

## LAW 4701/2020: MICROFINANCE PROVISION

On 24<sup>th</sup> of June 2020, the Greek Parliament voted a new bill on microfinancing. The bill introduces the notion of microfinance institutions, which will provide micro-credits (loans of amounts up to 25,000 EUR) without requiring collaterals. Through this initiative, the government intends to fill the financing gap (primarily) in the business sector by providing young entrepreneurs and vulnerable social groups, who do not have access to bank credit, with financial aid.

The requirements and formalities with regards to the set-up and licensing of microcredit institutions and the provision of (micro)credit are set out in Law 4701/2020, which was published on 30.06.2020 in the Government Gazette (FEK A'/128/30.6.2020).

More specifically:

### Operating requirements

Microfinance institutions will be established only as special purpose limited companies or civil law partnerships having their registered seat in Greece. Microfinance institutions shall obtain an operation license by the Bank of Greece. Same license will also be required for the conversion of other types of corporations into such microfinance entities or the

establishment and operation in Greece of foreign law entities with the same scope of business.

Minimum initial capital requirement for microfinance institutions is set at the amount of 250,000 EUR.

The law provides for a number of requirements and information that needs to be disclosed by interested entities applying for the operation license.

These include, *inter alia*, disclosure of information for persons and/or entities with qualifying holdings and persons that exercise control in the microfinance institution, shareholding structure that will prove that no public law entity holds more than 60% of the institution, description of the organizational structure, description of business plan (that will include three-year budget projections), information on the governance structure, risk management system and information management systems, description of AML policy, description of the credit policy and of the collection of credit information for prospective clients.

In addition to the above, all licensed microfinance institutions will be registered in the electronic Register held by the Bank of

Greece, which will be available to the public on its official website.

The Bank of Greece may by future act further elaborate on certain aspects of the application procedure.

Persons or entities wishing to obtain or increase their qualifying holding in an institution that will result in the acquisition of 20%, 1/3 or 50% or more of the voting rights in such institution or result to the institution becoming a subsidiary of the interested person or entity will have to apply to the Bank of Greece that will review and assess whether certain qualitative criteria laid down in the Law are met.

### Beneficiaries of the funding

This initiative will benefit, amongst others, the following:

- very small-sized enterprises and self-employed individuals,
- individuals willing to proceed with the establishment of small-sized enterprises,
- social and solidarity economy entities,
- individuals who wish to be trained to enter the labour market, and
- individuals of vulnerable social groups (who have their tax domicile in Greece for at least ten years).

Practically, the above-mentioned potential beneficiaries not being able to obtain a loan from a commercial bank, will present their business plan to these financial institutions, and

upon approval, will receive funding. The beneficiaries of such funding may apply to more than one microfinance institutions for loans, provided that the total requested amount of credit is up to 25,000 EUR (art. 17). Moreover, due to the absence of collateral, in order to monitor the progress of these evolving entrepreneurs and businesses, the financial intermediaries shall also provide consulting services on business training and human resources related matters, and business, legal and tax-related guidance <sup>1</sup> to these beneficiaries.

### Terms of Funding

As per art. 14, the microfinance institutions may provide microcredit up to 25,000 EUR in the following manners and for the following causes:

- provision of all types of credit for the coverage of all investment needs, or as working capital,
- provision of financial lease products for the acquisition of fixed assets (i.e. equipment),
- provision of guarantees provided that they are not used to obtain loan from other financial institutions,
- provision of types of credit aiming to enhance public politics or the social and economic integration of the vulnerable, in order to confront the unemployment or the suspension/reduction of working time due to external factors.

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<sup>1</sup> The microfinance institutions may appoint external consultants to provide such consulting services based on delegation contracts.

The loans may be repaid in a time period no less than 12 months but no more than 10 years, while the borrowers may repay the total amount of the loans prior to its expiration dates. With regards to the interest rate level of the loans, the law does not provide one.

#### **Transparency on the T&C of the microcredit agreements**

The Law requires that the terms and conditions of the microcredit agreements are set out in a clear manner, and in particular, the interest rate (fixed or floating) plus any and all adding charges, the total amount of microcredit, the repayment period, the number and the amount of installments, the content and the cost of the

consulting services to be provided as mentioned above, the process for the collection of outstanding debts, and the extra-judicial dispute resolution procedure.

Finally, according to the Law, the microfinance institutions may **participate in programs funded by the Public Investment Program, and obtain guarantees granted by the Hellenic Republic**, upon the condition on having obtained the certificate of compliance with the European Code of Good Conduct for Microcredit Provision.

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