In this context, the way governments intervene is crucial. Experts agree⁴⁷ that public policy interventions should:

- Build actions on the basis of a long-term vision and strategy co-developed with stakeholders, supported by a sound ex-ante-assessment;
- Build partnerships with third-sector organisations close to the target groups, which are trusted and which can develop synergies with their core services and support;
- Avoid crowding-out of bottom-up initiatives by top-down-designed public interventions; as such an action would ruin the credibility of the intervention, destroy good will and capacities of potential MFIs, and increase overall costs;
- Focus on capacity building on both sides of the microfinance market, to reduce future transaction costs and to reduce risk due to higher degree of professionalism;
- Ensure servicing rural areas, the most challenging context to develop financial services (lower population density, lower profitability of agriculture-based, seasonal activities. How such a model could be established for Greece, will be outlined in chapters 4 and 5 below.

Less obvious, but increasing in relevance, is the use of volunteering in the provision of microfinance and complementary start-up and business development services. Examples are:

- (Mainstream) banks or corporations second employees or allow their employees to work for MFIs;
- Retired senior experts assist MFIs and mentor business starters in all aspects of management, finance, marketing and strategic planning;
- Experts working for affiliated NGOs, which focus on specific target groups, are providing counselling and mentoring in a number of fields, such as administrative questions, personality and skills development, financial literacy, communication and negotiation skills, market intelligence and cooperation.

⁴⁷ See for example the contributions at the fi-compass seminars on microfinance, https://www.fi-compass.eu/events/past?pk_campaign=event-thankYou-20160203-Brussels&pk_kwd=past_event

4 The Trust-Based Partnership Model for Microloan Provision – Potential adaptation to the Greek Economy

The 'Trust-based Partnership Model' presented below combines elements of the three examples outlined above. This will allow developing a feasible solution for the provision of microloans in Greece, where suitable public financial instruments are not (yet) in place, potential MFIs cannot directly provide microloans for which they would need a banking licence, and where no quality standards for the provision of microfinance and business development services exist.

In its core, the Trust-based Partnership Model solves the problem of providing loans to target groups, which banks do not want to or cannot serve because this financial service is not profitable.

Today, the public and third sector stakeholders in social finance are seeking to develop a strategy, to commit key actors and to find suitable and feasible procedures to support not only micro and small enterprises and business starters but also social enterprises. The latter also experience harsh difficulties in accessing loans from banks.

As the Trust-based Partnership Model for Microloan Provision could be applied without any modification to loans for social enterprises, we will not differentiate between both target beneficiaries in the further elaboration of the model. We refer to both financing of business starters, micro and small enterprises as well as of social enterprises.

4.1 Trust-based Partnership Model for Microloan Provision

An overview of the development of the German "cooperation model" for microloan provision

Just like in Greece, in Germany the Banking Act applies for all types of credit provisioning. Any regular granting of loans with business or personal purpose requires a banking license. However, banks have largely withdrawn from financing micro and small enterprises and self-employed people in Germany. In particular, entrepreneurs from specific target groups such as women, young people, migrants or elderly are often excluded from bank finance, but also specific business sectors such as crafts and food & beverage. DMI therefore developed the German Microfinance Cooperation Model that enables microloan provision despite banking monopoly. In order to set the stage, we start with a description of the initial situation leading to the development of the German Cooperation Model.

At the beginning of 2000, Germany was hit by high unemployment rates. One of the public policies to fight unemployment was supporting business start-ups, especially start-ups out of unemployment. The main public funding guidelines and programmes were the following:

- Grants to support living expenses after business start-up: bridging allowance ('Überbrückungsgeld') and 'Ich-AG',
- Promotional loans for business starters and self-employed people: programmes managed by the national public development bank KfW and regional promotional banks,
- Establishing providers of Business Development Services (BDS): start-up centres, business incubators, one-stop-shops, coaching and trainings programmes.

These public programmes indeed showed some success. As such, the number of start-ups out of unemployment increased six times from 60,000 in 1997 to 360,000 in 2003. Despite all these efforts however these programmes did not improve microenterprises' access to loans. The situation was the following:

- Public authorities were interested in supporting self-employed people and business starters. They were also willing to invest money for this purpose. However, neither did they have the necessary access to the target groups nor were they able to provide loans directly.
- BDS providers had access to the target groups, but were not allowed to provide loans (they later became what is today known as MFI).
- There was a bank willing to handle the loans if the clients were acquired and accompanied by the BDS providers and if the bank would not have to bear any risk.

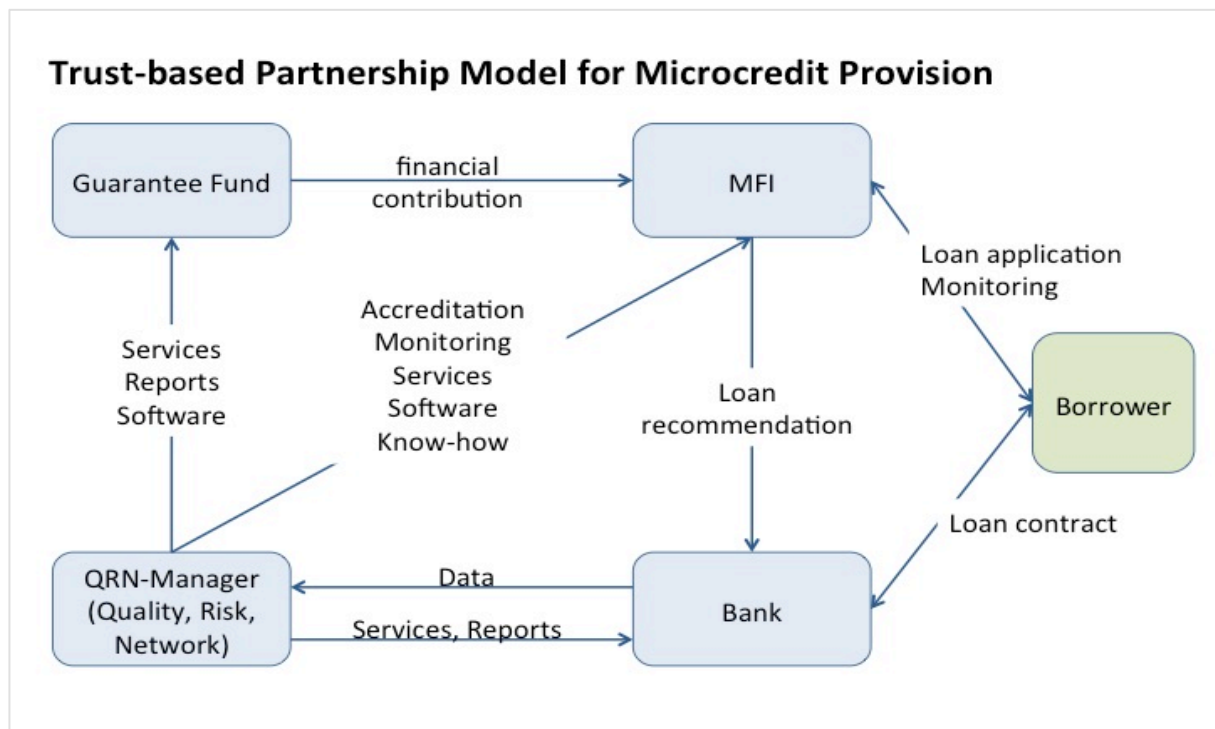
The key elements of the Trust-based Partnership Model

The microfinance models implemented in Europe provide the key elements, which will be used to develop the "Trust-based Partnership Model for Microcredit Provision":

- It enables microcredit provision despite banking monopoly.
- It brings together a defined number of specialist stakeholders and service providers that want to support self-employed people and business starters, and that offer services that are complementary and synergetic.
- Each partner organisation brings in what it is best at and what it can easily deliver with its specific roles and responsibilities.

The partners assuming distributed services of the Trust-based Partnership Model are:

- Microfinance institutions (MFIs) (or Social Finance institutions, SFIs), assume the role of the operator by providing complete client support starting from the client acquisition and assessment of the loan application to the loan decision and to monitoring until the full repayment of the loan.
- The bank which disburses the loans; however, as the complete process of handling of the loans is the responsibility of the MFIs, the bank has no direct contact with the client.
- A guarantee fund bundles all risk-sharing arrangements.
- A Quality Risk and Network Manager (QRN) that assures the quality of the partners and of the whole system.



4.2 The Guarantee Fund

4.2.1 Role of the Guarantee Fund

The guarantee fund plays a central role for all issues relating to risk sharing. The guarantee fund bundles all actors that participate in the risk sharing. It provides a 100% risk guarantee to the bank.

Investors

Investing into the 'Trust-based Partnership Model for Microloan Provision' represents a long-term social investment. The guarantee fund does not aim at maximising profit. It has the objective of enabling loan provision by bundling all issues relating to capital, transactions and risk inside the fund. Three main types of investors can be distinguished:

- 1) Public investors:
 - EU funds such as EIB, EIF (EaSI),
 - The national Government and ESIF (ESF/ERDF),
 - Regional Governments and regional OPs of the ESI Funds,
 - Municipalities.
- 2) Private investors:
 - Foundations,
 - Enterprises/CSR,
 - Private donors.
- 3) Microfinance institutions/Social finance institutions (MFIs/SFIs).

MFIs/SFIs

MFIs/SFIs have to financially contribute to the risk sharing because they are the ones who essentially decide over loan approval or rejection and losses. 'The one who decides also has to take over some of the risk' is one of the most important wisdoms of banking which also applies to microloans.

However, given the situation in Greece as it is today, organisations that could assume the role of MFIs, in the initial stage, most probably will not have enough financial means to contribute to risk-sharing with their own money.

We therefore would advise to raise funds from the most suitable national or regional ESI Fund OPs and provide MFIs which have the potential to deliver a quality service with a non-refundable grant.

Open guarantee fund

The guarantee fund should be set up as broadly as possible. In case there is only one public investor in the fund, the whole system will be fully dependent on him and on the rules that govern public contributions to the fund. This is not an advisable situation. For example, in Germany, all microfinance operations came to a complete stop for almost half a year when the only (public) investor in the microcredit guarantee fund, cancelled the agreement with the cooperating bank, before a new agreement could be made with another bank (selected following a call for tender). Such a situation should absolutely be avoided.

We therefore propose to design the guarantee fund in such a way that it will be open to several investors from the beginning. This option would also allow bringing in investors who wish to support for instance exclusively specific target groups or specific regions.

Investment for specific target groups

The option of earmarking investments into the guarantee fund for specific target groups would facilitate attracting potential investors that can or want to assume the credit risk only for particular target groups. For example:

- Foundation A assumes the risk for all women.
- Regional government of B takes the credit risk for all loans in region B.
- Investor C assumes the credit risk only e.g. for the creative industry sector.

This model may lead to overlaps. In order to keep the risk-sharing arrangements clear, we recommend establishing investment priorities, or at least indicating which risk-sharing framework (i.e. investor) the respective loan belongs to at the time of the loan decision.

Legal framework

As the fund provides guarantees vis-à-vis the cooperating bank(s), the relevant provisions of the banking law (and, in case of a contribution from national or regional ESI Fund OPs, also the ESIF regulations) will apply. Therefore, an authorisation/license is needed for the operations of the guarantee fund.

Regarding the legal framework, the following possibilities exist:

- A) Own legal identity
 1. Admission as a regular fund.
 2. Special permission.
- B) Fund management by an organisation with relevant authorisation/license:
 1. Public bank/fund manager.
 2. Private bank/fund manager.

A.1. Creating a new legal entity has the advantage of being highly independent so that decisions can be taken that best suit the pursued policy. In contrast, the disadvantage of this option lies in the fact that the process to receive the necessary license in many countries takes more than two years and generates fixed costs of 50,000 – 100,000 Euro per year.

B.1 and B.2 on the other hand, if using an already existing authorisation/license of a bank or fund manager the final decision will always remain with the respective bank or the fund administration. Possibilities of the initiators of the microloan initiative to take influence will be limited.

A.2 (a fund having the permission to provide guarantees to cooperating banks) is an option for Greece that should be taken into account and assessed carefully. As this type of 'banking business' will be a rare case for the foreseeable future, such a permission provided by the banking regulator could be a realistic possibility. This option should be pre-discussed in the coming weeks.

Another option to be carefully assessed for Greece is B.1. For this option to function properly, an organisation needs to be found that shares the philosophy of the 'Trust-based Partnership Model for Microloan Provision'. It needs to be carefully assessed if such a role could be assumed by a public financial institution such as ETEAN or the Development Bank (which is still in a set-up phase).

However, we would not advise to choose the same financial institution that will handle the loans to also act as fund manager due to possible conflict of interest.

We also would suggest considering Option B.2 only if A.2 and B.1 are not feasible.

The following points remain to be clarified:

- Does the provision of guarantees in Greece fall under banking law?
- Could the banking regulator issue a special permission (option A.2)?
- Could a public financial institution such as ETEAN be part of one of the different options?

Governance and participation

The formal rules of governance largely depend on the chosen legal model. Beyond all legally required rules however, it will be extremely important that the different stakeholders will be seriously involved into the governing body of the fund. For example, even if the MFIs only carry a small part of the investment, it will be very important to give them a voice, as they are the ones who reach out to the clients in the market and are able to tell from their practical experience what is possible or needed and what is not.

We therefore recommend establishing a governing body where the three groups of actors involved (public investors, private investors, MFIs) have equal rights.

4.2.2 Practical experience from Germany in developing a suitable model for microcredit provision

In Germany the following solutions were developed and implemented:

Up until 2004 - regional solutions:

Until 2004, several local/regional microfinance initiatives had been set up using all models of today's Cooperation Model. However, there was no comprehensive system, yet. The question of risk sharing was not solved through a fund, but via pledged accounts that served as securities for the bank.

2005 - GLS Microfinance Fund:

In 2005 the Cooperation-Model went into a pilot phase. The first 'real guarantee fund' was the GLS Microfinance Fund. The necessary capital was provided by GLS Bank (an ethical-ecological, alternative bank) as well as by private individuals close to GLS Bank. As such, at the end of 2005, 500,000€ were made available for microloans through 'GLS Microfinance Fund'. 'GLS Trust' ('GLS Treuhand') served as fund manager.

2007 - Microfinance Fund Germany:

In 2007 the first public investors joined. The German Federal Ministry for Labour and Social Affairs (BMAS), the Ministry for Economy and Technology (BMWi) and the Federal Development Bank KfW joined as investors. A global guarantee fund volume of 2 million Euros was available which was topped up in 2009 to 3.2 million Euros. The public funds came from their own budgetary resources. 'GLS Trust' continued with the fund management. The Supervisory Board was made up of representatives from GLS, the Ministry of Labour, the Ministry of Economy and KfW.

Since 2010 - Microcredit Fund Germany:

Due to the positive experience and success the German Ministry of Labour decided to establish its own guarantee fund with a global volume of 100 million Euros. The funds were provided to 60% from ESF sources and 40% state-own sources. The predecessor fund was shut down. KfW and GLS Bank were not accepted as partners in the fund anymore. The Ministry contracted the public regional bank N-Bank to manage the fund. Members of the supervisory board were two persons from the Ministry of Labour and one person from the Ministry of Economy. The fund aimed at financing microenterprises up to 10 employees who generally do not qualify for a bank loan.

Since 2014 - Establishment of '3P microloan fund':

From 2010 to 2013, the Microcredit Fund Germany dominated and changed the whole system through modifying some decisive parameters of the Cooperation Model. In the end, the involved MFIs were extremely unsatisfied and decided to initiate a new fund that would again be in accordance with the Cooperation Model. The aim is to use the EaSI guarantee programme (managed by the European Investment Fund-EIF) and involve public (regional) and social investors in establishing a new guarantee fund. The 3P microloan fund is still under development.

4.2.3 Potential guarantee fund in Greece

The following proposals are based on the discussions held and experiences gained so far. They are not completed or finalized yet. In a next step, practical implementation possibilities of these first suggestions will have to be assessed.

4.2.3.1 Investors

European Structural and Investment Funds - ESF/ERDF

At the current point of time, the most feasible option seems to be to set up a guarantee fund by using appropriate ESF or ERDF contributions for financial instruments for start-ups/SMEs in the national and/or regional OPs of the European Structural and Investment Funds (ESIF).

We therefore propose to clarify which OPs and which priority axes could be used to contribute to a Greek Microfinance Guarantee Fund.

For the 2014-2020 period, the European Commission has encouraged Member States to make more use of financial instruments under the European Structural and Investment Funds (ESIF). A specific platform for advisory services to Managing Authorities on financial instruments under ESIF has therefore been set up.⁴⁸

Benefits of setting up financial instruments include the following (see: fi-compass⁴⁹):

- Leverage resources and increased impact of ESIF programmes;
- Efficiency and effectiveness gains due to revolving nature of funds, which stay in the programme area for future use for similar objectives;
- Better quality of projects as investment must be repaid;
- Access to a wider spectrum of financial tools for policy delivery & private sector involvement and expertise;
- Move away from "grant dependency" culture; and
- Attract private sector support (and financing) to public policy objectives.

On May 23rd 2014 the European Commission adopted a "Partnership Agreement" with Greece setting down the strategy for the optimal use of ESI Funds in the country's regions and cities for 2014-2020. On December 2014 the Operational Programmes of the new programming period 2014-2020 were approved and subsequently, the law for the management of the new PA 2014-2020 (Law 4314/2014) was published⁵⁰ according to which the managing authorities for the national OPs became part of the Ministry of Economy, Development and Tourism.

In the new programming period 2014–2020, ESF and ERDF support for social enterprises is largely in the responsibility of the Greek regions. Contributions from the regional OPs could also be bundled in order to establish a central-level guarantee fund. Alternatively, contributions of a specific region to the fund could only be used to secure loans in this respective region.

Before setting up a financial instrument, managing authorities are requested to assess financial cost-benefit ratio in terms of amount of loan as opposed to management fees and costs. In order to introduce a financial instrument into structural funds operational programming, carrying out an ex-ante assessment is compulsory. This assessment should provide a high-level market failure analysis, contrast advantages and disadvantages and demonstrate revenue-generation and potential financial sustainability for reusing the funds.

⁴⁸ <https://www.fi-compass.eu/>

⁴⁹ European Commission, Financial instruments in ESIF programmes 2014-2020 -A short reference guide for managing authorities, December 2014 https://www.fi-compass.eu/sites/all/themes/ficompass/files/fi-compass_EC_Short_reference_guide_FIs_in_ESIF.pdf

⁵⁰ <http://www.esfhellas.gr/en/Pages/staticNewProgrammingPeriod.aspx> 2015

- An assessment of the value added of the financial instruments;
- An estimate of additional public and private resources to be potentially raised by the financial instrument;
- An assessment of lessons learnt from similar instruments and ex ante assessments & evaluations carried out by the Member State in the past;
- The proposed investment strategy;
- A specification of the expected results;
- Provisions allowing for the ex-ante assessment to be reviewed and updated as required during the implementation of any financial instrument;

We propose to organise a workshop with the responsible civil servants to establish a road map (defining clear responsibilities and time schedule for deliveries) for organising the ex-ante assessment.

The ex-ante assessment can be funded by the programme's technical assistance.

The actual ex-ante assessment can be performed in stages. It must be completed before the decision to make the programme contribution to the financial instrument. It needs to cover each financial instrument, either already co-financed during the previous programming period or new, but work can be combined in one ex-ante assessment. The same ex-ante assessment could also be used to justify contributions from more than one ESI fund to the same financial instrument.

For implementing financial instruments, Member States have several options:

1. Financial instruments may be set up at EU level and managed by the Commission, in line with the Financial Regulation (direct or indirect management). This includes specific provisions for the implementation of dedicated financial instruments combining ESI Funds with other sources of EU Budget and EIB/EIF resources with a view to stimulate bank lending to SMEs. Under this option, OP contributions to the financial instruments will be ring-fenced for investments in regions and actions covered by the OP from which resources were contributed.
2. Financial instruments may be set up at national/regional, transnational or cross-border level and managed by or under the responsibility of the managing authority. For these instruments, managing authorities have the possibility of contributing programme resources to:
 - a. already existing or newly created instruments, tailored to specific conditions and needs; and
 - b. standardised instruments (off-the-shelf), for which the terms and conditions are pre-defined and laid down in a Commission Implementing Act. These instruments should be ready-to-use for a swift roll-out.
3. Financial instruments consisting solely of loans or guarantees may be implemented directly by managing authorities themselves. In such cases, managing authorities will be reimbursed on the basis of the actual loans provided or guarantee amounts committed for new loans, and without the possibility to charge management costs or fees under the FI operation.

All types of combination are possible: combination of different programme contributions and different funds in one financial instrument, combination of financial instruments and grants and other forms of support.

For the combination of ESIF financial instruments with ESIF grants or other forms of support, there are two possibilities. Firstly, it is possible for certain specific types of grants (interest rate subsidy, guarantee fee subsidy or technical support as provided by Article 37(7) of the CPR and specified in Article 5 of the Delegated Act²) and financial instruments to be combined within the same operation and to be treated as a single financial instrument. Other types of grants or other forms of support cannot be considered part of an operation comprising a financial instrument.

Secondly, it is possible for operations comprising grants or other forms of support on one hand and on the other hand operations comprising financial instruments to be combined to finance the same investment at the level of final recipient, however as separate and distinct operations.

ESIF contributions to financial instruments are to be placed in interest-bearing accounts in Member States or to be temporarily invested in accordance with the principles of sound financial management. Interest or other gains generated at the level of the financial instruments prior to investment in final recipients, which are attributable to ESIF support, are to be used for the same purposes as the initial ESIF contribution.

Finally, monitoring is attributed specific importance for financial instruments. Managing authorities therefore need to provide specific reporting on operations comprising financial instruments as an annex to the annual implementation report.

Given the importance of this procedure, we suggest to select pilot projects, regions and partners during the moderated process (described in chapter 5.1) and appoint individuals as well as organisations that will assess the pros and cons to decide what instrument would be the most suitable one in the Greek context. We strongly suggest involving all relevant stakeholders in this process.

EaSI Guarantee Financial Instrument

The Employment and Social Innovation (EaSI) programme is a financing instrument at EU level aimed at employment creation and social policy. EaSI is funded by the European Commission and the European Investment Bank (EIB), and implemented and managed by the European Investment Fund (EIF). EaSI is made up of three axes while the third axis is dedicated to microfinance and social entrepreneurship (21% of the total budget).

In the third axis, the EaSI programme aims at promoting employment and social inclusion by:

- increasing the availability and accessibility of microfinance for vulnerable people who wish to start up a microenterprise as well as for existing microenterprises and
- facilitating access to finance for social enterprises by making equity, quasi-equity, loan instruments and grants up to EUR 500,000 available to social enterprises with either: (i) an annual turnover not exceeding EUR 30 million, or (ii) an annual balance sheet total not exceeding EUR 30 million, which are not themselves a collective investment undertaking.

The instrument provides a first loss guarantee on a portfolio of debt financing (including products such as mezzanine loans, subordinated debts, leases and profit-sharing loans) by eligible financial intermediaries selected by the European Investment Fund (EIF) based upon a formal application process and after a due diligence process has been carried out.

EaSI assumes up to 80% of loan defaults (guarantee rate) for loans up to 30% of the overall portfolio volume (cap rate) of the fund. When setting both rates (guarantee and cap rate) it needs to be kept in mind that the leverage has to be 5.5. This means that the whole portfolio has to be 5.5 times higher than the coverage by the EaSI guarantee. The part of the EaSI guarantee on the whole portfolio thus may not exceed 18.18%. The remaining funds need to be provided by additional investors.

Which default rate to anticipate will largely depend on the strategy of the fund that uses the EaSI Guarantee Facility. The two possible opposite objectives are on the one side 'speed' and on the other side 'sustainability'. The default rate will vary accordingly between 5% and 60%. More information about this topic will be provided in the chapter on 'cost and income structure' (chapter 4.6).

Currently the EaSI Guarantee FI appears to be the most likely and most promising instrument used for setting up a Greek micro-finance guarantee fund. However, we strongly suggest involving all relevant stakeholders in this process in order to select the most viable option available.

Foundations

In the context of developing a social enterprise ecosystem, foundations are considered to be a major stakeholder. Contrary to popular belief, they do not only serve as a major source of funding, but they have built up substantial know-how and experience in their areas of operation. Also, foundations conduct regularly scientific research and evaluation in order to improve their services or develop new areas of operations. Quite often foundations have acquired knowledge of what works (and what does not work). This is especially valid for the Greek context. In addition, it is safe to say that foundations are well connected with other stakeholders.

Each foundation has its own set of regulations and procedures, which determines the area of operations. However, due to the extensive and comprehensive knowledge gathered during their operations, research and exchange they can provide invaluable insight. In general, foundations operate in complementary areas to public programmes and in areas where a market failure leads to significant social problems. It would be a major mistake to consider foundations just as funders. During our meetings with foundations we received valuable input on programmes, initiatives as well as past mistakes.

We therefore suggest informing and involving foundations at a very early stage in the design of new instruments to promote inclusive and social entrepreneurship.

CSR Corporate Social Responsibility

CSR funds could in principle be another option for capitalising the guarantee fund. However, given the limited resources for CSR engagements in Greece, it is assumed that the priority for CSR funded support for social enterprises would be to contribute to the development of a conducive ecosystem, notably through supporting start-up and business development support services, which also are more visible and therefore more attractive for CSR. Nevertheless, this option could be assessed in a second step, as it would be much easier to attract private social investors once the model will have provided some first results.

Helenos Investment Fund (planned)

This planned fund is an initiative set up by Adie International and Crédit Cooperatif to support small and start-up microfinance institutions. The project will support Microfinance Institutions based in the European Union (EU), pre-accession and neighbouring countries that are either starting or expanding. It should consist of:

- A 30 M€ investment fund, providing equity capital and long-term debt
- A 5 M€ technical assistance fund providing TA in response to the MFIs' needs.

It is at this point in time however not clear when the fund will start operating, and how it will operate.

4.2.3.2 Management

The main tasks of the guarantee fund manager will be:

- Management and administration/handling of guarantees
- Reporting

We favour an option where the fund is being managed by an already existing organisation.

ETEAN

ETEAN S.A., the National Fund for the Entrepreneurship and Development, is a non-banking institution (operating as Société Anonyme) that was created in 2011 as a successor of TEMPME S.A., a guarantee fund for small and very small enterprises offering guarantee and counter-guarantee schemes. ETEAN manages various funding tools to support enterprises, particularly small, medium and innovative enterprises, by mainly covering medium to long-term financial risk. Its role is to intervene in the market through collaboration with partner banks and other credit and financial institutions co-investing capital through revolving debt, offering guarantees and co-investing or participating in financial engineering instruments. The co-investing funds are granted to ETEAN by State Budget or the Public Investments Program, E.U. or transnational programs, Community Support Framework programs, or other similar programmes or financing instruments.

ETEAN is co-funded by the Operational Programme 'Competitiveness and Entrepreneurship' and other NSRF programmes, supported by the European Regional Development Fund and the European Fisheries Fund. Under the ETEAN umbrella, funds are created for green development, entrepreneurship, outward-oriented business activities, fisheries, agricultural development, and social entrepreneurship.⁵¹

We were informed that it is intended that ETEAN will continue managing ERDF funds in the period 2014–2020 which might include microfinance. It needs to be checked whether ETEAN has already some experience in financing social enterprises.

It needs to be checked which further possibilities and possible stakeholders exist when it comes to managing the planned fund.

Banking supervision

As described in chapter 4.2.1 the fund or the fund manager needs to possess an appropriate license from the banking authority. It should be discussed in a timely manner with potential fund managers if they dispose of such a license. Moreover, contact should be taken with the banking authority in order to discuss a potential special permission/exemption.

4.3 Bank

4.3.1 Role of the bank

The bank takes over all tasks, which can only be handled by banks according to the Greek banking regulations. It:

- formally approves the loan
- finalises the loan contract with the clients
- disburses and administers the loans

⁵¹ <http://www.investingreece.gov.gr/default.asp?pid=87&la=3>, date: 02/09/2015

- carries out formal collections until write-off
- manages the technical interface between bank, MFIs and guarantee fund, so an efficient and reliable IT-System provides all data needed for successful operations to all parties involved
- administers liable capital deposited by MFIs
- provides accounting of fees paid by the guarantee fund to MFIs for handling the loans depending on successful repayment.

Requirements and role

As described above in chapter 4.3.1, the role of the bank is similar to that of a 'credit factory', processing loans in a cost-effective way, in full compliance with banking rules, through employing a powerful IT system. It is important to agree on this extremely reduced role for the bank(s) selected for this task right from the very beginning, because banks generally see their role in the system as a central one. However, as

- clients are acquired and accompanied by the MFIs/SFIs, and
- the fund takes the risk for defaults,
- the bank is actually 'only' a partner and not the 'leader'.

As the bank is 100% released from any risk the bank can exclusively focus on the technical processing of the loans. This creates a highly standardized workflow permitting high numbers of microloans to be handed out. At the same time high quality and client proximity is ensured through cooperation with MFIs/SFIs that take over part of the risk and therefore have to ensure a good loan portfolio.

Data transfer

Most of the information relevant for risk management or investor reporting is being stored in the bank's data processing system. Accordingly, the bank system needs to be open for:

- import of data from the loan applicants
- export of data for risk management and reports i.e. for use at MFI and QRN level.

One or several banks

The Trust-based Partnership Model is generally designed for cooperation with several banks. This can be useful, e.g. if a bank is limited regionally or to serve a specific target group. Working with only one bank however has some advantages when it comes to scaling up the activity. Implementing and operating microloans requires some initial investment, i.e. for training of staff, IT, verifying the legal framework, by the bank and regularly causes costs. Therefore, there will be economies of scale if there were only one bank. The disadvantage is that a high dependency from one bank is established. Although this disadvantage can be reduced through contractual agreements such as for example an extended cancellation period of at least 18 months so that a new banking partner can be found. Additionally, transfer of data as well as granting the rights of use of software and know-how needs to be agreed on. However, most of the time this consideration is not relevant at the beginning.

We recommend finding a bank, which in terms of operations is suitable and capable to do the job and to launch the system with one bank.

4.3.2 Practical experience from Germany

Until 2004 several different banks were involved in providing microfinance in Germany. Each regional microcredit pilot initiative actually had a cooperation agreement with its own bank. These ranged from cooperative banks over small private banks to savings banks and large corporate banks. However, when activities setting up a micro-finance instrument were joined inside DMI and when 'GLS Microfinance Fund' started, only GLS bank and the savings bank of the City of Offenbach remained as cooperating banks.

We learned that cooperation with several banks increased the costs on all sides many times more than working with only one bank, because each bank had established its own IT system, standard forms and organisational procedures. When 'Microcredit Fund Germany' was set up in 2010, the task of loan management was awarded to GLS bank only, following an invitation to tender. Five years later, a new call for tender was published, and subsequently Grenke Bank AG has been commissioned to deliver the services of the bank in the cooperative model.

4.3.3 Potential banks in Greece

During our meetings in Greece, several banks expressed their interest in assuming the role of the bank within the Trust-based Partnership Model:

- **Mainstream banks:** The National Bank of Greece (NBG) expressed its general interest in becoming a partner, notably for financing social enterprises. Today's President of the Bank, Ms Louka Katseli, in her previous function as Greek Minister for Labour and Social Security, actually was the one who introduced the Law on Social Economy back in 2011. In addition, NBG might also be interested to act as investor in the Guarantee Fund (as part of its CSR activity).
- **Cooperative banks:** The Cooperative Bank of Karditsa, the leading financial partner of the SeSNet social financing partnership (see section 2.4 above) is progressing on its plan to establish a loan instrument for financing social enterprises. To this end, the bank is currently benefitting from the first round of EaSI Technical Assistance, which is used to build capacities within the bank to manage the planned social finance instrument. The bank has started to lay the ground for an application for guarantees under the EaSI financial instruments. In order to span the social financing partnership over the whole Greek territory, SESNet has started to cooperate with Cooperative Bank of Chania and the Cooperative Bank of Epirus as well as with the Association of Cooperative Banks.

In 2012, the Pancretan Cooperative Bank signed a guarantee and loan agreement under Progress Microfinance (predecessor of EaSI). Implementation was delayed due to the general credit crunch of the Greek banking system. Moreover, Pancretan Cooperative Bank is currently in a partnership with the AFI microfinance institution to disburse loans within the AFI framework for microloan provision. More recently, The Cooperative Bank of Karditsa has declared its willingness for cooperation in this microfinance scheme. The Pancretan Cooperative Bank and the Cooperative Bank of Karditsa are interested in extending their cooperation to other Cooperative banks and have conducted first consultations with other potential banks on micro loans. The response has been consistently positive so far.

- **ETEAN** has announced its interest to take over the part of the bank during our meetings in November.

However, if ETEAN would be involved in the administration of the guarantee fund and if a conflict of interest could result in taking over both roles. This issue needs to be addressed configuring the concrete system.

We therefore recommend carefully examining and selecting, which of the potential candidates is able (in terms of stability, banking regulation) and willingness (in terms of cooperating with other banks/financial institutions) to act as a bank within the Trust-based Partnership Model presented below.

Evaluation and possible scenario

A cooperation with a single bank has the big advantage in that the number of interfaces is lower. Software, forms and handling processes only need to be negotiated with one partner. Another advantage would be that loan products would be available immediately in all parts of Greece.

The risk of such a design is that the whole system could come to a standstill, if the services of the bank have to be contracted through lengthy public procurement procedures, as we have seen in Germany (see 4.3.1). Another advantage of having more than just a single public investor would be that the goal of micro finance to make customers (more) bankable might be easier to achieve through the inclusion of some regional banks in the system.

A combination of both might be a viable scenario:

As a fundamental design principle regional banks (i.e. cooperative banks) should be eligible partners and be able to participate within the Trust-based Partnership model.

We therefore suggest to select more than one bank to deliver the tasks assigned to the Bank. For regions where such a regional bank does not exist, a central public financial institution or a cooperative bank with a national licence could take over the role of the banking partner.

4.4 MFIs/SFIs - Microfinance Institutions/Social finance Institutions

4.4.1 Role of the MFIs/SFIs

MFIs/SFIs take over all tasks directly linked with the customers, i.e. the business starters, micro or social enterprises. They:

- 'market' loans vis-à-vis the target group
- regionally anchor the offer
- assess loan applications and decide on loan approval or rejection
- monitor and support clients during loan repayment and intervene in case of payment incidents
- train and advice clients
- report

The microcredit contract is formally signed between the client and the bank. However, the decision whether to approve or reject a loan application is actually taken by the microfinance/social finance institution, which also receives a fee for handling the loan application, counselling and monitoring services related to the loan. The fee is also covering part of the risk, which the MFI bears in the event of default; therefore, an MFI also has to ensure a low level of non-performing loans.

The MFIs/SFIs are in charge of all customer relations during the whole loan process from first client contact until full repayment of the loan. They carry out public relations activities and advertise the loans in their region or business sector. They screen the loan applications based on a holistic analysis of the business and the person, they accept alternative guarantees such as personal guarantors and references and they closely monitor and support their borrowers during the whole loan period. The MFIs/SFIs provide a recommendation about loan provision or rejection to the bank, which quasi automatically approves the decision.

MFIs/SFIs use a standardized mechanism for monthly client monitoring, support the client in case of repayment problems, realise securities or guarantees if needed, decide about write-offs and go after repayments even when the loan was written off by the bank. As the bank is in charge of administering the loans, the MFIs can fully concentrate on customer acquisition, support, appraisal and monitoring instead of having to spend much time on paperwork and loan administration.

We recommend to carefully designing the income of MFIs. On the one hand there should be an incentive for good performing loan portfolios, on the other hand the income has to address capacity building needs as well as avoiding abuse or fraud. Striking a balance between covering the risks at MFI level and incentives to foster growth is a key success factor.

4.4.2 Practical experience from Germany

One of the main success factors of the German Cooperation Model is the intervention of MFIs as organisations, which are very close to the target group, are able to understand their needs and specificities and can assure close monitoring. MFIs/SFIs operating successfully are therefore organisations that focus on providing support to enterprises from specific target groups or operating in specific business sectors and /or on specific areas or regions. They can be very heterogeneous, but their common characteristic is being committed to providing adapted microfinance and related business development support to their particular target groups.

As a rule, participation in the obligatory training and capacity building activities of DMI results in a formal accreditation as MFI/SFI. Accredited MFIs have the skills and are able to carry out the assessment of the loan applications, de facto take the decision over loan approval or rejection and assure close support of financed businesses during the whole duration of the financing agreement. In order to ensure low defaults, the MFIs/SFIs have also assumed part of the risk of the loans they hand out. MFIs did receive a bonus from the Guarantee Fund in case of good portfolio quality.

MFIs/SFIs in the German Cooperation Model have been trained and passed a formal accreditation process introducing them to the particularities of financially supporting social economy entities. Such an accreditation process was made up of a set of training seminars introducing them to the assessment of loan applications, monitoring and risk management and using client relation and management information software. Once accreditation received, the organisations need to get re-accredited every one to three years, depending on their size.

MFIs/SFIs in the German Cooperation Model can be very heterogonous, operate under various legal forms (limited companies, partnerships, not-for profit organisations, cooperatives...) and either act locally, regionally or on a nation-wide level. All of them have in common the desire to fill a financing gap for small entrepreneurs. Some of them are linked to or emanated out of private or public business support organisations, consultancies or (public) economic development centres. While some serve specific target groups (women, migrants, youth, unemployed...) or focus on particular business sectors (craft, trade, services, creative sector, food & beverage, liberal professions...) others do not have any specific focus but serve all kinds of financially excluded micro-enterprises.

4.4.3 Potential MFIs/SFIs in Greece

Currently the support structure for the self-employed, micro- or social enterprises in Greece is only marginally developed. The experts' proposals of 2013 for a Greek Strategy for developing social enterprise included the establishment of regional support centres that enable regional and local actors to deliver a broad range of advisory, training and business development services to support the start-up, development and growth of social enterprise.

A Call for Tender to select such support structures was issued in 2014 and the applications received are currently being evaluated. However, a first assessment showed that the support structures in the great majority of Greek regions are not yet qualified enough to carry out such regional support. Therefore, the Call has been cancelled.

As mentioned above, having MFIs/SFIs participate in risk sharing is an essential success factor for high quality loan decision procedures. MFIs/SFIs therefore have to deposit a certain amount of money for risk sharing at the fund. However, in the current economic context in Greece, potential MFIs/SFIs probably will not have the necessary financial means to deposit such risk sharing capital.

We therefore propose that Regional Governments select, in an open and transparent procedure, the most suitable and promising organisations (Regional Development Agencies, NGOs working on the social and economic inclusion of target groups, private or public business support or consultancy organisations, etc.), and provide an initial grant to selected MFIs for capacity building and for risk sharing. This in turn would enable them to deposit the necessary funds, according to the model.

Moreover, having MFIs participate in the risk sharing will counteract the existing problem of clientelism at the local and regional level. Only those MFIs/SFIs will survive that will be able to choose their customers carefully, based on impartial loan decision criteria. Organisations providing loans based on clientelistic relations will encounter high rates of default and lose their money deposited for risk sharing. They will then be forced to stop their lending activity.

4.4.4 How to identify suitable MFIs/SFIs?

The key question will be how to identify suitable MFIs/SFIs. The challenge is that in Greece the role of a microfinance institute/social finance institutes is largely unknown. Hence, a basic call to apply for accreditation will very likely be insufficient. Only the usual suspects might apply for such a call i.e. organizations having some expertise with public support schemes. In principle there is nothing wrong with it. But the biggest potential lies in organizations, which already work with the identified target groups by providing assistance in social and economic integration.

Therefore we recommend organising regional selection procedures to identify suitable MFIs/SFIs in two steps.

Step 1 would include awareness and information activities to mobilise potential organisations, through both:

- a targeted, individual approach of potentially suitable MFI/SFI and
- conducting information events in all regions with interested organisations.

Step 2: the subsequent open selection procedure would give every applicant the opportunity to present its experience and expertise, approach, activities, procedures, time-line and quality system for operating as MFI/SFI

If the regions would be able to select and fund 3-7 MFI/SFI during the first year, it will be sufficient to launch the microfinance system based on the Trust-Based Partnership Model. After a period of 3 years a nationwide system could be in operation.

4.4.5 Accreditation of MFIs/SFIs

Accreditation of MFIs/SFIs is a key success factor. The whole system depends heavily on the quality of MFIs/SFI's. The more diligent and sophisticated the accreditation process is conducted the less likely readjustments during operations are necessary. In other words: if good partners are integrated into the system, operational problems will be solved fast and uncomplicated.

We suggest designing the accreditation process as a multistage process. On each level MFIs and the QRN-manager (see chapter 4.5 below) can decide if the process continues or ends and the applicant will not become a MFI/SFI.

By means of example, these are the levels of accreditation used in Germany:

Levels	
Level 1 basics course	The course's aim is to describe the general conditions and the framework of working/acting as an MFI/SFI. It also provides the necessary information to make a decision if an accreditation as MFI/SFI is reasonable. Duration 4h
Level 2. draft application	The draft application deals mainly with product development and developing a suitable methodology in the framework of micro finance. The goal is to set up a sustainable organisation within the context of the social economy. Traditional forms of micro credit provisioning will not be sufficient to achieve this goal.
Level 3. introductory course	If the draft application is convincing, the applicant will be invited to participate in a 2-day workshop. Its target is to present national and international experience and methodology so the draft application can be improved. Finally, all applicants present their current situation, their approach, strategy and methodology, which will be discussed and improved with experts.
Level 4. final application	Following the strategy workshop applicants finalise their applications. This application forms the basis for the other partners if an accreditation is reasonable. This procedure could be compared with a quality and credit assessment.
Level 5. strategy workshop	The strategy workshop's target is to develop a common strategy for the microfinance operation and to provide suggestions for further development. In close cooperation with the applicant opportunities and risks will be evaluated as well as positioning in the market and sales channels. Also, organisational requirements (processes and resources) and a first profitability calculation will be discussed. If necessary, clarification of issues regarding the cooperation between fund, bank and quality assurer.
Level 6. formal accreditation	Following the strategy workshop the formal accreditation will take place if the requirements are met. The primary objective is to verify and document the organisational and personal stability of potential partners (MFI/SFI). This procedure is comparable to a financial rating and a quality management certification.
Level 7. Qualifying of personnel	<p>This workshop's goal is to enable the organisation to operate self-sufficiently. Within the scope of this 2-day workshop the following topics are dealt with:</p> <p>Mission statement: Philosophy of microfinance, history, micro lending in Greece, cooperation of MFI/SFI with other partners i.e. banks, fund etc.</p> <p>Operations and processes: In detail process will be discussed with the help templates, real world examples, software etc.</p> <p>Reporting and benchmarking: Which requirements have to be met? How does the system look like? What kind of interventions are available/suitable?</p> <p>Methodology: forms of loan approval, monitoring loans, dealing with late repayments, collaterals.</p>

Content wise the accreditation is aligned to DMI's rules of accreditation. We suggest applying these rules of accreditation as blue print, they are available in English and can be used immediately⁵². Integral part of the rules of accreditation is the European Code of Good Conduct for Microcredit Provision⁵³.

4.5 Quality-, Risk- and Network Manager (QRN-Manager)

4.5.1 Role of the (QRN)

In Germany, the quality and risk network organisation has been made up of all involved actors who joined together in an association (Deutsches Mikrofinanz Institut DMI). It has taken over all tasks necessary to sustain and develop the overall organisational setting. By doing so the involved actors jointly:

- Set transparent rules and document these in a common accreditation order
- Agree on common rules, coordinate and monitor common rules
- Accredite MFIs and ensure quality management
- Further develop the system (products, methods, procedures...), e.g. through taking part in regional, national or EU-projects and initiatives
- Consolidate data and reports
- Provide networking, training, advice and other services

In this way, DMI in its role as the network / quality assurer controls and monitors that the microloans are handed out in a responsible way vis-à-vis the clients, funders and investors and that national and international quality standards are respected.

4.5.2 Quality and Risk Network, a practical experience from Germany

In Germany, DMI's main activities related to its role as QRN are:

Quality an risk management	
Accreditation	DMI accredits German organisations intending to take up microfinance as essential part of their services. The accreditation process is made up of seven steps including a formal application as well as information session, workshops and staff trainings. Moreover, accredited MFIs need regular re-accreditation. The frequency and the type of the re-accreditation audit depend on the size of the respective MFI. The 'DMI Accreditation Rules 3.0' incorporates the 'European Code of Good Conduct for Microcredit Provision' and are considered as Good Practice on EU level.
Risk management	Inside the system certain risk ratios are fixed. In case of transgression of these ratios, there are predefined procedures. The aim of these procedures is to bring the MFI's loan portfolio back into the agreed risk corridor. DMI supports MFIs in analysing problems, and developing and implementing the necessary measures. Continuous control of implementation and effect is provided.
SERVICES	

⁵³ http://ec.europa.eu/regional_policy/sources/thefunds/doc/code_bonne_conduite_en.pdf

Training and advice	DMI advises and trains microfinance actors, including MFI management and other actors such as banks, municipalities, foundations, federal states or fund managers.
Software/ Management Information System (MIS)	DMI runs the web-based software "Inthepro" covering the whole credit process, from the first contact with a client until full repayment of the loan. The system is composed of two main features: an automated, client monitoring that helps detect repayment problems before they even arise; and a risk management/benchmarking system that allows immediate intervention in case of default.
REPRESENTATION OF INTEREST	
Assembly of accredited MFIs/SFIs	DMI regularly organises meetings, workshops and assemblies for and with accredited MFIs in order to meet, exchange knowhow and experiences and discuss current problems and future challenges.
Advocacy	On behalf of its members, DMI actively lobbies microfinance as permanent segment of the German financial market. DMI advises policy-makers on how to improve the framework for microfinance and act as partner for MFIs negotiating with the bank and the microcredit fund.
SECTOR DEVELOPMENT	
Research and Development (R&D)	By means of knowhow transfer with other European countries DMI analyses internationally successful microcredit schemes, implements pilot projects, carries out exchange visits and develops methods and tools with and for its members. Due to DMI's European involvement we have been able to establish a large knowledge base about microfinance in Europe.
Product development	DMI continuously works on developing the loan offer as well as other financial services and substantially supports its members in the establishment of new funding partnerships.

When the government programme 'Microcredit Fund Germany' started, the role of DMI inside the system changed. Some tasks were assumed by the fund, others were shifted to GLS Bank. This shift of tasks seemed logical at the beginning. In practice however it hasn't shown to be useful.

We therefore propose that all tasks related to risk and quality control are bundled in one organisation and that this organisation is guided by all actors involved in the system in a participative way.

4.5.3 Potential QRN in Greece

In order to make sure that all involved stakeholders participate in assuring the quality of the system, we propose that the quality and risk organisation for a Greek trust-based partnership model of microcredit provision should be made up of all involved actors (i.e. guarantee fund, bank, MFIs/SFIs). These would team up, e.g. in an association, in order to jointly set and monitor commonly agreed rules for the fund and further develop the system. The organisation should be equipped with a Supervisory Board (made up of representatives from the involved actors) and management.

4.6 Cost and income structure

Three categories of cost appear regarding the funding of the overall microfinance system:

- 1) Start-up and capacity building costs
- 2) Operational cost and cost related to the loan
- 3) Costs of training and consulting of clients

4.6.1 Start-up and capacity building

Starting up a microcredit system generates considerable cost at the beginning. The most important cost categories and the amount to be expected are described below. The mentioned amounts are based on experience from other European countries:

The numbers shown below are intended to provide a first orientation. A more concrete calculation can follow, once the overall framework will become more concrete.

Cost	Comment	Expected amount
Endowment to the guarantee fund	The investment can be brought in as capital or as a guarantee.	∞ 3,500 000 to 4,000,000 Euros ⁵⁴
Setting up the guarantee fund	Creation of legal conditions; amount will depend on legal framework (see 3.2.1.)	25,000 – 100,000 Euro
	Start-up cost in the first 3 years not covered by lending operations	250,000 Euro
Setting up the QRN	Start-up cost in the first 3 years not covered by fees	250,000 Euro
	Technical aspects, software programming, development of the methodology and trainings	100,000 Euro
Setting up the MFIs/SFIs	Start-up cost in the first 2 years not covered by fees and bonuses	75,000 Euro per MFI
	Deposit of capital for risk-sharing at the fund; depends on the design of the risk-sharing model and the partners	10% of the disbursed loan volume, approx. 50.000 Euro
Implementation at the bank	Start-up cost in the first 2 years not covered by fees	150,000 Euro

⁵⁴ Calculation based on 'rule of thumb': the formula used is
 Number of loans per year (e.g. 500 loans)
 x average amount (5.500 Euro)
 x 0,52 (taking into account repayments)
 x average loan duration in years (2,5 years)
 / repayment rate in %
 Ergo: $500 \times 5.500 \text{ Euro} \times 0,52 \times 2,5 \text{ years} / 0,95 = 3.763,158$

4.6.2 Operational costs

Costs at the level of the MFI

In 2011 and 2012 DMI ran a working group in order to find out under which framework conditions an MFI could operate on an economically viable basis. Together with researchers and MFIs, an analytical tool was developed and applied in order to calculate and optimize the cost of the overall microloan process based on the time spent on each of the sub-processes. These findings were gathered by analysing the business plans of 18 German MFIs.

The analysis was differentiated depending on the types of microloans provided (in terms of social groups targeted and loan amounts and accordingly decision-making criteria applied).

In terms of products, findings show that the smaller the loan amounts, the less cost occurs as decisions can be taken quicker and processes are simpler. In contrast, 'social loans' provided to disadvantaged target groups and primarily for a social purpose are more costly. This is also the case for 'business loans' with higher loan amounts based on the comprehensive business model rather than to an individual person. The reason is a longer time for loan decision as well as more time-consuming crisis intervention in case of delayed repayments for 'social' and 'business loans'.

The following average costs were calculated:

Microloan product	Description	Operational costs for MFIs per loan in Euro ⁵⁵
Person-related loan	The loan decision is taken primarily based on information about the person. The assessment of the business is less relevant. The maximum loan amount is set at a level so the loan can be repaid even if the business has to close.	784
Mini-loan	The loan decision is taken based on little information that can be collected easily and quickly (e.g. credit history, bank statements, recommendation by advisor, existing purchase orders...). The loan amount is low enough to not cause considerable damage to the MFI and to be paid back by the client (if 'willing') in any case. This product is especially useful within the framework of a step-lending programme.	614
Social loan	There is no economic reason to provide the social loan. Occurring problems and defaults are disproportionate to the low revenues generated. A positive loan decision is only taken because of a social mission. The uncovered cost has to be paid by additional revenues, e.g. job centres, foundations...) The amount has to be set high enough so as to bring benefit to the client and low enough in order not to deteriorate the client's financial situation in case of business closure.	819
Business-	The client's whole business model has to be analysed. The business	835

⁵⁵ Operational costs do not include risk costs or refinancing costs.

related loan	plan has to be checked thoroughly and visits on-site carried out, topped up by the person-related analysis. The amount is at a level where it cannot be paid back anymore in case of business closure. Generally the increased financial need is linked to a business model with higher cost, e.g. due to staff, rented offices, stock and inventory... If the loan defaults, generally arrears occur related to rent, suppliers and the private household.	
Average		763

Costs at the level of the bank

On average the operational costs of a loan should amount to 250 and 300 Euro during normal operations. This amount does not include cost of initial investment, e.g. for adapting the IT system, setting up the structures and implementing it into the system, which is included in the calculation of the start-up costs in section 4.6.1.

Costs incurred at the level of the guarantee fund

The fund will have very low operational costs as the largest amount of operational activities will be conducted by involved partners. The fund should plan to operate with 0.5 full time employees.

Moreover, the fund will assume loan defaults. The rate of default depends on the strategy. Costs related to defaults can vary between 5% and over 40% of the loan portfolio. The actual default rate depends on many interacting factors such as economic climate, lending-methodology and the final recipients, the entrepreneurs, themselves. Some target groups, such as for example long term unemployed, are considered to be more risky than others. But professional support in the start-up phase and additional services delivered via different channels, such as for example mentoring services, can largely contribute to overcome the risk of default. It is fair to say, that closer the lending-methodology to that of traditional banking is, the higher the default risk. Thus, sharing the default risk with MFIs has a significant effect on the default rate. The design of the final instrument will determine the default rate.

Therefore, we are in favour of setting limits for an acceptable default rate and establish working mechanisms to ensure these default rates, ranging from decision making via monitoring procedures to crisis intervention.

Costs incurred at the level of the QRN manager

For the proper fulfilment of all quality and risk management related tasks, the QRN Manager has to employ approximately three full-time staff. Additional cost occurs for hosting the software. Overall operational cost for the QRN Manager amounts to approximately 10,000 – 15,000 EURO per month.

4.6.3 Training and coaching of clients

Depending on the objective of the programme, many MFIs in Europe combine the loan provision with training and coaching. The cost of such training amounts to approx. 700 Euro per client. However, the cost for loan provision thereby decreases. Beside the advantage for the clients there is a funding advantage. Generally, coaching and training can be funded using the measures included in an OP co-financed by the European Social Fund.

Funding possibilities

It is too early to identify and assess all potential sources for funding of the whole system. At this point of time many variables remain to be fixed: the strategy of the guarantee fund (revolving or melting), the refinancing cost, planned size of the programme as well as possible interest rates and fees for the clients.

Below a general taxonomy of sources of funding is presented.

4.6.3.1 Interest and subsidies

Interest - paid by clients

The clients pay an interest rate and possibly fees. When starting a microloan programme the initiators most often desire to set up a particularly favourable offer. This is comprehensible as their motivation is to do well. However, sustainably successful programmes generally apply interest rates in line with the market and even interest rates that lie a little bit above market rates.

The following considerations need to be taken into account:

- The biggest help for clients is getting access to capital. The interest rate has only very little influence on this benefit.
- The entrepreneurs' business success is not affected by the interest rate. Entrepreneurs give up their business because they were for instance not able to find enough clients. For instance, in case of a 1% increase of the interest rate for a 5,000 Euro loan the monthly instalment to be paid increases by 2 Euros. For an interest rate of 10% instead of 5% for instance the monthly instalment increases by 10 Euros. This is not a factor that makes businesses fail.
- The low additional burden for the individual client however is of high utility for the whole system. In case of, for instance, 4,000 outstanding microloans the above calculated 10 Euro of additional income amounts to overall nearly half a million Euro per year for the whole system.
- Due to these additional revenues many new clients can be financed.

Subsidies – funded by public sector or philanthropy organizations

Regardless of the level of interest applied, it will not suffice to cover the total cost of a microloan. In case of a loan of 5,000 Euro, 30 months duration and an interest of 10%, an income of around 650 Euro is generated by the interest. As shown above, the cost occurred at the level of MFIs plus the bank alone amount to over 1,000 Euro per loan. When also taking into account the cost related to risk and refinancing, the fixed management and risk cost of a microloan amounts to around 1,300 Euro. Furthermore, the QRN manager and the fund generate recurrent cost of 200,000 – 250,000 Euros per year.

In Europe various MFIs have tried to set up a fully cost-covering system. None of them has managed to do so yet. In any case, a clear strategic decision should be taken upfront that acknowledges the fact any microcredit programme in Greece will need additional income sources – in addition to interests and fees. Of course, the aim should be to operate as cost-effectively as possible.

We consider it essential to make clients contribute to the costs incurred. Nevertheless, additional subsidies, grants and donations will be needed in the long run.

4.6.3.2 Funding taxonomy

We consider the following sources of funding as feasible and implementable in the Greek context:

Type of cost	Source of funding in the pilot phase	Source of funding in the development phase	Source of funding for day to day operations
Endowment to fund	Public and social investors	Public and social investors	Public and social investors
Setting up fund	Investment subsidy	Investment subsidy	---
Setting up QRN	Investment subsidy	Investment subsidy	---
Setting up MFI/SFI	Investment subsidy per each MFI	Investment subsidy per each MFI	Investment subsidy per each MFI
Implementation at bank	Subsidy	---	---
Recurrent cost at bank	Interest	Interest	Interest
Risk-related cost	Interest	Interest	Interest
Recurrent cost at fund	Subsidy	Interest	Interest
Recurrent cost at MFI/SFI	Subsidy	Subsidy per each loan	50% interest / 50% subsidy per each loan
Recurrent cost at QRN	Annual subsidy	Annual subsidy	Annual subsidy

The aim will be to cover for day-to-day operations via interest generated:

- costs occurred at bank level
- risk-related costs
- costs incurred at fund level
- a part of incurred costs at the MFIs/SFIs level

Afterwards, subsidies should exclusively be needed to cover the lacking part of incurred costs for MFIs/SFIs and for QRN management.

5 Developing a specific 'Greek Trust-based Partnership Model' - a Project for introducing microfinance at national level in Greece

After all the research, meetings and conversations, we see that there is a realistic option to establish the trust-based partnership model in Greece and thereby providing access to finance for organisations, which are currently not served by the traditional banking market. This chapter provides an overview how the set-up of such an instrument could be organised.

5.1 A moderated process

The core of the trust-based partnership model is, as the name suggests, partners with complementary functions that cooperate on the basis of mutual trust! It makes a lot of sense, to fill this principle with life and include all partners in its design, planning, implementation, monitoring and evaluation.

Therefore, we suggest starting a **moderated process** as the next step. Participants should be all partners, who are able to contribute to the set-up of the system and are willing, capable or supposed to do so. It is not a matter of taking everybody along who might be interested. But all those organisations should be involved who can contribute to success or failure.

It has to be ensured that the development process is actually supported by every stakeholder. On a first glance, such an inclusive approach might slow down the process. But after a short period of time the process will gain speed, since all problems will be taken into consideration from the very beginning and a lot of people will work on the respective implementation with their individual strength.

5.2 Development partnerships

We suggest assisting committed partners in forming a development partnership. For this purpose a written agreement (Memorandum of Understanding) would be concluded among all partners. This agreement would document the commitment of each partner, but not constitute a legally binding obligation.

Until now we were able to identify the organisations mentioned below, the involvement of which could be beneficial for setting up the microfinance system. The list does not claim to be exhaustive. The list needs to be completed by the project leaders in a next step.

The approach of a moderated process has been discussed during the meetings in November with our conversation partners. All partners showed their interest and preparedness to participate in an open dialogue and structured, moderated discussion process that would establish a road map (with clear responsibilities and time schedule for deliveries) for mobilising and committing the key actors needed for establishing the individual components of a microfinance system for Greece.

Those marked by an asterisk showed particular interest and are looking forward to receiving an invitation to participate in an organised discussion and preparation process.

- Ministry of Labour, Social Security and Social Solidarity
- Ministry of Economy, Development and Tourism
- ESF/ERDF Management Authorities Greece
- ETEAN*
- TIMA Charitable Foundation*
- Stavros Niarchos Foundation*
- Heinrich Böll Foundation
- Youth Business International*
- SESnet*

- Cooperative Bank of Karditsa*
- National Bank of Greece
- 180 Moires*
- Development Agency of Karditsa*
- Athens Development Agency*
- PRAKSIS BCC
- ...

5.3 Topics to discuss / working groups

The topics to discuss are manifold. Not all topics have to be dealt with by all participants.

We suggest forming working groups for distinct topics, with the participation of all those who are able to contribute to the concept/design or are affected by it.

The topics mentioned below (working groups) reflect questions addressed during the interviews. The workshops will provide space to discuss all relevant issues and form a common position.

We suggest launching the consultation and planning process by organising eight moderated workshops:

1. Products and methods
 - a. Who is the target group for the financial instrument?
 - b. What needs does the target group have?
 - c. What financial and non-financial products meet the needs?
 - d. What methodology should be employed for loan decision-making?
 - e. What minimum requirements have to be met by all MFIs/SFIs?
2. MFI:
 - a. What requirements have to be met by MFIs?
 - b. How is the acquisition and selection process managed/organised?
 - c. How is the accreditation process designed?
 - d. How are MFI management and loan officers trained?
3. Financing
 - a. What costs need to be covered by MFIs, banks, QRN?
 - b. What kind of financial recourses are actually available?
 - c. What does the financing concept for all participants look like during the set up phase?
 - d. What does the financing concept for all participants look like in the long run?
4. Foundations
 - a. Which role can be taken over by foundations, what kind of role would they like to take over?
 - b. What requirements for a potential cooperation do exist?
5. Guarantee Fund
 - a. Which guarantee products are to be used?
 - b. What kind of liability model can be derived from it?
 - c. How can the MFI's engagement to take over some liability be organised?
 - d. Which legal form/legal frameworks should the Guarantee Fund have?
6. Processes and contracts

- a. How is the loan process organised starting from first contact with customers, to disbursement, potential reminder process until full repayment to the release of securities?
 - b. How is the billing process organised? Who is paying what to whom?
 - c. How are processes supported? (Technology, forms, rules)
 - d. What contracts need to be agreed on?
 - e. How can the respective interfaces for MFI/bank/fund/QRN best be defined?
7. Bank
- a. What tasks need to be taken into consideration especially at bank level? Customer protection? Money laundering? Reminder processes? Cancellation? ...?
 - b. Which tasks should be taken over by MFI/SFI? Which requirements need to be met in order to do so?
8. QRN-management
- How is governance and participation organised?
 - How should decision-making be organised? Who has a say in it?
 - Which legal form is suitable?
 - Which bodies should the organisation have and how should those positions be filled?

Also this list should not be seen as exhaustive or final. The topics and groups, which have to be dealt with or need to be in place, will be derived during the concrete work in the project.

5.4 Project phases

We propose to base the organisation of the next phase of the project on the phase model described below. It enables all partners a soft entry and leaves room for each partner to end their engagement, in case a further commitment to the project is no longer possible.

5.4.1 Phase 1: setting up the project

In cooperation with the project leaders some fundamental decisions have to be made, which determine the process.

We suggest that the following questions and decisions will be tackled before starting with the moderated workshops or alternatively be tackled at the start of each of the moderated workshops.

Decisions on how to proceed:

- Should a trust-based partnership model be set up with the aim to provide access to finance for organisations, which are currently not served by traditional banking markets?
- Should the trust-based partnership model be set up in a moderated process to ensure a broad acceptance by all stakeholders and a swift implementation of the model?
- Should DMI support this moderated process to optimise quality and the pace of development?
- If ESF-/ERDF financing is to be used, who would organise the ex-ante evaluation and how?

Decisions on partnerships:

- Who should be involved in the moderated process?

- Which financial recourses should/can be used for what purpose?⁵⁶

Decisions on product design:

- Should a revolving fund be set up or a melting down one?
- Should the developed trust-based partnership model be eligible for different needs or target groups in the end?
- Which target groups should be served in a first step?

Once those decisions have been taken, meetings with potential partners could be conducted in a next step to ensure their participation in a development partnership for the project. At the end of this phase, committed participants for the next step have been identified.

5.4.2 Phase 2: set up of the “development partnership” (DP)

We propose to organise the official beginning of the DP in the form of a large common kick-off workshop with all participants of the DP. The goal of this phase is to establish a common understanding for the model, which will be set up jointly. It is not so much about content related issues, but more about the framework, expectations and contributions of the different partners.

During the workshop the following questions have to be dealt with:

1. Development of a joint understanding
2. Agreement on targets and framework conditions
3. Roles and arrangements

We suggest that at the end of this phase the partners conclude a partnership agreement (Memorandum of Understanding). The agreement should be designed in a way it creates a moral and political commitment but does not have any legal obligations for the partners.

It could be determined within this partnership agreement, which partner will contribute in the respective working groups.

All in all Phases 1 and 2 should not take longer than 6 months.

5.4.3 Phase 3: Development of the final concept

We suggest that in Phase 3 the system will finally be configured. In terms of content, notably all topics addressed in chapter 5.3 have to be dealt with. The work will predominantly be conducted in small groups. Periodical meetings with all members of the DP have to be conducted.

The challenge of a central project management is to encourage and instruct all groups to monitor the timeline and to maintain an overview. How many meetings of the respective working groups and partnership meetings will be necessary, can only be determined at the end of Phase 2.

At the end of Phase 3 a final concept is available, which can be used as a plan for implementation. All tasks of partners have been set down in a new MoU, specifying the tasks and contributions of each partner including a timeline.

⁵⁶ Costs may occur not only for traveling but also for actually working on the specific topics in depth, since almost all topics need to be thought thoroughly, research for specific topics is necessary, reports need to be drafted, evaluations need to be conducted, contracts need to be drafted, to name just a few.

5.4.4 Phase 4: Preparing implementation

We suggest that in Phase 4 the start of the programme will be prepared. Contracts will be drafted, software developed and forms designed. Also manuals will be drafted. MFIs will be selected, accredited and qualified. A marketing campaign will be prepared and marketing material will be printed, a website will be set up.

This phase will require regular meetings of working groups as well as all other partners. At the end of this phase everything is prepared so loan disbursement can start. Phase 3 and 4 should be completed within 6 months, which is ambitious but manageable.

5.4.5 Phase 5: Pilot phase

And then it's time: The product goes to market.

With the first loan the development project and the development partnership will of course not come to an end. Only a new chapter starts. Within the first days, weeks and months a significant amount of adaption work will be necessary, which might stem from questions which were not taken into consideration in the very beginning. That itself should not present a problem. The concern is to ensure that questions arising from live operations will be answered fast and straightforward.

We suggest that the pilot phase should start with 3 to 7 MFIs. This number of partners is sufficient to verify all operational processes established within the development partnership during the previous phases. After a period of 6 months the next MFIs can be integrated into a growth phase.

5.4.6 Phase 6: Growth phase

While processes dealing with the day-to-day operations will be verified and optimised during the pilot phase, the growth phase focuses on selection, accreditation and linking of new MFIs. During this phase the number of MFI should be doubled. This phase should also last 6 months.

5.4.7 Phase 7: Roll-out

As soon as all processes concerning loans, accreditation, linking and billing have been established, verified and consolidated, the roll-out can start. This phase comes to an end if these new loan products are available all over Greece.

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7 ANNEX

Schedule of DMI field visit to Athens, 20-23/07/2015

Monday 20/7/2015

- 12:00: Meeting with the Alternate Minister of Labour, Mrs Rania Antonopoulou and advisors Ms Sofia Adam and Mr Giannis Barkas
- 14:00: Meeting with the head of the Special Agency on Social Inclusion and Social Economy, Mrs Rania Oikonomou
- 16:00: Meeting with the director of the General Secretary's Office of the Ministry of Economy, advisor on social and solidarity economy, Ms Stefania Georgakakou

Tuesday 21/7/2015

- 11:00: Meeting with the advisor of the Vice-President of the Greek Government, in charge with financial support tools and the development bank, Mr. Giannis Efstathopoulos
- 13:00: Meeting with the advisor of the General Secretary of Industry, Ministry of Reconstruction of Production, Environment and Energy, Mr Timotheos Rekkas
- 15:00: Meeting with the advisor of the President of the National Bank of Greece, Mr Loukas Spanos

Wednesday 22/7/2015

- 11:00: Meeting with representatives from the network Solidarity4all, Ms Georgia Behridaki
- 15:00: Meeting with representatives from the network of Social Cooperative Enterprises of Central Macedonia, Mrs Popi Sourmaidou
- 17:00: Meeting with the expert on financial cooperatives and financial support tools for social economy, Yiorgos Alexopoulos (skype)

Thursday 23/7/2015

- 10:00: Meeting with the expert on banking system and financial systems, President of the Levy Economics Institute of Bard College, Mr. Dimitris Papadimitriou

Schedule of DMI field visit to Athens, 09-11/11/2015

Monday 09/11/2015

- 11:30: Meeting with the Alternate Minister of Labour, Mrs Rania Antonopoulou and advisors Ms Sofia Adam and Mr Giannis Barkas
- 18:00: Meeting with representatives of Cooperative Bank of Karditsa

Tuesday 10/11/2015

- 14:00 Meeting with Ms Valia Fragkou, Advisor to TIMA Charitable Foundation, and Ms Rosalyn Benjamin, Program Officer, Stavros Niarchos Foundation
- 17:00: Meeting with representatives of ETEAN, 24 Xenias str., 11526 Athens

Wednesday 11/11/2015

- 11:00: Debriefing with advisors Ms Sofia Adam and Mr Giannis Barkas