

SME Funding

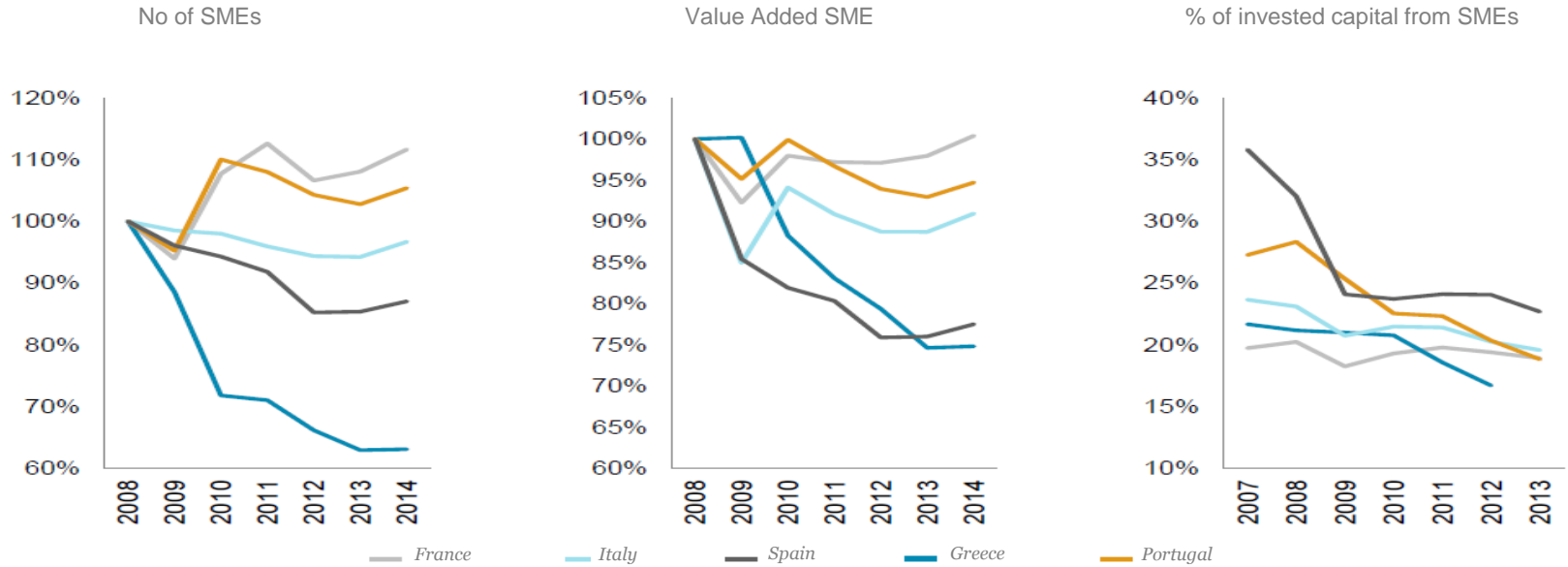
Need for a New Architecture

November 2015

Funding for SMEs is not adequate

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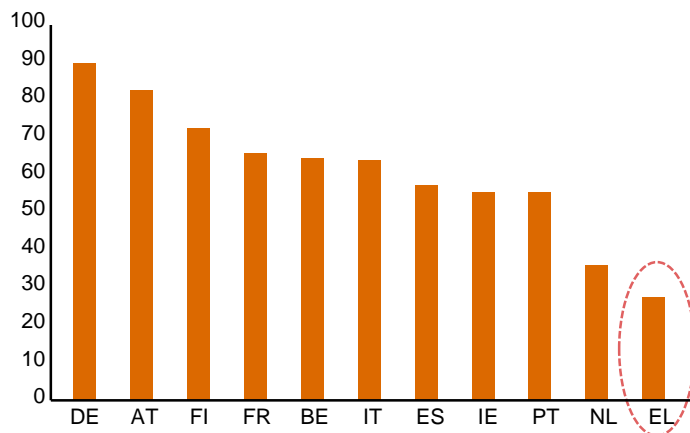
Demand for funding from the SMEs has declined during the last years ...



Source: European Commission, ECB

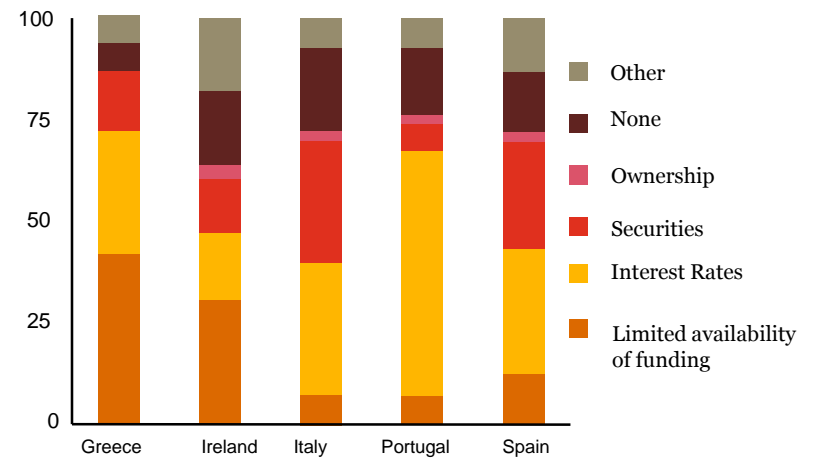
...along with the supply of funding

Availability of bank loans, 2013
% SMEs that received all the funding requested



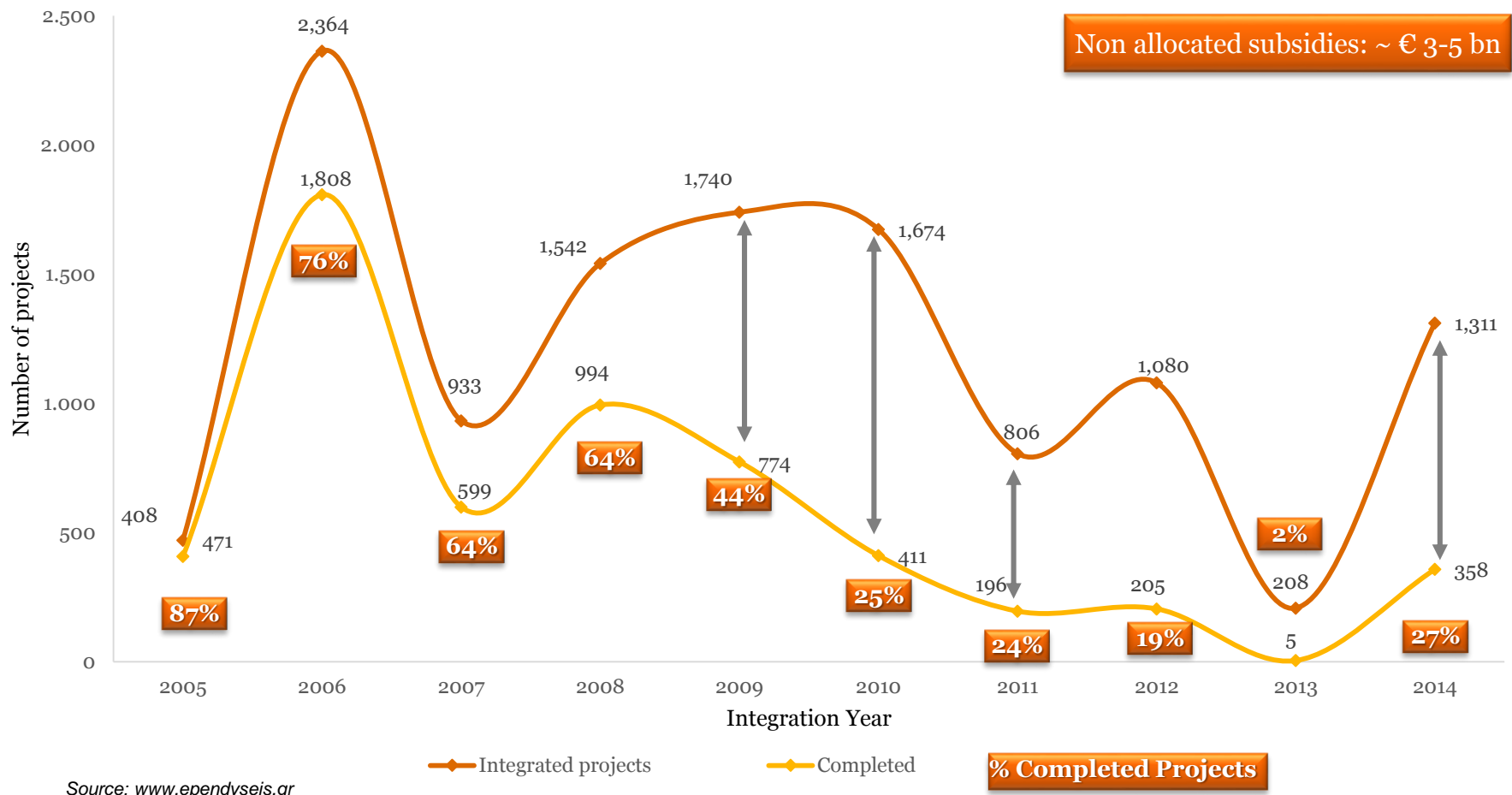
Source: ECB SAFE Survey 2013, IIF

Obstacles to debt financing in SMEs, 2013
% SMEs surveyed



Source: ECB SAFE Survey 2013, IIF

The lack of equity and ancillary liquidity by SMEs “blocked” the flow of funds from the Development Law



The current state of SMEs

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SMEs have an important economic role in Greece

- About **650,000 SMEs** employ **86%** of the corporate workforce and generate **18%** of GDP
- The Greek SMEs, especially the micro companies, generate relatively larger amount of 'value added', while employing relatively higher number of people compared to the European average
- Low 'value added' activities and limited integration of innovation compared to the EU average

* Small and medium sized enterprises (SMEs) are companies employing 10-250 people with an annual turnover of € 2mn - € 50mn or annual balance sheet result from € 2mn - € 43mn

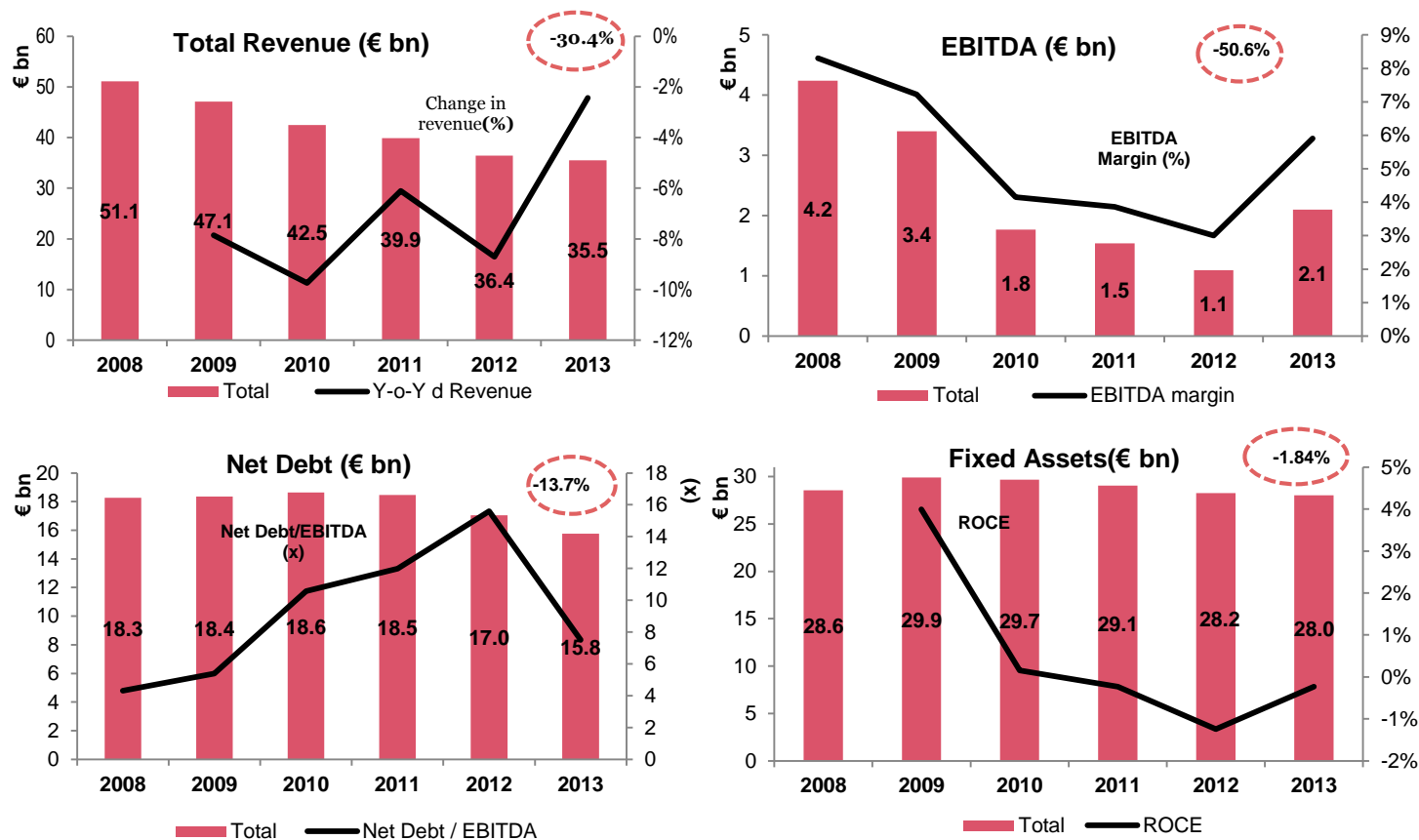
SME companies	Number	Employees
Medium (€10-50 mn)	2,464	227,832
Small (<€10 mn)	21,669	398,503
Micro (<€2 mn)	629,811	1,130,794
Total	653,944	1.757,129

% Proportion of employees in SMEs with respect to the total companies workforce	Greece	EU-28
Medium (€10-50 mn)	11.1	17.2
Small (<€10mn)	19.5	20.6
Micro (<€2 mn)	55.2	29.1
Total	85.8	66.9

% Proportion of the SME value added in relation to the total value added	Greece	EU-28
Medium (€10-50 mn)	16.5	18.3
Small (<€10mn)	22.5	18.2
Micro (<€2 mn)	33.1	21.6
Total	72.1	58.1

Source: European Commission, 2014 SBA Fact Sheet (data 2013)

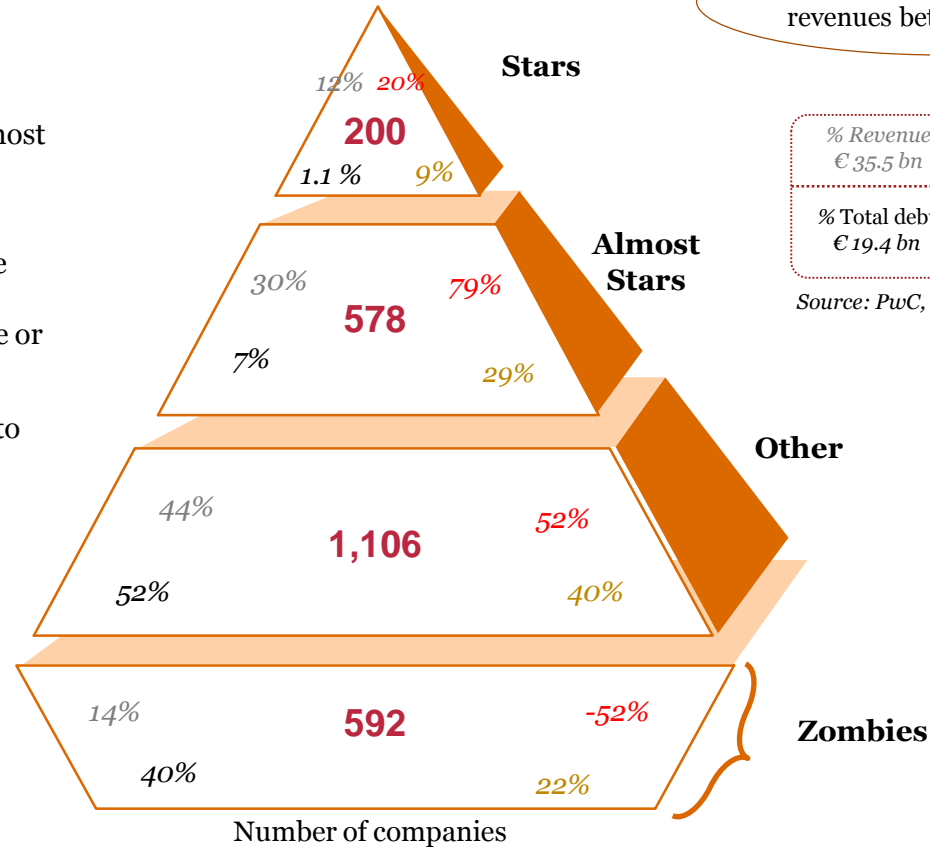
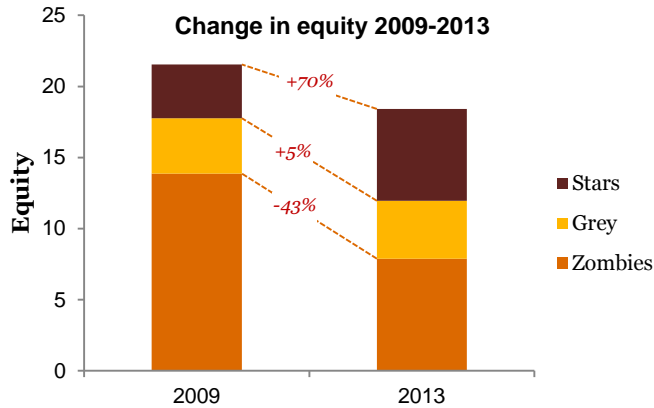
Intense “fatigue” of mid-sized SMEs during the recession



Source: PwC, Stars & Zombies 2015 (SME with turnover €10-€50 mn)

24% of mid-sized SMEs are Zombies or in adverse circumstances

- Approximately **778** companies (Stars & Almost Stars) have good financial results and good growth prospects
- **1,106** companies have no clear path and the progress of their sustainability could, depending on the circumstances, be positive or negative
- Approximately **600** companies appear not to have viable prospects



2,476 companies with annual revenues between € 10-50 mn

% Revenue € 35.5 bn	% EBITDA € 2.1 bn
% Total debt € 19.4 bn	% No of employees 185,068

Source: PwC, Stars & Zombies 2013

Source: PwC, Stars & Zombies 2015 (SME with turnover €10-€50 mn)

What are the funding needs of SMEs?

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The estimated capital needs of SMEs will reach €13bn by 2020

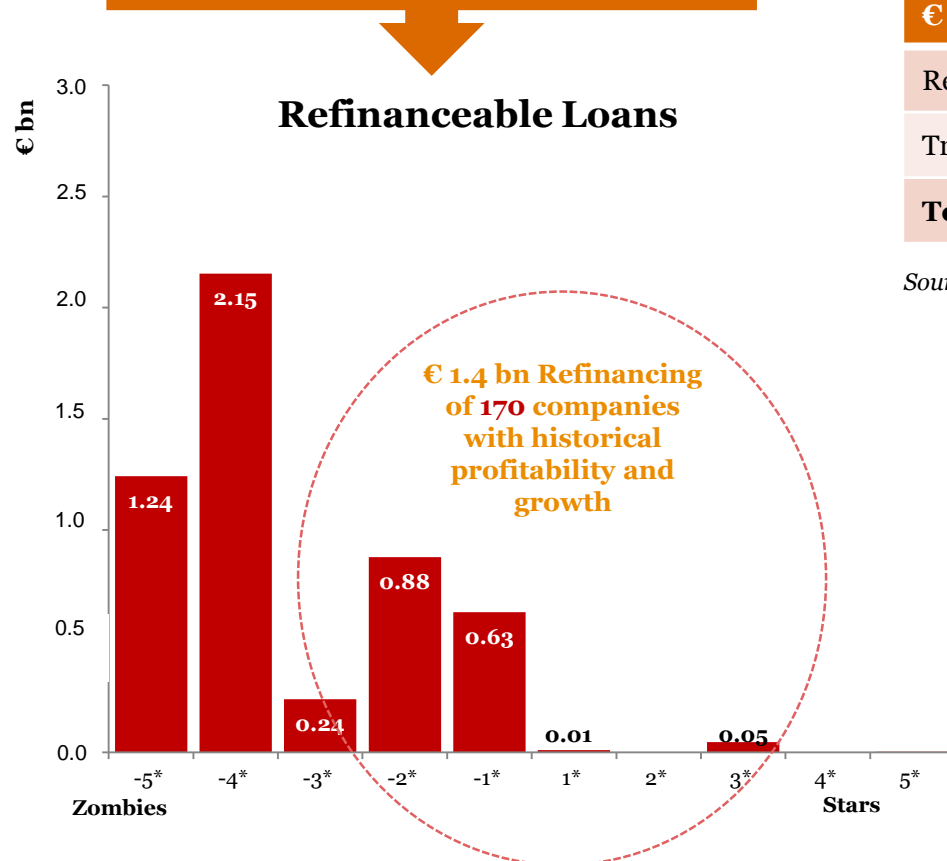
- According to the IMF, the forecasted annual nominal growth of the economy of **3%** up to 2020 will boost demand for products and services
- SMEs, in order to meet systematically growing demand, will:
 - invest in **increasing** their **production capacity**
 - invest in **upgrading** their **equipment and technologies**
 - invest in **improving** their products and services
 - need additional **working capital**

<i>(€ bn)</i>	Estimated Total Investment (2015-2020)	Estimated Working Capital Needs (2015-2020)	Total Estimated Capital Needs (2015-2020)	Total Estimated Equity Needs / Subsidies (2015-2020)
Medium Stars	4.3	1.0	5.3	2.5
Medium Grey	2.6	0.6	3.2	1.5
Small	1.4	1.1	2.5	1.8
Micro	1.0	0.8	1.8	1.3
Total	9.4	3.5	12.8	7.0

- Around **€ 7bn** of equity and subsidies are required for SME funding

The SMEs which are under economic pressure should be refinanced within a reasonable timeframe

Refinancing approximately **€5.2 bn**
(27% of loans of medium SMEs) to restore the
compatibility of the operating profitability



Non Performing Loans - SMEs (2014)

€ bn	Medium	Other	Total
Refinanceable	5.2	3.8	9.0
Trapped	7.5	11.0	18.5
Total	12.7	14.8	27.5

Source: PwC estimations

Source: PwC, Stars & Zombies 2015

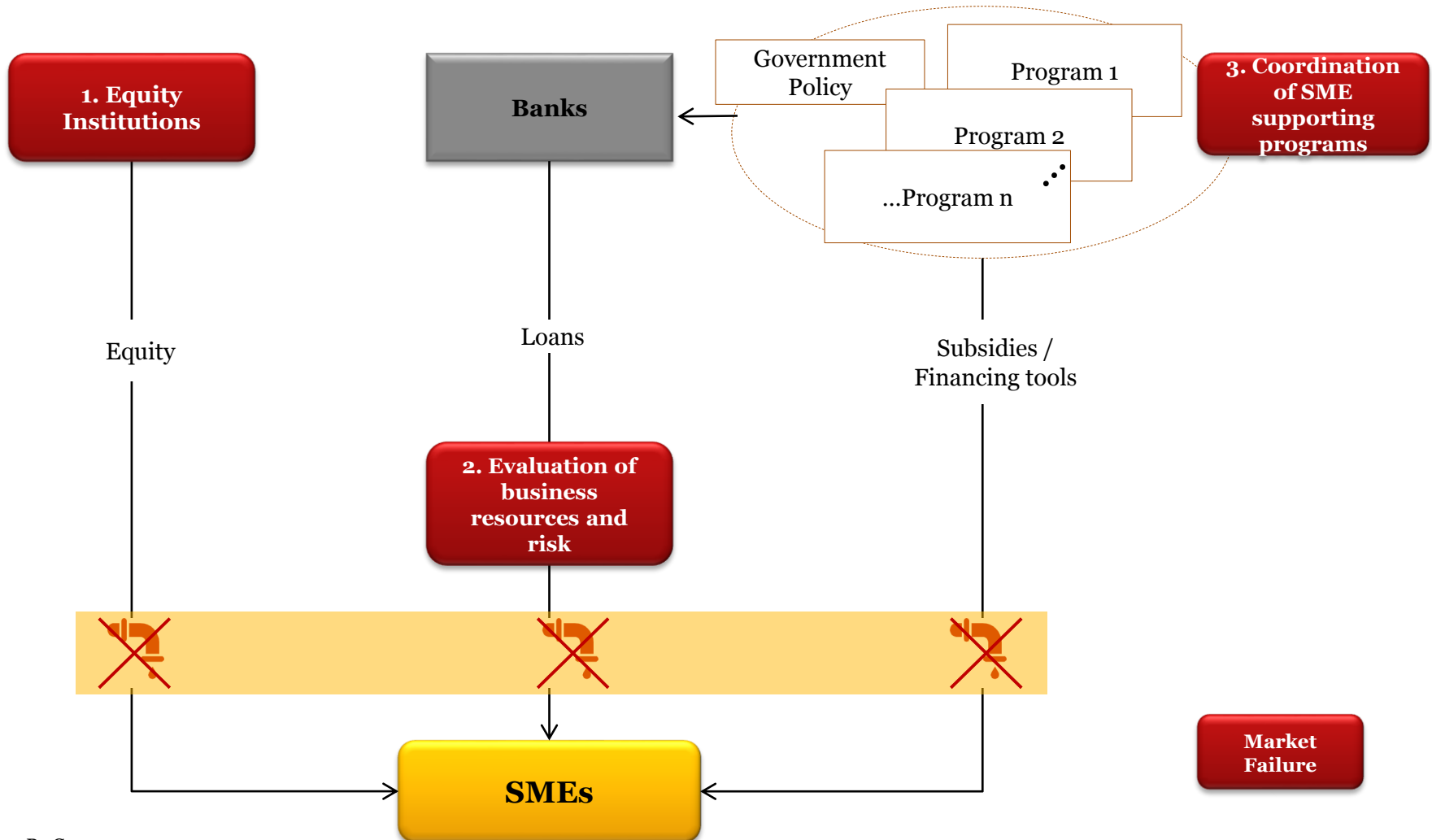
Total financing needs of €13bn and debt restructuring needs of €9 bn for SMEs require additional equity, debt and European funds

a/a	Need	Number of Companies	Total Estimated Capital Needs (2015-2020)	The impact on business	Required increase in equity and subsidies
1	Additional funds for medium-sized SMEs to accelerate their growth	1,100	€8.5 bn	<ul style="list-style-type: none"> ✓ Revenue increase ✓ EBITDA and EBT improvement ✓ Fixed Assets increase 	€4 bn
1α	Additional funds for small-sized SMEs to accelerate their growth	21,700	€2.5 bn	<ul style="list-style-type: none"> ✓ Revenue increase ✓ EBITDA and EBT improvement ✓ Fixed Assets increase 	€1.8 bn
1β	Additional funds for micro SMEs to accelerate their growth	630,000	€1.8 bn	<ul style="list-style-type: none"> ✓ Revenue increase ✓ EBITDA and EBT improvement ✓ Fixed Assets increase 	€1.3 bn
Total additional funding			€12.8 bn	<ul style="list-style-type: none"> ✓ Improving profitability and growth 	€7 bn
2	Restructuring of corporate loans with "non-negative" performance	600 medium +small +micro	€9 bn	<ul style="list-style-type: none"> ✓ Revenue increase ✓ EBITDA and EBT improvement 	€3.5 bn

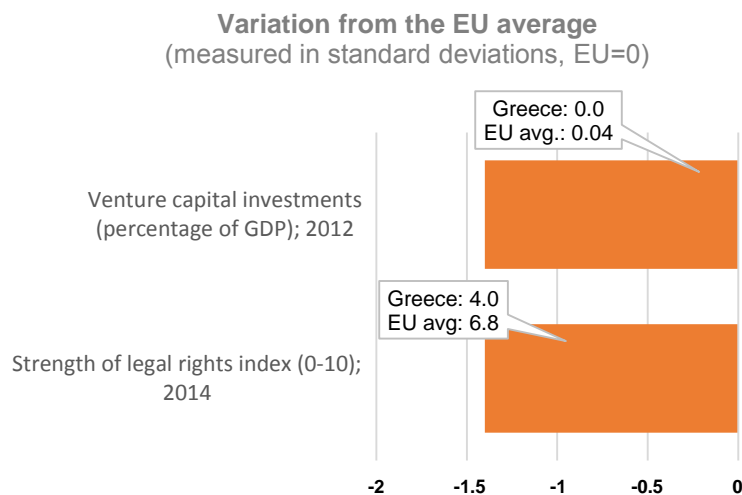
Three failures hinder the SME funding

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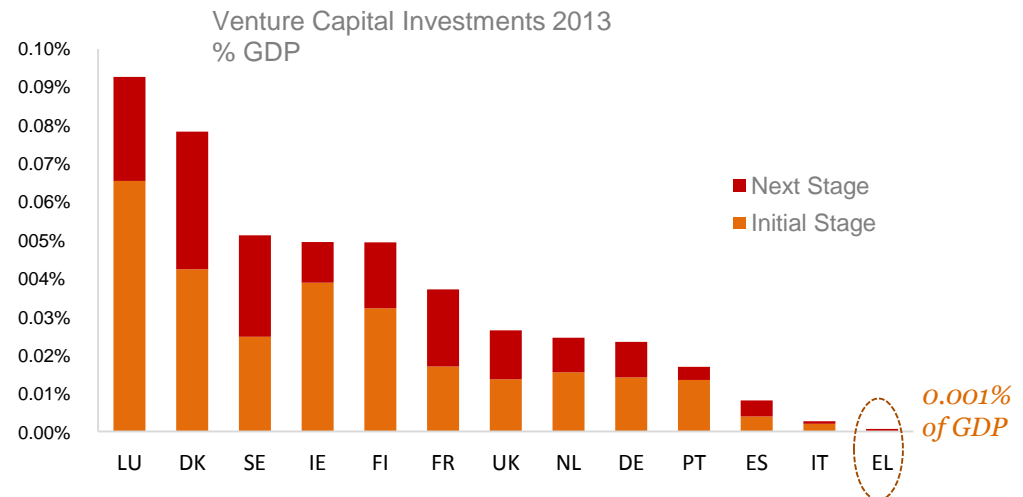
Three market failures lead to limited funding for SMEs



Lack of equity, which is a prerequisite for approving new bank loans and subsidies



Source: European Commission, 2014 SBA Fact Sheet (data 2013)

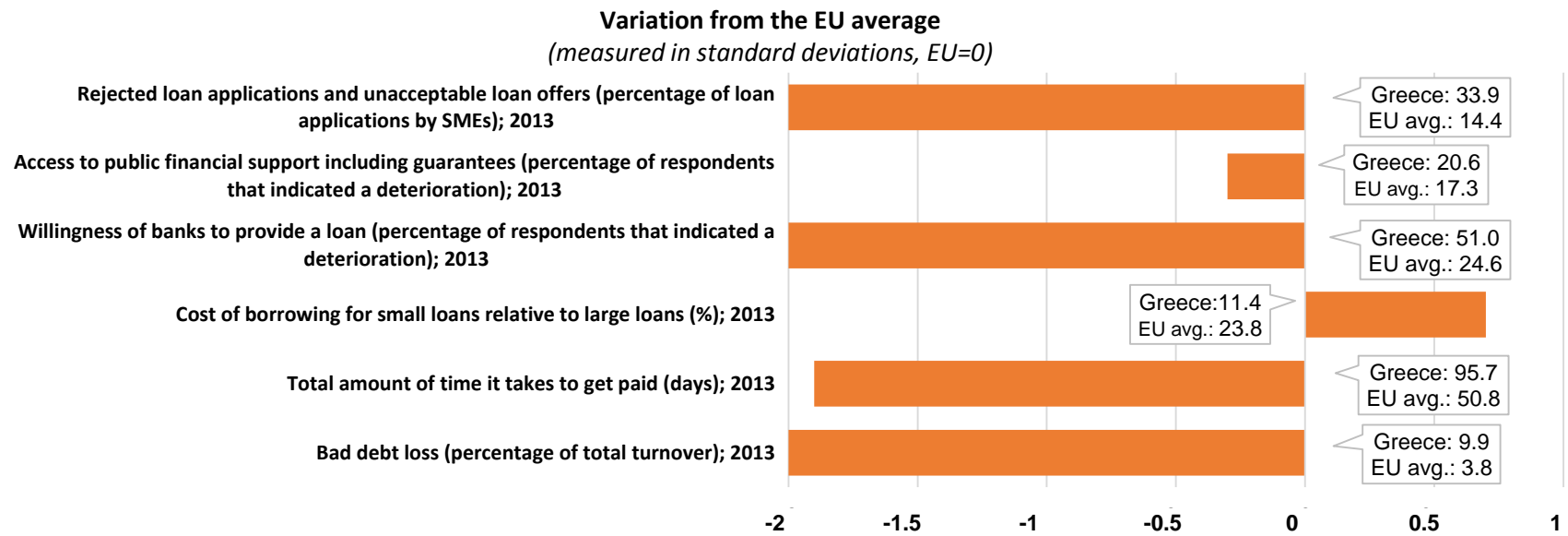


Source: ECVA, IMF

- SMEs are **equally supported both by equity and bank lending** for their operation and development (49% Equity / Capital Employed, 2013)
- The crisis **minimised the availability of own funds** from traditional sources
- Greek mid-sized SMEs **cannot attract foreign institutional investors**
- During 2009-2013, there was a **significant drop in Venture Capital (VC) activity** in Greece

The lack of reliable information for SMEs hinders the flow of debt financing

- In Greece there is **no credit rating mechanism** for SMEs
- “Tiresias” and “ICAP” are the only sources of information with numerous restrictions
- The **publicly available information** to assess the credit worthiness of SMEs is **minimal** and its access entails high costs for banks and users
- The **accuracy of published data** on SMEs is questionable since there is no tradition of honest capturing of financial data or specific independent audit requirements
- **Debt financing without credit rating** becomes burden to the **regulated funds** of the banks



Source: European Commission, 2014 SBA Fact Sheet (data 2013)

Lack of coordination of European SME funding agencies

- There are **5 agencies** for **SME funding** with **11 financing programs**
- During 2013, almost **€1.8bn** were committed for disposal through the National Strategic Reference Framework (NSRF), without, though, achieving high absorption rates
- The **lack of single point planning** and monitoring of the implementation of the financial investments has led to fragmentation of resources, overlapping and competition between the available programs
- Most SMEs are unable to cover the **equity participation required** for the use of financial investments, rendering their utilisation impossible in practice
- The introduction of **strict financing conditions** as well as the existence of extensive bureaucratic procedures to ensure funding, did not facilitate the capital inflow to the SMEs

A new structure of SME funding

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Strategy for reinforcing SME funding

1

Equity mobilisation

2

Borrowing facilitation

3

Coordination of programs and funding institutions

It is necessary to start with a blank paper

Equity Mobilisation - Entrepreneurial Capital Fund (ECF)

- Creation of a **listed investment fund** with an initial capital (seed) of **€200mn - €300mn**, from the IfG and the Greek Government with a sole purpose of investing in SMEs
- The fund will be managed by a reputable Venture Capital manager
- Share capital increase of ECF will take place with the participation of private investors, when the initial capital is fully invested
- Continuous and regular monitoring, evaluation, control and support of SMEs, where the ECF has invested
- Exit from each investment in a conventional manner. Exit from the Entrepreneurial Capital Fund through the Stock Exchange
- Facilitating M&As for SMEs in order to increase their size through technical and tax incentives

**A hidden part of the Greek economy will become visible to investors
through Entrepreneurial Capital Fund**

Facilitation of lending

- Establish a **state controlled credit rating mechanism** for SMEs and design procedures for collecting and processing data in order to assess SMEs credit risk (especially for those not required to publish Financial Statements)
(**“White” Tiresias**)
- **Obligation** of all SMEs to **announce** their financial data to “White” Tiresias
- Utilisation of **credit data** held by the banks for each SME
- **Provide credit rating** to banks and investors either for free or with fee/subscription

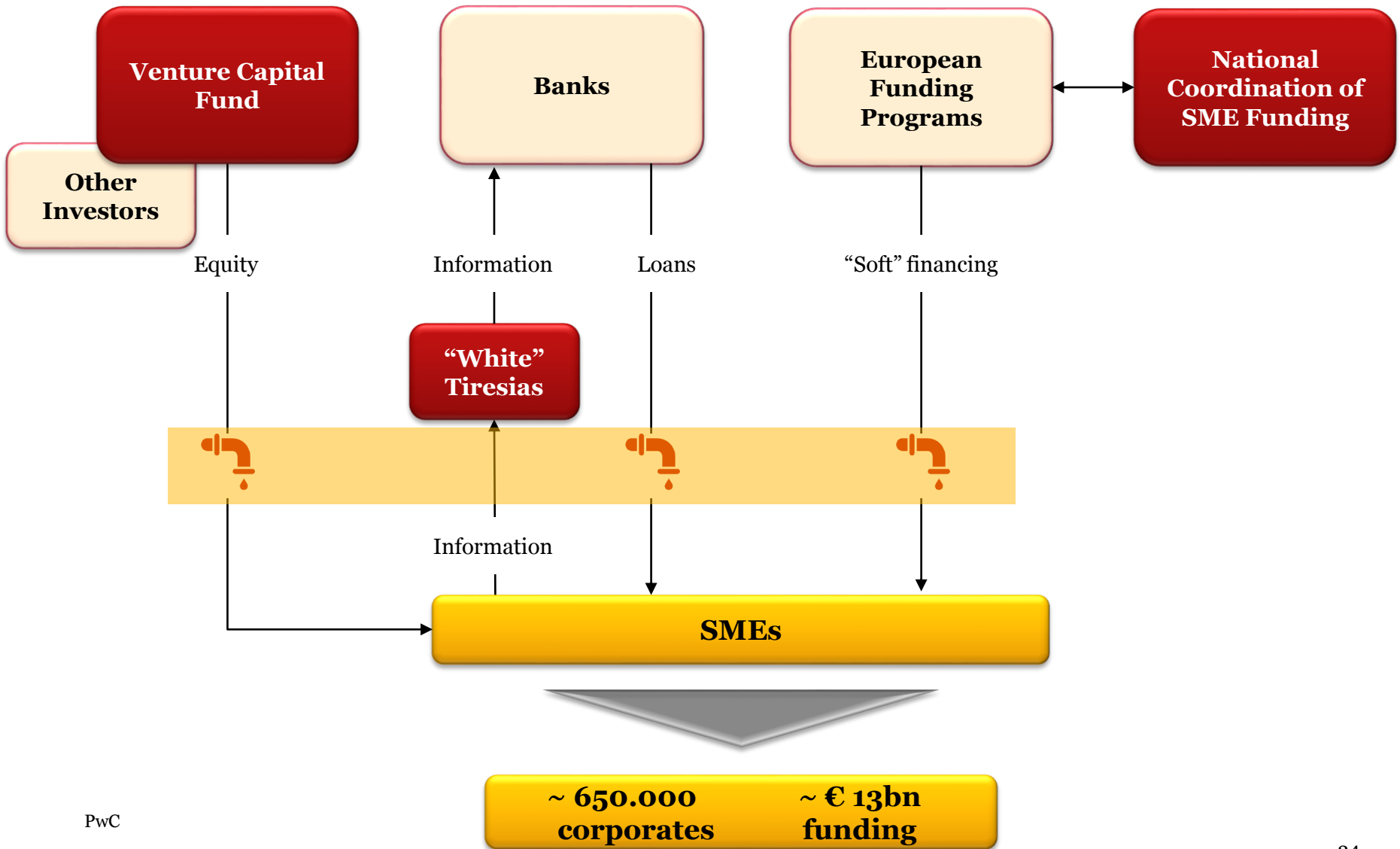
Credit rating will increase debt financing flow to SMEs

Increase of “soft” financing capacity

- Appoint an institution to **coordinate all European credit actions** for SMEs (**National Coordinator**)
- The National Coordinator **manages and promotes** all SME financing programs and **allocates** the funds via credit institutions and equity providers
- **Central monitoring and evaluation** of funding needs (periodically), **developing appropriate financing instruments** for SMEs and **proposing interventions** in public policy
- Develop **information and support mechanisms** for all the involved parties (supply and demand sides) for the ultimate resource usage

Program coordination will increase European capital flow to SMEs

New Architecture for SME Funding



Conclusions

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Greek market failures and crucial steps

- The **650,000 SMEs** employ **86%** of the country's corporate workforce and generate **18% of GDP**, while they reported significant decline within the period 2008-2014
- Three failures prevent their funding:
 - limited **availability of equity** and **lack of** alternative **access paths** to funds by SMEs
 - limited information concerning **credit rating** of the SMEs
 - fragmented available European resources and lack of **market familiarity/ expertise** in terms of their usage
- The projected **growth requires investments of about €13 bn from SMEs** until 2020, which requires approximately **€7 bn** of equity and “soft” financing. About **€9 bn** will have to be refinanced from banks to give impetus to “drained” SMEs
- The sole policy for growth is the creation of all necessary conditions for **more sustainable SMEs with growth prospects ('Stars')**. Available resources should be targeted to the systematic size increase of SMEs and increased profitability
- **The new architecture for strengthening the SME funding** has three components:
 - mobilising equity - **Entrepreneurial Capital Fund**
 - borrowing facilitation through better information- **“White” Tiresias**
 - better planning of resource deployment – **National Program Coordinator**
- Improving the **capital flow to SMEs** in order to finance €13bn, is a prior condition for stimulating and maintaining growth

“Let me remind you that credit is the lifeblood of business, the lifeblood of prices and jobs”

Herbert Hoover (31st President of the USA)

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