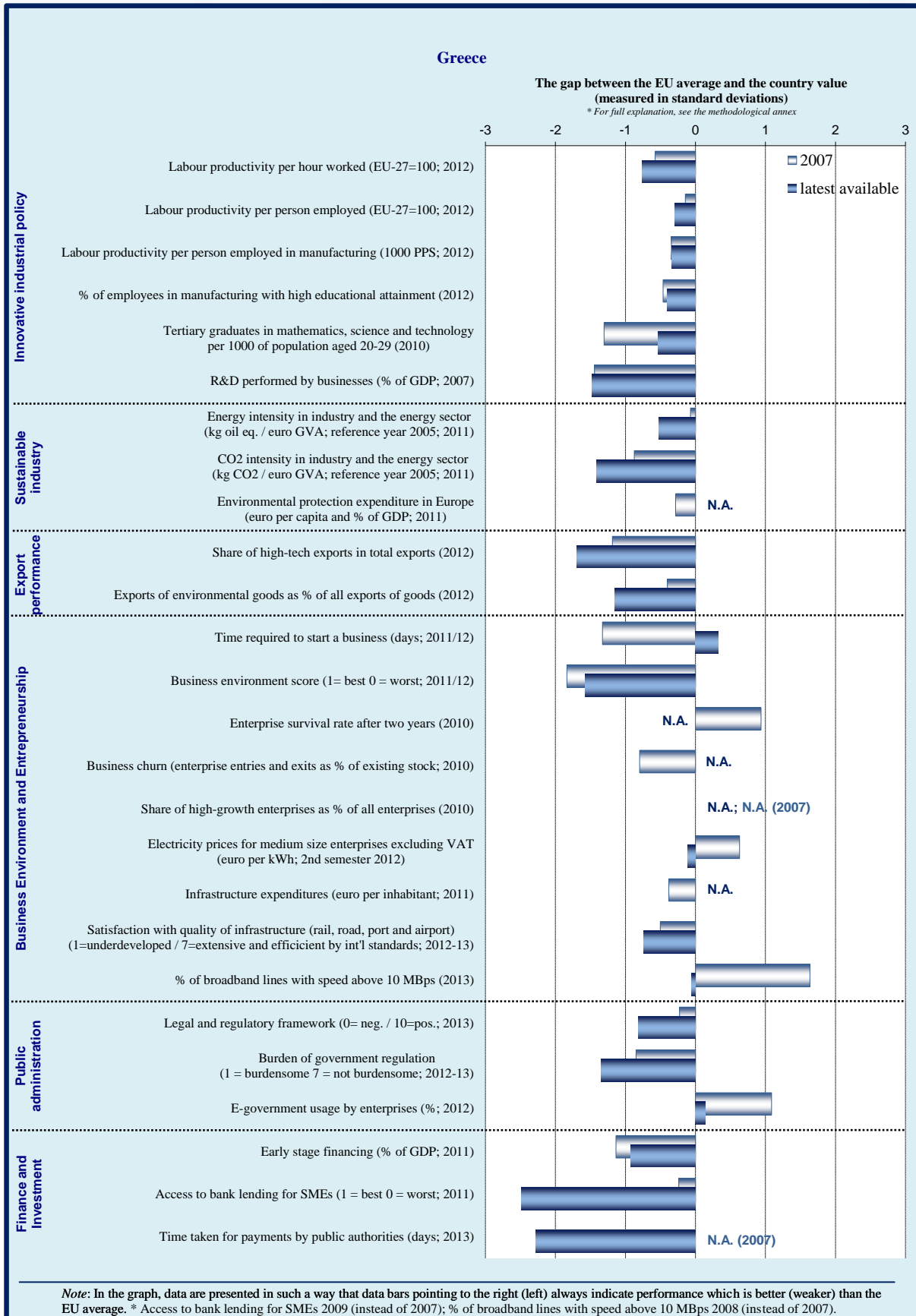
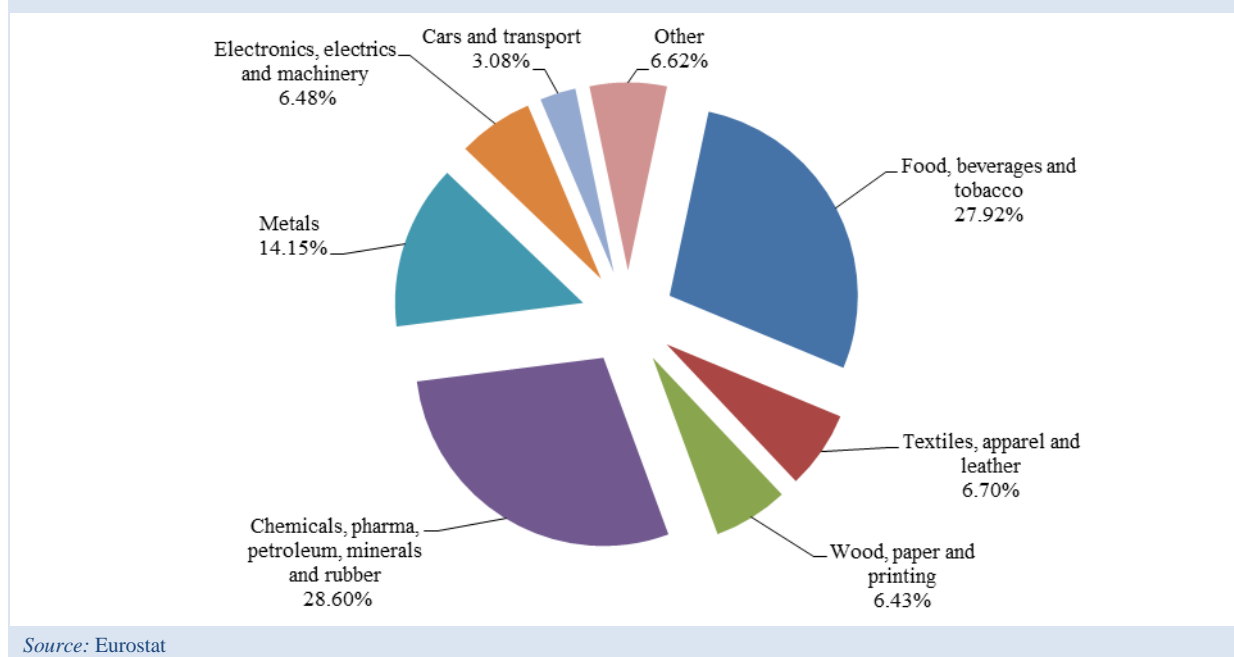


## 4.8. Greece



**Figure 4.8: Manufacturing sectors – Greece (2009)**

#### 4.8.1 Introduction

The Second Economic Adjustment Programme for Greece was approved in March 2012, financed by the European Financial Stability Facility (EFSF). The programme foresees financial assistance of EUR 164.5 billion by the end of 2014.

The economy saw a drastic decline in competitiveness following an increase in labour costs of more than 50% in 1999–2009. In 2012, GDP decreased by 6.4%, and the forecast for 2013 is a decrease of over 4%. However, competitiveness is currently being restored through increased wage flexibility and low inflation. According to the figures from the Hellenic Statistical Authority, labour costs have been reduced by 20% over the past three years.

The services are the biggest sector in the Greek economy, and tourism is a major part of that in terms of both importance to the economy and employment. Manufacturing contributes close to 10% of the total value added (the EU average is just over 15%). Greece specialises in food processing (manufacture of vegetable oils; processing and preserving of fruit and vegetables). Other important sectors are metals, chemicals, cement and textiles.

#### 4.8.2 Innovation, skills and sustainability

##### *Innovation*

There are challenges ahead for the innovation system, as the country needs to transform itself into a stable environment for entrepreneurship and create conditions for growth. According to the Innovation Union Scoreboard 2013, Greece is one of the moderate innovators, with a below-average performance. Innovation performance declined at an average annual rate of 1.7% between 2008 and 2012.<sup>1</sup>

In the past decade R&D expenditure has stagnated, at 0.58% of GDP.<sup>2</sup> In 2011 Greece set an R&D intensity target of 2%, to be achieved by 2020, but the National Reform Programme for 2013 revised this target downwards to 0.67% of GDP, which is considered as more consistent with current trends and with the economic outlook.

The objective of Greece's innovation strategy is to promote innovation in all sectors as a key driver for restructuring the Greek economy and for the transition to a knowledge-based economy. EU programmes play a major role in the funding of innovation initiatives, but the level of funding

<sup>1</sup> Innovation Union Scoreboard 2013, p. 6.

<sup>2</sup> Eurostat.

available exceeds the amount that the business sector can absorb. Besides the general economic environment, financial constraints can play a role, as many eligible companies cannot provide bank guarantees to receive an advance payment.<sup>3</sup> The commitments to specific innovation policy initiatives for 2010-12 amounted to EUR 596 million and are aimed at programmes supporting technological and knowledge transfer, cluster cooperation and the creation and growth of enterprises.<sup>4</sup> Despite the progress achieved in recent years, further efforts would help, in particular closer links between researchers and industry, and improved technology transfer.

Although policy is emphasising the use of new financial instruments, including funds dedicated to supporting innovation, there are substantial difficulties as almost no national co-finance and no private investment is available. Consequently, subsidies continue to be the main type of support for R&D, though tax incentives are also used. In an effort to boost development through R&D, the government has recently adopted new legislation<sup>5</sup> that further enhances tax incentives for enterprises engaged in R&D.

### *Skills*

Greece faces many challenges to improve its skills base through improvements in education and training aiming to better adapt to labour market needs. This includes in particular teacher training and the quality and relevance of vocational education and training as well as lifelong learning. Reforms in tertiary education are only partially implemented. Among other issues, these reforms would include better use of universities to provide lifelong learning opportunities to local and regional populations and better monitoring of inputs and outputs.<sup>6</sup>

An action plan to support youth employment and entrepreneurship was adopted by the Greek government in January 2013. It has been allocated a budget of EUR 600 million, EUR 517 million of which is provided through the European Social Fund and the European Regional Development

Fund. The plan comprises a set of programmes that should benefit 350 000 young people in the age group 15 to 35. The objective is to target employment and entrepreneurship for young people in the two age groups of 15-24 and 25-35. The plan stresses apprenticeship, traineeship and the transition from education to employment.

Active labour market policies seek to facilitate the transition of workers between sectors; improve the quality of training, and promote the employment of vulnerable groups. Further opportunities for apprenticeships and vocational training are due to be introduced over the medium term, with stronger links with employers to increase graduates' chances of professional integration.<sup>7</sup>

### *Sustainability*

Between 2005 and 2010 Greece cut by 10% the emission of greenhouse gases that are not part of the EU emissions trading system. The reduction seems to be a result mainly of the economic slowdown. Projections show that Greece will increase emissions by 3% by 2020 and will not achieve its reduction target.

Progress has been made on renewable sources of energy. Under the renewable energy Directive,<sup>8</sup> Greece is required to produce 18% of its final energy consumption and 10% of the transport use from renewable sources by 2020. In the national renewable energy action plan Greece committed itself to 20% instead of 18%. In 2011 the share of renewable energy sources in gross final energy consumption was 11.5%. Greece has over recent years granted generous tariffs in particular for photovoltaic installations; as a result 97% of the capacity has been installed over the past three years.

### 4.8.3 Export performance

Although the economy as a whole remains oriented towards the domestic market, export performance continues to improve, albeit from a low base. The national export strategy has set ambitious goals for boosting exports of goods to 16% of GDP by 2015.

<sup>3</sup> Innovation Policy trends in Greece, 4/9 2012.

<sup>4</sup> Ibid.

<sup>5</sup> Law 4110/2013.

<sup>6</sup> Assessment of the 2013 national reform programme for Greece; SWD(2013) 358

<sup>7</sup> Assessment of the 2013 national reform programme for Greece; SWD(2013) 358

<sup>8</sup> Directive 2009/28/EC.

Greek exports in 2012 were EUR 27.6 billion or 13.8% of GDP, itself a record.<sup>9</sup>

The national export strategy seeks to improve the international competitiveness of Greek companies through export promotion and export facilitation. It is based on three pillars:

1. Enlarging the export base by formulating industry-specific policies to encourage companies to produce and offer internationally competitive goods and services.
2. *Trade and promotion of foreign direct investment* by integrating economic diplomacy efforts, building a national brand and overall support for companies to engage in international trade networks and find trading partners abroad.
3. *Trade facilitation*. The national trade facilitation strategy was announced in November 2012. It features 25 measures aimed at reducing the time needed for export by 50% and costs by 20% by 2015. The strategy is focused on simplifying the cumbersome pre-customs and customs procedures. Some changes have already been made to the customs procedures:
  - a. electronic submission of customs clearance declaration for exports (April 2012);
  - b. mandatory presence of a customs broker for customs clearance formalities repealed (December 2012);
  - c. free access to the customs broker profession (December 2012);
  - d. indirect representation for customs clearance (December 2012).
  - e. customs operations launched 24/7 or double-shifts for exports in the pilot offices of Athens airport and Piraeus Port (June 2013);
  - f. simplified pre-customs and customs procedures for kiwi and feta cheese (June 2013).

In an effort to strengthen entrepreneurship and the internationalisation of SMEs, a programme was launched, co-funded by the EU structural funds under the action ‘Internationalisation and competitiveness of SMEs’. In total 746 projects have been selected with a total budget of EUR 143 million.

#### 4.8.4 Business environment and public administration

##### *Business environment*

The difficult economic conditions and continuing uncertainty have taken a heavy toll on Greek businesses and the government is grappling with the challenge of balancing budget cuts with structural reforms to spur growth, as economic reforms are fundamental for sustainable growth. The high level of regulation and bureaucracy, as well as corruption, have been a constraint on businesses and hampered entrepreneurship. In addition, the lack of competition has held back productivity and competitiveness.

In the context of the Economic Adjustment Programme, steps are being taken to tackle many of the structural barriers and regulatory failings that have traditionally restricted business. Efforts undertaken in a number of areas are starting to show results, which were reflected in Greece’s improved ranking in the World Bank’s ‘Doing Business’ indicators. Greece was up from 100th place in 2012 to 78th, which is proof that the efforts made to improve the business environment are starting to bear fruit. In particular, there was progress in reducing the time required to get construction permits; more transparency for and protection of investors; and an improved process for resolving insolvent firms. The government has also adopted ten measures in the areas of starting a business, registering property, dealing with construction permits and protecting investors.

The EU Task Force for Greece provides technical assistance for a wide range of projects to improve the business environment. Projects are on-going in areas like the simplification and streamlining of licencing and permit systems for investment, trade facilitation and customs reform, export promotion, and the screening of administrative burden for business. EU structural funds are seen as key to

<sup>9</sup> Greek national export initiative.

boosting the economy; the available funds came to EUR 20.4 billion for the 2007-13 financing period.

Well-known deficiencies in the business environment have been addressed over recent years. Important measures have been taken to ease the creation of companies and to simplify licence procedures and investment authorisations. The time needed to set up a business is now below the EU average (11 days in Greece against the EU average of 14). Starting up a company and registering property remain expensive, and the cost and time for exports and imports need to be further reduced. It is still four times more expensive to start a business in Greece (% of income/capita) than the EU average, and it is more costly to register property.<sup>10</sup>

The full entry into force of the law on simplifying and accelerating the licencing of manufacturing activities<sup>11</sup> and its implementing acts provide an integrated institutional framework for the modernisation and simplification of licencing procedures, covering technical professions, manufacturing and business parks. On technical professions, the right to provide certain services was expanded, while the total number of licences was reduced. As regards manufacturing, there has been a reduction of up to 75 % in the time and cost needed to obtain an operating licence for low- nuisance activities.

With support of the OECD, the authorities are reviewing laws and regulations for harmful effects on competition in tourism, retail, building materials and food processing; as well as for administrative burden on businesses in 13 sectors. The government has also presented a strategic vision to streamline and unify investment licenses and strengthen self-compliance with standards and controls. The strategy will be implemented in 2013 and 2014.

SMEs have been hit hard by the crisis, and there are fewer enterprises in 2013 than there were in 2005. The size distribution of firms deviates from the EU average, with the number of large enterprises only half the EU average. Also, SMEs are heavily weighted towards the small end, with microenterprises accounting for 96.6 % of all enterprises. In total, SMEs employ 85.2 % of the

labour force in private employment, whereas the EU average is 67.4 %. This reflects the fact that Greeks are more likely than the EU average to be self-employed.<sup>12</sup> The SMEs are more oriented towards trade than elsewhere in the EU, and the share of SMEs specialising in high-tech manufacturing or knowledge-intensive services is only 18 %, whereas the EU average is one-third.

Greece does not always ‘think small first’, as the authorities perform less well than their EU peers in terms of communication and simplification of rules and procedures, and impose a higher burden on companies. However, steps are being taken, including simplified provisions on entrepreneurship and a new private company status with a capital of one euro, seeking to facilitate the life of SMEs.<sup>13</sup>

The *General Electronic Business Registry* (GEMI) is being complemented with a self-registration option for companies. This is a state-owned electronic database hosted by the chambers of commerce. Data stored in GEMI include key personnel, annual accounts, tax identification number, company status, company number and relevant court decisions. To date 76 000 companies have been started through GEMI. The registry is linked to the one-stop shop for business start-ups that was launched in 2011.

A new, more flexible, corporate form for private limited companies (IKE) was adopted in July 2012.<sup>14</sup> Judging by the number of firms using this form, it seems to be a success. The advantage compared to other limited companies is that IKEs have a minimum capital requirement of only EUR 1, whereas for regular limited companies it is EUR 4 500.

Reforms to the *public procurement procedures* are being planned. The aim is to promote sound public procurement by making the newly created single Public Procurement Authority fully operational. The establishment of an e-procurement platform is expected to lead to less bureaucracy, prevention of corruption, more transparency and better participation of economic operators. It should also reduce the time and cost of procurement.

<sup>10</sup> SBA Fact Sheet 2012.

<sup>11</sup> Law 3982/2011.

<sup>12</sup> Ibid.

<sup>13</sup> SBA Fact Sheet 2012.

<sup>14</sup> Law 4072/2012.

The contribution of services to GDP was 71.7% in 2011,<sup>15</sup> which makes them the most important sector of the economy. Tourism alone contributes 18.2% of GDP<sup>16</sup> and over 7% of total employment<sup>17</sup> (over 18% if indirectly supported jobs are counted). The shipping industry is another important sector for the economy, as Greek firms have 16.2% of the world's shipping capacity measured in deadweight tonnage.<sup>18</sup>

### *Public administration*

Greece's overall public administration performance, as measured by the World Bank's government effectiveness indicator, is well below the EU average. The perceived quality of public services, including quality of the civil service and policy implementation, is low (a score of 0.52 compared to 1.18 in the EU).<sup>19</sup>

Public services are also less likely to be available online.<sup>20</sup> E-government use by small enterprises in 2012 was slightly above the EU average (86% and 85% respectively) whilst e-government use by citizens in 2013 was below the EU average (43.8% and 52.5% respectively).<sup>21</sup> The duration of payments by the public authorities is above the EU average (174 days compared to the EU average of 66 days).<sup>22</sup>

With the support of the EU Task Force for Greece, technical assistance is provided for reforming the public administration. A high-level transformation steering group under the prime minister has been set up to supervise the reform of the central administration.<sup>23</sup>

The Greek judicial system is inadequate and, in particular, the length of judicial procedures is long in all areas, including in civil and commercial justice. The rate of resolving cases is low, resulting

in increasing delays and a significant case backlog. ICT systems for the management of cases and for communications between the courts and parties, which could help improving the management of cases, are poorly developed. In addition, the perceived independence of justice in Greece gets the fourth worst rating in the EU.<sup>24</sup>

In the framework of the Economic Adjustment Programme, Greece has committed to reforming the judicial system. These include reviewing the civil code, introducing an administrative review of cases, improving the organisation of the magistrates' courts, developing e-justice applications, bringing the insolvency legislation and practice in line with best practice and promoting alternative dispute resolution mechanisms.

### 4.8.5 Finance and investment

Bank credit to the corporate sector is contracting, making it increasingly difficult to finance production and investments. The main factors contributing to this are the difficulties of the bank sector, state arrears to suppliers (standing at around 4.4% of GDP at the end of 2012), the drop in the market value of collateral assets (real estate), and the country risk, that makes any financing of large businesses by foreign banks almost impossible. In the ECB survey on SME access to finance (March-September 2012), only 36% of Greek SMEs said they had received the loan requested (Eurozone 61%).

To facilitate the financing of the Greek economy, the government with the support of the task Force for Greece has analysed the extent of credit financing gaps in view of setting up an "Institution for Growth".<sup>25</sup> The main findings show that:

- There is an equity funding gap and a structural debt funding gap of the order of EUR 5-10 billion each;
- The current situation in the banking market leads to insufficient supply of project finance, working capital and import/export financing;
- Greece suffers from a lack of specialised financing institutions;

<sup>15</sup> Eurostat.

<sup>16</sup> <http://www.investingreece.gov.gr/default.asp?pid=36&sectorID=37&la=1>.

<sup>17</sup> OECD Tourism trends and policies 2012 <http://www.oecd-ilibrary.org>.

<sup>18</sup> United Nations conference on trade and development, Review of Maritime Transport 2011, p.41, accessible at [http://unctad.org/en/Docs/rmt2011\\_en.pdf](http://unctad.org/en/Docs/rmt2011_en.pdf).

<sup>19</sup> European Commission (2012), 'Excellence in public administration for competitiveness in EU Member States'. SBA Fact sheet Greece 2012.

<sup>20</sup> Eurostat.

<sup>21</sup> European Payment Index by Intrum Justitia, 2012.

<sup>22</sup> Task Force for Greece, Quarterly Report of December 2012.

<sup>24</sup> EU Justice Scoreboard 2013.

<sup>25</sup> TFGR Quarterly Report, April 2013.

- A financing vehicle, such as a specialised financing institution for growth, could help to improve the situation, at least partially.

Government efforts to ease financing conditions have focused on the European Investment Bank (EIB) lending to Greek commercial banks so that they can lend to SMEs. Further efforts have been made to provide banks with risk-sharing and additional liquidity facilities. In March 2012, the Greek government and the EIB signed an agreement for the creation of a dedicated guarantee fund supporting lending to small and medium-sized enterprises. It will guarantee EIB loans to SMEs via partner banks, up to EUR 1 billion. The first disbursements under this fund (EUR 150 million) took place in December 2012. Another EUR 212 million of SME loans were lent by the EIB to Greek banks separately in the same month. In December 2012 the EIB launched a pilot project under which it would (counter-) guarantee up to EUR 500 million of export financing for Greek SMEs and mid-caps.

*The Hellenic Fund for Entrepreneurship and Development (ETEAN)*, a wholly owned state corporation, was created in February 2011 with start-up capital of EUR 1.7 billion. It manages and runs projects financed via various channels: the state budget; the public investment programme; an operational programme (on competitiveness and entrepreneurship) under the EU's national strategic reference frameworks; the European Regional Development Fund; and the European Fisheries Fund (EFF). ETEAN provides guarantees for loans, or letters of guarantee, in favour of small and medium-sized enterprises for banks and other financial institutions (such as leasing and venture capital companies). It also co-invests in other funds and uses financial engineering instruments, and has thus far created three funds for energy conservation with a grant of EUR 200 million from the European Union's national strategic reference frameworks; for fisheries promotion with a support from the European Fisheries Fund (EFF) grant of EUR 35 million; and for entrepreneurship with a grant of EUR 460 million, likewise from the national strategic reference frameworks.

ETEAN recently announced the creation of two new funds, operating through the entrepreneurship fund; (a) the fund for business restarting; and (b) the fund for island entrepreneurship. Both aim to

support SMEs' access to working capital for development activities.

The second Economic Adjustment Programme for Greece contains detailed provisions regarding the recapitalisation of Greek banks, which should be completed by the end of June 2013.

Net capital inflows were EUR 2.3 billion in 2012 (vs. EUR 1.3 billion in 2011). The total inflows of foreign direct investment in Greece fell in 2010-12 and are today at the same level as in 2003-05. Between 2003 and 2012, fully 69% of all foreign direct investments were made in the services sector.<sup>26</sup>

A new law on the *creation of a development-friendly environment for strategic and private investments*<sup>27</sup> aims to accelerate and simplify procedures. It includes provisions on developing the seaside front of Attica and improving the institutional framework for the founding and operation of seaplane ports. For strategic investments, there are proposals for simplified licencing procedures through the General Directorate for Licencing, which will handle all strategic investment requests. The time restrictions for the submission of investment plans (previously every April and October), have been removed, and such plans can now be accepted throughout the year.

#### 4.8.6 Conclusions

The Economic Adjustment Programme has sought to adjust the imbalances in the economy. Greece has started the process of transformation, from an economy based on consumption to one with a bigger focus on investments and exports. Exports have already increased over recent years but, as a result of the recession and the credit crunch, investments are still disappointing.

The regulatory environment has constrained businesses and entrepreneurship, and these, combined with the lack of competition, have led to lacklustre productivity and competitiveness. However, steps are being taken to tackle many of the structural barriers and regulatory failings. Encouragingly, many efforts are starting to show

<sup>26</sup> <http://www.investingreece.gov.gr>.

<sup>27</sup> Law 4146/2013.

results, and the ranking of Greece in the World Bank's 'Doing Business' indicators has improved. Further significant measures have been taken to ease the creation of companies, and to simplify licensing procedures and investment authorisations. With the technical assistance of the Task Force for Greece, cumbersome export procedures are being simplified.

The difficult economic conditions, continuing uncertainty, and in particular the credit crunch continue to make conducting business difficult, in particular for SMEs. Economic growth is one of the

top priorities of the government, and in this context, reforming the public administration remains central in terms of securing the capacity and competence to implement newly adopted legislation and to improve the business environment. Reforming the economy must remain a priority in order for the required changes to take place. A dynamic corporate sector is crucial to re-starting the economy and achieving growth. By tapping the entrepreneurial potential of citizens and creating the right business environment, Greece can overcome its difficulties and achieve sustainable economic and employment growth.