Paving the Path towards the Greek Development Bank

I. Overview of National Development Banking

National development banks (hereinafter **'NDBs'**) date back to the late 19th century. However, they only became widely used in the post-World War II period, as public policy tools to implement structural policies, mitigate negative externalities and prevent social or regional imbalances. The 21st century has evidenced a renewed interest in NDBs; with well over 250 NDBs currently active worldwide, there is no question that they are increasingly becoming relied upon to help finance sustainable infrastructure.

> ***A global survey of development banks carried out by the World Bank in 2012, found that NDBs were the main source of long-term credit in many middle income economies, and also played an active role in strategic sectors in some developed economies"***

II. Defining NDBs' scope of work

Although there are many variations amongst NDBs, they present some permanent defining features distinguishing them from commercial banks. The key discriminating factor is the NDBs' objective: instead of profit maximization, NDBs - being predominantly state-owned - are mainly used for the implementation of long-term public economic policies, by unlocking and providing for private sector capital along with public funds in order to achieve sustainable development. NDBs appear to address at least two needs when it comes to large-scale projects: on the one hand, the insufficiency of resources to finance large, transformational, and long-term- impact projects arising from dwindling public investments' budgets in an environment of fiscal austerity currently imposed in an increasing number of developed countries; on the other hand, the increasing risk-averseness of the private sector coupled with country-specific barriers to investments. Thus, NDBs complement and catalyze private sector's much needed funding notably in infrastructure projects.

NDBs deploy a certain pattern of sophisticated financing strategies, such as:

- Long-term finance by means of quasi-grants, equity and mezzanine finance and loans with generally more favorable terms and prolonged maturity dates;

- Low financing costs coupled with project risk mitigation and technical support for accurate project assessment;
- Parallel financing of projects, often by means of syndicated loans offered at favorable rates in both national and foreign currencies;
- Provision of short-term liquidity against income generating assets.

Besides pure financing activities, NDBs are often also engaged in administering funds, assessing bankability of projects in relation to market dynamics, analyzing local constraints and developing viable solutions to overcome them and providing for risk-management and monitoring services.

Overall, NDBs' purpose is to fill the gaps in the financial sector development.

III. Main advantages and disadvantages

The debate on how and to what extent NDBs can achieve their goals is anything but new.

Key advantages include among other, their special know-how and long-standing relationships with the private sector, as well as their greater potential to risk-exposure compared to commercial banks and investment funds, which puts NDBs in a privileged position to access local financial markets. As a result, NDBs share the ability to offer tailor-made solutions. Moreover, most of them are typically conducting business within a specific territory; by gaining local expertise, NDBs contribute to the creation of a level-playing field between companies of different sizes, the stabilization of the financial system and finally, in the macro-level, to national development within the framework of the policy of each government.

On the other hand, NDBs face the same external macro-financial factors as other financial players. Their efforts can only bear fruits provided the macro environment is not too volatile and the legal system and supervision is in place. Moreover, according to the NDBs that participated in the World Bank survey in 2012, the need to improve their risk management capacity is one of their most important challenges. Finally, the lack of clear-cut development priorities and mandates may often lead to a distortion of policy priorities and ultimately to the waste of much-needed time.

IV. The Greek case study

The establishment of a Greek NDB has long been awaited. In 2014 the government officially announced that the Hellenic Fund for Entrepreneurship and Development (*ETEAN* in Greek) would be transformed into a Greek NDB. Yet the issue was on hold until September of 2017, when the Greek Minister of Economy concluded a memorandum of understanding (hereinafter **"MoU"**) with the CEO of Bpifrance (Banque publique d' investissement), the French NDB, with the purpose of both parties enhancing the knowledge exchange and the sound growth of their SMEs. Within this framework, the MoU makes an explicit reference to the structuring and establishment of the Greek NDB. The French NDB will provide technical support and know-how on the subjects deemed necessary for the Greek Ministry of Economy, such as:

- The strategy and business plan of Greek NDB;
- Development of risk management policy and tools;
- Development of financing instruments customized to Greek SMEs and responding to needs not covered by commercial banks (SMEs account for more than 85 percent of companies in Greece, according to studies, meaning they are a key driver of economic growth, but they have been deprived of financing by commercial banks, which are loaded with bad loans.);
- Intellectual property financing;
- Evaluation of innovative projects;
- Development of an innovation financing offering; and
- Development of government/ non-government SME support instruments.

The MoU also envisages the funding of French SMEs cooperating with Greek enterprises aiming to create innovative products and services, and attract equity investments through Bpifrance, existing EU operational tools and the networking of French and Greek startup businesses.

On February 2018 during a conference on SMEs held by the Hellenic Federation of Enterprises (*SEV* in Greek), the Greek Minister of Economy announced that the Greek NDB will start operating by June 2018 and that arrangements for its funding have already been made.

According to government sources, the Greek NDB will fall within the scope of the European regulatory framework and will be a credit institution, fully owned by a Greek holding company. The shares of the latter will be owned by Greek public bodies having a credit ability or playing a development role, such as the Hellenic Fund for Entrepreneurship, the Deposit and Consignment Fund, the Export Credit Insurance Organization, Enterprise Greece, the Green Fund etc., whereas the participation of international financial bodies would be a desirable perspective. Thus, as per government sources, the Greek NDB, will bring together existing state bodies such as the above-mentioned and partner banks in different Greek regions. According to the Greek Minister of Economy, foreign NDBs (operating in Germany, France, UK and Brazil) have shown an interest in participating in the project.

The Greek NDB will be geared towards financing infrastructure and regional development projects whether of purely private or binary nature (i.e. PPPs), and start-up projects along with commercial banks, systemic or not.

On top of the above, it is expected that the Greek NDB will also undertake to facilitate cooperation with international financial institutions and to design, coordinate and prioritize projects, establishing further collaboration with the commercial banking sector. In doing so it will fill a major gap of the Greek financing system, as inadequate coordination between the existing players results to non-utilization of disposable financing mechanisms and funds (indicatively, the Juncker Plan, the European Fund for Strategic Investments, and the initiatives developed by the European Investment Fund, the European Investment Bank, the European Bank for Reconstruction and Development etc.).

At the moment, Greece is the only EU member state without an NDB. Yet, the country risk, which deters international operators / bodies from participating in this project, seems to have been surpassed. Taking into consideration the favorable global conjuncture and Greece's vital need to rejoin world economy, the timing for such establishment seems to be most appropriate.

"The Greek NDB will be a valuable tool in enterprise financing; it will supplement commercial banks' activities rather than compete with them"

V. Organizational setup and challenges ahead

Depending on their selected *modus operandi*, NDBs come in various forms and structures. They are mainly state-owned, but within public ownership models the structure varies.

Therefore, the decision on the structure of the Greek NDB is of pivotal importance.

Moreover, in order for a NDB to realize its full potential as a key player in the development sector, there has to be a precise mandate and a prioritized development strategy. For the Greek NDB, the mandate should be preferably statutorily stipulated in order for it to be verifiable and enforceable. Moreover, taking into consideration the specificities of the Greek economy, it is important that ensuring SMEs' access to credit should be a top priority.

Finally, corporate governance rules should ensure that narrow private and political interests are kept outside the Greek NDB's decision-making process, with transparency and accountability being the cornerstones of such rules. Special legislation may also be required to ensure that such principles are properly embedded in the constitutional documents of the Greek NDB.

"Overall, the success of a Greek Development Bank seems to rely on factors going much further than what NDBs can accomplish"

Contact

For any further comment or update, please contact the KG lawyer you are in contact with or the members of our Project Finance team.

Elisabeth Eleftheriades - Partner
e.eleftheriades@kglawfirm.gr

Ioanna Antonopoulou - Partner
i.antonopoulou@kglawfirm.gr

Antonia Nedelkopoulou - Associate
a.nedelkopoulou@kglawfirm.gr

Maria-Thomais Epeoglou - Junior Associate
m.epeoglou@kglawfirm.gr

Main (Athens) Offices
28, Dimitriou Soutsou str., 115 21, Athens, Greece, Tel: +30 210 8171500, Fax: +30 210 68 56 657/8
Thessaloniki Branch
17, Ethnikis Antistaseos str., 551 34, Thessaloniki, Greece, Tel: +30 2310 441552

www.kglawfirm.gr

Follow Us

Cover photo source: www.economywatch.gr/piraeus-bank-general-manager-greek-banks-will-use-various-tools-to-reduce-npls/