THE SME SECTOR IN GREECE. FINANCIAL GAP DURING THE CRISIS

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Хиз А., Гікас Г. Сектор малих і середніх підприємств у Греції
Фінансова криза ілюструвала важливість сектора SME як рушія реальної економіки, так і крихкість цього сектора у зв'язку із зовнішніми потрясіннями. Умови ведення бізнесу в умовах грецької економіки зазнали кризових наслідків, як ніколи раніше. Бізнес-структури, які вижили, скаржаться на відсутність стабільності в податковій системі, збільшення податкового навантаження, обмеження у доступі до фінансових ресурсів. З іншого боку, криза також надала додаткові можливості для розвитку локальних малих і середніх підприємств.
Ключові слова: *сектор малих і середніх підприємств, фінансова криза, грецька економіка.*

Hyz A., Gikas G. The SME sector in Greece
The financial crisis has illustrated both the importance of the SME sector as the driver of the real economy and the fragility of this sector in dealing with external shocks. The crisis affects greek economy business conditions as never before. The businesses that have survived complain of a lack of stability in the tax system, increasing tax burdens, and limited access to finance for growth. From the other hand crisis also provides opportunities for local SMEs.
Key words: *SME sector, financial crisis, greek economy.*

Хиз А., Гікас Г. Сектор малых и средних предприятий Греции
Финансовый кризис иллюстрировал важность сектора SME як двигателя реальной экономики, так и хрупкость этого сектора в связи с внешними потрясениями. Условия ведения бизнеса в условиях греческой экономики подверглись кризисным последствиям, как никогда раньше. Бизнес-структуры, которые выжили, жалуются на отсутствие стабильности в налоговой системе, увеличение налоговой нагрузки, ограничение в доступе к финансовым ресурсам. С другой стороны, кризис также дал дополнительные возможности для развития локальных малых и средних предприятий.
Ключевые слова: *сектор малых и средних предприятий, финансовый кризис, греческая экономика.*

Introduction. After consecutive years of economic growth (from 1995-2007), Greece went into recession in 2008. Economists point to several deeply entrenched features of the Greek economy and Greek society in general that have prevented sustained economic growth and created the conditions underlying the current crisis. The Greek government has a long history of problems with its public debt – it has spent more than half the years since 1832, when it gained independence from the Ottoman Empire, in default [1, p. 99]. As recently as 1990, the Greek state controlled about 75% of all business assets in the country and tightly regulated other sectors of the economy. The state reduced its stake to about 50% by 2008. However, according to the Organization for Economic Cooperation and Development (OECD), much of the private sector continues to "suffer from weighty and complex regulations and from the lack of a coherent and systematic approach to rule-making."

By the end of 2009, the Greek economy (based on data revised on 15 November 2010 in part due to reclassification of expenses) faced the highest budget deficit and government debt to GDP ratios in the EU. The 2009 budget deficit stood at 15,4% of GDP. This, and rising debt levels (127% of GDP in 2009) led to rising borrowing costs, resulting in a severe economic crisis [2].

As a result of the on-going economic crisis, industrial production in the country went down by 8% between March 2010 and March 2011 (Source : The Production Index in Industry recorded a decline of 8,0% in March 2011 compared with

March 2010".statistics.gr. Retrieved 25 May 2011). One of the sectors hardest hit has been the garment industry, a traditional mainstay of the economy. Additionally, the turnover in retail sales saw a decline of 9% between February 2010 and February 2011 (Source : "The Turnover Index in Retail Trade, excluding automotive fuel, recorded a fall of 9.0% in February 2011 compared with February 2010".statistics.gr. Retrieved 25 May 2011).

A combination of economic, political and social factors has contributed to Greece's poor competitiveness, foreign investment, productivity and employment record. The Greek economy has grown on an unsustainable demand structure, driven almost entirely by public and private consumption while chronically suffering from unfavorable conditions for business. Undoubtedly the immediate challenge for the business sector will be survive the current crisis. Over the longer term, the real challenge will be to strengthen the structure of the productive base towards higher value-added and export-oriented activities.

Short Overview of Main Industrial Sectors. *Trade and industry specialisation*. Greece's main industries are tourism, shipping, industrial products, food and tobacco processing, textiles, chemicals, metal products, mining and petroleum [3].

At the detailed manufacturing industry level, Greece features strong specialisation in marketing driven industries (manufacture of vegetable oils, processing and preserving of fruit and vegetables), as well as in labour-intensive (dressing and dying of fur) and capital-intensive industries (manufacture of cement, lime and plaster). At the more aggregated sector level, Greece is specialised in low and medium-low innovation and education sectors, such as wearing apparel and water transport [4].

On the basis of existing indicators the environmental performance of the Greek industry can be characterised as rather poor. This relates to weaknesses in the regulatory and administrative environment (inspection and enforcement, absence of land-use codes, delays in delivering environmental permits) and to the absence of basic infrastructures (waste treatment facilities, but also, to a certain degree, organised industrial zones).

Structural impact during the crisis. Since the 2009 crisis, Greece's negative balance of trade has decreased significantly from €43,3 billion in 2008 (Source : "Imports / exports". Hellenic Statistical Authority. Retrieved 22 February 2012) to €20,8 billion in 2011 (Source : "COMMERCIAL TRANSACTIONS OF GREECE : February 2012 (Provisional Data)" (PDF). Piraeus: Hellenic Statistical Authority. 25 April 2012. Retrieved 27 April 2012) a decrease of €22,5 billion or 52%.

Eurostat statistics show that the industrial sector was hit by the Greek financial crisis throughout 2009 and 2010, with domestic output decreasing by 5,8% and industrial production in general by 13,4%.

The crisis seems to have had a limited but visible impact on Greece's economic structure. Manufacturing seems to have reversed its declining trend while construction accelerated its decline in value added. Nevertheless, manufacturing production in March 2011 was 22,2% less than its 2008 peak. Regarding exports, only marketing-driven industries fared clearly better during the crisis than before (Source : Country chapter Greece:http://ec.europa.eu/enterprise /policies/industrial-competitiveness/monitoring-member-states/files/el_country-chapter_en.pdf).

SME Landscape & Structure. *The business environment overview (*Source : Country Chapter Greece:http://ec.europa.eu/enterprise/policies/industrial-competitiveness/monitoring-member-states/files/el_country-chapter_en.pdf).

Greece emerges from the various international benchmarking exercises as among the weakest EU countries. In comparison with other EU countries, Greece displays a higher number of procedures and a higher cost – monetary or in time in carrying out routine business operations while basic instruments, such as land use codes, are not operational. Moreover, slow (energy, port services) or inexistent liberalisation in some key markets (road haulage, professional services) contributes to higher costs. Apart from the short-term concerns related to the economic crisis, such as getting access to finance and adjusting to the internal demand shock, the main challenge facing industry, but also the real economy overall in Greece is a business environment that is not delivering optimally.

In the May 2010 Memorandum of Understanding (MoU) between Greece on one part and the European Commission, the European Central Bank and the International Monetary Fund on the other, the Greek government committed itself to a number of important reforms relating to product markets which complement the actions relating to public finance and the labour market.

Further actions are being planned under the forthcoming *Action Plan for a Business Friendly Greece*, which focuses on the removal of the most important barriers to entrepreneurship over the period 2011-2012 by adddressing isssues related to company law, starting up, establishment and winding-up of a business, labour and insurance matters, transportation, market operating problems, transactions with the public sector and public procurement, taxation, absorption of the EU Structural funds etc.

Entrepreneurship and SME policy. The SME sector in Greece is more prominent than in the EU as a whole, and dominated by micro enterprises, which account for 58% of total employment, almost twice as much as in the EU on average. The preference for self-employment is much higher than in the rest of the EU but the entrepreneurship rate is average. The economic crisis has put Greek enterprises under considerable stress both through a credit squeeze and an internal demand shock (Source : Country Chapter Greece: http://ec.europa.eu/ enterprise /policies/ industrial-competitiveness/monitoring-member-states/files/el_country-chapter_en.pdf).

Activity sectors with high density of SMEs are whole-sale and retail, construction, manufacturing, hotels and restaurants, transport, storage and communication, real estate, renting and business activities and crop and animal production. The Greek economy consists of around 800.000 private sector enterprises, with 99,9% of them being SMEs providing 87% of total country employment (with micro enterprises accounting for 96,5% of them and providing 58% of the country employment). A basic characteristic of Greek SMEs is that the vast majority of them pertain a traditional character; most of them being family businesses where family members work in the enterprise. The majority of Greek SMEs is concentrated in the regions of Attica and Central Macedonia that include the two biggest urban centers of the country (Athens and Thessaloniki) (Source : Comprehensive analysis of programmes and initiatives in Greece that assist the Collaboration between science and SME, MaPEer SME consortium, March 2011).

Greece has a very high share of SMEs, particularly micro enterprises, compared to the EU average. The importance of Greek micro enterprises is also reflected in their share of employment and value-added creation, with more than one in two Greeks working in the non-financial sector employed by a micro enterprise. The SME sector in total employs more than 85%, well above the EU average. The contribution of Greek SMEs to value added also vastly exceeds the EU average (35,3% vs. 21,8%). However, given the dominance of this size class both in terms of the number of enterprises and employment, this is to be expected. In fact, large enterprises, accounting for only 14% of all jobs in Greece (EU average: 33%) still manage to create more than 28% of total value added, suggesting that the productivity of Greek micro enterprises is relatively low. Greek SMEs employ only 2,9 persons on average, much less than the EU average of 4,2 persons (see Table) (Source : SBA Fact Sheet – Greece – 2010/2011_.

Table

Characteristics of the SME sector in Greece

	Number of Enterprises			Employment			Value added		
	Greece		*EU27*	Greece		*EU27*	Greece		*EU27*
	Number	Share	*Share*	Number	Share	*Share*	Billion €	Share	*Share*
Micro	719.952	96,5%	*92,1%*	1.447.218	57,6%	*29,8%*	27	35,3%	*21,6%*
Small	22.832	3,1%	*6,6%*	438.792	17,5%	*20,4%*	16	20,6%	*18,9%*
Medium-sized	2.893	0,4%	*1,1%*	264.427	10,5%	*16,8%*	12	15,8%	*17,9%*
SMEs	**745.677**	**99,9%**	***99,8%***	**2.150.438**	**85,6%**	***66,9%***	**55**	**71,7%**	***58,4%***
Large	563	0,1%	*0,2%*	362.055	14,4%	*33,1%*	22	28,3%	*41,6%*
Total	**746.240**	**100,0%**	***100,0%***	**2.512.493**	**100,0%**	***100,0%***	**77**	**100,0%**	***100,0%***

Source: *Estimates for 2010, based on 2002-2007 figures from the Structural Business Statistics Database (Eurostat). The estimates have been produced by Cambridge Econometrics. The data cover the 'business* *economy' which includes industry, construction, trade, and services (NACE Rev. 1.1Sections C to I, K). The data does not cover the enterprises in agriculture, forestry, fishing or the largely non-market services such as education and health.*

Financing SMEs and Entrepreneurs. Since Greek economy is mainly composed from small and medium sized enterprises the SMEs, are vital for economic growth and development in Greece, by playing a key role in creating new jobs. Compared to larger firms, the Greek SMEs show lower liquidity, lower profitability but more volatility in their profits. They are also characterized by lower financial leverage, lower reliance on long-term debt, higher short-term liabilities and higher long-term self-financing, compared to their larger counterparts.

The government has redesigned its instruments for providing targeted financial support to the business sector for fostering investment. The new Development law (national state aid scheme for investments) is marking a departure from grants towards tax rebates, with the exception of the measures in support of new enterprises. Contrary to the past, it is fully budgeted with periodic calls for investment projects of a pre-determined total amount. The first call, for projects totalling EUR 2,2 billion of tax rebates and EUR 800 million of grants run in April and May 2011. Another EUR 1,2 billion will be offered in the second half of the year, to which will be added the credits not absorbed in the first call. More specific calls, open all year, should be made later addressing youth entrepreneurship (EUR 150 million), clusters (EUR 50 million) and large projects [5].

Financing is necessary to help them set up and expand their operations, develop new products, and invest in new staff or production facilities. Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But if they are successful, there comes a time for all developing SMEs when they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit (Source : Global Economic Crisis and Entrepreneurship Development, A. Roudini, M.H.M. Osman, March 2012)

Sources of Capital for SME (Source: Small and Medium Enterprises (SMEs) in Greece - Barriers in Access to Banking Services. An Empirical Investigation, Alina B. Hyz, February 2011).

Access to sources of capital is determined, to a large extent, by the firm's development phase, which has a major impact on evaluation of its creditworthiness.

During early phases of their development firms have to rely primarily on financial resources possessed by their owners and their families, sometimes on assistance funds or on venture capital. During further phases of its development the firm is financed primarily from accumulation of financial surpluses and additionally by means of external capital. Mature firms (mainly medium-sized enterprises) have an easier access to external capital and, in particular, bank loans than other groups of firms from the SME sector.

External capital becomes the main source allowing to finance the firm's investment projects in the situation when internal accumulation capabilities of SMEs are limited. Insufficient availability of external capital can restrict the firm's growth opportunities. The main sources of external capital for small and medium-sized enterprises are the so-called non-banking sources of financing (trade credit, lease, factoring, franchising, loans from the non-banking sector) and bank loans (short- and long-term). The Greek SME sector has also access to capital provided by different types of the EU's assistance programmes and funds allocated in the framework of government projects assisting small and medium-sized enterprises. In most countries, commercial banks are the main source of finance for SMEs, so if the SME sector is to florish it must have access to bank credit (EOS Gallup Europe, 2005). Taking into account the fact that SMEs (due to their size) are unable to raise investment capital in the capital market, the banking system becomes the only real opportunity of raising additional financial resources. This situation is theoretically advantageous for the SMEs due to the detailed evaluation of an investment project by the bank, which implies, among other things, the feasibility analysis of a project and professional counselling provided by the bank's employees. On the other hand the position of SMEs in the bank loans market is determined by a strong influence exerted by structural characteristics of these enterprises.

The Economic Crisis and its Effects on Greek SMEs. The outlook for Greece's small businesses is worsening as the country's recession deepens, with more than half believing that bankruptcy is inevitable. Recession is hitting Greek small businesses hardly. Owners are deeply pessimistic, with 60,000 enterprises forecast to close this year following some 105,000 business failures in 2011 according to forecasts by the National Confederation of Greek Commerce (ESEE). Building contractors, retailers and small manufacturers are expected to be among the worst hit.

The president of ESEE Vassilis Korkidis during the presentation the annual exhibition on Greek commerce in 2011, highlighted the dramatic conditions in the Greek market. The studies indicated that during the last 2 years 60,000 businesses had to close down due to the crisis.

"Some 55 per cent of small entrepreneurs now think they will be unable to avoid bankruptcy – a view that clearly has an adverse impact on the business cycle", says the biannual survey carried out by the Small Enterprises Institute, representing almost 800,000 businesses throughout the country. Small and medium enterprises in northern Greece are closing one after another. The small family-owned and personal businesses that used to drive the Greek economy have been hard hit by the crisis, losing access to bank financing and supplier credit. After a stable first half in 2011, operating conditions deteriorated sharply in the third and fourth quarters.

Moreover, according to survey data: 8/10 of Greek SMEs and nearly 2/3 of Greek large companies are expected to have lower profits in 2011. 4/5 businesses have reported deterioration in their profitability, while according to the forecasts for 2012 sales and earnings will be lower especially for small Greek businesses. 1/3 Greek companies, considers that it is very likely to be unable to meet its current obligations during the next year.

The small family-owned and personal businesses that used to drive the Greek economy have been hard hit by the crisis, losing access to bank financing and supplier credit. More than 70 percent of owners used private savings to finance their businesses as bank credit dried up, while over 30 per cent are behind with payments to suppliers, utilities and social security funds.

The commercial sector is in the grip of a "closure epidemic" which is spreading like a "contagious disease", the country's commercial confederation has said. In a report(link) issued, the National Confederation of Greek Commerce (ESEE) said that the ratio of shut-down shops to trading ones is 30 percent. The rate in Attica is 25,6 percent.

Illustrating the scale of the problem is central Athens, where 29,6 percent of shops are now closed to business, compared to 24.4 percent in August 2011. On Stadiou Street, a major thoroughfare off Syntagma, 42 percent of retail premises have pulled down the shutters for good. On nearby Emmanouil Benaki the rate is 32 percent and on Tsakalof Street in upmarket Kolonaki it is 33,7 percent [6].

In Piraeus, the study found that since 27,3 percent of high-street shops have shut for good. *(Athens News).* Even cafes and fast-food outlets, which were proving resilient to the crisis, with an estimated 5,000 start-ups in urban centres in the past two years, have begun to suffer.

Small Greek businesses expect revenue to fall in the first half of this year as the economic environment deteriorates, a Marc SA poll showed, according to Bloomberg. Half of 1,200 enterprises surveyed said they foresee difficulties in the coming months and are at risk of shutting down, according the poll, which was posted on the website of the Small Businesses Institute at the Hellenic Confederation of Professionals, Craftsmen and Merchants. More than 77 percent of those questioned said they expect business prospects to worsen in the first half of 2012.

Greece's government committed to additional austerity measures equal to about 7 percent of gross domestic product over three years to secure a second financing package from the European Union and International Monetary Fund.

Fifty-eight percent of the businesses questioned said that through July 2012 the national priority should be to stabilize the economy and keep the country in the euro area.

The new measures will lead small and medium-sized businesses to a "dead-end and the Greek economy to a deeper downturn," the National Confederation of Hellenic Commerce, known as ESEE, said in an e-mailed statement today. Higher taxes and a 22 percent cut in the minimum wage will hurt consumption and the "serious risk" of default remains.

Sales are expected to fall further in the first six months of this year, according to 79 percent of those polled. Eighty percent of respondents expect the liquidity situation to worsen in the six-month period, while 74 percent said they drew on their personal deposits to cover operating costs.

Nearly 60 percent of those polled plan to keep employee numbers unchanged in the next six months, while 32 percent said staff cuts are “ likely.” More than 150,000 jobs were cut at small businesses in 2011, the study showed.

The poll was conducted for the confederation between Jan. 10 and Jan. 18. Small businesses are those that employ as many as 49 people.

Small and medium-sized enterprises owe no less than 193,2 billion euros to banks, utilities, tax authorities and social security funds, according to calculations by the National Confederation of Greek Commerce (ESEE). This constitutes a considerable headache for banks and the state revenues, which puts the credit system and the state budget in even greater danger, and goes some way toward explaining the viability problem of the social security funds. The above amount does not include the enterprises’ debts to suppliers, which have increased considerably, while repayment delays have grown to 12 months, causing a chain reaction in the market.

The data collected by ESEE’s Institute for Commerce and Services show that the enterprises’ obligations to banks came to 135,5 billion euros in December 2011, according to Bank of Greece figures, overdue debts to the Social Security Foundation (IKA) come to 11,5 billion euros and to other social security funds add up to 3,5 billion, while tax owed comes to 41,1 billion euros. Debts to utilities are not insignificant either, as small and medium-sized enterprises owe some 1,25 billion euros to the Public Power Corporation and 334,2 million euros to the Athens Water Company (EYDAP).

Conclusion. The crisis has illustrated both the importance of the SME sector as the driver of the real economy and the fragility of this sector in dealing with external shocks. The crisis affects greek economy business conditions as never before. Businesses have been fighting for their survival against harsh economic conditions for a while – the Greek economy is 17 per cent smaller today than it was 3 years ago and the stock market has lost over 80 per cent of its value from its peak. The businesses that have survived complain of a lack of stability in the tax system, increasing tax burdens, and limited access to finance for growth. Interestingly, wages is much further down their list of concerns.

The number of people who have lost their jobs over the past year is an indication of the poor state of the business and retail sectors in Greece, which are being hit severely by the rise in taxes, declining disposable income, lack of liquidity and vanishing consumer confidence(unemployment is the second highest in Europe at 20,9 per cent). Unlike many other European economies, Greece relies heavily on private consumption. In fact, it accounts for more than 70 per cent of economic output and the austerity measures taken over the past year have hit it hard.

As a results SMEs lack the capacity to analyse the economic effects a policy change or an economic incident can generate on the overall global economy, not to mention the impact on their business. This lack experience of dealing with global (or even national) affairs, makes them unable to adjust internal management to suit the need of the new or approaching situation (whereas larger firms can be both better prepared for a crisis, can adapt better, and take a longer term perspective).

From the other hand crisis also provides opportunities for local SMEs. The dramatic fall in trade provides openings for SMEs by allowing them to recapture local markets. This requires access to information, credit, business development services and explicit local level strategies to promote entrepreneurial activity to enter such markets competitively.

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