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Collaboration among the University of Macedonia and Equivalent Institutions
of Neighboring Countries on Issues of Financial Management and Management and Operation of Small Businesses
Scientific Coordinator: Professor Demetrios Papadopoulos

Modern Financial Tools in Greece and Bulgaria

Elaborated by the University of Macedonia
And the Euroconsultants

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Πανεπιστήμιο Μακεδονίας
ΟΙΚΟΝΟΜΙΚΩΝ ΚΑΙ ΚΟΙΝΩΝΙΚΩΝ ΕΠΙΣΤΗΜΩΝ

ΜΕΛΕΤΗ ΣΥΓΧΡΟΝΩΝ ΜΟΡΦΩΝ ΧΡΗΜΑΤΟΔΟΤΗΣΗΣ ΣΕ ΕΛΛΑΔΑ ΚΑΙ ΒΟΥΛΓΑΡΙΑ

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1. Introduction

Firms usually devote much effort on deciding on the most appropriate means of raising finance. Companies obtain finance from various sources, most of which are either in some forms of equity or loans.

Some new financial instruments are those, which will be discussed in this context. Firms should assess all possible methods of raising finance. There are different advantages from each form and firms need to exploit them as far as it is practical, given the particular circumstances of the company.

The small size enterprises face problems, such as the provision of finance. There is no doubt that compared to large companies; small firms are at a considerable disadvantage in financial markets. Loans are more expensive and security payments are more strictly. For many years there have been gaps in the provision of finance to small firms, but over the time this position has improved. Governments realized the importance that small companies play at the economic growth and financial tools have been adjusted in that way in order to meet their needs.

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2. Greek Macroeconomic environment

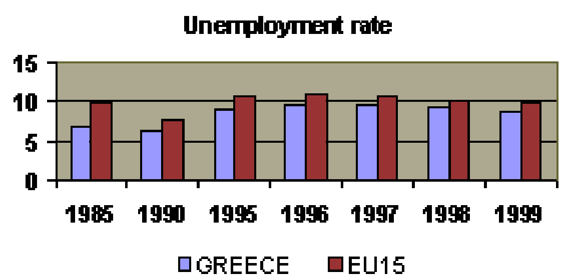
The Greek economy has experiencing an increased macroeconomic stability. Growth is expected to reach 5% the current year. Last year's inflation rate was 3.9% with budget deficit less than 1% of GDP, compared to 20% and 16% respectively, a decade ago. The Greek Convergence Program (1998-2001) has been updated, after the devaluation of the Greek Drachma upon its entry into the European Rate Mechanism on 13 March 1998.

Table 1: Major Greek macroeconomic indicators

	2001 (trends)	2000	1999	1998	1997
Real GDP growth (%)	4.50	3.80	3.70	3.70	3.20
Average inflation (%)	3.00	2.00	2.60	3.90	4.70
Interbank O/N (%)	4.83	5.90	9.40	11.70	11.50
1-m EURIBOR (%)	4.86	5.33	9.76	12.09	13.39
Unemployment	7,5%	8,6%	9,3%	9,8%	10,3%
Investment % GDP	27,9%	25,8%	24,3%	22,6%	20,7%

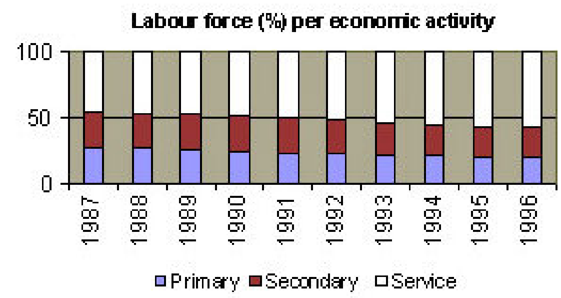
- Source: Greece's authoritative on-line investment network – inv.gr

The estimated number of people in the Greek labor force is 4.4 million. Although the population has been growing very slowly during the last decades, the labor force has expanded mainly because of the increased number of women entering the labor market.



- Source: Eurostat, OECD and DG II

During the period 1987-1996, employment in Greece in the primary and secondary sectors was reduced.



• Source: National Statistical Service of Greece

2.1. Investment Climate

Greek government encourages foreign investment. Investment incentives are available on an equal basis for foreign and domestic investors in productive companies. At present, there is no special Law on foreign investors but the general development law 2601/1998 is applicable, along with the benefits provided under Legislative Decree 2687/1953. Under the investment incentive Law 2601/98, businesses may choose of the following combination of incentives:

- Grants and interest subsidies, as well as subsidies for leasing equipment
- Tax exemptions and interest subsidies

The Hellenic Centre for Investment (ELKE) is the responsible body for reviewing projects valued over 3 billion GRD (8,8 million Euro), or 1.5 billion GRD if there is foreign participation, for which government incentives are sought. Foreign investors do not face discrimination and there is no restriction on the entry of foreigners into Greece. However, the sometimes, heavy bureaucracies discourage potential investors.

ELKE established in 1996 to seek, promote and support foreign investment in Greece and international alliances with Greek companies. ELKE is funded jointly by the EU and the Greek government and offers its services without charge.

2.2. Bilateral Investment Agreements

Greece has bilateral investment agreements with Armenia, Albania, Bulgaria, Georgia, Ukraine, Romania, Russia, Fyrom, Latvia, Croatia, Poland, Hungary, Slovenia, Tunisia, Egypt, Lithuania, Morocco, Zaire, Cuba.

2.3. Double taxation agreement

The countries, which have signed an agreement with Greece for the avoidance of double taxation, which are currently in force:

Austria	Israel	Hungary
Belgium	Italy	Uzbekistan
France	Korea	Poland

Denmark	Cyprus	Romania
Switzerland	Luxembourg	Sweden
UK	Norway	Czechoslovakia
USA	Germany	Finland
India	Netherlands	

Bulgaria and Croatia have signed a double taxation agreement with Greece, which have been ratified but have not yet entered into force.

2.4. Greece's taxation concerning foreign investors

Greece has certified agreements with many countries for the avoidance of double taxation. Under these agreements direct tax is applied, in accordance with the tax system of the country where the investment was generated.

Foreign investors are free to import capital for investment in securities and to re-export any capital gains, dividends and interest.

3

3. Traditional form of financing

3.1. The Greek Banking Sector

For several years, banks were the primary source of companies' s financing. The banking and financial sectors in Greece have been liberalized since 1987, primarily due to directives from the EU. Greek banking legislation is now fully consistent with the European Union Directives, which allow reciprocal establishment of member states' credit institutions. Greece has a mature but still expanding banking system and as a result of deregulation, Greece's banks are highly diversified. The Bank of Greece has the exclusive right to issue paper currency. It also acts as the depository for government accounts, and for the mandatory reserve requirements of commercial banks and legal entities. It also supervises the commercial banks and other financial institutions.

Greek banks are also positioning themselves as the strategic link to markets in the Balkans, Black Sea, Eastern Europe and the East Mediterranean. Banks constitute the major source of financing.

Table 2: Banks in Greece

BANKS	NUMBER OF BRANCHES	BANKS	NUMBER OF BRANCHES
National Bank of Greece	611	Postal Savings	132
Commercial Bank	385	Co-operative Banks	39
Agricultural Bank	440	Banque Nationale de Paris	7
Piraeus Bank	158	Citibank	37
Egnatia Bank	47	American Express bank	6
Cyprus Bank	17	Arab bank	1
Alpha Bank	420	Scotiabank	7
EFG Eurobank	350	San Paolo	1
National Bank for Industrial Development (ETBA)	13	Barclays	12
General Hellenic Bank	91	CCF	2
National Bank of Investments & Industrial Development (ETEBA)	2	The Royal bank of Scotland	1
Deposits & Loans Fund	4	HSBC	11
Bank of Attica	51	Societe Generale	4
Laiki Bank	15	ANZ Grindlays bank	4
Aspis Bank		ABN - AMRO	13

ING Bank	4	Bank Saderat Iran	1
Nova Bank	45	Bank of America	1
Hellenic Bank	7	Hypo-und Vereinsbank	1
Hellenic Investment Bank	1	Paribas	1

- Source: Hellenic Bank Association

3.2. Product range – Loans

- **Short term working capital loans**

These loans are intended to help companies with their working capital requirements and can fun up to 100% of a company's needs according to the company's size and prospects. The loan term is usually up to 5 months, depending on the company and the loan type, but for new companies may be under specific requirements to be extended up to 3 years.

- **Long term loans for fixed assets and equipment**

They are aimed to support the companies on their investment projects. These loans are at a floating base interest rate

- **Bond loans**

Large and profitable companies issue bonds to meet their needs in terms of medium –long-term loans.

- **Syndicated loans**

The syndicated loans are aimed to large-scale construction, shipping and other companies to assist them meet their working capital needs and implement their investment strategies. The loans are jointly granted by National Bank of Greece and other, Greek or foreign major banks. These loans enable the companies to fund up to 100% of their capital requirements.

The interest rate on a bank loan can be a fixed or a floating rate, typically based on the prime rate of interest. The prime rate of interest is the lowest rate of interest charged by the Bank of Greece on business loans.

3.2.1. Key Determinants of Loan Acceptance Decisions

- Size of business
- Age of business
- Expected cash flow
- Value of collateral
- Client risk
- Strength of guarantee

- Ratio of dept to equity
- Credibility of projections
- Experience of the company's management

Banks' s lending policies vary enormously from one bank to another, according to the degree of debt risk that each bank is willing to undertake. The factors that the banks take into account when deciding on whether to invest in a company or not, are the management of the company, the business it is in and the case that is being made for finance. Since it is difficult to judge the quality of management, they rely on judging past achievements. The bank will want to check the financial accounts for the last few years. This makes it more difficult for new businesses to attract funds than those with a proven record. The financial case must be well presented, showing amongst other things, the expected future profits and cash flow of the business in the medium and long-terms plans.

With only a few exceptions, the due monthly balance of each bank loan is subject to an annual contribution of 1.2%, which is used for the subsidy of exports (Contribution of Law 128/1975).

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4. New Financial Instruments

The objective of the study is to provide information in order to assist SMEs on the development and application of modern financial mechanisms and tools, and specific on leasing, franchising, factoring, venture capital, etc.

Table 3: Types of Financing by Size of Firm

Start-Up Operation	Very Small Firm (sales under €300,000)	Small Business (Sales between €300,000-€ 7m)	Medium Business (Sales between €7m-€40 m)	Large Business (Sales over €40 m)
Leasing	Leasing	Leasing	Sale of equity (via the Parallel Market)	Sale of equity (via Main market Athens Stock Exchange)
Venture Capital		Factoring	Venture Capital	Venture Capital
Institutional Loans	Institutional Loans	Institutional Loans	Institutional Loans	Institutional Loans
Franchising	Franchising	Franchising	Leasing	
			Factoring	
			Franchising	Franchising

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5. Leasing

An alternative to debt is leasing and is among the most frequently employed and rapidly growing sources of financing. Leasing is a form of medium or short-term finance, in which companies can obtain the use of assets without having to raise the cost of an asset in advance. The lessee is the receiver of the services of the assets under the lease contract, and the lessor is the owner of the assets.

During the recent years, the use of Leasing in Greece is expanding. This can be partly attributed to the wide acceptance of the leasing as a viable method of financing assets and the rapid modernization that takes place. According to national statistics, in 1998 Greece came 37th at the universal ranking of leasing, with a turnover growth of 20%.

5.1. Types of Leasing

- **Financial Leasing**

It is the most common from of leasing in which the company buys the equipment from a supplier of the client's preference. A financial lease is a longer-term lease than an operating lease.

- **Sale and Lease Back**

Allows the company to sell some of its equipment to the leasing Company with the obligation to buy them back in a specific period of time.

- **Operational Leasing**

An operating lease usually finances equipment for less than its useful life, and at the end of the lease period the lessee can return the equipment to the lessor without further obligation

- **Vendor Leasing**

Is a special sales financing program active in the area of equipment suppliers. The agreement between the leasing company and a third party vendor who offers to his clients the option to lease from the leasing company under the obligation to repurchase the equipment at the end of the leasing period.

- **Cross-Border Leasing**

It offers the leasing options to companies with operations in the EU or other countries.

- **Syndicated Leasing**

The leasing company participates with other leasing companies in undertaking large scale leasing deals

- **Real Estate Property Leasing**

Leasing of real estate properties for commercial use. Real Estate Leasing in Greece was legislated in February 1999.

5.2. Leasing companies in Greece

Table 4: Leasing Companies in Greece

Leasing Company	Subsidiary of	Year of establishment
Alpha Leasing	Alpha Bank	1981
Etva Leasing	ETVA Bank	1987
Eurolease	Commercial Bank	1989
Ethniki Leasing	National Bank of Greece	1990
Ergoleasing	Ergasias Bank	1991
Piraeus Leasing	Piraeus Bank	1993
Ate Leasing	Agricultural Bank of Greece	1991
Citi Leasing	Citibank	1987
ABN Amro Leasing	ABN Amro Bank	1991
Cyprus Leasing	Cyprus Bank	1997
Laiki Leasing	Laiki Bank	1997
Dirent S.A.	-	1998
OTE Leasing	Hellenic Telecommunication Organisation (OTE)	1996
EFG Leasing	Eurobank	1999

5.2. To lease or not to lease – a financing decision

When a company considers the acquisition of an asset, it should estimate the cash flows, which are expected to arise from its ownership.

Financial Leasing is so similar in practical terms to bank borrowing that the factors, which the company need to consider are pretty similar in respect. Leasing has the advantage of substantial tax exemptions and facilitates the acquisition of assets by firms that do not wish to spend capital for purchasing equipment.

Table 5: Example of real estate leasing versus bank loan

GENERAL NOTES	
Building value	90.000.000
Land value	10.000.000
Total asset value	100.000.000
Tax	35%
BANK LOAN	
Amount of bank loan	100.000.000
Length of bank loan	10 years
Interest	Athibor
Amount of Equity capital	0
% Depreciation	8%
Average cost of capital after tax	2,50%
Net cost as present value	**97.730.629**
LEASING	
Leasing value	100.000.000
Length of leasing	10 years
Part of buying out after the termination of leasing	10.000.000
Interest	Athibor
Gross margin of Athibor	3,50%
Average cost of capital after tax	2,50%
Net cost as present value	**96.154.254**

5.3. Legal Framework

Leasing was introduced to Greek Law by Law 1665/1985 “Financial Leasing” as amended and supplemented by Law 2682/1999.

Real Estate Leasing has implemented since 1995, although not for the purchase of land. Real estate leasing has created new opportunities as well as dangers for leasing companies and businessmen. The new parliamentary bill although an improvement on the existing inactive law has created uncertainty as to how it is going to function in practice. Several points remain unsolved, such as the differentiation of the value of real estate into land and building, giving rise to questions concerning the method of depreciation of assets as well as the resolution of several legal problems.

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6. Factoring

Factoring is a three party transaction between a financial organization (Factor), a company (client) that sells goods / services on credit to its buyers (customers). The factor purchases the customer's receivables normally on a non-recourse basis and then manages the credit that has been granted to the buyers up to the final collection of payment. The main reason why companies use the service of factoring is the provision of finance. For a small fast-growing company a factor provides a good means of releasing funds tied up in debtors. It provides a good source of working capital.

6.1. Factoring companies in Greece

Most of the factoring companies are subsidiaries of commercial banks. Factoring services are authorized, in Greece, to be performed professionally by Banks established and operating lawfully in the country, as well as by the factoring companies, which should have as an exclusive object the performance of factoring services, whilst also fulfilling the prerequisites specified by article 4 of Law 1905/1990.

- ABC FACTORS
- COMMERCIAL FACTORING
- LAIKI FACTORING
- ETHNOFACT
- FACT-HELLAS
- MULTIFACTORING
- EFG FACTORS

6.2. Factoring Costs

The precise factoring agreements may vary considerable for different companies but, typically payment is made immediately after the sale by the factor, who then collects the debt and manages all accounting and administrative matters concerned with this. This provides a relief to the company (client) of the financial burden of granting trade credit, but at a cost.
The elements that composing the factoring costs are the following:

1. Interest
2. Commissions

3. Lamp sum fee (based on the amount of work that needs to be carried out and the risk of bad debts)

The commissions are typically stated as 0,5-2%, and the interest is generally 12 to 18%. There is no additional interest levied of the Law 128 (1,2%) above the prime rate, in contrary to the bank loans. The fees vary by business size and industry sector, with smaller companies generally paying rates at the higher end of the range, but fees can mount up if the firm is not paid the receivables when due. For overdue accounts, the cost of factoring is approximately 1% of sales per month. This fee level is significant, particularly for low margin businesses.

6.3. Company's benefits due to factoring use

- Liquidity on a permanent base
- Credit risk coverage in case of customer's inability to pay the invoice
- Collection of the trade receivables from the goods/services sold on credit
- Lower operating cost due to sales ledger administration and invoice collection performed by the factor
- Accounts receivable liquidation up to 80 – 85% and improvement of liability / equity ratio (leverage)
- Guarantee payment of the invoice value in case of buyer's insolvency
- Penetration and development to foreign markets (customer evaluation, financing in foreign currencies, 100% credit risk coverage)

6.4. Disadvantages

- Cost of discounting may be considered relatively high compared to other forms of financing. Typically discounts may be as high as 9%
- Customers of companies using a factoring service may perceive the existence of a state of financial stability and may opt for another supplier

6.5. Legal Framework

Factoring, in Greece has been regulated by the provisions of Law 1905/1990.

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7. Forfeiting

Is a contract for the assignment by a supplier to an agent of a long-term business claim that arises form the export operations of the supplier. The agent takes all the risks e.g. non-payment of the debt. The selling company obtains immediate cash, and the agent (purchasing bank) has a claim to a stream of income to be received in the future.

Forfeiting was developed to finance medium to long-term contracts for capital goods. It is now becoming more widely used in the short term especially where the contracts involve large values.

Benefits

- The selling company can obtain the full value of his export contract without recourse.
- The forfeiture takes over the buyer and country risks

Disadvantages

- Costs of the using the service

8

8. Venture capital

Venture Capital is a term meaning equity capital provided for new and/or existing business undertaking by private investors/companies other than the owners of the business.
The market of Venture Capital in Greece is not yet sufficient developed, however, venture capital. Two companies, founded in 1994, have dominated the market in Greece: Global finance and Commercial Capital.
The principal value added by the venture capital companies is the introduction of modern management methods and the head-hunting of skilled managers. As a general rule, companies seeking venture capital are start-ups in innovative sectors for which it is difficult to acquire traditional bank financing. Funds usually opt for firms with potentially high growth rates. They invest for a period usually five to seven years, with an agreed exit policy – usually either to list the company on the Stock Exchange or to sell their stake to the founding principals. In the early stages venture capitalist invest as heavily of their time and expertise as of their cash and, consequently, look for high return on exit.

Advantages

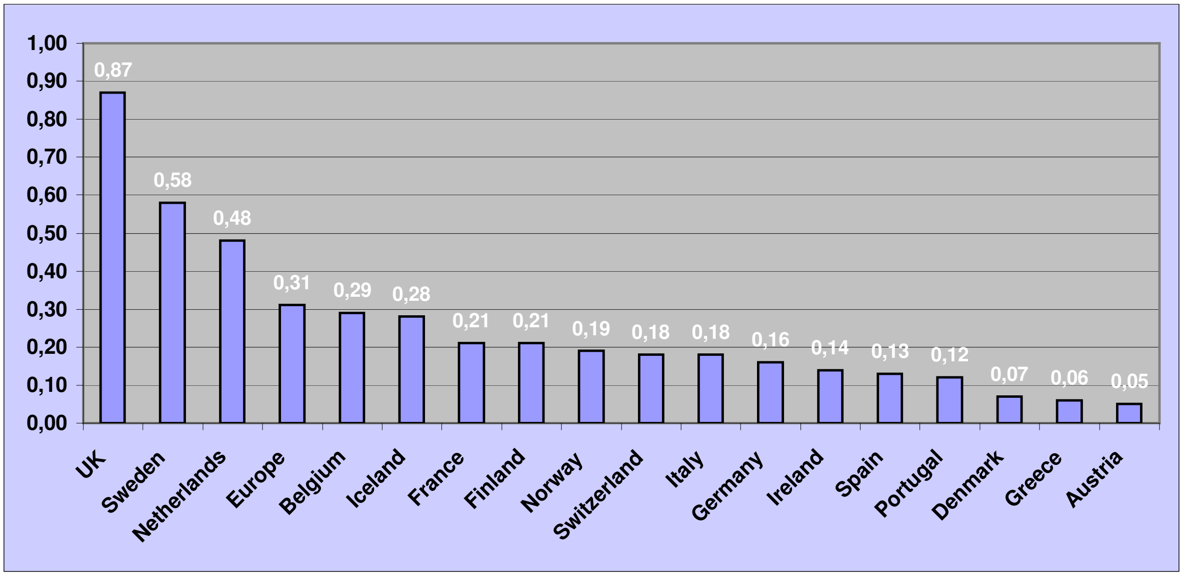
- Experience of the management team of the venture capital company
- Use of funds which enabling a wide selection of investment opportunities
- Rewards when realized can be substantial especially in start-up situations

Disadvantages

- Expectation of a very high return on investment, typically 25-50% annually.
- Venture Capitalists may participate on the Board of Directors, thus reducing autonomy.
- Exit route of the venture capitalist

According to international experience, usually a 20-50% of venture capital investments fail, a 40-55% just survive without any interest outcome and only 10-20% of the investments show great development and performance.

Private Equity Investments as % of GDP in 1999



- Source: EVCA Yearbook 2000

8.1. Forms of venture capital financing

The company financing may include more than one form of investment. Although most of the times there are no specific boundaries between subsequent forms of financing, they can be broken down to the following categories:

➢ **Seed Finance**
Funding for research, evaluation and development before the business actually starts trading. It is the most risky form of financing.

➢ **Start-up and Early stage Finance**
Funding for new companies being set up or for the development of those, which have been in business for a short period of time, one to three years. It is considered as a high-risk form of financing

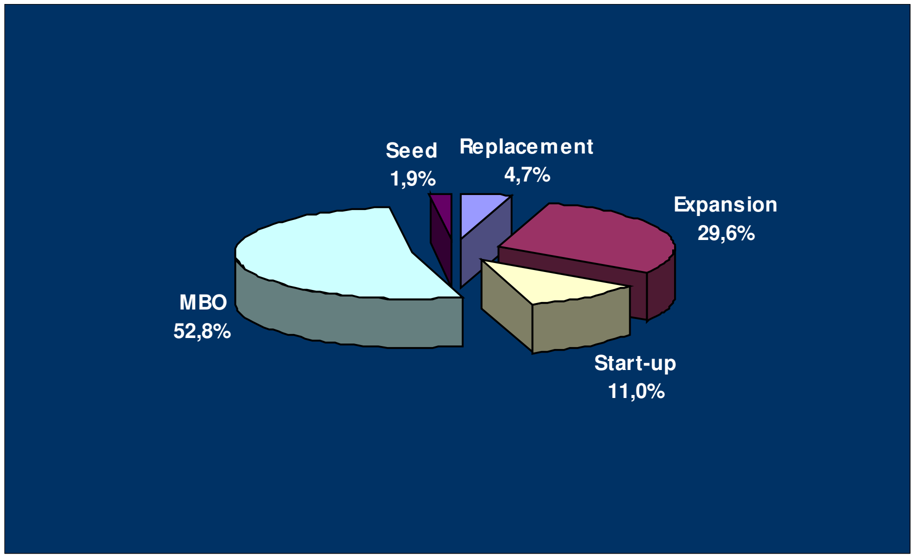
➢ **Development or Expansion Finance**
Funding for the growth and expansion of a company, which is braking even or trading profitably. The cost is quite low due to relatively small risk involved.

➢ **Mezzanine Financing / Bridge Financing**
Investment intended to provide further expansion or to bridge working capital and market expansion needs prior to a public offering (IPO) of securities or prior to a buyout.

➢ **Replacement**
Funding for the purchase of existing shares

➢ **Management Buy Out (MBO)**
Financing to enable a management team, either existing or new, and their backers to acquire their business from the existing owners.

Management Buyout represents the largest individual investment stage while expansion represents the second stage.



The European private equity and venture capital industry has grown substantially over the last two decades, according to an Annual Survey of Private Equity & Venture Capital in Europe, developed by EVCA. In 1999 Banks and Pension Funds were the two largest sources of capital, contributing 29% and 19% of the total respectively.

European Sources of Funds in 1999

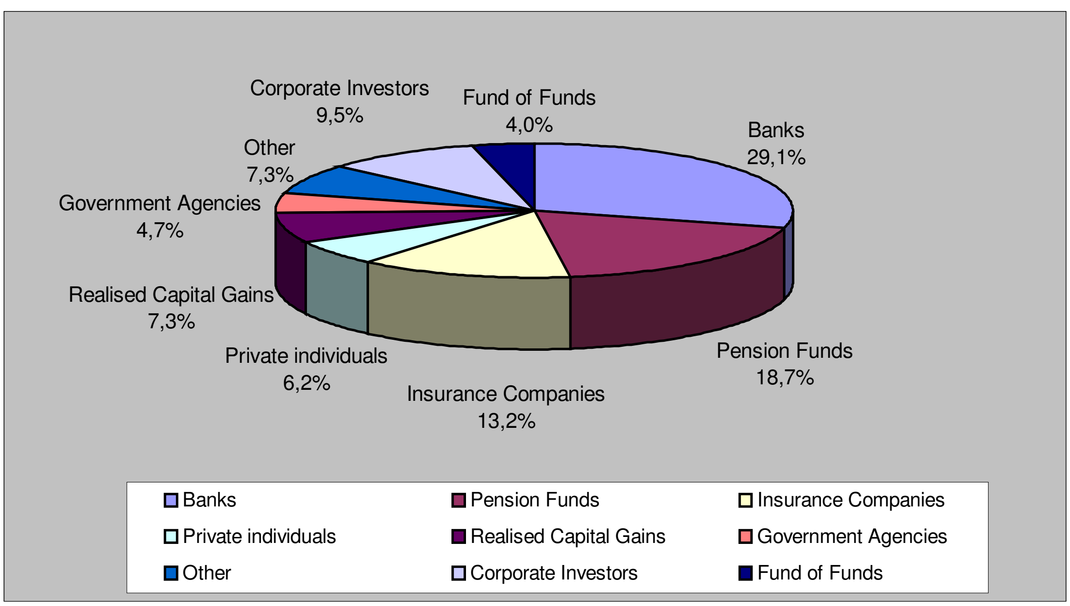


Table 8: Venture Capital Investment in Greece during the first semester of 2000

Stage	Amount (in euro X 1,000)	Number of companies
Seed	43	1
Start-up	9,456	13
Expansion	26,662	14
Replacement	0	0
Buyout	0	0
Total	36,161	28

- Source: EVCA Yearbook 2000

Table 9: Venture Capital Investment in high-tech companies in Greece during the first semester 2000

Stage	Amount (in euro X 1,000)	Number of companies
Seed	43	1
Start-up	2,703	4
Expansion	0	0
Replacement	0	0
Buyout	0	0
Total	2,746	5

- Source: EVCA Yearbook 2000

Table 10: Venture Capital Companies in Greece

➢ Alpha Ventures
➢ Commercial Capital
➢ AVC
➢ Millenium Venture Capital
➢ Baring Hellenic Ventures
➢ Danube Balkan Fund
➢ Global Finance
➢ Piraeus Venture Capital
➢ Vectis Capital
➢ Ithaca Ventures

8.2 Examples of Venture Capital funds

- Commercial Capital deals with the realisation of investments through Business Participation Capitals in Europe, the Balkans and Black Sea countries. The company participates in six companies in Russia and Ukraine, in eight companies in Rumania and Bulgaria, in three companies in Central and Eastern Europe, in 26 companies in Greece and Eastern Mediterranean, and in three companies in Western Europe and USA. Commercial Capital has a network of offices in Moscow, Kiev, Budapest, Sofia and Nicosia. The company's policy is to remain in a venture for two to seven years.

- The Danube Fund, of Alpha Ventures, invests usually in the equity capital of firms that are mainly active in the countries of Southeast Europe. Since its inception, it has committed in ten investments in Romania, Moldavia and Fyrom.

- Global Finance, which is a pioneer in Venture Capital in Greece, has created the following funds: 1. Baring Hellenic Ventures which is activated in Greece, 2. Euromerchand Balkan Fund with presence in the Balkans and especially in Bulgaria and Rumania, 3. The Black Sea Fund, with investments in the Balkans and the Black Sea, has already invested GRD 6,5 billion in Chipita company of Rumania and Poland, in Delta Bulgaria and in the pharmaceutical company Sicomed in Rumania. Global Finance operates offices in Sofia, Kiev, and Bucharest.

- NBG Ventures, has created the NBG Greek Fund which has invested GRD 1,8 billion in the companies Minoan Flying Dolphins, Fintrust and Zegourakis. The company also manages the NBG Balkan Fund.

Industrial Sectors by Percentage of Amount Invested

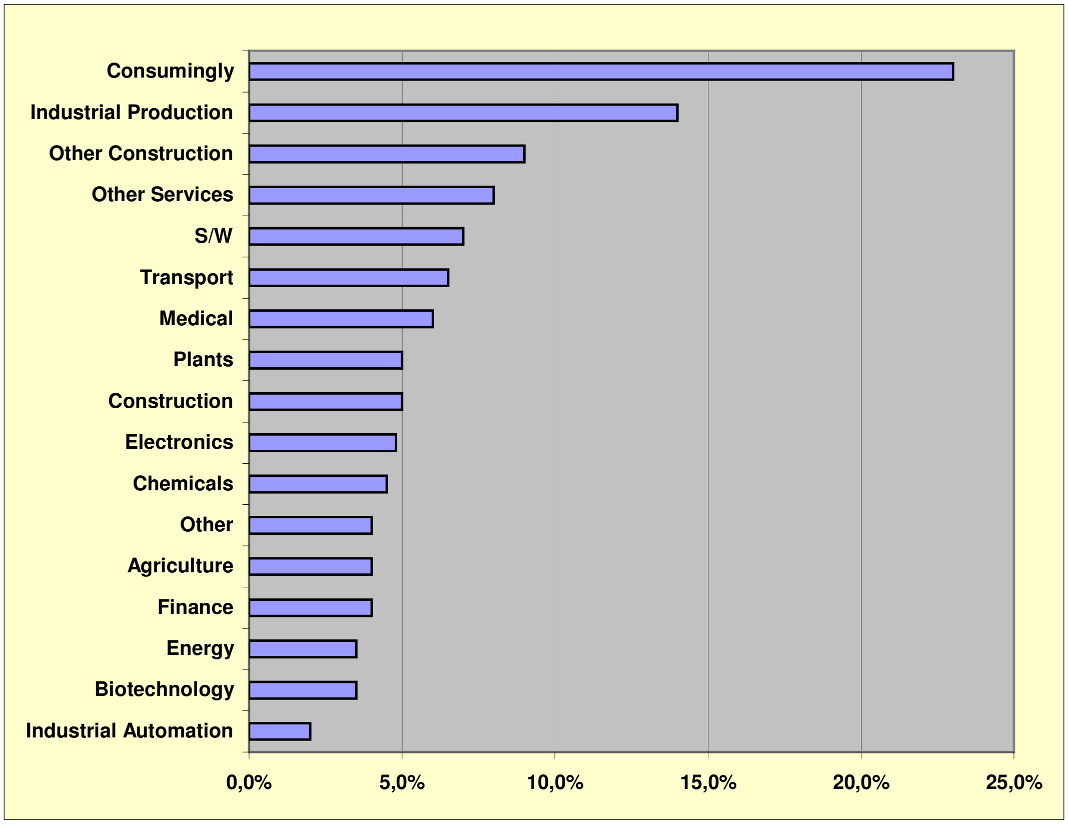


Table 11: Technology Investment in Greece in 1999

Private Equity Investment (€ Million)				Venture Capital		
Amount Invested	%Share of Total Amount Invested	No of deals	No of companies	Amount Invested	No of Deals	No of Companies
8	0,1%	7	6	8	7	6

• Source: 1999 EVCA Private Equity Statistics

Table 11: Breakdown of Investment in Greece in 1999 by Stage (€ ‘ 000)

Amount of Investment					
Seed/Start-Up/Other early stage	**Expansion**	**Venture Capital Sub-Total**	**Buyouts**	**Other**	**Total**
163	7,600	7,763	0	0	7,763

- Source: 1999 EVCA Private Equity Statistics

The Hellenic Centre for Investment (ELKE) is the investment promotion agency responsible for attracting and supporting foreign direct investment in Greece.

8.3 Legal Framework for Venture Capital Companies

Venture Capital companies are entitled to a grant of up to 30% for their investments in advanced technology, innovated companies and new ideas. These companies may at the end of the year claim a tax allowance of 3% on the value of guarantees provided to firms that have invested in high technology or innovation. The proceeds of this allowance must be made in a special tax-free reserve, in order to be used for future investments. The interest from bonds issued by these companies is not taxed.

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9. Business Angels

Private investors who invest directly in private companies in return for an equity stake and perhaps take a seat on the company's board are frequently known as "business angels". The business angels investment market comprises private individuals who make venture capital investments in smaller unquoted companies. Business angels make investments in a wide range of sectors.

The key factors, which business angels take into account when assessing an investment opportunity are:

- The competitiveness of the product/service
- The expertise of the management team
- The financial commitment of the entrepreneur

Business angles usually prefer to remain anonymous and sometimes is hard to find one.

Potential disadvantages

- May be unwilling or unable to provide finance for subsequent rounds
- Some may have ulterior motives
- Generally individual investors want to have a significant say in business strategy which may lead to conflict with management

1
0

10. Franchising

Franchising is a system of marketing goods /services and/or technology, which is based upon a contractual association and collaboration between the Franchisor (manufacturer, wholesaler, service organization) and its Franchisees (independent businesspeople who buy the right to operate one or more units in the franchise system) whereby the Franchisor grants its Franchisees the right, and imposes the obligation, to conduct a business in accordance with the Franchisor's concept.

Franchising offers the opportunity to take advantage of the already existing commercial success of a company.

∗ Makes use of the business know-how and the experience of the mother company

∗ Takes directly advantage of every advertising and promotional movement both in local and national level

∗ Benefits from the use of the Trademark

∗ Assistance from the Franchisor at finding the appropriate store and location

∗ Training Services from the owner and staff

∗ Benefits of network marketing

The system of franchising in Greece was first applied in the mid 1970's, but the rapid growth it is presently experiencing did not start until the early 1990's. While there are several successful franchise systems operating in Greece, there is still room for many more. Fast food eating outlets is the area with the highest concentration of franchise systems operating in Greece. Clothing, housewares and giftware are other areas where franchise systems are proving to be successful. Some sectors, such as real estate, dry cleaning, and business card printing, lack any organized business development and are virgin territory for franchising that can offer a standardized service. As the concept of franchising matures and the diversity of sectors where it can be applied broadens, the scope of opportunities for franchise businesses expands.

The oldest franchise in Greece is Goody's, a fast food franchise, which started its operations in 1976 and still leads competition in the booming fast food market.

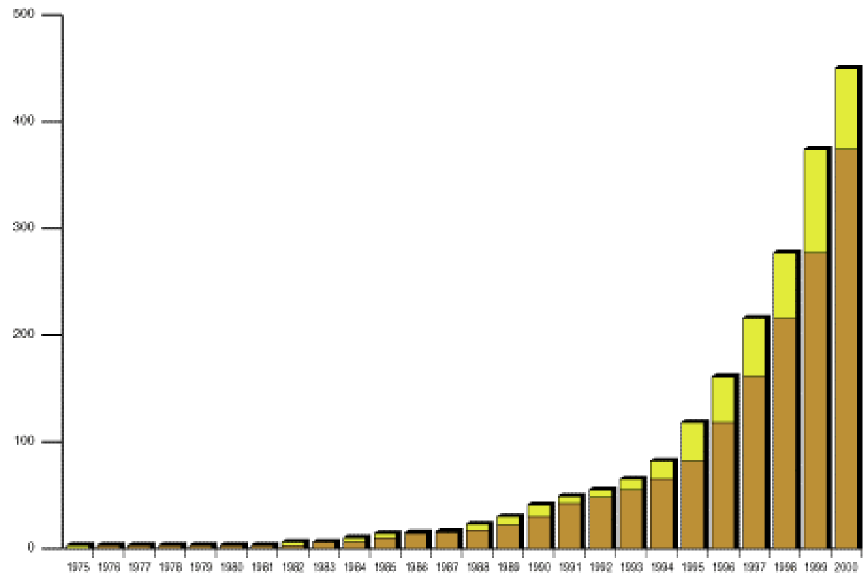
The Greek economy offers the following characteristics, which support the function of franchising:

1. Greece proved to be one of the fastest growing economies in Europe with a growth rate of approximately 5%

2. The country has very high percentage of self-employed people across Europe. Approximately one in every 20 Greeks owns some type of business.

3. There is large amount of money to be invested in profitable businesses, as evidenced by the rise in the Greek Stock Exchange.

Development of stores with the form of franchising in Greece

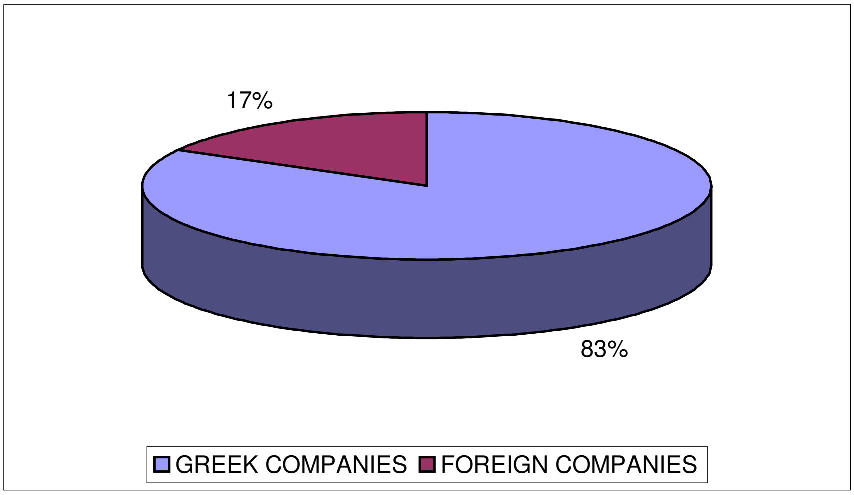


10.1. Franchise Association

The Franchise Association of Greece began in 1996 and its aim is to spread franchising in the Greek economy. Nowadays the Association counts about 50 members and covers a wide range of economic activity. The Association provides all necessary information regarding recent developments in franchising in Greece. One of its objectives is to lobby the government to pass special legislation that will facilitate the development of franchising, which currently is governed by Greece's commercial code. The Franchise Association of Greece is affiliated with the International Franchise Association (IFA) and the European Franchise Association (EFA). The company has prepared a Code of Ethics, which its members are required to follow. The code institutes the obligation to disclose to prospective franchisees proper information pertaining to the business and the franchise system.

Competition is fierce coming from Greek and non-Greek firms. There are no restrictions on the development of franchising in Greece. All products, regardless of origin (from EU and non-EU and domestic) are subject to Value Added Tax (VAT).

Ranking of origin with franchising systems in Greece



10.2. Franchise Methods

- **Direct franchise**

There is a direct relationship between the franchisor and the franchisee, without the use of a third party intermediary

- **Industrial franchise**

It' s a form of franchising where a company, the franchisor, provides in another company, the franchisee, the permission to alter particular products and then sale them with the permission and the trademark of the franchisor.

- **Distribution franchise**
- **Services franchise**
- **Mobile franchise**

10.3. Franchising Expenses

- **Royalties**

It's an ongoing fee to maintain the right to the franchise. Typically is a percent of the gross sales, not the profits. This royalty fee can range from 1% to 15%, although 5% is typically.

- **Entry Fees**

These are fees for purchasing the rights to use the trademarks, business methods and distribution rights of the mother company. This licensing charge can be significant, especially for a well known established franchise.

- **Marketing Fees**

It is common for franchises to pay a portion of the franchisor's local, regional and national advertising and promotional costs. These fees are usually put into a cooperative advertising fund that ultimately benefits all franchises through increased exposure to the trade name.

10.3.1. Franchising Costs Estimations and Examples

According to estimations from franchising companies, the cost for a franchise branch at the clothing sector ranges from € 50.000 to € 176.000, included initial fees, decorating expenses and equipment.

Table 12: Zolotas Jewellers

Store	25 -30 m2	15 –20 m2
Franchise Fee	14.675 Euro in cash	8.800 Euro in cash
Construction and configuration	44.000 Euro with settlement	20.500 with settlement
Initial merchandise	58.700 Euro approximately	€ 20.000-24.000 approx.
Ways of repayment	- 50% with the order - 50% with 3month check	- 50% with the order - 50% with 3month check
Next order of merchandise	Repayment with 2month check from the date of collection	Repayment with 2month check from the date of collection
Royalty & advertising	Not exist	Not exist
Cooperation contract	9 years with renewal every 3 years	9 years with renewal every 3 years
Average % of gross profit	42%	42%

Table 13: Goody's (fast food chain)

Store	Minimum 350 – 400 m2
Investment	440.000 Euro approximately
Cooperation contract	10 years
Royalty	7% of turnover

Table 14: Everest (fast food chain)

Store	80 –120 m2 & 50 m2 storage
Construction & equipment	176.000 Euro approximately
Entry fee	29.350 Euro
Royalty	4% of monthly net sales
Advertising	2% of monthly net sales
Company participation	50%

Table 15: Rebecca Blu (Clothing)

Store	10 –80 m2 & 50 m2 storage
Entry fee	0
Initial merchandise	From 11.500 euro
Royalties	0
Construction & equipment	From 11.500 euro

10.4. Benefits of franchise

- Reduced Risk
- Getting a complete package
- Financial and site selection assistance
- Advertising and promotion

10.5. Drawbacks of being a franchisee

- Lack of control
- Cost
- Binding contract

10.6. Prerequisites for considering entering a franchise agreement

1. Reputation of the Franchisor company
2. Competitiveness of the product/service
3. Financial results of the specific franchise system

Table 16: Franchising forms in Greece

Form	No of Companies	%
Education	22	5,4%
Clothes – Footwear – Accessories	95	23,3%
Fast Food	67	16,5%
Retail	80	19,7%
Household	51	12,5%
Personal care & pleasure	35	8,6%
Food & Drink	22	5,4%
Services	35	8,6%
Total	**407**	**100,0%**

- Source: Research of Franchise Success, January 2000

According to a survey carried out by ICAP in 2000, it was defined the estimated average annual growth of the number of shops with franchise.

Table 17: Projected network development: 2001 - 2002

Industry	Average number of shops 2000	Average number of shops 2001	Average number of shops 2002
Manufacturing	13,5	32,4	37,3
Commerce	9,4	20,0	31,8
Other Services	13,1	33,6	50,0
TOTAL	11,6	28,1	39,7

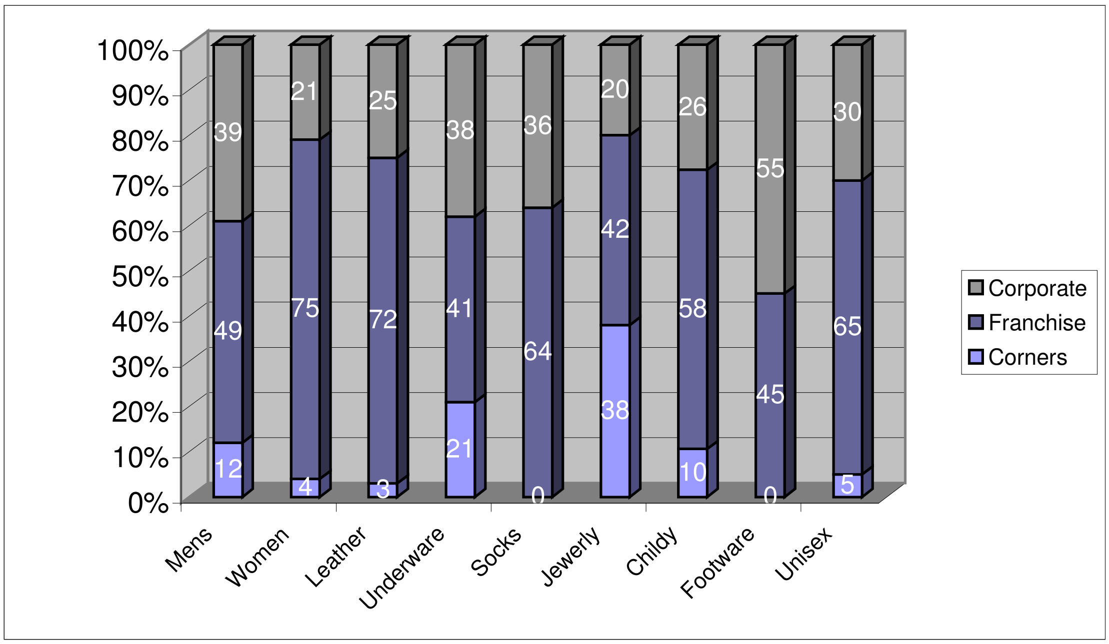
- Source: ICAP Research 2000

Table 18: Ways of expansion of shops in the near future

Ways of expanding	%
With franchise	54,8%
Company owned shops	2,7%
Both ways	42,5%
Total	100,0%

- Source: ICAP Research 2000

Allocation of stores in corporate, franchise and corners



- Source: Franchise Success Magazine

Legal Provisions for the Franchise Sector

Greece has no special law that governs franchising contracts, though the legal system provides sufficient liberty for both parties. Until recently, franchises were subject to the country's commercial law and to the EU' s Directive 4087/88. In 31/02/2000 the force of Directive 4087/88 were terminated and the new EU's Directive 2790/1999 is active since 1/06/00. According to The Guidelines for Vertical Restraints the franchise contract defines that entry fees and royalties constitute basic elements of the contract.

11. Bonds

A corporate bond is a debt tool indicating that a firm has borrowed a certain amount of money and promises to repay it in the future under clearly defined terms. Many firms choose to borrow by issuing bonds with a fixed interest rate on a pre-stated redemption date. This form of raising financing is typically issued for periods within the range of 10 to 25 years. The issuing company agrees to repay the principal to the lenders by some future date, and in cases where coupon exists, in each year up to repayment it will pay a stated interest in return for the use of those funds. The coupon is a feature on a bond that defines the amount of annual interest income. The loan stocks can be issued either with direct issue to the public or via a stock broking firm, which place part of the issue with its clients.

11.1. Factors for the firm to consider on bond financing

One of the reasons for the reluctance of companies to issue bonds is the volatile nature of interest rates. It is dangerous for a company to commit itself to pay a particular interest rate, which is the current rate at the time of issue when in a short period of time the level in the market place might fall. The issuing company is then committed to service a relatively expensive debt issue.

A second problem that the bond market faces is that the government is a big borrower. It tends to crowd out corporate borrowers in the domestic market. Government fixed interest bonds dominates the market. A company has to be sure that it can earn returns on the funds borrowed that are greater than the costs.

- **Issue costs**
  Issue costs tend to be relatively low

- **Servicing costs**
  The cost of servicing and monitoring the relevant account is reduced.

- **Obligation to pay interest**
  The borrowers and holders of the loan stock have the right to take action to enforce payment of interest and repayment of capital on the due dates, should they not be forthcoming.

- **Obligation to redeem the bonds**
  It is always open to the company to buy its own loan stock, in the open market, and to cancel what it buys. Thus it is important the bond to offer a level of flexibility. If bonds are issued as redeemable with a stated redemption date, which will usually is the most common, the company is under the obligation to redeem. This could put the company into a difficult cash flow position as the due date for redemption approaches.

- **Tax deductibility of the interest**
  Interest if fully deductible from the company's profits. There are no specific restrictions with regard to the purpose of the loan, the liquidity of companies is improved in the case of short-term borrowing.

Recently Varvaresos S.A., a listed company operating in spinning mill, decided to issue a bond with € 4.600 million amount of debt. The nominal value of each debenture would be € 50.000, and at the forth year since its issuing a prepayment of € 6.750 million and the final repayment with yield to maturity at 5 years from the issuing.

Table 19: Loan stock

ISSUING COMPANY	NOMINAL INTEREST RATE	REDEMPTION DATE	COUPONS
Alouminiou Attica	5,19%	29/05/02	3

12. Secondary Capital Market

12.1. Athens Stock Exchange (ASE)

The Athens Stock Exchange (ASE) was established in 1876. ASE is a joint stock company, supervised by the Ministry of National Economy. The Ministry is responsible for ensuring the compliance of all trading parties with the existing rules and regulations. The ownership of the exchange belongs to a newly established holding company that is mainly controlled by the Greek State together with Greek banks, listed companies, pension funds, institutional investors and members of the exchange.
Since legislative reforms that took place in 1988, the Athens Stock Exchange has become an increasingly important source of capital. The Greek Capital Market operates according to European Union's directives regarding the Capital Markets.

12.1.1. Regulations and restrictions for foreign investors

The implementation of Greece's Investment Services Directive (EC 80/390) provided the legal framework for accepting foreign investment companies to trade on the Athens Stock Exchange. The foreign firms obtained access to the Greek Stock Exchange by the so-called ''passport'', provided that they had obtained an authorization from their home government authorities and had provided guarantees to Greek investors. Foreign shares of a company domiciled in an EU member-state can be listed on the ASE, if their appearance is complying with the statutory standards laid down in their country of origin. The appearance of foreign shares/bonds of a company domiciled in a third country (non-EU) must provide sufficient guarantees for the protection of the investors. Companies from third countries cannot be listed on the ASE prior to their listing in their home country or in the country in which their shares exhibit widest dispersion.
The appropriate body for international enquiries is the following:

- Department of Research
  Monitoring of Capital Markets and International Relations
  Capital Market Commission

For the time being, foreign investors have access to the Capital Market via the subsidiary brokerage companies of Greek banks. Acquisitions of domestic companies' shares by foreign investors are regulated, according to the country of origin of the investors. Foreign companies must be tax audited by international recognized auditors and submit a report with their tax obligations.

Although foreign investors do not declare income from shares in Greece, they can reclaim the tax withheld on such shares. The issuer certifies the amount of tax withheld and the investors includes this certificate in his annual income statement in his country of origin.

12.2. Listing Requirements

12.2.1. Main market

- The legal form of the company must always be societe anonyme/joint stock or a foreign company of corresponding corporate form
- Net equity of at least equal to GRD 4 billion (11,7 million Euro)
- Disclosure of annual financial statements audited by certified auditors and published in accordance with the Law, for the last three years preceding the listing application
- The balance sheet of the fiscal year must present a satisfactory financial performance
- Allocation of at least 25% of the outstanding share capital of the company to the public
- Additional rules apply to construction, insurance and passenger shipping companies

12.2.2. Parallel Market

- The legal form of the company must always be societe anonyme/joint stock
- Net equity at least equal to GRD 1 billion (2,9 million Euro) in the last financial year preceding the listing application.
- Disclosure of annual financial statements audited by certified auditors and published in accordance with the Law, for the last two years preceding the listing application
- Distribution of 25% of the company's share capital as this is formed follow the share capital increase to the public, through a public offering
- The balance sheet of the fiscal year must present a satisfactory financial performance

12.3. Documentation

Before the Initial Public Offering, the company which submits an application for the approval of its Prospectus in order to become listed on the ASE, must submit the following documents:

- Application form with reference to the company's legal representative and to the Lead Underwriter of the issue
- Ratified copy of the Minutes of the Shareholders' General Assembly
- Annual financial statements of the issuer
- Letter of the certified auditors of the last two fiscal years
- Tax audit for the last three years
- An analysis of the Lead Underwriter on the appropriate sector of activity for the company in issue
- A letter from the Lead Underwriter stating that the company is in compliance with all listing requirements, confirming that the capital raised exceeds GRD 400 million (1,17 million Euro) and naming a contact person for the prospectus
- A letter from the company's Board of Directors certifying that they have full knowledge of the prospectus and that they agree
- Three copies of the prospectus accompanied by the financial statements and the legal and accounting audits

12.4. The New Capital market (NEXA)

The new Capital Market in Greece was legislated by Law 2733/99. The New Capital Market in Greece covers those companies which could be regarded as of small or medium capital stock and stipulates on the one hand flexible listing requirements and on the other a sophisticated system for the protection of the investors.

In order a company to be listed, it must fulfill the following requirements:

- Disclosure of annual financial statements audited by certified auditors and published in accordance with the Law, for the last two years preceding the listing application
- The company must submit a detailed investment and business plan with a detailed analysis of investments that are planned for the following three years.
- The company is obliged to distribute through a public offering of at least 100.000 stocks, whereas the value of the offered stock may not be less than GRD 250 million (733,783 Euro), 80% of which coming from the increase due to the public offering.
- Allocation of 20% of the company's outstanding share capital to the public

12.5. E.AG.A.K (The Greek Market of Emerging Capital Markets)

The Greek Market of Emerging Capital Markets (hereinafter called EAGAK) is a new market of the Athens Stock Exchange, established in 1997 (by Law 2533/1997) aiming to companies established and operating in emerging markets. The regulatory framework was recently completed by a number of different Ministerial Decisions as well as Regulations issued by the Capital Market Commission and the Athens Stock Exchange.

The listing procedure is quite similar to that followed for the listing on the other ASE. EAGAK is the sole market whose regulatory regime involves strongly and requires the support of Thessaloniki Stock Exchange Centre.

12.5.1. Securities to be listed on EAGAK

There are three types of securities that can be listed and traded on EAGAK:

1. Greek Depository Receipts called Ellinika Pistipiitika (ELPIS), similar to GDRs or ADRs, issued by a Greek Bank. These are tradeable certificates representing shares of companies having their registered offices in emerging countries

2. Units of Mutual funds investing in emerging markets (EKAA units)

3. Portfolio Management Firms shares (EXAA shares) investing in emerging markets

13. New Development Law 2601/1998

The principal aims of the new development law 2601/1998 are the following:

- The maintenance of a framework of attractive incentives for realizing productive investments in processing and tourism, particularly in less developed areas with structural weaknesses

- Improved integration of the incentives provided, through the creation of new jobs

- The provision of incentives that are directly linked with the attainment of profitable financial results on the part of the aided enterprises.

The most important changes introduced with the new development Law 2601/98, compared to the previous development law 1892/1990, relate to the following points:

- Replacement of the capital grant with attractive interest rate subsidy and tax exemption incentives for existing (old) enterprises that realise investments involving modernization and expansion. Maintenance of the capital grant only for new enterprises and for special types of investments

- Reduction of the maximum free grant to 40% and corresponding increase of the minimum own participation of the investor to 40%

- Determination of Area C (medium aid level) as a zone containing areas with acute unemployment problems, which (areas) are stipulated every two years on the basis of unemployment being at least one percentage point higher than the average rate for the country during the last four years and/or the reduction of the active population according to available statistical data

- The limiting of aids for the creation of new hotel units and the diverting of resources to investments that improve quality and diversify the tourism product

- Reduction from 5 to 4 of the zones in which incentives escalate and change of the criteria applied for their determination

- Determination of a ceiling for grants given per new permanent position of employment created (GRD 15million per job), monitored for a period of five years from completion of the investment

- Emphasis on modernization and boosting the international competitiveness of small and medium-size enterprises

- Determination of special incentives for the realization of investment plans involving specific activities areas

- Granting of aids for integrated business plans for the rescue and restructuring of viable enterprises of the processing and mining sectors which are in a particularly difficult position

- Adjustment to the needs of investors for rapid evaluation and introduction of priority criteria in addition to the criteria of viability for the assessment of business plans. More specifically, the new system of submitting and evaluating proposals provides for a continuous flow of investment programme submission and evaluation and the completion within 3 months of the investment approval procedure.

Categories of Investors (Law 2601/1998)

- “new” investors: when five years have not yet passed since their establishment at the time of submission of the relevant application

- “old” investors: when five years have passed since their establishment at the time of submission of the relevant application

Types of Incentives

Group A	- Grant	Group B	- Interest rate subsidy
	- Interest rate subsidy		- Tax allowances
	- Financial leasing subsidy		

Table 20: New Investors

	Grant	Interest rate subsidy	Leasing subsidy
D	40%	40%	40%
C	30%	30%	30%
B	15%	15%	15%
A	-	-	-

Table 21: Alternatively

	Interest rate subsidy	Tax allowance
)	40%	100%
C	30%	70%
3	15%	40%
A	-	-

Table 22: Old Investors

	Interest rate subsidy	Tax allowance
D	40%	100%
C	30%	70%
B	15%	40%
A	-	-

Table 23: Divisions of the Country by Areas

AREA A	AREA B	AREA C	AREA D
Attica	Rest of Attica	Regions or prefectures with serious problems of unemployment and a reduction of the active population other than those included in Area D. Also, up to 2000, areas not specifically listed in areas A, B, D.	Xanthi, Rodopi, Evros, Islands of the North Aegean, Thassos, Dodecanese (apart from Rhodes), ETBA Industrial Estate (Epirus).
Thessaloniki	Other areas of Thessaloniki		
	Other areas not included in the other zones		

13. Bulgaria - Introduction

SMEs in Bulgaria do not have access to public markets to raise long-term investment capital. Availability and cost of finance are two of the most important constraints on the ability of SMEs to their liabilities. Family companies represent a large share of all SMEs in Bulgaria. For most of them it is not possible to obtain long-term financing. In this context, the modern financial tools play key role as alternatives sources of financing for Bulgarian SMEs.

14. Bulgaria macroeconomic environment

The macroeconomic results achieved in 1997 and 1998 are highly promising. The Bulgarian economy is characterized by low inflation, a stable exchange rate, economic growth and a declining unemployment rate. The levels of income and consumption have turned upwards. Several factors played a major role in the stabilization of the financial sector since 1997, namely the return of confidence in the domestic currency, a prudent fiscal stance and the support from the international financial institutions.

Table 24: Bulgaria – Key Macroeconomic indicators (1995-1999)

	1995	1996	1997	1998	1999
GDP, USD bln	13.1	9.9	10.1	12.2	12
Inflation %	32.9	310.8	578.6	1	6.2
Economic growth rate %	2.9	-10.1	-7	3.5	2.4
Central interest rate %	49.14	140.85	71.78	11.3	4.71
Unemployment rate %	11.1	12.5	13.7	12.2	16

- Source: National Statistical Institute, Bulgarian Central Bank

14.1 Double taxation agreement

The countries, which have signed an agreement with Bulgaria for the avoidance of double taxation, which are currently in force:

Albania	China	Macedonia
Austria	Israel	Hungary
Armenia	Ireland	Great Britain
Belarus	Indonesia	Malta
Belgium	Italy	Kazakhstan
France	Korea	Poland
Denmark	Cyprus	Romania
Switzerland	Luxembourg	Sweden

Ukraine	Norway	Czech Republic
Vietnam	Germany	Finland
India	Netherlands	Portugal
Russia	Singapore	Spain
Turkey	Moldova	Maroco
Georgia	Zimbabwe	Japan

15. Typology of Small and Medium Sized Enterprises in Bulgaria

The following analysis made by the Agency for SMEs in Bulgaria, is based on the aggregated data from balance sheets and profit and loss accounts of 178 000 firms for year 1996, 189 367 firms for year 1997 and 205 643 firms for year 1998.

SMEs portion is most significant in the services sphere. The industries where SMEs predominate in total analysed sample are hotels and catering, trade, financial services (excluding banks, insurance companies and some other financial institutions), education (excluding the budget educational establishments) and health care. The industries where the medium-sized and big firms take up the prevailing share of the total number of sample firms are exclusively in basic industry like the production and distribution of electricity, gas and water, as well as in the mining industry, where one out of three firms falls under the big firms group. Relatively high is the portion of the medium-sized and big firms in the branches of farming and forestry, also construction; yet it should be noted that the analysed sample does not include the single-person farmers, hence the agricultural sector in reality comes much more fragmented than what the firm sample of this analysis demonstrates.

Table 25: Survey distributions of firms by size (%)

Firm size	1996	1997	1998
Micro-firms	92.19	92.47	92.40
Small firms	5.12	5.19	5.41
Medium-sized firms	1.17	1.08	1.05
Firms with staff from 101 to 250	1.00	0.86	0.76
Big firms	0.53	0.41	0.39

- Source: Bulgarian National Institute of Statistics

16. Banking in Bulgaria

Table 26: Banks in Bulgaria

BANKS	
Bank Austria Creditanstalt	HypoVereinsbank
CB Biochim	National Bank of Greece
Black Sea Trade and Development Bank	ING N.V.
BNP – Dresdnerbank	Ionian and National Bank of Greece
Bulbank	International bank for Trade and Development
CB Bulgaria – Invest	International Commercial Bank
Bulgarian – American Credit Bank	Municipal Bank
Bulgarian National Bank (central bank)	Neftinvestbank
Bulgarian Post Bank	Promotional Bank
CA – IB (Bank Austria Investbank)	Raiffeisenbank
Central Cooperative Bank	Roseximbank
Citibank N.A.	SG Expressbank
Corporate Commercial Bank	Societe Generale
Demirbank	T.C. Ziraat Bankasi
DSK Bank	Teximbank
Economic and Investment Bank	Tokuda Creditexpress Bank
Eurobank	Unionbank
EBRD	United Bulgarian Bank
First East International Bank	World Bank
Hebrosbank	Xiosbank

16.1 Existing financing policy

SMEs in Bulgaria do not have much choice about its financing. In practice, the initial capital financing is always done with resources from the owners and their families. Very often the initial investment is not enough to keep the business up and running.

Small and medium-sized enterprises are in great need of external financing for their development, still access to such is seriously hindered by high bank requirements. Problematic for SME in the utilization of bank credits (whether the credit resource comes from the bank's own money resources, or credit lines and programmes have provided for it through intermediary banks -- agents) are the sophisticated bank procedures, SME incapability to supply the collateral as per the Banking Act and BNB Ordinances, like real estate mortgage, sufficient amount of government securities and others.

Late 1998 and early 1999 saw the first consistent actions for facilitation of the access of small and medium-sized enterprises to credit resource. All in all they set the basic lines of our national policy in the field of financing. Opportunities were created new financial instruments to be employed so that easier access is guaranteed for SME to loans and micro-crediting programmes were developed.

During the last four years private equity investments in SMEs have become an increasingly important form of financing, because of the limited sources of capital (including loan financing) in Bulgaria.

Currently, there are no programmes by the Bulgarian Government targeted directly towards the private equity industry, but some programmes affecting the environment for private equity financing do exist.

One supporting measure of the Bulgarian Government is the establishment of the SMEs Fund, aimed at providing loans to companies with staff between 5 to 20 people and fixed assets up to FGLeva 10 million. The Small Enterprises Agency registers the number of the SMEs in Bulgaria. It involves three funds:

1. The Credit Guarantees Fund (its purpose is to guarantee up to 85% of certain qualifying loans SMEs receive from financial institutions)

2. The Small Project Financing (aims at

3. The Educational Programmes Financing

16.2 Banks' policy for SME financing

The problems most frequently arising in the relations between commercial banks and small and medium-sized enterprises requesting credits are primarily related with: existing legal framework and BNB sub-regulation; low levels of competency of SME managerial teams; insufficient information about the conditions for credit extension and existing financial accommodation for SME, complicated banking procedures.

Quite some of the SME requesting credits cannot present commercial banks with reliable information about their business. Also problematic is the securing of bank guarantees and co-financing of investment projects. Credit Committees with banks refrain from credit extension that is not guaranteed by high collateral. Most commercial banks extend loans to first-class clients. Legal framework gives ground to such conservative policy. Currently existing legal framework does not provide for a quick transfer of the rights over what was accepted as collateral from the firm to the bank.

Commercial banks cannot obtain official information whether or not those requesting credits have borrowed from other crediting institutions. The Special Pledges Register does not provide information as to whether or not certain company's shares have been put to pledge. The Central Depository on the one hand provides information on whether the enterprise has put to pledge money funds, goods and equipment, but does not provide information whether its shares have been put o pledge. The commercial banks having no external funds credit lines from abroad find it difficult to extend long-term credits, since banks have available prognoses for their resources for up to one year.

Small and medium-sized enterprises financing is a major precondition for future development of the economy of Bulgaria and for the achievement of economic growth. To attain that, the commercial banks will have to extend special credits into the small and medium-sized businesses sector.

Currently commercial banks adopt conservative resource policy. As observable most banks sustain mainly low risk and low-income assets. A summary of the problems emerging between commercial banks and SME credit requesters are the following:

- the legal framework and the BNB subordinate regulation;
- low competency levels of SME managerial teams;
- missing or difficult to obtain information about those requesting credits.

Existing legal framework does not guarantee any procedure to take place for transfer of rights over the collateral provided as guarantee to the bank by the firms requesting credits. Commercial banks do not have official information whether the requester has received credits from other crediting institutions. The register of special pledges does not provide information whether certain company's shares have already been put on pledge. Commercial banks requirements for servicing the credits (collateral, schedule of payment) are stringent for the firms. The Small and Medium-Sized Enterprises Act provisions SME establishment and development to be promoted via guaranteeing part of the credit risk on credits earmarked for SME.

Currently one of the big issues is the establishment of a guarantee fund and a lot of effort goes into it. A project and a scheme have been designed for the setting up of risk capital fund. The Agency for SME-s recruited a working group to prepare the scheme of operation of such a fund. The guarantee fund is aimed at the following:

- boosting the commercial banks competition;
- assisting in the financing of SME projects failing to provide enough guarantees, as well as of newly established firms;
- involving first class insurance companies into credit line support for SME-s.

16.2.1 Loans in small firms in Bulgaria

The commercial banks in Bulgaria are still inexperienced in small business financing and have little inclination to lend for long-term investment or expansion, preferring short-term collateralised lending.

As with the other indicators the magnitude of firm indebtedness and loan figures vary a lot across groups. A micro-firm owes on average around 20 times less than a small firm and about 770 - 790 times less than a firm belonging to the group of largest. Indebtedness differences become even greater. In 1996 a micro-firm utilized around 1873 times less loan funds than a firm falling under the group of the biggest. In 1998 this difference thins to some 870 times. Small firms utilized some 30 to 35 times more loan funds than the micro-firms, still the difference with biggest firms is conspicuous -- their loan figures are around 60 times less than those of biggest firms.

Apparently by the end of 1996 commercial banks were particularly reluctant financing small firms (micro-firms included). In the two years to follow, though, most dynamic was none other than micro-firm loaning. It increased ten times or so while individual firm loaning with the rest of the groups grow between four and five times. This has not yet offset the visible difference between micro-firms and the other firms in terms of outside funds utilization, still is a proof that commercial banks have somewhat re-considered their credit extension policies. In 1997 and particularly so in 1998 the commercial banks became more restrictive in their credit policies with regard mainly to the largest firms extending credits at that to micro-firms relatively more easily. Loan funds for a company of the group of largest grew by 7% in 1998 while those for a micro-firm almost doubled.

Major sources of external financing for micro-firms and small firms are their suppliers and the commercial banks. In 1996 around 60% of micro-firm indebtedness accounted for suppliers' loans, second in importance were the other debts -- 34.7% of their total liability. In the two years to follow these two groups reduced their relative share still sustaining its position stable (to 38% debts to suppliers and 39.1% other debts). Though micro-firm indebtedness to the remaining groups of creditors increase in relative terms versus total indebtedness, their relevance still for the micro-firms remains comparatively low.

Indebtedness structure with small firms resembles that of micro-firms. Main groups of creditors for them, too, are suppliers and commercial banks. In 1996 and 1997 small firms owe these creditors almost equal relative portions of their total amount of debts (42 to 45%). In 1998 the other indebtedness gains in position to almost half of total debt amounts of small firms with debt to suppliers around 40%.

17. The Bulgarian Stock Market

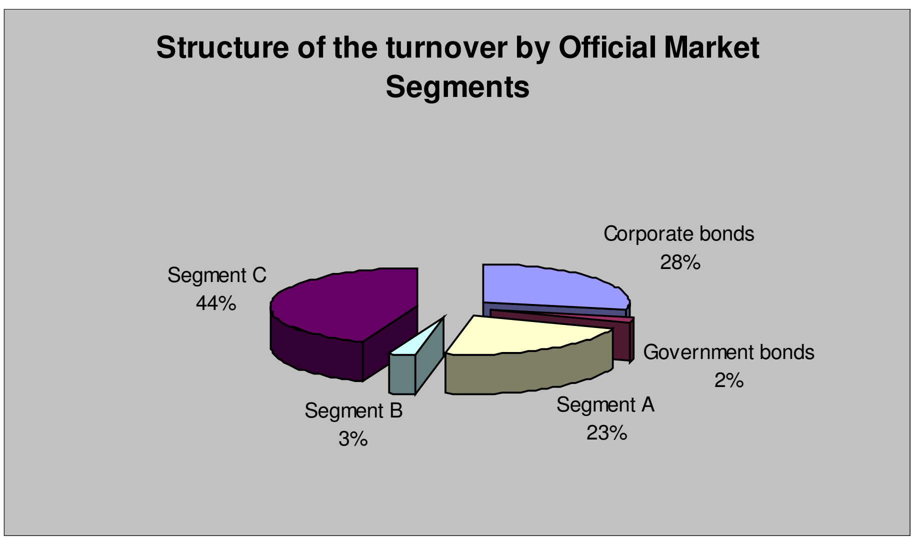
Equity trade in Bulgaria started in the beginning of the 1990s, with the establishment of several Stock Exchanges. Among them the Sofia Stock Exchange and First Bulgarian Stock Exchange were of greatest importance, together controlling more than 50% of the trade. There were huge blank areas in legislature (e.g. the Securities law did not exist until 1995), leaving investors vulnerable to high risks. The subsequent passing of the Securities law set new requirements for Stock Exchanges, public offerings of securities and issuing companies.

Table 27: Number of companies on the BSE

Market Structure	Number of companies
Official Market A	1
Official Market B (Parallel)	2
Official Market C (Provisional)	20
Bond Market	21
Free Market (unlisted companies)	481

- Source: BSE – Sofia, Annual Report 2000

In January 2000 the number of companies traded on the Exchange was 861. As of December 2000 527 companies were traded on the different market segments of the Exchange.



During the past few years the Bulgarian capital market started improving rapidly. Many Bulgarian companies began accumulating finance through bond and equity issues, which offers them some major advantages:

- The issuing gives the company access to wide range of investors

- Bond and equity issuing is one of the finest possibilities to accumulate the necessary long-term finance on a relatively low price
- This is one of the most suitable ways for a company to create a public credit rating

In 1998 the Securities Act was amended to include the following regulations:

Table 28: Requirements for Listing of Securities for Trading on the Official Market

	Requirement to the securities	**Prospectus**	**Market capitalization (in '000 BGN)**	**Years of activity**	**Min. shareholders**	**Free Float**	**Min. No of shares traded per month**
Market of shares							
A	Dematerialised, fully transferable	Yes	20 000 or net value of the issue to be 20 000	3	400	25%	1000
B	Dematerialised, fully transferable	Yes	10 000 or net value of the issue to be 10 000	2	100	10%	1 000
C	Dematerialised, fully transferable	Yes	Net value of the issue equal to 500	1	100	5%	-
Bond Market							
Government Securities	Dematerialised, fully transferable						
Municipality Bonds	Dematerialised, fully transferable	Yes	Net value of the issue equal to 1000	3	At least 6 months until maturity		
Corporate Bonds	Dematerialised, fully transferable	Yes	Net value of the issue equal to 1000	3	At least 6 months until maturity		
Primary Market	Initial public offering of shares is possible only in case that terms of subscriptions, respectively offering conditions provide fully pay off the issue value or of the market price. If the subject of IPOs are shares, convertible bonds or warrants the term of exercising preferential rights of shareholders shall be expired.						
Privatisation market	Issue shall be registered on the relevant market of shares, and an agreement shall be concluded between a member of the exchange and a state body for privatisation through the method of "public offering"						

17.1 Legal Framework

The Bulgarian Capital Market is operating within the following legal framework:

- Law on Public Offering of Securities
- Commercial Act
- Privatisation Funds Act
- Foreign Investments Act
- Transformation and Privatisation of State and Municipal Enterprises Act
- Instructions of the State Securities Commission
- BSE Rules and Regulations

Trading on the BSE takes place daily from 9.30am to 12.00 am. The daily limit on price movements has been set at +/- 30% from the previous closing price for free market, +/- 15% for Official market.

On January 31, 2000 the Law on Public Offering of Securities came in force and replaced wholly the former Law on Securities, Stock Exchanges and Investment Companies from 1995.The new law fulfils the most of the requirements of the European Union in the field of the capital markets regulation.

17.2 Listing

The listing criteria of the BSE are quite strict. This is due to the fact that Bulgarian companies were last revaluated in 1992 and the subsequent environment of very high inflation has resulted in low book values. Shares can be included in the following market segments:

Listed Securities Market

- Official Market (full listing)
- Parallel Market (second listing)
- Provisional Market (only shares issued under mass privatisation)

Unlisted Securities Market / Free Market

In order to be listed on either the Listed Securities Market or on the Free Market, all companies are obliged to comply with the following general listing requirements:

- A prospectus approved by the SSEC, must be submitted to the BSE
- The shares must be issued in compliance with the relevant legislation

- Equal rights must be granted to shareholders
- Transferability of shares can not be limited

In addition to the general listing requirements, the BSE has established different minimum listing requirements for each market segment of the listed securities market. For the Official Market, the listing requirements closely follow the recommendations set in the EC Directive 79/279, with the only difference being the proscribed minimum size of the company that is to be listed.

All listed companies are required to publish their interim and annual reports and submit them to the SSEC within 60 and 90 days from the end of the fiscal period respectively.

Table 29: Listing requirements at BSE

Requirements	Official Market	Parallel Market	Provisional Market
Years of business activity	5	3	1
Market Capitalization	BGL 1 bn	BGL 500 mln	BGL 100 mln
Free float	25%	10%	10%
Minimum number of shareholders	500	250	250
Minimum years of positive financial results	3	1	N/A
Dividends distributed in last 3 years	once	N/A	N/A
Listing agreement with central depository	yes	yes	yes

Although the structure of the capital market has been successfully established, the problem of the market – lack of attractive securities and low liquidity – remains. In order to overcome these negative tendencies the BSE – Sofia has launched new trading instruments – government bond, corporate bonds and Bulgarian Depository Receipts. Currently, most of the Bulgarian companies are issuing bonds but it is believed that in the next two-three years the Bulgarian equity market will become more liquid.

The Bulgarian Capital Market is still underdeveloped and does not fulfil its important economic and social functions. Although the stock market operates in a welldetermined legal and regulatory environment, it still doesn't attract the free capital resources of the local population and the business circles – both domestic and international. Due to these reasons the capital market does not play more important role in the acceleration of the structural reforms and in the stimulation of economic growth.

18. Venture Capital in Bulgaria

At present, there is no available statistical data on private equity investments in Bulgaria. Through collected secondary data, the total amount of private equity invested by June 1996 may be estimated at about $32 million and additional commitments for new deals are in the range of $10-15 million.

ETEBA provides equity financing of minimum USD 1 million for minority stake in the client-company.
ETEBA Bulgaria also acts as an outpost for the venture capital funds of the NBG Group. NBG Venture Capital provides advisory services to two captive private equity funds, the NBG Greek Fund with an authorized capital of 15 bn Drachmas (approx. USD 42 mn) and NBG Balkan Fund with an authorized capital of 5 bn Drachmas (approx. USD 15 mn). The venture capital funds are looking into growth companies with strong management team with clear vision. The investment ranges in size from USD 1 mn to USD 5 mn as the time horizon is four to seven years. Since the funds always take a minority position in the investee company, a strategic partner is normally required.

Small Enterprise Assistance Funds (SEAF) is an international network of developmental investment funds currently active in the regions of Eastern Europe, South America, and Asia. Through its affiliate SEAF-Bulgaria, SEAF manages the Bulgaria:

- **CARESBAC-Bulgaria Fund**

Operating since 1993, Caresbac-Bulgaria is a developmental fund sponsored by the United States Agency for International Development (USAID) and the European Bank for Reconstruction and Development (EBRD), providing long-term financing to small and medium sized private businesses. Currently, CARESBAC-Bulgaria has investments in 22 companies totalling approximately $5 million.

- **The Trans-Balkan Fund**

SEAF-Bulgaria is currently offering financing to exceptional Bulgarian businesses through the newly-established Trans-Balkan Fund, a $24 million investment fund providing financing to small and medium-sized private businesses in Bulgaria, Romania, Croatia, Fyrom, Bosnia and Herzegovina, and Albania.

SEAF-Bulgaria seeks for companies with the following characteristics:

- Good product: Companies that offer high quality products or superior services that offer a distinct advantage over its competitors

- Strong Market: The market for the company's product should have a clear potential for growth in local and/or exports markets

- Strong management team: The management should be capable, energetic and dedicated and have a successful track record

- Successful business: Companies with a history of growing revenues and profits although SEAF also seeks for start-up opportunities

- Clear financial opportunity: SEAF is interested in companies that will be increasingly profitable. Financing should be used to significantly expand the business, rather than restructure old debts or purchase non-productive assets

- **The EuroMerchant Balkan Fund**

Aims at investing in the range of $500,000 to $4 million. It is targeted at medium-size and larger investments in all sectors of industry and has investments in the food industry, consumer products, packaging and others.

- **The Bulgarian American Enterprise Fund**

Is a private U.S. corporation established to promote the development of free enterprise and entrepreneurship in Bulgaria. It has sector investment as follows: agriculture and agri-business – 37%, manufacturing – 27%, services – 13%, hotel and tourism – 12%, real estate – 6%, transportation & distribution – 4% and retailing – 1%. The Fun's activities include:

  - Starting new business in Bulgaria
  - Establishing joint ventures
  - Promoting Bulgaria's investment opportunities to U.S. and other Western investors
  - Providing management and industry assistance to Bulgarian business
  - Assisting in the privatisation of state enterprises
  - Broadening the understanding of private enterprise among managers, government, and the Bulgarian public

- **SMEs Fund**

Aimed at providing loans to enterprises with staff between 5-20 people and fixed assets up to BGLeva 10 million. At the end of 1994 the SMEs Fund received ECU 1million from Phare Programme.

19. Initiatives

There are a number of initiatives from international aid programmes supporting private equity investment in Bulgaria. These are the following:

1. The EBRD

2. The World Bank and IFC

3. The US government, USAID

4. The EC PHARE Programme, the EC PHARE Programme for SMEs, and the EC PHARE JOP Programme

20. Franchising

Franchising is not well known or developed in Bulgaria. There are no official trade association statistics in this sector. However, Bulgarian consumers are looking for retailers that can provide a consistent selection of quality products, reasonable prices and good service. Additionally, there are a great number of potential franchise partners, privatised newly established companies. These companies seek to expand their activities in the country and abroad. Also, despite franchising being a new concept for the Bulgarian business market, the Bulgarian legal system accommodates franchise agreements.

According to the US Agency fro International Development (USAID), the franchise business is likely to be highly profitable in Bulgaria, due primarily to reasonably priced real estate, favourable wage rate for well-educated and skilled workers, and strong market demand. The combination of a developing retail sector, an underdeveloped service sector, strong local demand for products and services, and a large number of West European tourists who are familiar with the logos, brand name and trade marks of Western companies make the Bulgarian market attractive for expansion.

20.1 Major Franchise Operations in Bulgaria

Franchising in Bulgaria started in the Varna region in 1993 with the Happy Restaurant (U.S. firm). The chain now has four restaurants and three quick snack sites in the northern Black Sea resorts. The second is Policontact with service locations. Another examples, are the Kentucky Fried Chicken and Dunkin Donuts, with three stores in Sofia owed by a Bulgarian franchisee of the regional franchisor, the Greek firm Samex.

20.2 The Bulgarian Franchise Association (BULFA)

BULFA is a non-governmental organisation of professional consultants who specialise in sales, advertising, development, privatisation, support, management and seminars in the franchising industry. BULFA is a member of the International Franchise Association (IFA) in USA. The main responsibilities of BULFA are the following:

- Gathering information on suitable franchise possibilities on the Bulgarian market

- Assistance to foreign franchise companies to find potential franchisors in Bulgaria
- Consulting to franchisees, assisting them in setting up
- Legal advices and financing opportunities
- Arranging training and educational courses and workshops
- Preparation of marketing research and marketing plans as well as franchise agreements

Each year, the Association arranges the annual conference and seminar, which offers an excellent venue to meet the Bulgarian franchise market and learn the opportunity and regulations.

21. Conclusions

Overall, the conditions for external source financing are not favourable SMEs in Bulgaria. Despite this, opportunities do exist and should be used. Private equity investment companies represent a new business reality in the Bulgarian business environment. The successful implementation of this form of financing in Bulgaria will require understanding from entrepreneurs and improvements in the legal framework. Additional protections and benefits for foreign investors are required. To that effect tax preferences and tax relief should be considered.

The core of the banking sector is in a reasonably sound condition, but the ability of banks to fulfil their role of financial intermediaries under the supervision of the central bank needs to be improved.

22. Recommendations

- Improvement of financial services for SMEs through development of banking and non banking financial instruments. Establishment of new financial instruments to guarantee SMEs easy access to loans and developm micro-credit programme arrangements
- Improvement of SMEs competitiveness by speeding up privatisation, by stimulation of co-operation of SMEs with partners from the EU member countries and other countries of astern and Central Europe
- Special funds should be created on outside financial resources from abroad to guarantee the risk for Bulgarian banks when extending credits to new SME.
- Development of government policy in promotion of the sustainable development of competitive SME.

- Establishment of special departments with Bulgarian banks (or activating existing ones) to facilitate credit extension to SME, to introduce new methods of financing like leasing, factoring and forfeiting.

- Revision of legal framework into guaranteeing for the banks quick court procedures of performing pledge property and mortgage. Courts of Arbitration are especially useful in the field of SME crediting -- there eventual disagreements will be resolved quickly and with minimal expenses of both parties.

- Changes of legislation on SMEs sector

- Facilitated access to information from public institutions -- Central Depository, Register of Special Pledges and the court commercial departments.

- Development of special programmes jointly with the small and medium-sized business branch organizations through which small and medium-sized firms can receive consultations free of charge on the preparation of business plans, accountancy documents and other, so that they would be better prepared with their documentation for credit extension.

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