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The lean years: Private investment in the Greek rural areas

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Abstract

From 2008 until today, the Greek economy is facing a deep recession. The consequences of the financial crisis and the implementation of harsh fiscal measures adopted are the shrinking of incomes, the reduction of domestic demand and consumption and the massive increase of unemployment. At the same time, a significant reduction of the productive activity and a decrease in state and enterprise investments took place; all the above in a period when the main challenge is the country's recovery and financial growth. The only way out of the lack of liquidity are EU financial resources, the utilization of the National Strategic Reference Framework (NSRF) 2007-2013 and the resources following the programming period 2014-2020. In this context, despite the relatively high interest they present, private investments in primary sector and in rural areas, are facing significant problems. A research conducted with structured questionnaire to investors enrolled to investment support programmes in rural areas, had as a key goal to depict the potential completion of those investments. From the results of this research it is demonstrated that a significant percentage of approved investments are experiencing severe liquidity problems and in many cases there is a failure to complete them.

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KeyWords: **Rural areas; private investment; economic crisis; liquidity; Greece**

1. Introduction

The Greek economy faces a major debt crisis in its seventh year of recession. The dynamics of fiscal crisis and recession during the period 2008-2013 cumulatively reduced the country's GDP by 20.1%, the domestic demand by 31.3%, the employment by 18.2% and the unemployment rate from 7,7% increased to 27,0% (European Commission, 2014) that led to a reduction in real wages (16.3%) and productivity (INE, 2013).

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Public debt remains unsustainable and non-manageable, thus a new impairment process is essential. (IOBE, 2012).

During the economic crisis period the only available development tool was the financial resources coming from the EU Structural Funds (European Commission, 2012b). In fact, despite the improvement of the absorption rate (TFGR 2014), there are several objections regarding their effective utilization. Nowadays, these economic resources are the only ones available to finance the real economy and consequently to reduce the liquidity problems. The dramatic lack of liquidity undermines the efforts for recovery of the Greek economy. The Greek rural area that hosts 43% of the total population (European Commission, 2012a) during the last twenty years had followed a positive growth path thanks to the effective utilization of EU policies and resources.

This paper aims to depict the course of private investments in both primary and other economic sectors taking place in the Greek rural areas, and also to demonstrate the problems that investors had to deal with. In the following parts illustrates the disinvestment and lack of liquidity problems of SMEs, the financial resources of EU Structural Funds directed for private investments in rural areas, and the methodology as well as the results of the research conducted are illustrated.

2. Investments and liquidity

In Greece, gross fixed capital formation at constant prices demonstrated a decline from 2008, which continued up to 2012 (INE, 2013). At the end of 2013, gross fixed capital formation at constant prices is estimated to be at the levels of 1994, having the disinvestment as a consequence (diminishing the net capital stock). This situation applies to both public and private sector. Six out of ten enterprises recorded a profits decrease in 2011 compared to 2010, whereas 150,000 jobs were lost (European Commission, 2012b). The domestic entrepreneurship systematically recedes and the early-stage entrepreneurship index reached its lowest rate in five years, i.e. 5.3% over 8.8% in 2009, while at the same period the potential entrepreneurs diminished up to 2% compared to 4.5% in 2009 (IOBE, 2012).

The only substantial boost to the Greek economy against recession comes from the EU structural funds, while there are efforts to stimulate liquidity through community funds both in enterprises and in new activities. The total of the cohesion policy funds for the period 2007-2013 amount to 24 billion euros financing more than 7,000 projects (TFGR, 2011). In addition, an amount of 21billion euros flows into Greek economy through the Common Agricultural Policy either as direct payments or within the framework of the Rural Development Policy. In total, the available EU financing for Greece of the programming period 2007-2013 reached the 43 billion Euros. According to the Task Force for Greece 2014, by the end of 2013 Greece has committed with contracts 113.5% of the total funds available (23.9 billion euros). By the end of February 2014, Greece's absorption rate reached the 77.11 %, a rate greater than EU's average (64.08%). This achievement ranks Greece at the 4th place, among EU states, for funds' absorption as opposed to the 18th place at the end of 2011. Less encouraging is the situation regarding the absorption rate from the European Agricultural Fund for Rural Development (EAFRD), as Greece has absorbed 57% of total resources, a number lower than the EU average. Regarding the European Fisheries Fund (EFF), the total percentage of commitments (legal) and payments is 75% and 56%, respectively.

The absorption acceleration of the cohesion policy resources during the last two years was largely achieved through measures taken by the European Commission. The political cohesion community funds mobilization during last years is strongly criticized and is implied a "logistical" absorption of the community funds. This artificial absorption elevates the relatively low utilization of the NSRF-ESPA funds, mainly through:

• The increase in the co-financing rate of the European Commission from 75% to 95%. This increase is basically equivalent to an increase in financing with an additional absorption.