Open University Cyprus **Hellenic *Open University***

Master's join post graduate Programme
Enterprise Risk Management (ERM)

MASTER THESIS

Assessing the Impact of Risk Factors in Public Projects

Andria Pitsillidou

Supervisor

Dr. Pandelis Ipsilandis

May 2019

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This thesis is submitted for the partial fulfillment
of the requirements of the
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Summary

Today's world is swelled in new and continuously changing data on a daily basis, increasing the risks faced by organizations of any kind. This dissertation focuses on the risks faced by Financial Institutions acting as Financial Intermediaries for financial support programs for SMEs and gives special attention to the CYPEF project. Through the literature review and personal interviews, these risks will be assessed and the CYPEF project will be briefly evaluated. The researcher came in touch with three high positioned stuff members of Financial Intermediaries in order to reach to conclusions about the risks involved in public financial projects funded by the European Investment Bank, as well as the significance and necessity of these projects. Through the final proposal, the researcher offers some proposals concerning the effectiveness and utilization of the CYPEF project and more generally, of the financial support projects.

Acknowledgements

The Open University of Cyprus gave me the opportunity to evolve, both professionally and cognitively, through the completion of this postgraduate program but also of this master thesis with a rather modern subject concerning the Financial Institutions and Banking sector of Cyprus.

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The key to the successful completion of this master thesis was the continuous understanding and support of my family throughout the postgraduate program, as well as the duration of this dissertation, always reminding me of my capabilities and my potential to achieve my goals.

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Chapter 1

Introduction

Governments undertake public projects as means of their strategies in order to help their countries to progress in a number of areas. Even though not all countries have the same needs and areas which need improvement, there are seventeen goals that are mutual for every country worldwide and are called Sustainable Development Goals (SDG) or otherwise Global Goals. These goals were set by the United Nations in 2016 and will continue to guide the United Nations Development Program until 2030. The goals are the following: No poverty, No hunger, Good health and well-being, Quality education, Gender equality, Clean water and sanitation, Affordable and clean energy, Decent work and economic growth, Industry Innovation and Infrastructure, Reduced inequalities, Sustainable cities and communities, Responsible consumption and production, Climate action, Life below water, Life on land, Peace Justice and strong institutions and Partnerships for the goals (United Nations Development Program 2019). Therefore, depending on where each country needs improvements in order to achieve these goals, corresponding public projects are set in motion generated by the government. Because of the size and the large number of people involved in them, these projects bear major risks, depending on the area they concern. This dissertation will focus on the financial supporting projects of the European Investment Bank (EIB) through Financial Intermediaries and specifically on the Cyprus Entrepreneurship Fund (CYPEF) project, which contributes in the "Decent work and economic growth" goal.

1.1 Background of this Dissertation

In the last years, there were several support projects implemented by the EIB in Cyprus in order to help the island make progress in various sectors, setting goals of improvement in the areas of transport, energy, education, waste treatment, water supply and helped the island's enterprises grow. In this dissertation, the main concept of EIB's financial supporting public projects in Cyprus will be analyzed, especially the CYPEF project, regarding the financial and business risks they bare to the financial intermediaries.

1.2 Importance of the Dissertation

The importance of this dissertation lies on the awareness of the risk factors and more generally of the risks involved in public projects. The conducted research will benefit the banking sector since not only it will expose the degree of the Financial Institutions' awareness about the CYPEF project, but it will also assess the risk factors which are involved in them. After that, this dissertation will help the banking sector of Cyprus evaluate the CYPEF project's effectiveness and will propose some further directions for research and actions that can be taken in order to minimize the probable risks.

1.3 Purpose of this Dissertation and Individual Goals

This dissertation aims to assess the impact of risk factors in public projects and more specifically in financial supporting projects for small and medium enterprises in Cyprus. The dissertation will focus on the Cyprus Entrepreneurship Fund (CYPEF) as its case study.

To achieve the above mentioned goals, we start with an extensive literature review which includes the differences between public projects and projects of other sectors, information about the European Investment Bank and especially about the financial support projects it manages, as well as its relationship with Cyprus and the financial support projects of the island funded by the EIB.

Moreover, the business and financial risks which are faced by financial institutions will be assessed, which means that they will be identified, analyzed and classified. Following that, a qualitative research will be conducted via personal interviews and the project's effectiveness will be investigated. Finally, the problems that may arise from the CYPEF project will be mentioned and some proposals will be suggested in order for these problems to be confronted.

Analytically the specific goals of this dissertation are the following:

1. Analysis of the main concept of the administration of public projects by the European Investment Bank. (Achieved via the literature review)
2. Identification of business and financial risks of Financial Institutions when they manage financial support projects and specifically through the CYPEF project. (Achieved via personal interviews)
3. Analysis of business and financial risks of Financial Institutions when they manage financial support projects and specifically through the CYPEF project. (Achieved via the literature review)
4. Classification of business and financial risks of Financial Institutions when they manage financial support projects and specifically through the CYPEF project. (Achieved via personal interviews)
5. CYPEF Evaluation. (Achieved via personal interviews)

With the results of this dissertation, the researcher will be able to present relevant problems of the European Investment Bank's financial projects and specifically of the CYPEF project, as well as suggestions about their treatment.

1.4 Dissertation Structure

This dissertation presents the concept of the public projects undertaken by the EIB in order to support Cyprus, especially of the financial support projects, as well as an assessment of the risks they bare to the financial intermediaries. Moreover, it offers a brief evaluation of the recent financial support project for SMEs, the CYPEF Project.

In the first chapter of this dissertation, its theory is analyzed, as well as its importance to the banking sector and then its purpose, where the individual goals are presented and briefly described among a table which shows the methodology of each goal. Lastly, the researcher explains the purpose of the dissertation's results.

In the next chapter, literature review, the researcher discusses about public projects generally and after this, the dissertation focuses on the European Investment Bank's projects in Cyprus. Later on, there are some examples of financial projects which are also discussed. Furthermore, in the same chapter, the business and financial risks faced by financial institutions are described and there is a small discussion about their classification.

In the Methodology chapter, the required data for the research are presented in order to achieve the dissertation goals. After this, the available data through the literature review are discussed, combined with proposed methods to analyze the available data. The researcher chooses the most fitting method, the qualitative methodology via personal interviews with experienced personnel of financial intermediaries of the CYPEF Project. By the discussion of the results, the researcher has the ability to reach conclusions about the assessment of risk factors in financial supporting projects and also about the CYPEF project evaluation. Furthermore, the restrictions of the research are mentioned and the available directions of the methodology are presented.

Finally, in the last chapter, the research is completed with a proposal by the researcher to the banking sector for a better utilization of the EIB's funding for the financial supporting projects. In the same chapter, the strong and weak points of the dissertation are presented along with the researcher's final conclusions.

This dissertation is completed by important and complementary annexes.

1.5 Conclusion

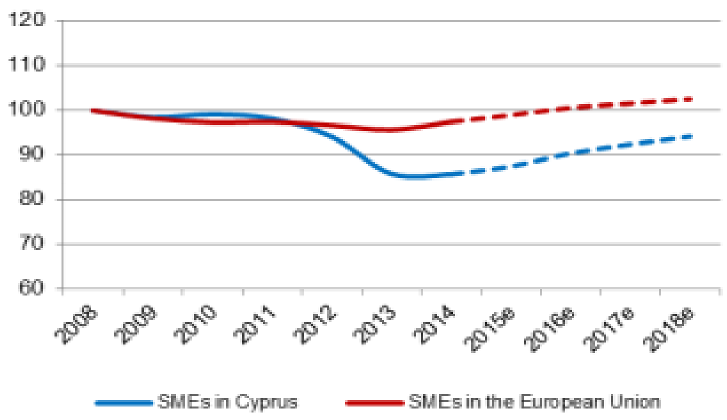
The researcher, in order to implement her research, she firstly wanted to understand and identify the differences between the public and private projects and then present the European Investment Bank's relationship with Cyprus, as well as some supporting public projects of theirs for the island, especially the CYPEF Project.

After this, the researcher wanted to briefly analyze the kinds of risks faced by the Financial Institutions and point out which of these risks apply when the Financial Institutions act as Financial Intermediaries for the EIB's CYPEF public project in Cyprus, so that the researcher can create a reliable and comprehensive research tool for the purposes of the research.

Chapter 2

Literature Review

Cyprus was gravely affected by the international economic crisis in 2013 (Rapanos & Kaplanoglou 2014:1450) and is trying to recover since then. One of the many sectors that were negatively affected by the crisis is the entrepreneurship sector of the island and especially the small and medium enterprises. Some of them had closed down and others were forced to let a large part of their personnel go in order for them to survive. More specifically, the below table (European Commission, 2018) shows that the employment of SMEs in Cyprus was dramatically decreased during the financial crisis in 2013, while for the SMEs in the EU the decrease for the same period is almost unnoticeable.



Graph 1: Number of persons employed in SMEs

Source: 2017 SBA (Small Business Act) Fact Sheet - Cyprus

Therefore, there were numerous projects financed by the European Investment Bank, which aim at the recovery, growth or even the establishment of small and medium enterprises.

2.1 Differences between Public and Private Projects

This section is based on an empirical research conducted by S. Gasik in 2016, which examined the differences between projects in the public sectors and projects in other sectors. Public projects are undertaken, managed or supervised by one or more publicly funded organizations and they differ from projects in other sectors. Their differences can be divided in two categories. The first category concerns differences between public organizations and organizations of other sectors, while the second one concerns the differences between projects which are undertaken by the public organization and those undertaken by the private ones, as they are explained in the following subsections.

2.1.1 Models representing the Differences between Public and Private or Other Sectors Organizations

For the first group mentioned above, there are three main models, which are the generic model, the core model and the dimensional model. The generic model suggests that there are no fundamental differences between public and private projects. According to the core model, there are significant differences between public and other sector organizations, which rise from differences in the processes implemented in private organizations. The dimensional model shows whether an organization is more or less public compared to other institutions regarding three dimensions; ownership, funding and mode of social control. For example, the dimensional model suggests that an organization may be public in the first two dimensions, but private in the third. Furthermore, according to the same model, there are organizations owned by private entities but may be funded entirely or partly by the state, therefore these organizations are still subject to social control. An example of this kind organizations might be the banks, which can be funded by the state to promote a certain project, however they still have to obey to some general rules and follow fixed procedures.

2.1.2 Complexity of Public Projects

According to a survey conducted which included 512 persons from 61 countries whose job was related to public projects, public project management as a whole is considered to be significantly more complex than private project management (Gasik, 2016: 405). A reason for this conclusion is the fact that public projects are more exposed to external factors than private projects. Moreover, public projects have to take into account some variables that private projects do not. For example, since public projects affect the image of the government accountable for them, they must consider the interests of politicians who may not always fully understand the principles of project management. Furthermore, they must meet the legislators' requirements and always have in mind that they operate under the control of the media. As a result, apart from the risks that a project bears from its internal variables, public project managers have to consider all possible risk factors which originate from all external variables as well. More specifically, public projects take more time to be completed as they have to meet the requirements of every party involved, therefore many things can change while the projects are in process. For example, some of the sponsors may back down for any reason, or some people working on the project might quit and the remaining staff is not enough for the project to be completed on time. In addition, the environment of organizations is always changing; therefore they have to always be ready to cope under new or changing circumstances. On top of that, natural phenomena are always a risk factor in all projects, as an earthquake or a flood for example, might change everything that was given before. As a result, it is safe to say that public projects bear incredible risks.

What is more, the size of public projects is a risk factor on its own, as the bigger the size, the greater the risks. The term size is used to quantify a project's effort mostly concerning the cost, the duration and the staffing requirements. Therefore, it can be said that as the size grows, so does the amount of working staff, the people to which the project is addressed, the cost of the project and its duration as well.

2.2 European Investment Bank

The European Investment Bank was created in 1958 in order to be the Financial Institution for what had not yet become the European Union as we know it today (Kazamaki Ottersten & Sioliou, 2014:126).

The EIB's purpose is to help make a difference in the future of Europe by supporting investments that will contribute in the achievement of the European Union's goals. In addition to this, it also offers guarantees, microfinance, equity investment and other similar services. Moreover, the EIB does not only help with the financial part of projects, but they also offer advice related to administrative and project management in order to facilitate the investment.

Further to the above, the EIB helps countries overcome difficulties not only in the financial sector but also in public sectors, which hold them back and do not let them grow, by lending them big amounts of funds and offering them any other kind of help they might need to achieve their goals.

2.2.1 European Investment Bank's Strategy and Priorities

Its operating strategy is to borrow funds on the capital markets in order to finance reasonable capital projects that further the EU objectives and their activities focus on the following priority areas; Innovation and Skills, Access to finance for smaller businesses, Infrastructure and Climate and Environment. The EIB is a major partner in projects which support innovation and skills, by assisting developers turn good ideas into business realities, as this plays a very significant role in ensuring sustainable growth and creating high-value jobs. Moreover, the EIB claims that SMEs support innovation and growth and offer employment in Europe as, according to the EIB website, they represent 99% of businesses in the EU and employ two thirds of the active working population. Also, according to the same source, the EIB Group invested the tremendous amount of 29.6 billion euro in 285,000 SMEs, which employ 3.9 million people. Additionally, infrastructure projects contribute to a country's economic growth and sustainability, as they create jobs and they ensure competitiveness.

Therefore, the EIB Group has made it a top priority to invest in energy efficiency, transport, water and sustainable urban infrastructure, having already provided 18 billion euro to support these kinds of projects. More specifically, they have powered 10.4 million households and helped in the construction or upgrade of 76,500 km of power lines. On top of that, the EIB makes a major effort to help climate finance worldwide. In 2017, the EU Bank has invested EUR 16.7 billion in projects that concern the natural and human environment.

2.2.2 Cohesion Policy and Structural Program Loans

Cohesion Policy is an expression of solidarity between the European Union members (European Investment Bank, 2018). Moreover, it is one of the EIB policies and also the main EU's investment policy. It applies for all regions in the EU and supports all the EIB's priorities as mentioned above (European Commission, 2014). The EIB acts both as a European Institution and as a Bank, which allows it to complement the European Union's grants with loans to the less developed EU regions with the use of Structural Program Loans (SPLs). These programs include many projects, fitted for different purposes for each country. More specifically, a project is selected based on the country's needs and an SPL is granted to this country. After the implementation of the project, the country has help with its financial management and control, where it simultaneously monitors and reports the progress of the project to the EIB Group and to the EU.

The figure below shows the delivery system of the EU Cohesion Policy.

Figure 1. Delivery System of EU Cohesion Policy

Source: European Investment Bank

Some of these programs cannot be implemented without an intermediary between the EIB and the interested party. For example, in the case of the improvement of the entrepreneurship sector, a loan is granted to the republic of the relevant country and then the funds are lent to the interested organizations through financial intermediaries, the country's banks.

2.2.3 EIB Projects in the Past

Since its foundation year, 1958, the European Investment Bank has played a significant role in the EU. At first, the EIB's primary goal was to promote development in the infrastructure sector and its second one was industrial development. Therefore, the way for them to achieve that was by providing loan finance for a wide range of large projects (Pinder, 1986:172). As a result, a quarter of all lending was distributed to productive industry, agriculture and other services, with most of the financing being received by manufacturing projects. In 1968, the EIB even started to consider the concept of global loans and in 1969 they were put in motion.

The below table shows the International patterns of global loans between the years 1969 and 1984. It indicated the actual lending in certain regions against the expected lending, along with the deviations from expectation in percentages.

International patterns of global lending, 1969-84

	1969-79		1980-84		Deviations from expectation	
	(m.u.a.)	(%)	Actual lending (m. ECUs)	Expected lending (m. ECUs)	(m. ECUs)	(%)
Belgium	24.4	4.7	24.0	81.1	- 57.1	- 70
Denmark	30.1	5.8	30.6	100.1	- 69.5	- 69
West Germany	36.0	6.9	0.0	119.1	- 119.1	- 100
UK	66.2	12.6	69.5	217.5	- 148.0	- 68
France	74.8	14.3	261.8	246.8	+ 15.0	+ 6
Ireland	24.8	4.7	148.2	81.1	+ 67.1	+ 83
Italy	266.8	51.0	1192.0	880.4	+ 311.6	+ 35
	523.1	100.0	1726.1	1726.1		
Greece*	0.0		188.5			
			1914.6			

*Investment followed accession to the Community; Greece is therefore excluded from the calculation

Table 1. International Patterns of Global Loan Lending, 1969-1984

Source: Pinder D. A.

In 1999, the EIB's Cohesion Policy was reformed and the next years were divided in programming periods. In the first programming period, 2000-2006, the SPLs were introduced in order to offer a complementary lending to the ongoing lending programs. During the first programming period, the EIB approved loans amounting to a total of EUR 4.8 billion (Kazamaki Ottersten & Sioliou, 2014:128). In the second programming period, 2007-2013, SPLs were consolidated, as up to September 2013 the EIB had financed 30 SPLs. The figure below shows the geographical distribution of SPLs between 2007 and 2013.

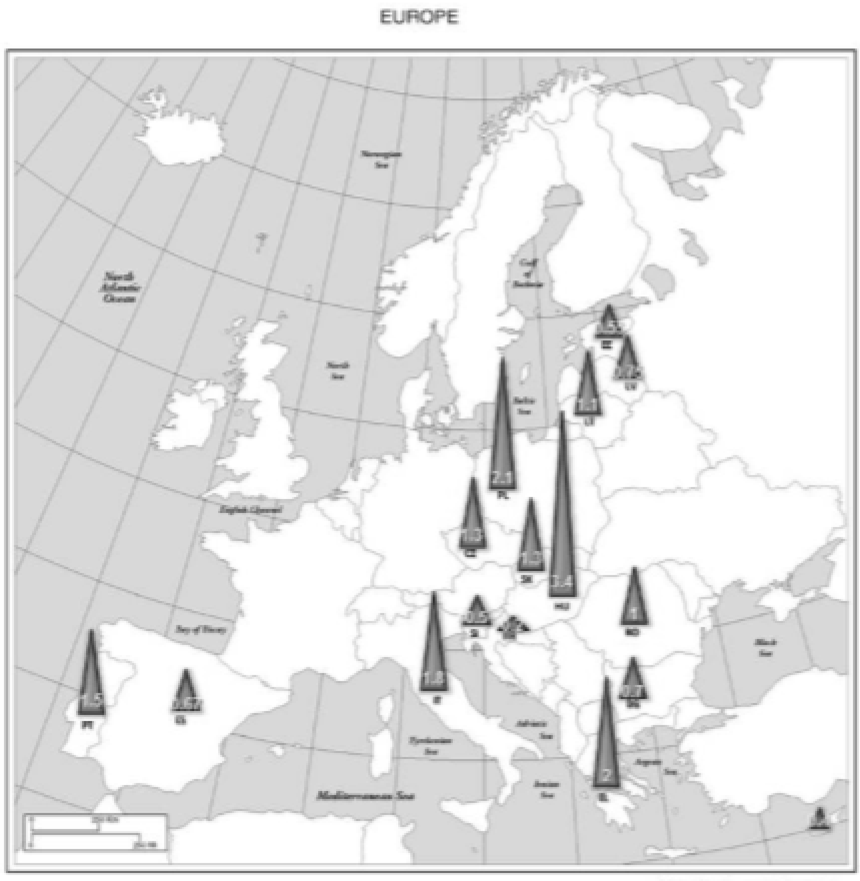


Figure 2. Geographical Distribution of SPLs in 2007-2013(amount of loans in bn)

Source: Kazamaki Ottersten E. & Sioliou M.

We are currently in the third programming period, 2014 to 2020, where the capital increase targets four specific areas for additional EIB action, which are analyzed above, regarding the EIB strategy and priorities.

2.2.4 EIB Ongoing Projects Concerning SMEs

One of the EIB Group's public policy goals is the support of SMEs and midcap finance (Revoltella & Kraemer-Eis, 2015). The access to finance for SMEs is also one of the four focal areas of the current programming period (Kazamaki Ottersten & Sioliou, 2014:132). This support can be achieved through various instruments which either strengthens the bank's ability to lend or offer complimentary sources of financing.

Some ongoing projects which were initiated by the EIB Group and have huge impact and success all over the European Union will be briefly described below, according to the European Commission's website.

- The European Fund for Strategic Investments (EFSI) project offers supported loans to SMEs with a higher risk profile which specialize in research and innovation or social activities, as well as equity funding to high-potential start-up and growth companies.
- The Program for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) offers SMEs the ability for financial support in all of their phases, creation, expansion or business transfer.
- InnovFin – EU Finance for Innovators is launched by both the EIB Group and the European Commission and includes a series of financing tools and advisory services by the EIB Group. This project is available to enterprises regardless of their size.
- The Employment and Social Innovation Program (EaSI) is a financing instrument. It promotes a high level of quality and sustainable employment, aiming to improve working conditions and combat social exclusion.
- The Cultural and Creative Sector Guarantee Facility (CCSGF) is available to creative companies and it offers loans and other financial products. Moreover, the Financial Intermediaries are provided with training in order to be confident to better understand the needs of cultural and creative sector projects.

2.2.5 EIB Loans' Importance for SMEs

Both Micro and Small and Medium Enterprises act like the backbone of the economy (Kraemer-Eis & Lang, 2012:3). However, SMEs are not able to raise funds directly from the capital markets, therefore they depend on bank financing, which is impacted by many factors, such as the bank's risk appetite, its capital adequacy and its refinancing capacity. Therefore, in order for SMEs to keep supporting their country's economy, the European Investment Bank has launched many programs which benefit SMEs with some favorable terms.

2.3 Cyprus and the European Investment Bank

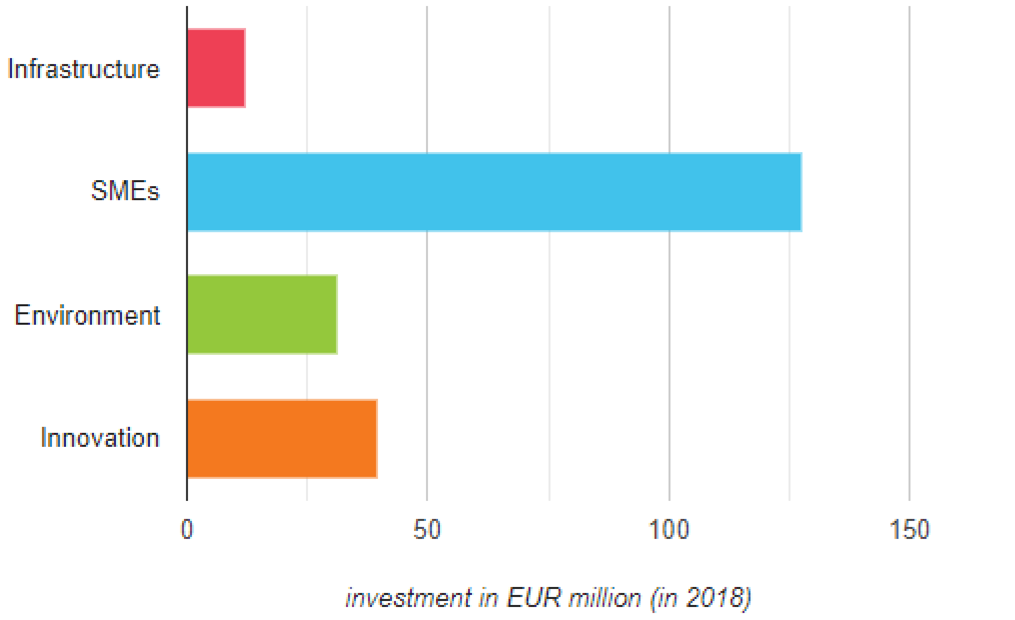
The European Investment Bank has shown a real dedication and affection to Cyprus, as they have invested millions of euros in several projects, which aimed at the improvement in the areas of transport, energy, education, waste treatment, water supply and offered financial support projects for the country's organizations and enterprises.

2.3.1 EIB activity in Cyprus

The European Investment Bank works with Cyprus since 1981, according to the EIB's website[1]. It has helped Cyprus finance numerous projects aiming at the improvement of people's lives. More specifically, it has contributed in the building of the University of Cyprus, in order for Cypriot students to remain in the country for their studies if they cannot or do not want to study abroad. They have also helped with wastewater treatment plants and with the upgrade of air traffic control. Furthermore, the health sector of the country was also benefited from the EIB, as the Cyprus Institute of Neurology and Genetics had the EIB's support in their research and patient care. All in all, the EIB has provided the island with more than EUR 3.3 billion, financing over 70 projects in the last 40 years, creating not only a better way of living, but also job opportunities and growth (European Investment Bank, 2019). Moreover, with the above mentioned projects and financing, the EIB contributed in Cyprus' effort to achieve the Global Goals, by helping the island make progress in the following goals: Quality education, Clean water and sanitation, Good health and well-being and Industry Innovation and Infrastructure.

The graph that follows shows the EIB Group's lending in Cyprus for 2018.

[1] https://www.eib.org/en/projects/regions/european-union/cyprus/index.htm Accessed on 12.04.2019



Graph 2. European Investment Bank Group's lending in Cyprus in 2018.

Source: European Investment Bank

It is inferred that SMEs had the greater financial support from the EIB in 2018, with about EUR 126 million invested in projects for their growth. Moreover, the Innovation sector had also a big support from the EIB, as it has received about EUR 40 million in projects, along with projects dedicated to the Environment and Infrastructure.

2.3.2 Importance of SMEs Financial Support for Cyprus

As mentioned above, SMEs' role in each country's economy is significant and more specifically, crucial for Cyprus (Charalambous & Polemidiotis 2017). As a result, their access to financing is just as important, as their lack of finance can cause constrains in their cash flow and hinder the businesses' survival prospects (Kraemer-Eis & Lang, 2012: 5). More specifically, survey data for the EU confirm that the most crucial factors for innovation for all types of firms but especially for SMEs are the extremely high economic risks and the importance of access to finance (Veugelers, 2008:244). This is also confirmed by the following table, which shows the proportion of enterprises that considered selected hampering factors as highly important.

	Excessive perceived economic risks	Innovation costs too high	Lack of appropriate sources of finance	Organizational rigidities within the enterprise	Lack of qualified personnel	Lack of information on technology	Lack of information markets	Insufficient flexibility of regulations or standards	Lack of customer responsiveness to new goods or services
Small	16	21	16	6	13	5	5	10	8
Medium-sized	13	19	13	5	14	4	4	8	6
Large	18	21	10	6	13	3	4	7	5

Table 2. Proportion of enterprises that regard selected hampering factors as highly important (% of all enterprises); By size class.

Source: Veugelers R.

As inferred from the above table, small and medium sized enterprises consider the lack of appropriate sources of finance as a major hampering factor highly important, as they rated it at 16% and 13% respectively, which are some of the highest percentages on the table. However, the factor with the highest percentage for all three types of firms is the fact that innovation costs are too high, which is also connected with the lack of financing.

All mentioned above apply in Cyprus too, as most firms in the island operate as SMEs. SMEs in Cyprus amount to EUR 6.3 billion, with 77.7% shares, which is 21 percentage points above the EU average, 56.8%. Moreover, they employ 84.1% of the people employed in all types of firms, which is around 18 percentage points above the EU average, 66.4% (European Commission, 2019).

These data can be confirmed by the following table from the latest Fact Sheet for Cyprus (European Commission, 2018).

Class size	Number of enterprises			Number of persons employed			Value added		
	Cyprus		EU-28	Cyprus		EU-28	Cyprus		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	47 840	93.6 %	*93.1 %*	94 126	40.6 %	*29.4 %*	2.6	31.9 %	*20.7 %*
Small	2 802	5.5 %	*5.8 %*	55 584	24.0 %	*20.0 %*	1.9	23.7 %	*17.8 %*
Medium-sized	427	0.8 %	*0.9 %*	45 482	19.6 %	*17.0 %*	1.8	22.1 %	*18.3 %*
SMEs	**51 069**	**99.9 %**	***99.8 %***	**195 192**	**84.1 %**	***66.4 %***	**6.3**	**77.7 %**	***56.8 %***
Large	66	0.1 %	*0.2 %*	36 858	15.9 %	*33.6 %*	1.8	22.3 %	*43.2 %*
Total	**51 135**	**100.0 %**	***100.0 %***	**232 050**	**100.0 %**	***100.0 %***	**8.1**	**100.0 %**	***100.0 %***

Table 3. SMEs Basic Figures – Cyprus and EU

Source: 2018 SBA Fact Sheet - Cyprus

2.3.3 The JEREMIE Initiative

The JEREMIE Initiative was developed by the European Commission and the EIB Group represented by the European Investment Fund (EIF) and its initials stand for "Joint European Resources for Small and Medium-sized Enterprises". The main goals of this initiative was to improve competitiveness and support the creation of new enterprises, by increasing the attractiveness of the country to the rest of the world, supporting the development in urban and agricultural areas and improving the entrepreneurial environment. These goals were significantly difficult for Cyprus at that period, as the planning of this project started in 2007, however the products were launched in 2010 after all procedures were through. At that period Cyprus started to experience the worsening of economic conditions and it affected the willingness of SMEs to profit from this program, as Cypriots did not show interest in starting new businesses.

JEREMIE was not implemented only in Cyprus, but also in Greece, Romania, Latvia, Lithuania, Languedoc-Roussillon, Campania, Slovakia and Bulgaria, as shown on the table below. The table also shows the amount in EUR million of the capital funded to each country, by May 2009.

Country	Date	Amount in EUR m		Country	Date	Amount in EUR m
Greece	June 2007	100		Campania (I)	December 2008	90
Romania	February 2008	100		Slovakia	December 2008	121.2
Latvia	July 2008	91.5		Cyprus	April 2009	20
Lithuania	October 2008	290		Bulgaria	May 2009	200
Languedoc-Roussillon (F)	October 2008	30			**TOTAL**	**1042.7**

Table 4: Status of JEREMIE implementation

Source: European Investment Fund

2.3.3 What JEREMIE Offered

Initially, JEREMIE was designed to offer loans and guarantees through two products, Funded Risk Sharing Product (FRSP) and First Loss Portfolio Risk Guarantee Product (FLPG), which are a co-financing product and a guarantee product respectively (European Commission, European Investment Bank, 2018). The financial institutions which wanted to act as Financial Intermediaries (FI) for this initiative applied under a Call for Expression of Interest (CEoI). The selected FI was the Bank of Cyprus, which met all the requirements of the CEoI. JEREMIE's financial size was EUR 36.2 million from which EUR 18.2 million was financed by the Operational Program resources and the remaining EUR 18 million was the private resources from the Bank of Cyprus.

Higher risk investment activities and sectors gained the priority of this initiative. This means that innovation, research and development were in a favorable position, as well as information and communication technologies along with cultural and social services.

The FLPG, the guarantee product, was available for only a year, from October 2011 until December 2012, as it was decided to terminate it due to lack of demand. The unused resources from this product were not lost. They were used in order to launch a new product, FRSP II, which was a newer version of the co-financing product, Funded Risk Sharing Product.

2.3.4 JEREMIE Lending Conditions

FRSP I had EUR 20 million as allocated funds, half of which was from the operational program and the other half from the Financial Intermediary.

Moreover, it offered a maximum loan amount of EUR 100,000, with a maturity period of 24 to 120 months, which contributes to 2 to 12 years. The lending interest rate was from 3.5% to 4.5%. The collateral on the loan was from 50% to 100% of the loan, with a grace period of up to the 1/3 of the loan duration, with 2 years being the maximum. FRSP II differed from FRSP I on some of the conditions. More specifically, the allocated funds for this product were EUR 16 million, with a maximum loan amount at EUR 300,000. The interest rate was lower, at 2.66% to 3.33% depending on Euribor, whilst its collateral was from 60% to 120% of the loan.

FLPG had an amount of EUR 7.5 million of allocated funds, which were fully conceded by the operational program and corresponded to EUR 50 million in loans from the FI. Moreover, the maximum loan amount was set on EUR 70,000 for newly created enterprises, which were established within the previous 36 months from the application date and EUR 100,000 for mature enterprises. The maturity of the loan was up to 120 months, with a guarantee rate at 50% of the losses on the loan. The loan's grace period was up to 2 years, with collateral of 0% to 50% of the loan amount.

The above terms can be considered as favorable compared to the terms offered by commercial banks for other types of loans in that period. Therefore, it is safe to say that SMEs could actually benefit from these terms and with a well-coordinated management plan, they could achieve their goals, whether these goals concerned their expansion in other cities, or the increase of working staff.

2.3.5 JEREMIE Example

According to the same Case Study by the European Commission and the EIB, one enterprise which benefited from the JEREMIE Initiative is called Constantinos Christodoulou Ltd, which has to do with the trading of agricultural products, medical equipment and raw materials. This company has its premises to Nicosia and they market their products in Cyprus.

Constantinos Christodoulou Ltd applied for a JEREMIE loan for EUR 100,000 in 2014, in order for them to be able to offer a wider range of equipment and to open facilities in other cities in Cyprus to make the delivery of products to their clients more effective and efficient. Therefore, this company had an expansion plan, where they needed to rent new premises, hire additional staff and invest in transportation. Two factors which contributed in the company's decision to choose the JEREMIE loan to be their source of financing were the interest rate, which was at about 4.3% and much lower than other types of loans, and the collateral of the loan, as other types of loans required collateral of at least the full amount of the loan.

The whole process, from the application for the loan until actually receiving the installment took about 3 months and it did not involve great administrative weight, which is very important for enterprises not to be tired of the application process, because they may back down easily and not come through with the loan application in the end.

2.3.6 Bank of Cyprus as Financial Intermediary of JEREMIE

Cyprus had no prior experience with this type of support before the JEREMIE Initiative and the management of the financial engineering instruments was something entirely new for the Bank of Cyprus. As a FI, the Bank of Cyprus had a number of obligations which included the pursuing of the objectives pointed out in the operational agreement, the submission of annual reports regarding the financial instruments to the EIF and carry out adequate marketing and publicity campaigns to raise awareness of the initiative among SMEs.

It seems that they did a very good job with the last mentioned obligation, as FRSP II had exhausted its resources by the end of November 2015 and they had to close the applications. This means that the demand for this product was extremely high and the product was considered successful.

Moreover, the Bank of Cyprus managed to raise awareness for the JEREMIE Initiative by advertising it through the national TV, radio channels and their own website and by distributing leaflets through their branches all over Cyprus, as well as during seminars and conferences organized by them. In addition, they covered the marketing costs from their own resources.

2.3.7 The CYPEF Project

The EIB Group is the conductor of a project called CYPEF which is managed by EIF and aims at the financing of SMEs in order to help them grow. As explained on the European Investment Bank website[2], the EIB Group consists of the EIB and the EIF, where the EIF focuses on the innovative financing for SMEs, while the EIB is the majority shareholder. The European Investment Bank has provided a EUR 100 million loan to the Republic of Cyprus (RoC) aiming at the improvement and expansion of SMEs, by facilitating access to finance for them at favorable terms. These loans are available through a number of financial institutions in Cyprus, which have expressed their interest in accordance with the terms and conditions published in the CEoI launched by EIF. EIF chose the local banks which would participate in the program, acting as EIF's financial intermediaries and sharing the risk of the loans with CYPEF.

The CYPEF project was established by the Government in 2013 and the CYPEF products are being offered to SMEs since 2015, the year when the resources for FRSP II from the JEREMIE Initiative were exhausted.

The CYPEF project was supposed to be complementary to the JEREMIE Initiative in order to strengthen the liquidity in the private sector. However, CYPEF turned out to be a much bigger project, as the demand and awareness for this type of loans was raised due to the fact that SMEs were already familiar with them, since financial products which JEREMIE offered in the previous years were known to the public. More specifically, comparing the volume of funds financed for these two projects, JEREMIE secured EUR 36.2 million from both the EIB and its financial intermediary, whilst the CYPEF project managed to secure EUR 100 million only from the EIB. Additionally, the number of financial institutions

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[2] https://www.eib.org/en/infocentre/faq/index.htm Accessed on 20.05.2019

which were interested in the CYPEF project and are acting as financial intermediaries for it is significantly increased, as JEREMIE had only one financial intermediary, while the CYPEF project is offered by nine financial intermediaries. In addition to this, by the time that the CYPEF project was launched, signs for a better economy started to surface; hence SMEs began considering the need for renovation, expansion and growth with less fear and hesitation.

2.3.8 Eligible Financial Institutions to Participate in the CYPEF Project

The banks were selected taking into account the following selection criteria, according to the EIB's website:

- *Origination capacity of the applicant and ability to timely deploy the requested amounts;*
- *Proposed funding conditions for the SMEs in order to offer attractive terms to the benefiting SMEs;*
- *Overall credit standing and quality of loan portfolio of the applicant.*

The financial institutions which were selected to act as Financial Intermediaries are Alpha Bank, Bank of Cyprus, Cyprus Development Bank, Eurobank, Hellenic Bank, NBG, RCB bank, Société Générale Bank of Cyprus and USB Bank (European Investment Bank, n.d.). These institutions contribute in the program via co-financing at least half of the amount of the loans, therefore the total sum of the funds available to SMEs was expected to sum up to at least EUR 200 million. On top of that, EIF covers 50% of the losses on an eligible SME loan, sharing the risk with the financial intermediary.

2.3.9 Small and Medium Enterprises Definition

In general, SMEs are considered autonomous if one condition of the following applies, as per the definition published in the EIB's website:

i. *less than 25% of their equity or equivalent is owned by another enterprise or individual;*

ii. *25% or more of the equity or equivalent is owned by another enterprise or individual, but the group employs fewer than 250 persons on a consolidated basis;*

iii. *25% or more of the equity or equivalent is owned by a public body, AND the public body is a local authority with an annual budget of less than EUR 10m and* in an *area of the authority's administration which has fewer than 5000 inhabitants;*

iv. *up to 50% of the equity or equivalent is owned by companies or institutions in line with the exceptions detailed in Annex of the Commission recommendation 2003/361/EC of 6 May 2003, article 3, paragraph 2 which is the following:*

An enterprise may be ranked as autonomous, and thus as not having any partner enterprises, even if this 25% threshold is reached or exceeded by the following investors, provided that those investors are not linked, either individually or jointly to the enterprise in question:

a) Public investment corporations, venture capital companies, individuals or groups of individuals with a regular venture capital investment activity who invest equity capital in unquoted businesses ('business angels'), provided the total investment of those business angels in the same enterprise is less than EUR 1 250 000;

b) Universities or non-profit research centers;

c) Institutional investors, including regional development funds;

d) Autonomous local authorities with an annual budget of less than EUR 10 million and fewer than 5 000 inhabitants.

2.3.10 Eligible SMEs for the CYPEF Program

The following requirements must be met by a SME in order to be eligible to participate in the program as per the Indicative PRSL Term Sheet, under the Annex II Call for Expression of Interest to select Financial Intermediaries under CYPEF:

- *Entities are autonomous small and medium sized enterprises with fewer than 250 employees at the time of the signature of the loan agreement.*
- *Eligible SMEs must be registered, established and operating in Cyprus. For the avoidance of doubt, self-employed entrepreneurs registered under the Cyprus Social Insurance Scheme will be also allowed to benefit from CYPEF financing. Any*

economic activity to be financed under the CYPEF needs to be performed within the area effectively controlled by the Government of the Republic of Cyprus.

- *Financial holding companies, whose sole economic activity is to hold and to manage portfolio of equity participations and/or investments in other companies are not eligible for CYPEF financing.*
- *The final beneficiary (i.e. SME) shall not be subject to collective insolvency proceedings nor fulfill the criteria under its domestic law for being placed in collective insolvency proceedings at the request of its creditors.*

There are some types of organizations which are not eligible to profit from the CYPEF loans, therefore they are excluded from the eligible SMEs list. Hence, SMEs that have the majority of their business in one or more of the following sectors are not allowed to be included in the program:

a) *production of weapons and ammunition, arms, military or police equipment or infrastructures, and equipment or infrastructure which result in limiting people's individual rights and freedom (i.e. prisons, detention centers of any form) or in violation of human rights;*
b) *gambling and related equipment;*
c) *tobacco manufacturing, processing, or distribution;*
d) *activities involving live animals for experimental and scientific purposes insofar as compliance with the "Council of Europe's Convention for the Protection of Vertebrate Animals used for Experimental and other Scientific Purposes" cannot be guaranteed;*
e) *activities which give rise to environmental impacts that are not largely mitigated and/or compensated;*
f) *sectors considered ethically or m orally controversial or which are forbidden by national law, e.g. research on human cloning;*
g) *pure real estate development activity;*
h) *pure financial activities e.g. trading in financial instruments.*

In addition to the above, CYPEF loans cannot be granted to SMEs that claim them for specific purposes, which are:

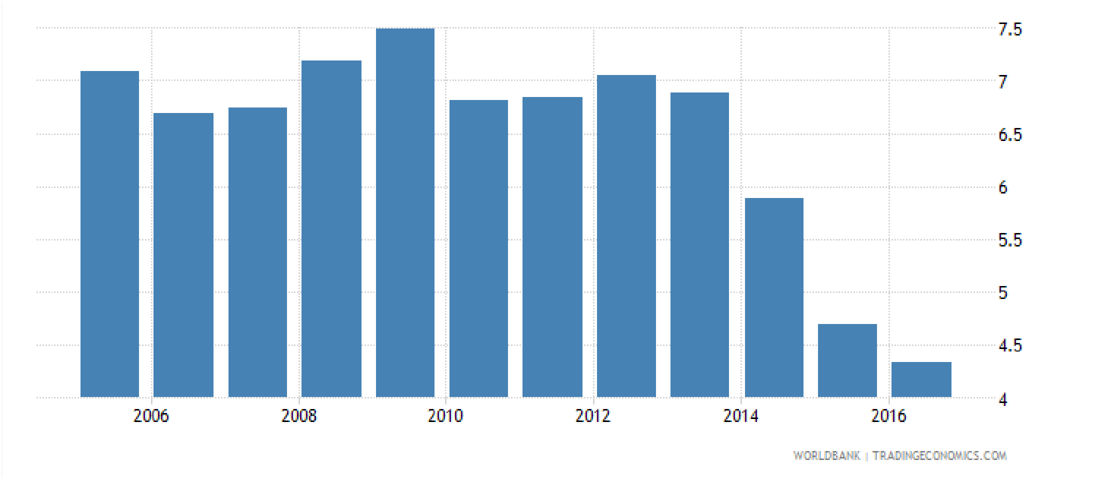
a) *financing under purely financial transactions;*

b) *for real estate development including financing the purchase, (or construction or renovation) of real estate with the purpose of selling or renting the building to a third party (i.e. not part of the same group of companies);*
c) *financing of consumer finance;*
d) *financing of business taxes such as Value Added Tax (VAT) shall only be eligible if they are non-recoverable;*
e) *financing for the purchase of land;*
f) *the financing costs related to the acquisition of licenses, quotas, production rights and other rights awarded by public bodies;*
g) *financing of the acquisition of enterprises;*
h) *financing of generation change (i.e. retirement of the previous owner) or staff-related enterprise transmission, allowing for a continuation in economic activity of the respective enterprise where (i) either buyer or the entity to be sold are not SMEs at the time of the financing agreement, or (ii) the total financing need for the operation exceeds EUR 1,000,000 (excluding own funds)*

2.3.11 CYPEF Loans Favorable Terms to SMEs

The eligible SMEs receive the available CYPEF's financial instruments at favorable terms which concern the interest rates, the grace period, the repayment period and the refinancing of the loans. More specifically, the interest rate for the CYPEF loans start from 2.55% and go up to 3.375%, depending on the financial intermediary. For example, Ancoria bank offers an interest rate of 2.55% (Ancoria Bank 2016), while Bank of Cyprus offers the same project at an interest rate of 2.8%[3]. The interest rate for the CYPEF loans is lower than the standard interest rates for any other kind of loan in Cyprus as the graph shows below:

[3] Bank of Cyprus CYPEF advertisement: https://www.youtube.com/watch?v=uD-UZiBZER4 Accessed on 20.05.2019



Graph 3. Lending interest rates in Cyprus from 2006 to 2016.

Source: Trading Economics

According to the graph published on the Trading Economics website based on the World Bank collection of development indicators, before 2013 the lending interest rates were on their highest, with 2009 being the year with the highest rates, at 7.5%. After the economic crisis in 2013, the interest rates were significantly reduced and in 2016 they reportedly reached 4.3317%. Further to this, according to the Central Bank website, on their Statistics on Interest Rates applied by Monetary Financial Institutions reports, in July 2017 the lending interest rates for loans to non-financial corporations for amounts up to EUR 1 million were on 3.92%, whilst over EUR 1 million were on 3.70% (Central Bank of Cyprus, 2017). Even though their report for February 2018 had the interest rates reduced, at 3.56% and 3.50% respectively (Central Bank of Cyprus, 2018), they are still higher than the CYPEF loans interest rates.

Moreover, the maximum financing to eligible SMEs is EUR 1.5 million, which is a great amount for an organization which intends to expand in any way. Also, the repayment period is from 24 to 144 months, 2 to 12 years.

What is more, the CYPEF loans offer a grace period of 2 years, which means that the eligible SMEs participating in the program have a time of 2 years during which they are allowed to repay their loans after the actual due date. During this period no late payment fees are charged to the organizations, neither the loan is cancelled.

In addition to the above terms, the CYPEF loans may be refinanced for an amount up to 15% of the Maximum Loan Portfolio. Refinancing is done to allow a borrower to ask for lower interest rate, lower monthly payment or both. Hence, the refinancing of the CYPEF loans aim to help the organizations improve financing conditions and strengthen their cash flows. As a result of the refinancing, the SMEs can also benefit from longer maturities, meaning that the date on which the loan is supposed to be paid off can be extended, or even. Another benefit from refinancing is that the amount lent may be increased for some loans.

2.4 Financial Intermediaries

As mentioned above, not all Financial Institutions can act as Financial Intermediaries for the EIB's projects, as they have to fill in the requirements for taking part in a financial support project, which can vary from project to project.

However, being a Financial Intermediary in a project cannot only provide profit; it can bear some risks, too.

2.4.1 Financial Institutions

Banking, by definition, is the business of banks which can be very dangerous concerning the risks they have to take in a daily basis in order to perform their core activities. Financial Institutions' core activities include intermediation, which means that they take deposits and they lend money to their clients, they transmit money, they conduct in foreign exchange and participate in the money capital markets, which means that they raise capital by dealing in shares, bonds and other long term investments (Laeven, 2000).

2.4.2 General Risks faced by Financial Institutions

Risk is the exposure to a potential event with positive or negative consequences. Every organization faces several types of risk, which are defined mostly by the type of the organization. For the sake of this dissertation, we will focus on organizations operating in the banking sector.

The core activities of Financial Institutions, which are mentioned above, bear important risks in their execution, as they are directly connected to money and might conclude in the loss of it in many ways. More specifically, a bank can lose money from "bad" investments, or from several great amounted loans which are not repaid, as a result of a negligible financial background check of the interested clients. Therefore, banks have to manage these risks through a proper risk management plan, which is not all about reducing the negative impact of the risks, but also about taking the necessary risks in an intelligent and profitable way, because as mentioned above, a risk might have a positive outcome as well, turning risks into opportunities for profits. As an example, an investment might turn out to be "good" after all and bring profits to the organization. Therefore, it can be said that banking cannot be riskless in any way.

Banks come across various and different types of risks. Reviewing the many definitions that are given in literature regarding types of risk (WallStreetMojo 2018, Management Study Guide 2019, Sirbulescu 2016) we can say that the basic types of risk that all the Financial Institutions come across can be divided in two groups; business risk and financial risk. The difference between these two types of risk is that business risk can be described as the risk as to whether the owner(s) of the organization would be able to run the business or not and is related to the operations of the company, whilst financial risk has to do with the financial state of the organization.

2.4.3 Business Risk

There is a wide range of strategies from which banks have to choose in order to make a decision and focus on obtaining their strategic goals in the long run;

therefore there is always the risk of choosing the wrong one. If this happens, it can lead to losses, or even to the collision of the organization. In addition, since business risk has to do with the operations of the organization, it bears some other types of risk as well, which are called market risk, operational risk, reputational risk and systemic risk (Spacey, 2017). These types of risks can be listed under the business risks of the organization each type is analysed below.

Market risk is about the risk the banks face because of the continuous change in exchange rates. Since banks hold securities and foreign exchange, they are exposed to FOREX (Foreign Exchange) risks and more generally to market risks, as the market is not predictable and it changes continuously.

Furthermore, banks have to manage enormous operations in order to have profits, hence the maintenance of the internal processes for these operations are an extremely difficult task and it is often caused due to human errors, illegal act or absence of internal control (Sirbulescu 2016). Operational risk is defined as the risk of a failed process in the bank's everyday activities, resulting to all the departments to be subject of operational risk, with no exception.

The bank's reputation is responsible for its clientele. If a bank has an excellent reputation and people trust it with their money, then it is logical that it will attract clients, which deposit and invest in the bank great amounts of money with no hesitation, as they want to be sure that they invest in an organization which follows healthy business practices. Any news which harms the business' reputation surely has a negative impact on the bank; therefore they are exposed to reputational risk. What can be done in order to minimize the reputational risk, is that banks can ensure that they are never involved in any unfair or manipulative business practices and their image reflects an honest bank. In order to protect themselves from this kind of business, financial institutions use some Anti-Money Laundering and Know Your Client techniques through the Client Acceptance Policy. This policy aims to protect the bank from subordinate or future compliance risks, which might harm the institution. Part of this policy is the classification of the clients under three categories; high risk, medium risk and low risk provided that the bank has accepted them as client after background checks where necessary, in order to determine the potential risk of establishing a business relationship with them (Simonovski & Nikoloska, 2016). Some organizations are not allowed to be accepted as clients by most financial institutions based on their activities, such as betting companies, non-registered investment companies, non-registered financial or real estate companies, shell-banks and other companies with related businesses. Additionally, there are some countries that are forbidden for financial institutions to make any business with, which are Cuba, Equatorial Guinea, Iran, Myanmar, North Korea, North Soudan, Syria, Crimea, Kosovo and Northern Cyprus. For Northern Cyprus there is an exception, as the bank may allow the opening of accounts only if they are deposit accounts and the owner has a Cypriot identity. Moreover, banks do not accept deposits of funds which come from illegal activities, like the production of military weapons, drug trafficking, immediate or indirect link to virtual currencies or any other unethical activities. On top of that, Politically Exposed Persons are classified under the high risk clients (Simonovski & Nikoloska, 2016). If the institution accepts a client and evaluates them as “high risk” client, then their transactions are closely monitored and they are called to update their information more often than the other clients.

In addition to the above, banks are counterparties to each other, making them and the financial system connected. This means that if any of them fails, then the others are in great risk and it can lead to a domino effect, which might lead to significant contagion effects for the broader financial system and the overall economy (Stephanou 2011). This type of risk is call systemic risk and it affects the entire banking system and each bank can do very little in order to protect itself, as the very nature of the system makes it exposed to risk.

2.4.4 Financial Risk

Financial risk has to do with the financial state of the organization and it includes credit risk, liquidity risk, as well as moral hazard, which will be analysed in this subsection.

The biggest source of income for a bank is the different types of loans that their clients take. Therefore, cases where some clients do not pay off their loans end up to be a risk factor for the bank. This is called credit risk and is created by delayed payments or non-payments of loans and is unavoidable in these cases. The only thing which a bank can do to protect itself and minimize this risk is to conduct thorough checks and evaluations before they approve a loan.

In addition to this, most of the clients' deposits are used to create loans and only a small percentage of the deposits is held back as reserves in cases of withdrawals. Hence, if the loans are not paid, there is a great risk that the bank will not be able to respond at a client's request when they come in to make a withdrawal. This case is called a bank run and the risk described above is defined as liquidity risk. However, since modern banks have the Central Bank's support, this is not likely to happen, because if a bank faces a bank run then the central bank will focus all of their resources to the affected bank and they will come through, without damaging the clients' trust in the bank.

The last type of risk in the financial category, moral hazard, is a risk that exists in all agreements. It is caused when a party does not enter into the contract in good faith, or provides misleading information about their credit capacity, liability or assets. Additionally, moral hazard is also caused when the organization takes unusual risks in a desperate attempt for profits. This is a reason that banks became reckless, resulting to central banks to conduct audits to make sure that banks follow safe paths.

In order to manage the above risks, banks must decide which of them are more important. This matter is determined by assessing all risk factors, which means identifying, analysing and classifying them. After the risk assessment, these risks have to be reduced or eliminated in order for them not to be a potential threat to the organization. This is achieved via a risk management plan which, if it is implemented, it can save the organization from collapsing.

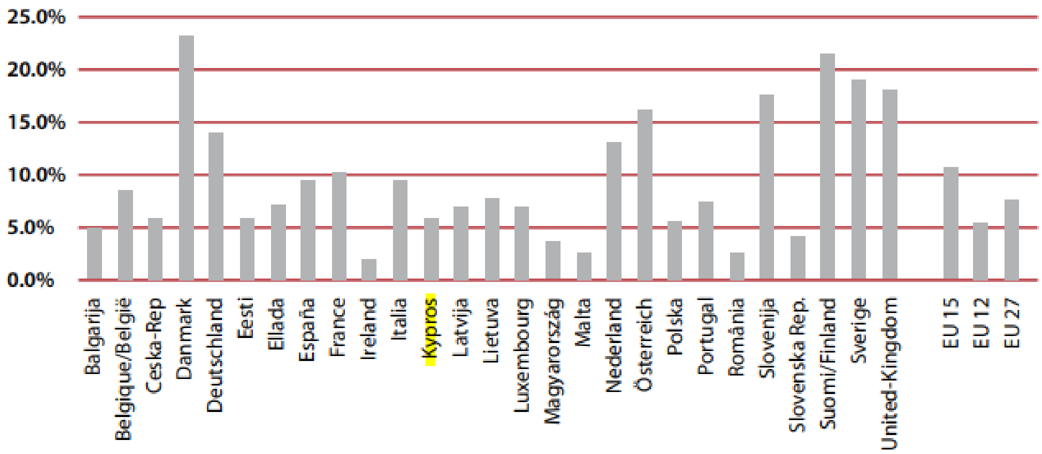
2.4.5 Risks Classification

The classification of different types of risks is a rather controversial subject. It depends on various variables, such as the importance of risks, the size of their impact, the financial loss of the organization in case of a crisis and many others. Moreover, the variables considered as most important might change for different sectors. More specifically, the risks in the banking sector must be viewed as a complex of events with negative consequences for the bank (Sirbulescu 2016). These consequences might cause a chain of unpredictable events, which is hard to be aware of beforehand; therefore it is rather difficult for the banking risks to be classified with certainty and accuracy. This is the reason why various researches, as well as book and article authors have different opinions about the importance of each banking risk. For example, Sirbulescu argues that financial risks are the most important risks for the Financial Institutions, based on her own literature review and experience; however this opinion is not supported by everyone.

As a result of the above mentioned reasons, there is no official classification of the banking risks.

2.5 Risks faced by CYPEF Financial Intermediaries

Several projects similar to CYPEF have taken place all over the world, which had the same goal as CYPEF, the financial empowerment of SMEs. The below graph shows the percentage of structural funds allocated to SMEs from 2007 to 2013.



Graph 4. Percentage of structural funds allocated to SMEs in 2007-2013

Source: European Commission

As seen on the graph, Cyprus had received more than 5% of all the funds allocated to SMEs for the said period, which is a rather great percentage regarding the country's size. For example, Ireland and Romania had a smaller percentage than Cyprus, with their size being bigger than Cyprus. Therefore, the Financial Institutions acting as Intermediaries for these programs face important risks, as they have to manage the distribution of an extremely great amount to the interested SMEs.

Moreover, banks in transition economies face even greater risks and uncertainties when they lend money to SMEs (Le Thi Bich, 2013). As Constandinos Petrides, the Under-Secretary to the President, said in his speech in the 6th Nicosia Economic Congress on the 26th of May 2016, Cyprus is an economy in transition, therefore what is mentioned above applies to Cyprus as well.

Furthermore, as said above, there are projects similar to CYPEF outside the EU as well. The table below shows the financial support of the EIB Group (EIB and EIF) inside and outside the EU in 2016.

EIB Group support to SMEs	Inside the EU			Outside the EU			Total	
	EIB	EIF	EIB Group	EIB	EIF [1]	EIB Group	EIB	EIB Group
Approvals	20.6	9.5	**30.1**	5.0	n/a	**5.0**	**25.6**	**35.1**
Signatures	21.3	9.5	**30.1** [3]	3.6	n/a	**3.6**	**24.9**	**33.7** [3]
Disbursements	18.8	n/a		2.7	n/a		**21.5**	
Allocations (volume)	21.5	n/a		2.9	n/a		**24.4**	
Finance leveraged	42.6	42.7	**83.93**	7.2	n/a	**7.2**	**49.8**	**91.1** [3]
					n/a			
# Allocations	144 000	n/a	**144 000**	8 800	n/a	**8 800**	**152 800**	**152 800**
# Intermediaries [2]	270	666	**936**	179	n/a	**179**	**449**	**1 115**
# Final beneficiaries	117 000	175 000	**292 000**	8 000	n/a	**8 000**	**125 000**	**300 000**
# Employment sustained	3 042 000	1 000 000	**4 042 000**	378 000	n/a	**378 000**	**3 420 000**	**4 420 000**

1. In the interest of simplicity, the EIF's very marginal activity outside the EU is included in the figures for within the EU.
2. EIF aggregated active counterparts and active counterparts with which the EIB signed new loans or to which the EIB made disbursements or allocations during 2016.
3. Signature and leveraged finance volumes in connection with the SME Initiative are included in both the EIB and EIF figures. The respective EIB Group figures have been adjusted to avoid double counting at Group level.

Table 5: EIB Group Support to SMEs in 2016 (in EUR bn)

Source: European Investment Bank: SME Report 2016[4]

As the above table shows, the approved support projects financed by the EIB Group inside the EU were six times bigger than the projects outside the EU, which makes sense, as the EU is a priority for the EIB Group.

It goes without saying that great size projects bare even greater risks to every party involved. Therefore, the fact that CYPEF is a risk sharing instrument gives the financial intermediaries an important advantage. The Risk Sharing Instrument (RSI) provides guarantees to selected Financial Intermediaries which support SMEs and midcap enterprises, which cover 50% on each new eligible loan or lease that is originated during a two-year period (European Investment Fund, n.d.). The maximum guarantee amount is EUR 60 million per Intermediary. As a result, credit risk faced by Financial Intermediaries is mitigated due to this

[4] SME Report 2016: https://www.eib.org/attachments/thematic/sme_report_2016_en.pdf Accessed on 20.05.2019

guarantee, which is also offered on favourable terms, and they are encouraged to extend new loans and leases to innovative SMEs.

2.6 Conclusion

The main concept of the administration of public projects by the EIB through the Financial Intermediaries will be analyzed in this dissertation. Moreover, the risks faced by these Financial Intermediaries which participate in the CYPEF Project will be analyzed and lastly the CYPEF Project will be evaluated through qualitative research.

Chapter 3

Methodology

Choosing the right methodology leads to valid and reliable results and conclusions characterized by objectivity. The implementation of the primary research aims at valid and objective results. The interviews help collect qualitative results and enable the researcher to get a full picture of the implementation of financial support projects by the EIB in Cyprus.

3.1 Required Research Data

In general, the research methodology helps the researcher to plan and to perform better research by gathering the appropriate data. The suitability of methodology determines the validity of data and the credibility of the research results. In the present study, data is investigated regarding the CYPEF Project performance and effectiveness in order for it to be evaluated.

Therefore, reliable, valid and representative data were sought for the image of the Cypriot businessman who has took part in the CYPEF Project, which are easily and quickly collected at the same time. A quantitative research through questionnaires is the first method that comes in mind, however due to reasons mentioned below, this was not possible. Therefore, interviews with experienced Bankers of the Financial Intermediaries of the project were conducted in order to assess the risks in the CYPEF Project and evaluate it.

3.2 Available Research Data

Through the researcher's relevant literature review, not many similar researches have been identified which talked about the assessment of risks faced by Financial Institutions when managing a financial support project for SMEs. There are several researches concerning the importance of the SMEs' role and financial support by the EIB (Kraemer-Eis & Lang 2012, Wagenvoort 2003, Kraemer-Eis & Schaber & Tappi 2010, Lapriore 2009, Charalambous & Polemidiotis 2017), the risks faced by a Financial Institution in general (Froot & Stein 1998, Chernobai & Rachev & Fabozzi 2012, Maechler & Mitra & Worrell 2009, Cade 1996), as well as the risks faced by the Financial Institutions of Cyprus specifically (Stephanou 2011a, Safakli 2007) and also researches about the banking system in Cyprus (Stephanou 2011b, Gunsel 2007).

The studies conducted by Kraemer-Eis & Lang, Kraemer-Eis & Schaber & Tappi and Lapriore use qualitative data and are presented as case studies, which all have a similar theme, the importance of SMEs' role and financial support by the EIB. The first mentioned study's intension was to enhance the awareness of leasing, and its importance, as additional financing technique for SMEs that expands the access to short- and medium-term financing for capital equipment. The next study argues that public sector support can contribute to the revitalization of the market in a way that avoids moral hazard and assists in the provision of consistent reliable information on the SME loan asset class. The third study concludes that with the current financial and economic crisis, there is however a need and opportunity to speed up the delivery of support to SMEs in the Member States and at regional level, as well as within the European Commission. The study conducted by Wagenvoort drew empirical evidence from a sample selection and used mathematical models. Their analysis showed that the sensitivity of company growth to cash flow rises as company size falls, which suggests that SMEs indeed encounter finance constraints that prevent them from fully exploiting their growth potential. The last mentioned study about the importance of SMEs' role and financial support, conducted by Charalambous & Polemidiotis, used information from the third wave of the Wage Dynamics

Network survey (WDN3) and their results demonstrate the flexibility of the Cyprus economy as well as the rapid response of SMEs via cuts in wages and prices, especially following the stricter banking framework that has been set in place following the March 2013 events.

Cade published a book which analyses several risks faced by Financial Institutions and proposes the organization of risk management. Moreover, the study conducted by Maechler & Mitra & Worrell uses panel data to reach to the conclusion that when credit growth accelerates it is important to ensure sound supervisory practices, in order to minimize risk exposure. Chernobai & Rachev & Fabozzi use qualitative data in order to argue that operational risk is now viewed as a major risk faced by financial institutions and the risks that internationally active banks have had to deal with, have become more complex and challenging. Froot & Stein, via model analysis, conclude that banks should hedge any risks that can be offloaded on fair-market terms and they should hold some capital as a device for absorbing liquidity risks which cannot be hedged.

Stephanou's paper, based on available literature and history itself, argues that systemic risks are important for Cyprus given its banking system size and structure. In addition, Safakli analysed data given by the State Planning Organization and based on available literature and also on the history of Cyprus, recommended reactive and proactive measures regarding credit risk management for Cyprus.

Stephanou, based on the available literature, analysed the systemic risks of big banks and also the policy implications for Cyprus and made some suggestions about the banking system. Gunsel, using a multivariate model as empirical methodology, reaches to the empirical findings of bank-specific weaknesses, high interest rates, high credit, low trade and the fixed exchange rate policy significantly increased the bank fragility in Cyprus.

The most important and relevant data which emerged from the above and aforementioned researches has been analysed for this dissertation.

3.3 Proposed Methodology

Questionnaires and personal interviews are among the most popular methods for exploring research questions and hypotheses and they complement each other in terms of objectivity, reliability, validity and verification of research findings. Case studies specify the conclusions and the results of these investigations. A key factor for the appropriateness of the use and exploitation of each method is the adequacy of the research object by the researcher who will determine the major research questions to be answered with the chosen method.

In several cases, studies either through questionnaires or through personal interviews were more focused on specific business areas (NTTSecurity 2017, PRNewswire 2018). Most of the case studies were focused on health organizations managing sensitive data, financial institutions and public services. This choice was made because of the volume and sensitivity of the data that these organizations are called upon to manage, but also the particular way they are required to apply the GDPR Regulation (NTTSecurity 2017, PRNewswire 2018).

3.4 Chosen Methodology

Questionnaires are always an economic and quick way to gather information in a specific frame of reference and also offer anonymity to the responders (Saunders, Lewis & Thornhill, 2007). The current research is descriptive, as it examines the views of the interviewees regarding the awareness and assessment of the impact of risk factors in financial support programs for SMEs and especially CYPEF.

As a result of the knowledge acquired from the literature review, the researcher created a questionnaire (Annex A) in order to use as a guide to the face to face interviews conducted with relevant personnel of the financial intermediaries of the CYPEF project, writing down the answers as the interviewees gave them.

As seen in the 3.2 subsection, most of the studies conducted with relevant and similar subject to this dissertation, used the available literature and were presented as case studies, where the minority of the studies mentioned above used empirical data drawn from surveys. The researcher of this dissertation focuses a lot on the available literature, but also uses personal interviews as a complementary source to justify her findings.

Questionnaire Characteristics: The questionnaire includes both closed and open questions. It is divided in seven sections, where the first one concerns the professional experience of the interviewee regarding the concept and second and third sections concern the business and financial risks faced by the financial institution which takes part in the program, respectively. Moreover, the fourth and fifth sections are about the profit, risks and problems faced by the financial institutions and SMEs respectively, in accordance with the financial support loans. The sixth section includes two questions which concern the evaluation of the CYPEF project. The last and seventh section includes only one open question which lets the interviewee add anything they wish to the interview.

Sampling Strategy: The researcher contacted relevant personnel of the financial intermediaries regarding the interviews and waited for a month for their reply. Even though most of them were not interested, 3 of them replied positively. The sample size was 15 people from two different financial institutions; however there was a large percentage of loss, due to the short timeframe given to them to reply whether they were interested in the interviews. The interviews which were conducted were anonymous.

Sample: The sample can be considered as homogenous, as the people contacted had similar employment and were working in similar institutions as well. Moreover, another characteristic of a homogenous sample is its small size, which also applies in this situation.

Expected Results: This research helped for the best possible understanding of the existing situation in Cyprus regarding the financial support loans to SMEs and created further concerns around tactics and measures to be taken by the Financial Intermediaries for the best use of the relevant projects.

Pilot Interview: Before the official conduction of interviews, the questionnaire was forwarded to the supervisor professor in order to review it and a pilot interview has taken place with one of the interviewees in order to identify any misunderstandings and difficulties concerning the questionnaire, which may lead to its adjustment. After the supervisor professor's review of the questionnaire and the pilot interview, the researcher was directed to the adjustment of the questionnaire which led to the better understanding and answering of the questions by the interviewees. Moreover, they helped add some questions which contribute in the collection of more relevant information about the risks and problems faced by both the Financial Institutions and the SMEs. The pilot interview proved to be important for the research.

Research Difficulties due to Interviews: There are several difficulties in conducting interviews as a way to collect information for a research. First of all there are different types of people which need a specific way of treatment as interviewees. More specifically, there are people who are shy, dominant talkers or they tend to ramble. Therefore, the interviewer must find a way for the shy people to talk and give enough information, for the dominant talkers to let the interviewer ask the prepared questions and for the rambling people not to give information that are out of the concept of the interview. Furthermore, the location that the interviews took place had to be quiet, private and such as no interruptions occurred (Bolderston, 2012). Moreover, the interviewer must explain to the interviewees that their personal information are kept private and ensure their consent to the interview.

3.5 Research Variables

This research was based on the risks taken by the Financial Institutions which act as Financial Intermediaries to financial support programs to SMEs and especially to the CYPEF project, which is a public project initiated by the EIB.

Moreover, it examines the degree of awareness about the influence of various risk factors and also the degree of awareness of the risks involved in this type of projects by relevant personnel of the financial institutions.

3.6 Conclusion

With the presentation and justification of the research methodology, the importance of this research was defined and also of other similar researches of the past and their methodology, which defined the researcher's choice of methodology of this research. This chapter supports the methodology of this research and the following presentation of the research results becomes more understandable.

The researcher will write a credible final report to the Financial Institutions of Cyprus which take part in the financial support projects and especially CYPEF regarding the degree of their awareness concerning the risks involved in this type of projects and will mention some methods that might help them reduce these risks.

Chapter 4

Research Results Analysis

The implementation of a research methodology to the best possible extent aims at the best possible results for the researcher based on the research purpose and the individual goals of the dissertation. At the end of the interviews, the researcher studied the interviewees' answers in order to present the results. The results of the interviews will be described below, divided per section and the interviewees' answers will be compared and analyzed. The personal interviews are written down in detail and presented in Annex B and were conducted in the two first weeks of May. Their duration time varied, due to the interviewees' experience and knowledge on the interview subject. More specifically, the interview with the Branch Manager had a duration of about 40 minutes, while the interviews with the other two interviewees lasted 15-20 minutes.

4.1 General Questions

This part of the interview, the interviewees were asked some general questions about themselves, such as their positions and experience in banking, after they were informed that their information, such as their name and their employer, is extremely confidential and will not be disclosed in this dissertation. As mentioned in the previous chapter, three persons were interviewed for this dissertation, whose positions are: Branch Manager (BM), Senior Customer Relationship Officer (SCRO) and Credit Officer (CRO). The BM and the SCRO both have many years of experience in Banking, 27 and 19 years respectively, however the CRO has only 4 years of experience. As of their experience with loans in general, the BM and the CRO have given a positive answer, but the SCRO gave a negative one. Moreover, the BM has both knowledge and involvement in the process of decision making about the CYPEF loans, however the SCRO even though has knowledge about them, has not been involved in the process. The CRO has neither knowledge nor involvement in the process.

The table below shows the summarized Interviewees' information.

<table>
<tr><th></th><th></th><th>Branch Manager</th><th>Senior Customer Relationship Officer</th><th>Credit Officer</th></tr>
<tr><td rowspan="4">Interviewees' Information</td><td>Years of Experience in Banking / Finance Sector</td><td>27 years</td><td>19 years</td><td>4 years</td></tr>
<tr><td>Experience with loans</td><td>Yes</td><td>No, only 8 months</td><td>Yes</td></tr>
<tr><td>Knowledge about CYPEF loans</td><td>Yes</td><td>Yes</td><td>No</td></tr>
<tr><td>Involved in the process of decision making for CYPEF loans</td><td>Yes</td><td>No</td><td>No</td></tr>
</table>

Table 6: Interviewees' Information

Source: Personal Interviews

4.2 Business Risk

In this part of the interview, interviewees were called to speak about the business risks of the Financial Institution. When they were asked to rank in terms of importance Market Risk, Operational Risk, Reputational Risk and Systemic Risk, all three of them placed Reputational Risk first. This means that banks take very seriously their reputation and image they promote to their clients and more generally to the world. Furthermore, it shows that all three interviewees believe that the damage caused by reputational risk is the hardest to correct and is the most harmful to the financial institution. The BM and the CRO placed Operational second in line, while the SCRO placed it last, justifying it by saying that the size of loss caused by operational risk usually is not so great as to cause the organization to collapse. It can be said that the way the interviewees see operational risk is affected by their position and experience, as well as the work and processes they use for their everyday tasks. Market risk is placed third by all interviewees. They think that other risks are more important; however they did not place it last, which means that they do not believe that it is the least important of all four risks. Systemic Risk was placed last by the BM and the CRO, but second by the SCRO. The BM and CRO's classification is identical, which shows that their position and knowledge have led them to have the same opinion about these risks' importance. When the interviewees were called to name some factors contributing to the creation of these risks, both the BM and the SCRO mentioned the country's economic situation, as well as the financial institution's processes followed. In addition, the Branch Manager and CRO referred to how the clients are served, while the SCRO talked about the personnel quality. Lastly, the interviewees were asked to name which of these risks are applied in the CYPEF project. The BM named reputational and market risks, expanding their answer by saying that SMEs' which were part of the projects would talk about whether their experience with the Financial Intermediary was good or bad, which will affect the organization's reputation, either for the better or worse. The CRO answered that operational and market risks are applied, and continued by saying that there might be cases where these loans may be wrongly approved, causing operational risk. The SCRO replied that the CYPEF project bares the same risks as all other lending products and proceeded by identifying all four of them.

The table below shows the summarized key findings of the Business Risk part.

		Branch Manager	Senior Customer Relationship Officer	Credit Officer
Business Risk	Classification	Reputational, Operational, Market, Systemic	Reputational, Systemic, Market, Operational	Reputational, Operational, Market, Systemic
	Contributing Factors	-Economic Conditions -Legislative & Regulatory -Framework -Image -Regulations, Processes & Policies	-Country's Economic Situation -Structure & Procedures -Institution's History -Personnel Quality	-Market -Bad Customer Management
	Applied in CYPEF	Reputalional & Market	All of the above	Operational & Market

Table 7: Business Risk key findings

Source: Personal Interviews

4.3 Financial Risk

This part of the interviews is very similar to the previous one; however it is about Financial Risk. The interviewees were asked to rank the following risks in terms of importance: Credit Risk, Liquidity Risk and Moral Hazard. Their answer was unanimous. All three of them placed Credit Risk first, Liquidity Risk second and Moral Hazard last, which makes it clear that these three interviewees, who have different positions and experience have the same opinion about these risks' importance. When they were called to name the factors that create these risks, all three of them gave different answers. The BM referred to the bank's fame and incorrect handlings, evaluations and policies, target groups and approaches. The SCRO mentioned the organization's risk appetite, which affects credit and liquidity risk and talked about the country's economic situation once again. The CRO talked about customers, referring to their income, type of business and assets. Lastly, the interviewees were asked to mention which of these risks are applied in the CYPEF project, where the BM answered that liquidity and moral hazard is not applied, as this kind of project is closely monitored by the Central Bank and the funds used do not belong to the bank, therefore only credit risk is applied. The CRO had the same opinion, saying that only credit risk is applied. The SCRO believes that all three risks are applied in the CYPEF project.

The table below shows the summarized key findings of the Financial Risk part.

		Branch Manager	Senior Customer Relationship Officer	Credit Officer
Financial Risk	Classification	Credit, Liquidity, Moral Hazard	Credit, Liquidity, Moral Hazard	Credit, Liquidity, Moral Hazard
	Contributing Factors	-Fame -Incorrect handlings -Evaluations & Policies -Target Groups and Approaches.	-Bank's Risk Appetite -Society -Country's Economic Situation	-Customers' Income, Type of Business and Assets
	Applied in CYPEF	Credit	All of the above	Credit

Table 8: Financial Risk key findings

Source: Personal Interviews

4.4 Financial Intermediaries

This part concerns the financial institutions which act as financial intermediaries. Firstly, the interviewees were asked what the financial institution expects to gain through this kind of program. All of them referred to customers or potential customers. The BM answered that the involved financial institutions have a profit margin and they strengthen their relationship with their clients, or even built relationships with new clients. The SCRO referred to the improvement of customer service of the bank and the increase of its market share. The CRO mentioned that the organizations expect to gain potential clients with good prospects and improve their reputation. Additionally, the interviewees were asked to name some methods which financial institutions use to reduce risks and give their opinion about their effectiveness. The BM replied that the methods used until 2013 have not been effective, based on history and facts, however after that, laws, regulations and institutions have been altered and the measures taken seem to be satisfying. The SCRO mentioned that a better customer assessment and enterprise comparison have been effective methods. The CRO talked about insurance and collateral in case of a loan that is not being repaid as agreed. The last question of this part is about the difficulties the financial intermediaries face regarding the CYPEF project and more generally, financial support project to SMEs. The BM replied that the procedures are not complex, the SCRO replied that it is not difficult for financial institutions to act as financial intermediaries to these projects and the CRO could not answer this question, as they were not familiar with CYPEF.

The table below shows the summarized key findings of the Financial Intermediaries part.

		Branch Manager	Senior Customer Relationship Officer	Credit Officer
Financial Intermediaries	Expected Gain	-Profit Margin -Building & Strengthening Relationships with Customers	-Increase of Market Share -Customer Service Improvement	-Reputation -Potential Clients
	Risk Reducing Methods Effective?	-Alteration of Laws, Regulations and Institutions -Satisfying	-Better Client Assessment -Sector Information -Effective	-Insurance & Collateral -Effective
	Problems concerning CYPEF	-Not complex Proceedures	-Not Difficult Procedures, same as other lending products	Cannot answer

Table 9: Financial Intermediaries key findings

Source: Personal Interviews

4.5 SMEs

This part is about the SMEs which took part in financial support projects. Firstly, the interviewees were asked what the SMEs expect to gain through the financial support programs. All three of them referred to the favorable terms of this kind of projects, while the SCRO added that SMEs expect that their applications for these loans would be more easily approved, due to the extra liquidity of the financial intermediary. Moreover, when the interviewees were asked about the major risks of SMEs in these projects, the BM replied that the risks are no different from the risks in other lending products, while the SCRO replied that some SMEs may apply for these programs without really needing the funds, but because of the favorable terms. The CRO answered that SMEs do not face any risks. After that, they were asked whether they believe that SMEs are aware of the risks involved. The BM replied that any borrower (including SMEs) is obligated to provide an independent written opinion by a legal advisor regarding every term and condition regarding the reception and repayment of the loan, therefore they are aware, whilst the SCRO's answer was that most of the enterprises are aware of some of the risks. The CRO answered that the SMEs involved are not aware of the risks. The last question of this part was about the difficulties for SMEs regarding the financial support programs, where the BM replied that the procedures, as well as the terms and conditions of these programs are not complex; therefore it is easy for SMEs to take part to the financial support programs. The SCRO answered that the difficulties are exactly the same as any other lending products, as the SMEs are called to present the same data and information to the financial institution, while the CRO could not answer this question, as they are not familiar with this kind of projects.

The table below shows the summarized key findings of the SMEs part.

		Branch Manager	Senior Customer Relationship Officer	Credit Officer
SMES	Expected Gain	-Favorable Terms -Financial Support -Regular Checks	-Favorable Terms -Easier Approval of Application	-Favorable Terms -Capital
	Major Risks in financial support programs	Same risks as other lending programs	SMEs could take part in the program, just for its terms, not out of necessity	I do not believe that SMEs face any risks
	Are SMES aware of risks?	Yes	Most of the companies are aware of some of the risks	No
	Difficulties about CYPEF	Procedures & Terms and Conditions are not complex	Same level of difficulty as other lending programs.	Cannot answer

Table 10: SMEs key findings

Source: Personal Interviews

4.6 CYPEF Evaluation

The interviewees were asked whether they believe that financial support projects like CYPEF are necessary for Cyprus. Their answer was unanimous, as all three of them claimed that they are indeed necessary. The BM expanded their answer by saying that these projects are necessary especially after 2013, where financial institutions had, and still have, to face a special framework (provisions of bad debts, non-performing loans, liquidity and intense interest fluctuation). After this, the interviewees were asked about the risks realized in CYPEF and the ways their organization managed them, where both the SCRO and CRO could not reply, as they are not actively involved in CYPEF. The BM replied that not available capital was managed by correct marketing and differentiation of clients. Moreover, approval and disposal of lending is investigated by the authorized unit, with special attention in order to avoid any mistakes or even exclusion from the program. In addition, the financial intermediary tightly monitors the loans, so that in case of a loan is not being repaid based on the repayment schedule, the necessary and appropriate measures are taken immediately. Lastly, the interviewees were called to evaluate the program. They all replied that the program is effective as far as they are concerned; where the BM expanded their answer by saying that it serves its purpose, as the SMEs which took part in the program were benefitted by its favorable terms.

The table below shows the summarized key findings of the CYPEF Evaluation part.

		Branch Manager	Senior Customer Relationship Officer	Credit Officer
CYPEF Evaluation	Is CYPEF necessary for Cyprus?	Yes, especially after 2013	Yes	Yes
	Risk management methods for CYPEF	-Correct Marketing & Differentiation of Clients. -Investigation of Approval and Disposal of lending -Tight Monitoring of Loans	Cannot answer	Cannot answer
	CYPEF Evaluation (Effective? Does it serve its purpose?	Effective & Serves its purpose	Effective & Serves its purpose	Effective

Table 11: CYPEF Evaluation key findings

Source: Personal Interviews

4.7 Open Question

The last part of the personal interview included one open question, where the interviewees were asked to add anything relevant to the interview which they did not have the opportunity to mention. The BM added that European projects vary and are beneficial for the civilians and the enterprises. The responsible ministry should inform in time and in detail the target group, so that our country can enjoy all funds accounted for.

4.8 Conclusion

The analysis of the results was based on the researcher’s inquiries, through the purpose and goals of this dissertation. Through the analysis of the research results, the researcher is ready to present the research findings and conclusions, based on the goals set at the beginning of this dissertation.

Chapter 5

Research Findings Discussion

After the analysis of the research results, the researcher is able to reach to conclusions concerning the assessment of risks involved in financial support projects for the Financial Institutions and especially the CYPEF project. In addition, the researcher is ready to give a brief evaluation of the CYPEF project based on the research results. After this discussion, the research, practical and social impact of this dissertation will be presented.

5.1 First Goal

The first goal of this dissertation, as set in the first chapter, is the analysis of the main concept of the administration of public projects by the European Investment Bank. This goal is achieved via the literature review, where the strategy and priorities of the EIB were analyzed, as well as the EIB's cohesion policy and structural loans. Moreover, the importance of the financial support programs was discussed, as SMEs are the backbone of the economy and their funding helps not only them, but also their country's economy to improve. Additionally, this also applies for Cyprus, as out of 51,135 enterprises in Cyprus, 51,069 of them operated as SMEs in 2018 as table 3 shows. Therefore, almost all enterprises in Cyprus are operating as SMEs, making their survival and growth vital for the country's economy.

5.2 Second Goal

The second goal of this dissertation is the identification of business and financial risks of Financial Institutions when they manage financial support projects and specifically through the CYPEF project, which was achieved via the personal interviews. Concerning the business risks, Market, Operational, Reputational and Systemic, all of them were identified by at least one interviewee as risks of the CYPEF project. However, market risk was the only risk identified by all three interviewees. Moreover, concerning the financial risks, Credit, Liquidity and Moral Hazard, all of them were identified as CYPEF risks by at least one interviewee, however credit risk was the only risk identified by all three of them. Therefore it can be said that even though the interviewees had different positions and experience, market risk is seen as a business CYPEF risk and credit risk as a CYPEF financial risk by all of them.

5.3 Third Goal

This dissertation's third goal is the analysis of business and financial risks of Financial Institutions when they manage financial support projects and specifically through the CYPEF project, which was achieved via the literature review. The researcher mentioned that business risk is caused by wrongly choosing a strategy for decision making procedures and operations, as there is a wide range of them to choose from, adding market, operational, reputational and systemic risks in the category of business risk. Furthermore, the researcher also discussed about financial risk, which is about the financial state of an organization, listing moral hazard, credit and liquidity risks in this category. Due to the fact that CYPEF is an ongoing project, the researcher found no case study or any other kind of research especially about the risks faced by the CYPEF financial intermediaries. However, since the CYPEF project has a great volume, it can be assumed that it also bears great risks to every party involved. However, the fact that the CYPEF project is a Risk Sharing instrument gives the financial intermediary a significant advantage.

5.4 Fourth Goal

The researcher set the classification of business and financial risks of Financial Institutions when they manage financial support projects and specifically through the CYPEF project as this dissertation's fourth goal, which is achieved via the personal interviews with experienced personnel. Two out of the three interviewees gave the following classification of business risks in terms of importance: Reputational, Operational, Market and Systemic, while the other interviewee ranked them as follows: Reputational, Systemic, Market and Operational. This classification implies that all three of them believe that reputational risks are the most important business risks that financial institutions face. This opinion leads the researcher to the conclusion that damages caused by reputational risks are considered the most hard to fix. The ranking of the other three risks depends on the interviewee's experience, position, work and even education. Furthermore, as of the financial risks, the three interviewees gave unanimous answers. All of them listed credit risk as more important, liquidity risk as second and moral hazard as the last important financial risk. The interviewees' answers helped the researcher conclude that no matter their experience, position, work and education, meaning that concerning financial risks, credit risk is clearly the most important risk.

5.5 Fifth Goal

The fifth and last goal of this dissertation is a brief CYPEF evaluation, which is achieved via the personal interviews. All three interviewees answered that as far as they are concerned, the CYPEF project is necessary for Cyprus, has been effective and it serves its purpose. However, two out of the three interviewees could not add any details on how the financial intermediaries they work at manage risks within the framework of the CYPEF program, as they were not actively involved in it. Furthermore, it is determined that the CYPEF project is observed as a lending product, similar to all other lending products of the financial intermediaries, without separating it from them. In addition, when they were asked about the difficulties the financial institutions face in this kind of projects, such as whether it is difficult for them to act as a financial intermediary, or apply for it, some of them were not able to answer due to their lack of knowledge on this matter. Moreover, when the interviewees were asked about the difficulties of SMEs in these programs, there were again some of them who lacked knowledge about the difficulty and complexity of procedures followed in this case. Therefore, a complete and full conclusion cannot be reached concerning the evaluation of the CYPEF program due to the personnel's lack of awareness of this program, however it can be said that CYPEF and other similar programs are necessary for Cyprus and that it is effective.

5.6 Conclusion

The discussion of the research findings documented the main concept of the administration of public projects by the European Investment Bank. Moreover, it assessed the risks faced by a financial institution when it manages financial support programs for SMEs, such as the CYPEF project. At the same time, it proved the experienced personnel's lack of awareness of this kind of projects, causing the evaluation of the CYPEF project to be unsatisfying and incomplete. This research is completed through the clarification of its impact, limitations and directions for further research.

Chapter 6

Impact and Limitations

This research, like any research, has specific scientific, practical and social impacts. During the research, the researcher understands its limitations and is in a position at the end of the research to point to directions for further research.

6.1 Impact of Findings

The researcher was able to identify and present any possible research, practical and social impact of the research on the assessment of risk factors concerning the financial support programs at the end of the analysis of the results.

6.2 Research Impact

This research aims at the assessment of risk factors for the financial institutions concerning the SMEs' financial support programs and especially the CYPEF project. The findings of this research focus the findings from researches about the risks faced by financial institutions and specialize them regarding the financial support programs. Therefore, the researcher tried to specialize the findings of the researches about the risks faced by financial institutions through qualitative research, differentiating this research from the others. As a result, this research can be the beginning of further research, which will help assess and find ways to reduce risks produced by the involvement of financial institutions in financial support programs supported by the EIB, as there are and have been plenty of those in the past and present as mentioned in this dissertation.

6.3 Practical Impact

Through the way of configuration of the questionnaire and the interviews, the researcher presented a brief picture of the basic variables concerning the financial support projects for SMEs. This research helped the financial institutions to identify and classify the risks they face regarding the financial support programs and raised their awareness about this subject. Also, the analysis of the results and the discussion of the findings should be taken into account be the responsible departments of the financial institutions in order to investigate further and find ways to reduce the risks mentioned in this dissertation. At the same time, this research fills in some blanks in the national literature about the financial support programs initialized by the EIB.

6.4 Social Impact

By conducting this research, the results and proposals from the researcher and the notification of the responsible departments of the financial institutions of the findings will undoubtedly lead to social change in the banking system and also the SMEs which are part of this kind of programs.

The social impact is possible only if this research is whole and then the relevant findings, results and proposals get published to any organization that is interested or involved in the programs, like the financial intermediaries and every SME in Cyprus, or even Europe, which will make any necessary action in order to reduce the risks.

6.5 Research Limitations

This research has several limitations in terms of content, sample, duration, presentation and processing. It must be noted that the entire range of the risks that a Financial Institution faces concerning the financial support projects for SMEs cannot be explored in its entirety and because of this, this research was focused on the basic and major risks, as risks are more complex to assess than a list of risks like it is presented in this dissertation.

The timeframe given to the potential interviewees to answer to the electronic invitation for the interviews can be considered as a limitation as well, as they were given a month to reply if they were interested.

Furthermore, the fact that the researcher has almost no experience in the banking sector, nor has knowledge in business environment and operations may have limited the possibilities to entirely understand the whole concept and aspects of banking procedures which are related to the distribution of loans and more specifically the distribution of the financial support loans to SMEs.

One of the major limitations of this research was the lack of statistical data concerning the financial support loans to SMEs. Due to the GDPR Regulation, which was put in motion on the 25th of May 2018, it was extremely difficult to draw the required data that would allow the methodology of questionnaires. This is due to the fact that the names of the entrepreneurs who took part in the CYPEF Project were necessary, as well as their financial backgrounds, the amount of their loans and additional information such as if they were repaying the loan, or if they had delayed payments in order to have all information needed to reach a conclusion about if they were indeed helped by CYPEF or not, evaluating the program. All the information needed was confidential and the Financial Institutions are forbidden to give it away. Moreover, when Financial Intermediaries were asked to give anonymous data as to how many CYPEF loans were given away, their amounts, their monthly payments, information about if they were being repaid or not and other relevant information, they declined again due to the GDPR Regulation. Due to the difficulties faced in order to extract the required data for conducting questionnaires, this method was out of the picture.

Another limitation of this research is the lack of awareness and knowledge of the financial intermediaries' experienced personnel, which resulted in an incomplete CYPEF evaluation, which was one of the five main goals of this dissertation.

6.6 Directions for Further Research

This dissertation presented a general assessing of risks faced by Financial Institutions managing financial support projects for SMEs and especially for the CYPEF project, as well as a brief evaluation of it. The research could be completed through more interviews with experienced personnel and also through questionnaires answered by SMEs which are, or were in the past, part of this kind of projects in order to have a completed picture about the data mentioned in the previous subsection, Research Limitations. Additional research could be conducted concerning the awareness of the Financial Intermediaries' personnel about the financial support projects and their risks for the Financial Institutions, as well as a proper evaluation for these projects, not only by both the EIB and the Financial Intermediaries, but also by the SMEs involved, in order to make the proper conclusions regarding their effectiveness.

6.7 Conclusion

Every research upon completion leads the researcher to determine the impacts, limitations and further research directions which can arise from it. At the same time, the researcher has completed the five dissertation goals and is ready to express the conclusions and proposals concerning the assessment of risk factors for Financial Institutions in financial support projects.

Chapter 7

Conclusion

This research bears significant importance, as it has helped the researcher, an Enterprise Risk Management student, to understand the current situation of the banking environment in Cyprus, regarding the financial support loans to SMEs. However, this research had both strengths and weaknesses which will be analysed below.

7.1 Research Strong Points

This dissertation presents the risks faced by Financial Institutions when acting as Financial Intermediaries for financial support projects for SMEs in Cyprus. Research about general risks faced by Financial Institutions has been observed in international literature and articles, as well as research about the importance of SMEs and more specifically, the importance of financial support to SMEs. However, no research has been observed which presents the risks faced by the Financial Institutions which offer financial support projects and products to SMEs, therefore it can be said that this dissertation makes the difference, as it is innovative and new.

The differentiation of this dissertation also lies in the fact that the researcher, after presenting the relationship of Cyprus and the EIB generally and then more specifically about financial support projects, came to analyze the risks from the Financial Institutions' point of view by interviewing their own experienced personnel.

Moreover, this dissertation contributes to the wider literature about banking risks to create a clearer image about the classification of these risks after the personal interviews with the bank personnel, as a formal classification does not exist.

7.2 Research Weak Points

On the other hand, this research presents some gaps and weaknesses, which the researcher would try to correct if this research is repeated. Due to the fact that the chosen methodology was personal interviews, the researcher had to dedicate valuable time for the research in order to construct the interview questionnaire, to implement the interviews and to write down the dialogues. This time could be used for further literature review or any other way that would benefit the research. Lastly, the duration of time given to potential interviewees to reply whether they were interested in the interviews was too short and limited the sample size, which can be considered as small, and might not be considered as representative for the whole banking sector.

7.3 Proposal

The CYPEF project creates significant expectations, but important concerns as well. However, due to the vital importance of this kind of projects, they can be proved to be the backbone of the economic system and especially the sustainability of SMEs, after some alterations and improvements by the banking system, government but also by the EIB.

One of the most important results, which the researcher reached through the literature review and the personal interviews, was the lack of awareness of the involved parties concerning the financial support projects. The fact that high positioned members of the personnel of financial intermediaries were not aware of the basic characteristics and functions of the financial support projects came as a great surprise. The EIB has the responsibility to oblige the financial intermediaries to inform the entirety of their personnel about the demands, requirements, characteristics and risks of not only the financial support programs by the EIB, but all similar products the organization offers. Simultaneously, the government should also be aware about the updates and new information about the programs, so that it can direct the banking system of the country and also the target group of each program. Therefore, these programs should be promoted and advertised by both the financial intermediaries and the responsible public departments, in order to attract the appropriate target group.

As concluded through the literature review, but also through the personal interviews, SMEs' role is vital for the economy of the country, hence their funding is crucial for their growth and in general the national and European growth. As the CYPEF project is part of the EIB programs for the programmatic period 2014-2020, which comes to its end next year, similar projects and more promising projects should make their appearance in the next programming period, in order to maintain and empower SMEs' progress and European economy. In parallel, there are other vital sectors contributing in the economic growth of a country or union; therefore it is necessary for other financial products to be offered to cover the gap, such as non-profit organizations, political parties, trades and other cultural groups.

Additionally, through the personal interviews, it became clear that the financial support programs for SMEs funded by the EIB are considered as "another lending product", with the same procedures and evaluations as all other lending products of the financial intermediaries. This kind of programs should be separated from other lending products, since the available funds for these loans originate from the EIB and they are not provided by the financial institution. Therefore, the financial intermediaries should recognize the programs' importance and pay more attention to them.

As a result of the above mentioned proposition, the financial intermediaries should make different and better evaluations of the borrowers and also monitor them tightly and continuously so that the involved SMEs do not take advantage of the funds and make good use of them. Moreover, the funding of SMEs through these programs should not be just an oxygen mask for them, just ensuring their survival depending only on this funding; it should give them a boost to be empowered.

7.4 Conclusion

This dissertation presents the basic risks faced by the Financial Intermediaries of the financial support projects to SMEs in Cyprus with simplicity, which helps the responsible departments of the Institutions, like the Risk Management and Operational Departments to observe and understand the importance of the risks involved. Moreover, this contributes in making them update some of their Risk Management plans and procedures in order to reduce any risk they are able to. This allows them to protect and also assist their employer bank to reduce any loss produced by these procedures.

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Annex A

Questionnaire Sample

Assessing the impact of risk factors in projects concerning financial support to SMEs

Part 1: General questions

1. Position in the Financial Institution
2. Years of experience in Banking – Finance sector
3. Would you say you have experience with loans? (Distribution, terms, bank's products) / Years of experience in Risk management field.
4. Do you have any knowledge about the CYPEF loans?
5. Have you been involved, in any way in the process of decision making regarding the CYPEF loans?

Part 2: Business Risk

6. How would you classify the following risks in terms of importance? Market Risk, Operational Risk, Reputational Risk and Systemic Risk
7. In your opinion, which factors contribute to the creation of these risks?
8. Which of these risks do you think are applied in the CYPEF project and why?

Part 3: Financial Risk

9. How would you classify the following risks in terms of importance? (Credit Risk, Liquidity Risk and Moral Hazard)
10. In your opinion, which factors contribute to the creation of these risks?
11. Which of these risks do you think are applied in the CYPEF project and why?

Part 4: Financial Intermediaries

12. What does the Financial Institution expect to gain through this kind of programs?
13. Which methods do you think the Financial Institution uses to reduce the risk? Have they been effective?
14. Do the banks face any problems concerning CYPEF and more generally, financial support to SMEs projects? (e.g. Is it easy to meet the requirements in order to act as an Intermediary? Is it difficult to apply in order to act as an Intermediary? Is it difficult for them to communicate with the EIB? Etc)

Part 5: SMEs

15. What do SMEs expect to gain through the financial support programs?
16. Which are the major risks that the SMEs face in this kind of programs?
17. According to your opinion, are SMEs aware of the risks involved?
18. What are the difficulties for SMEs? (Is it difficult to apply for the program? Do they easily meet the requirements? Is the program easy to be implemented by them? Etc)

Part 6: CYPEF Evaluation

19. Do you believe that financial support projects for SMEs and especially the CYPEF project are necessary for Cyprus?
20. How your organization managed risks within the framework of the CYPEF program? Can you give an example of risks realized and the they were managed?
21. How would you evaluate the CYPEF project? (Effective? / Does it serve its purpose?)

Part 7: Open Question

22. Is there anything relevant you would like to add to this interview that you did not have the opportunity to mention?

Annex B

Personal Interviews

B.1 Interview 1

Part 1: General Questions

1. Position in the Financial Institution

   Branch Manager

2. Years of experience in banking

   27 years

3. Would you say you have experience with loans?

   Before I became a Branch Manager, I was actively involved in every directive of the institutions; therefore I would say that, yes, I have experience with loans.

4. Do you have any knowledge about the CYPEF loans?

   Yes.

5. Have you been involved, in any way in the process of decision making regarding the CYPEF loans?

   Yes, I took part in the Lending Approval Commission of the organization.

Part 2: Business Risk

6. How would you classify the following risks in terms of importance? (Market Risk, Operational Risk, Reputational Risk and Systemic Risk)

   Reputational, Operational, Market, Systemic.

7. In your opinion, which factors contribute to the creation of these risks?

   First of all, a factor is the economic conditions, as well as the legislative and regulatory framework, which is given by the responsible bodies of the EU and by the European institutions and regulations. Another factor is the image of the

Financial Institution, which mostly depends on the organization's customer service, as Cyprus is considered as a small community and customers' comments about the organization travel from mouth to mouth. Moreover, the regulations, processes and policies the organization follows may act as a risk factors for the above said risks.

8. Which of these risks do you think are applied in the CYPEF project and why?
   I think that Reputation and Market risks are the ones applied in the CYPEF project. It is important that the SMEs which took part in the project are satisfied with the organization's service, which is also indirectly linked to operational risk. As of the Market risk, the way of loan repayment is important, as well as following the terms and conditions as they were in force at the time that each SME applied for the loan. Moreover, the market conditions which make the program wanted or not are also significant for Market risk.

Part 3: Financial Risk

9. How would you classify the following risks in terms of importance? (Credit Risk, Liquidity Risk and Moral Hazard)
   I believe that Credit and Liquidity risks are equally important, as they are interdependent. Credit risk has to do with loans with late payments and the organization's savings in order to be covered in such cases; therefore if this happens, the organization is deprived of liquidity for more loans. Hence, I would classify Moral Hazard as second in terms of importance.
10. In your opinion, which factors contribute to the creation of these risks?
    The organization's fame, incorrect handlings, evaluations and policies, target groups and approaches.
11. Which of these risks do you think are applied in the CYPEF project and why?
    I think that Credit risk is applied, however liquidity risk is not, as the funds do not belong to the Financial Institution. Moreover, Moral Hazard is not applied, as this kind of project is closely monitored by the Central Bank.

Part 4: Financial Intermediaries

12. What does the Financial Institution expect to gain through this kind of programs?

    Financial Institutions involved have a profit margin in this kind of programs. Moreover, they strengthen their relationship with their clients, or build relationships with new clients.

13. Which methods do you think the Financial Institution uses to reduce the risk? Have they been effective?

    Based on history and facts, the methods used have not been effective. Error probability is not accepted by European Central Bank, such as wrongly approved loans to enterprises that did not meet the requirements. Moreover, banks which take part in programs funded by the EIB pay interest to them, therefore if they do not utilize the funds they will eventually have losses. More especially, looking at the 2013 facts, the methods to reduce risks were not effective, however after that, laws, regulations and institutions have been altered and the measures taken seem to be satisfying.

14. Do the banks face any problems concerning CYPEF and more generally, financial support to SMEs projects? (e.g. Is it easy to meet the requirements in order to act as an Intermediary? Is it difficult to apply in order to act as an Intermediary? Is it difficult for them to communicate with the EIB? Etc)

    The procedures are not complex. For a Financial Institution, it is as easy/difficult as all other lending products.

Part 5: SMes

15. What do SMEs expect to gain through the financial support programs?

    SMEs get favorable terms through these programs (interest, credit cost and grace period) and of course financial support for their growth. Moreover, it is for their advantage the fact that the bank checks on them to make sure that the enterprise uses the funds loaned to them for specific purposes.

16. Which are the major risks that the SMEs face in this kind of programs?

    This kind of programs bares the same risks as all other lending programs.

17. According to your opinion, are SMEs aware of the risks involved?

It is regulated that any borrower (including SMEs) is obligated to provide an independent written opinion by a legal advisor regarding every term and condition regarding the reception and repayment of the loan. Therefore, they sign that they are aware of the risks and consequences of the loans.

18. What are the difficulties for SMEs? (Is it difficult to apply for the program? Do they easily meet the requirements? Is the program easy to be implemented by them? Etc)

    I would say that the procedures, as well as the terms and conditions of this kind of program are not complex.

Part 6: CYPEF Evaluation

19. Do you believe that financial support projects for SMEs and especially the CYPEF project are necessary for Cyprus?

    I believe it is necessary, especially after 2013, where financial institutions had, and still have, to face a special framework (provisions of bad debts, non-performing loans, liquidity and intense interest fluctuation), which is regulated by the European Central Bank and relevant institutions.

20. How did your organization manage risks within the framework of the CYPEF program? Can you give an example of risks realized and the way it was managed?

    (i) Not available capital. It was managed by correct marketing and differentiation of clients.

    (ii) Approval and disposal of lending. It is investigated by the authorized unit, with special attention in order to avoid any mistakes or even exclusion from the program.

    (iii) Tight monitoring of the loans, so that in case of a loan that is not being repaid based on the repayment schedule, the necessary and appropriate measures are taken immediately.

21. How would you evaluate the CYPEF project? (Effective? / Does it serve its purpose?)

    This program is effective and it serves its purpose. The SMEs which took part in this program benefited by its favorable terms and conditions.

Part 7: Open Question

22. Is there anything relevant you would like to add to this interview that you did not have the opportunity to mention?
European projects vary and are beneficial for the civilians and the enterprises. The responsible ministry should inform in time and in detail the target group, so that our country can enjoy all funds accounted for.

B.2 Interview 2

Part 1: General Questions

1. Position in the Financial Institution
Superior Customer Relationship Officer (SCRO)
2. Years of experience in Banking – Finance sector
I have 19 years of experience in Banking, of which 8 months are in the Finance sector, and more specifically in credit.
3. Would you say you have experience with loans?
I wouldn't say that I have experience, only 8 months.
4. Do you have any knowledge about the CYPEF loans?
Yes, I know that it is about SMEs financing.
5. Have you been involved, in any way in the process of decision making regarding the CYPEF loans?
No, I have not.

Part 2: Business Risk

6. How would you classify the following risks in terms of importance? (Market Risk, Operational Risk, Reputational Risk and Systemic Risk)
Reputational, Systemic, Market, Operational. The reason that I ranked the operational risk last is not because it is not important, but because most of the times the size of loss caused by operational risk is not as great as to result in the institution's collapse.
7. In your opinion, which factors contribute to the creation of these risks?

Firstly, it is the country's economic situation, structure and the bank's procedures, as well as the institution's history and quality of personnel.

8. Which of these risks do you think are applied in the CYPEF project and why?
   The CYPEF project bares the same risks, at the same level, as all other lending products. I would say that all of the above risks are applied in the project.

Part 3: Financial Risk

9. How would you classify the following risks in terms of importance? (Credit Risk, Liquidity Risk and Moral Hazard)
   Credit, Liquidity and Moral Hazard. These risks, in this ranking, cause a chain reaction once activated.
10. In your opinion, which factors contribute to the creation of these risks?
   The bank's risk appetite is very important here. It determines the level of the institution's intension to take risks. For example, a conservative institution has a small risk appetite, which does not allow the bank to take multiple risks, such as investments, in order to have the opportunity to make profits. Therefore, the bank remains at a lower level of liquidity, which does not allow a great amount of loans to be approved, reducing credit risk. Hence, it can be said that even though credit risk is reduced in this way, liquidity risk is increased. Another factor is society, as well as the country's economic situation. More specifically, if the economic situation of a country is not good, then the bank does not expect to have a great amount of loans, which again contributes in credit and liquidity risk.
11. Which of these risks do you think are applied in the CYPEF project and why?
   In my opinion, all 3 risks are applied in this project, because as I said, they are interdependent.

Part 4: Financial Intermediaries

12. What does the Financial Institution expect to gain through this kind of programs?

First of all, banks increase their market share and they improve their customer service, as they catch up on the other banks who offer these products as well, not depriving their clients of these products.

13. Which methods do you think the Financial Institution uses to reduce the risk? Have they been effective?

    Firstly, a better assessment of clients takes place, in order for the bank to decide whether they are eligible for lending products, etc. Moreover, sector information is considered a method, as different sectors of clients' work have different weigh. For example, if a client works in construction, their assessment is different from a client who works in tourism. Furthermore, in cases that they have enterprises as clients, they make a comparison in order to assess them. I would say that these methods have been effective, as it is more difficult for a loan to become non-performing after these checks.

14. Do the banks face any problems concerning CYPEF and more generally, financial support to SMEs projects? (e.g. Is it easy to meet the requirements in order to act as an Intermediary? Is it difficult to apply in order to act as an Intermediary? Is it difficult for them to communicate with the EIB? Etc)

    No, I wouldn't say that it is difficult. It is the same as other lending products.

Part 5: SMEs

15. What do SMEs expect to gain through the financial support programs?

    Better interest rates and other favorable terms, as well as easier approval of their application for the loan, as the financial institution has extra liquidity with the funds provided to them by the EIB.

16. Which are the major risks that the SMEs face in this kind of programs?

    SMEs could fall into a trap, where they take part in a project which is not really necessary for them, because of the favorable terms.

17. According to your opinion, are SMEs aware of the risks involved?

    Most of the companies are aware for some of the risks.

18. What are the difficulties for SMEs? (Is it difficult to apply for the program? Do they easily meet the requirements? Is the program easy to be implemented by them? Etc)

The level of difficulty for SMEs is the same as any other lending product, as they are called to present the same data and information.

Part 6: CYPEF Evaluation

19. Do you believe that financial support projects for SMEs and especially the CYPEF project are necessary for Cyprus?
    Yes, of course. It is something that Cyprus needs.
20. How did your organization manage risks within the framework of the CYPEF program? Can you give an example of risks realized and the way it was managed?
    Unfortunately, I am not involved in the CYPEF project; therefore I am not in position to answer.
21. How would you evaluate the CYPEF project? (Effective? / Does it serve its purpose?)
    I think that it is effective and serves its purpose.

Part 7: Open Question

22. Is there anything relevant you would like to add to this interview that you did not have the opportunity to mention?
    No, thank you.

B.3 Interview 3

Part 1: General Questions

1. Position in the Financial Institution
   Credit Officer (CRO)
2. Years of experience in Banking – Finance sector
   4 years.
3. Would you say you have experience with loans? (Distribution, terms, bank's products) / Years of experience in Risk management field.
   Yes, I would.

4. Do you have any knowledge about the CYPEF loans?
   No, I am afraid that I don't.
5. Have you been involved, in any way in the process of decision making regarding the CYPEF loans?
   No.

Part 2: Business Risk

6. How would you classify the following risks in terms of importance? (Market Risk, Operational Risk, Reputational Risk and Systemic Risk)
   Reputational, Operational, Market, Systemic
7. In your opinion, which factors contribute to the creation of these risks?
   The market, as well as bad customer management.
8. Which of these risks do you think are applied in the CYPEF project and why?
   I would say operational and market risks are applied, as there might be cases where the loans may be wrongly approved for SMEs which for any reason do not meet all requirements.

Part 3: Financial Risk

9. How would you classify the following risks in terms of importance? (Credit Risk, Liquidity Risk and Moral Hazard)
   Credit, Liquidity and Moral Hazard.
10. In your opinion, which factors contribute to the creation of these risks?
    Customers' income, as well as their type of business and assets.
11. Which of these risks do you think are applied in the CYPEF project and why?
    Credit risk, because of the favorable terms.

Part 4: Financial Intermediaries

12. What does the Financial Institution expect to gain through this kind of programs?
    Most importantly, they expect to gain reputation and potential clients, which offer good prospects to the bank.

13. Which methods do you think the Financial Institution uses to reduce the risk? Have they been effective?
    Banks use insurance and collateral, in case a loan is not being repaid as agreed. I believe this method is effective.
14. Do the banks face any problems concerning CYPEF and more generally, financial support to SMEs projects? (e.g. Is it easy to meet the requirements in order to act as an Intermediary? Is it difficult to apply in order to act as an Intermediary? Is it difficult for them to communicate with the EIB? Etc)
    As I am not familiar with the project, I cannot answer this question.

Part 5: SMEs

15. What do SMEs expect to gain through the financial support programs?
    Of course, they gain capital and benefit from the favorable terms.
16. Which are the major risks that the SMEs face in this kind of programs?
    I do not believe that SMEs face any risks.
17. According to your opinion, are SMEs aware of the risks involved?
    No, I don't think that they are.
18. What are the difficulties for SMEs? (Is it difficult to apply for the program? Do they easily meet the requirements? Is the program easy to be implemented by them? Etc)
    As I am not familiar with the project, I cannot answer this question.

Part 6: CYPEF Evaluation

19. Do you believe that financial support projects for SMEs and especially the CYPEF project are necessary for Cyprus?
    Yes, as Cyprus is characterized by the small market, therefore projects like this are necessary and helpful.
20. How did your organization manage risks within the framework of the CYPEF program? Can you give an example of risks realized and the way it was managed?
    I cannot answer this question; I do not have enough information.

21. How would you evaluate the CYPEF project? (Effective? / Does it serve its purpose?)
    As far as I am concerned, it is effective.

Part 7: Open Question

22. Is there anything relevant you would like to add to this interview that you did not have the opportunity to mention?
    No, thank you.