InvestEU Scoreboard[1]

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Framework Operation, SME Competitiveness Guarantee – Greece InvestEU Member State Compartment (Capped Guarantee)

Type of approval: Framework Operation

Type of Financial Intermediaries: Mostly commercial banks

Type of Final recipients: SMEs (including Micro Enterprise)

Country(-ies) of implementation of the operation: Greece

Short description of the financing or investment operation:

The Sub-Projects that will fall under this Framework Operation will aim at improving the competitiveness of enterprises by facilitating access to, and the availability of finance predominantly to SMEs, which are perceived by financial intermediaries as being high risk or lacking sufficient collateral.

In line with the Recovery and Resilience Plan ("RRP") for Greece, the Sub-Projects would be focused on improving competitiveness and promoting private investments and exports, closing the sizeable investment gap of the Greek economy and increasing productivity of the Greek companies.

Public Statement

Eligible areas for the operation in accordance with Annex II to the InvestEU Regulation:

Item 7 of Annex II of the InvestEU Regulation:
financial support to entities employing up to 499 employees, with a particular focus on SMEs, and small mid-cap companies

Additionality shall be deemed to be met in all those cases where a financial intermediary will originate final recipient transactions addressing new financing needs which were normally not covered within their standard lending practice. This may entail as well a higher risk profile than the risk generally deemed acceptable by such intermediary. Intermediaries will implement financing solutions in line with the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website (e.g. bespoke financing arrangements, targeting excluded segments, industries or geographies, etc.).

Additionality may also be achieved via the application of any of the following items, as per Annex V of the InvestEU Regulation:

Item (b) of Annex V A (2) to the InvestEU Regulation:
support through equity and quasi-equity or through debt with long tenors, pricing, collateral requirements or other conditions not sufficiently available on the market or from other public sources.

[1] This Scoreboard of indicators reflects the information presented to the InvestEU Investment Committee (IC) for its decision on the use of the EU guarantee for this operation. Therefore, the document does not take into account possible developments that could have occurred after this decision.

EIF expects to support financial intermediaries in originating final recipient transactions (debt financing) which meet the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website.
These measures ensure that the debt financing support provided to target final recipients is made with more favourable terms, compared to the standard credit and collection policies of financial intermediaries. The measures include, but are not limited to, improvement in financing tenor, pricing conditions, collateral requirements and other.

Item (c) of Annex V A (2) to the InvestEU Regulation:
support to operations that carry a higher risk profile than the risk generally accepted by the implementing partner's own standard activities or support to implementing partners in exceeding own capacity to support such operations;

The use of the InvestEU Guarantee allows EIF to enter into guarantee with financial intermediaries supporting higher risk category final recipients.. Building on the previous EU and regional guarantee instruments, the SME Competitiveness Product implemented under the InvestEU Member State Compartment, will enable the EIF to support the SME ecosystem at a scale that would not be possible or not to same extent out of the EU Compartment of InvestEU nor other EIF managed resource for that purpose.
Item (f) of Annex V A (2) to the InvestEU Regulation:
support through financial products not available or not offered to a sufficient level in the targeted countries or regions due to missing, underdeveloped or incomplete markets

The SME financing market is characterised by persistent market gaps which occur when viable projects or viable SMEs do not get the financing they require from Financial Intermediaries due to e.g. information asymmetries, market fragmentation, transaction costs or the Financial Intermediary's risk aversion. Especially young firms face particular challenges due to a lack of track record on which the Financial Intermediary could rely for the purposes of risk analysis and taking of the financing decision.
SMEs in Greece report insufficient collateral or other bank requirements, such as guarantees as being most often the cause for not being able to obtain financing.

In accordance with the EIB 2022 investment Survey in Greece[2], 16% of all enterprises in Greece could be considered finance constrained in 2022, well above the EU average (6,2%), out of which SMEs are the most finance constrained.

As set out in the OECD Scoreboard for Financing SMEs and Entrepreneurs for 2022[3], credit conditions tightened significantly as a result of the financial crisis and access to finance continues to be a central problem for Greek SMEs, according to a recent ECB survey (Analytical Report, 2021), with 18% of Greek SMEs citing access to finance as the most important problem they currently face, compared to an EU28 average of 9%. Greece still reports high external financing gap (which measures the perceived difference at various firm levels between the need for external funds across all channels, i.e. bank loans, bank overdrafts, trade credit, equity and debt securities, and the availability of funds).

Furthermore, Greece shows the highest percentage of SMEs reporting difficulties in accessing bank loans (22%) in the EU and the highest proportion of SMEs reporting fear of application rejections (SAFE Report, 2021, chart 40).The objective of this Framework Operation is to contribute to the reduction of the structural shortcoming of the Greek SME financing market and to support the creation of a more diversified SME finance market. More specifically, through direct and indirect guarantees, this

[2] EIB Investment Survey 2022, Greece
[3] 17. Greece | Financing SMEs and Entrepreneurs 2022 : An OECD Scoreboard | OECD iLibrary (oecd-ilibrary.org)

Framework Operation aims to guarantee debt financing which addresses the particular difficulties that viable SMEs face in accessing finance, either due to their perceived higher risk or due to their lack of sufficient available collateral.

Furthermore, the implementation of financial instruments focused on addressing the structural weaknesses of the Greek economy such as lack of liquidity faced by the local enterprises would ultimately contribute to strengthening the resilience, increase productivity and the competitiveness of the Greek market.

As set out in the Recovery and Resilience Plan (RRP)[4] for Greece, for SMEs financing, access to finance remains challenging, as SME lending rates, despite reducing to 4.6% in 2018 from 6.9% in 2012, were on average c. 2% higher relative to a selection of Eurozone countries during the period 2009-2018.

The following market failures are addressed by the Framework Operation:

Item (c) of Annex V A (1) to the InvestEU Regulation:
information asymmetries, in particular in the case of SMEs and small mid-cap companies, including higher risk levels related to early stage firms, firms with mainly intangible assets or insufficient collateral, or firms focusing on higher risk activities.
The SME financing market is characterised by persistent market gaps which occur when viable projects or viable SMEs do not get the financing they require from Financial Intermediaries due to e.g. information asymmetries, market fragmentation, transaction costs or the Financial Intermediary's risk aversion. Especially young firms face particular challenges due to a lack of track record on which the Financial Intermediary could rely for the purposes of risk analysis and taking of the financing decision.
SMEs in Greece report insufficient collateral or other bank requirements, such as guarantees as being most often the cause for not being able to obtain financing.

The above market assessments were taken into consideration for the inclusion of the proposed financial instruments under the Greek RRP.

As mentioned in the Greek RRP, Greece exhibits an extremely high investment gap, when measured either against the EU average or against the pre-2010 levels of investment to GDP ratio that prevailed in the Greek economy.
In this respect, the Council's recommendations to Greece in 2020 included a call to promote private investment in order to tackle the pandemic and facilitate the economic recovery.

This investment gap is attributed to a number of reasons, namely:
a. the significant constrains in bank financing, as is evidenced by both the reduction of corporate loan balance in both absolute terms from €120.1bn in 2011 to €72.9 bn in 2020 and the reduction of new disbursement of loans from 14.5% of Greece GDP in 2011, to merely 4.4% in 2019, that is attributed to the significant reduction of bank deposits, the most important source of funding and liquidity for the banks, the significant NPLs that Greek banks have accumulated over the years of the prolonged recession and the lower credit rating as well as the lower Capital Adequacy Ratios of the Greek banks as compared to banks of other EU countries; and,

b. the much higher cost of funding that Greek companies (and notably SMEs) are incurring, ranging from 83% to 167% higher interest rates paid by Greek companies as compared to Euro Area over the period 2011 to 2020 and from 45% to 84% higher interest rates paid by Greek SMEs as compared to the respective rates paid by SMEs in a sample of EU member countries.

[4] See page 437

Consequently, for the above-mentioned reasons, Greek companies, including SMEs, significantly reduced their investments over the last decade, hence the investment gap accumulated in Greece as compared to EU.

Greece entered the pandemic crisis with a declining, yet significant negative output gap estimated, for 2019, to 4.4% of potential GDP. At current projections, the crisis is expected to almost treble this number, reaching 12.3% in 2020. This is more than an additional of c. 75% of the projected euro area average and comparable to the heights of the Greek economic crisis.

The high cost of credit risk feeds into lending spreads, thereby increasing the funding cost to corporates (including SMEs) and thus, reducing loan demand and competitiveness. The spread between Greek corporate lending rates and the respective Euro Area average has reached 3.2% in 2015 and has been steadily declining since, reaching 1.8% as of November 2020.

For SMEs financing, access to finance remains challenging, as SME lending rates, despite reducing to 4.6% in 2018 from 6.9% in 2012, were on average c. 2% higher relative to a selection of Eurozone countries during the period 2009-2018.
More recently, the median lending rate for Euro Area's SMEs charged by banks on credit lines and overdrafts between April and September 2020 was estimated at 1.7% (ECB, 23rd round of the Survey on the Access to Finance of Enterprises), while overall Greek rates are higher than those of Euro Area's countries by c. 1.8%, as they stood at 3.46% (Bank of Greece).
As a result, Greek Corporates and SMEs not only encounter loan funding problems due to prolonged deleverage of the Greek banking sector, but also are exposed to significantly higher borrowing cost than their EU peers.
The large interest rate differential increases the cost of capital for Greek firms, thereby restricting significantly business lending.

Pursuant to the Greek RRP, SMEs have low access to finance productive investments in general. SMEs tend to report more dissatisfaction than large firms, peaking at 16% of SMEs being dissatisfied with collateral requirements and 15% with the cost of finance (EIB Investment Survey 2019 – Greece).

It is also noted that, the 2019 fi-Compass gap analysis for SME financing in the EU, Greece presents the largest share of SMEs having difficulties to access finance and among the largest debt financing gaps, as well as the largest "debt financing gap to GDP ratio".
The EIF, via the Sub-Projects forming part of the Framework Operations, will contribute to addressing the market gap depicted above.

The support provided by the Sub-Projects falling under this Framework Operation aims to mobilize substantially third-party resources alongside the EU support for the provision of financing to Final Recipients.
Due to the focus of the SME Competitiveness Sub-Product on higher risk lending, EIF will support the bespoke high value add interventions in the Sub-Projects in a customized way.

The Sub-Projects aim at providing access to finance to higher risk SMEs, focusing particularly on SMEs which were previously excluded from financing, or providing new features in the financing (e.g. increased maturities or and/or reduced collateral requirements) or in general financing which had not been offered (or not to such an extent) to final recipients due to their perceived high credit risk that will improve the access of the final recipients to longer tenors. This contributes to the diversification and stability of final recipient's financing. The Enhanced Access to Finance measures provide for the transfer of financial advantage by the intermediary to the final recipient.

The Sub-Projects are expected to have a positive impact in the Greek ecosystem thanks to stimulating investments in new productive assets and financing higher risk SMEs in particular micro-enterprises and new enterprises by scaling up the support of financial intermediaries, thus enhancing the sustainable growth of the Greek economy. According to an EIF study, on the effects of EU loan guarantee schemes for SMEs, after receiving a guaranteed loan, beneficiaries grew more rapidly than non-beneficiaries in terms of total assets, sales and employment. Beneficiaries were more likely to survive following the guaranteed loan.

Pillar 3 - Market failure or sub-optimal investment situation addressed by the financing or investment operation **(Very Good)**

Pillar 4 - Financial and technical contribution by the Implementing Partner **(Very Good)**

Pillar 5 - Impact of the financing or investment operation **(Excellent)**

Pillar 7 - Complementary indicators[5]

Key characteristics	**Expected as of time of submission**	**Comments**
Leverage Effect	Indicatively 17x for capped guarantee	Preliminary estimation
Multiplier Effect	Indicatively 23x for capped guarantee	
SMEW specific Indicators		
		Preliminary estimation
(b) Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission	100% SMEs	

ESG aspects

Within the due diligence process, EIF has assessed the Applicant's environmental, climate and social risk management procedures and the capacity to screen, assess and manage environmental, climate and social risks associated with its business activity, including the presence of an Environmental and Social Management System (ESMS), by means of an "ESG" questionnaire.

[5] The InvestEU methodology is used in order to calculate figures presented in this document. Such figures are of indicative nature only and presented at the level of the Framework Operation.