THE INITIATIVE FOR FOREIGN INVESTMENTS IN GREECE

Athens, 3 July 2018

FOREWORD

Can Greece become an attractive investment destination, and if so, what are the prerequisites for making it a reality? This is one of the most critical questions of the present time and will remain so for several years to come.

In the framework of the 1st InvestGR – Foreign Investments in Greece Forum 2018, heads of foreign multinationals operating in Greece have been questioned by Metron Analysis in a B2B survey to understand from them what the obstacles are to foreign investment and what the state can do to support investors.

Throughout the recent crisis, these executives supported their companies and their employees during the difficult times and demonstrated their faith in Greece's economic prospects. This gives them a unique perspective into the particular challenges of Greece's business environment.

Despite the many reforms that have been implemented during the crisis, the widely held view is that more remains to be done to improve Greece's attractiveness as an investment destination.

This study aims to serve as a declaration – a manifesto – of the foreign multinationals in Greece on how the business and investment framework in the country can be improved.

The **Initiative for Foreign Investments in Greece** is based on the positions and recommendations made by the heads of foreign multinationals in Greece. George Pagoulatos, professor at Athens University of Economics and Business, exercised the academic overview for this survey and I owe him my warm thanks.

The survey will form the basis for the discussions at the 1st InvestGR – Foreign Investments in Greece Forum 2018. Immediately thereafter, it will be shared with the Greek government, political parties, the Hellenic parliament, as well as other institutional stakeholders in Greece and the EU and the media.

We plan to repeat the **Initiative** each year, as a means to track developments over time and assess what progress has been – or has not been – made.

Andreas Yannopoulos
Founder of InvestGR Forum

Introduction

As Greece graduates from its third bailout program, the country has a good story to tell. Its economy is emerging from a deep recession after enormous adjustment, the elimination of its twin current account and fiscal deficits, and after adopting many reforms over the last eight years (even if some remain on paper). An economy that is recovering, tied to a strong currency, and with risk of Grexit nowhere on the horizon. An economy offering deeply discounted asset prices and abundant, skilled labor. An economy at the very start of a recovery cycle that is screaming with investment opportunities. That is the positive view.

But there are also adverse factors. A restrictive fiscal framework. A shrinking labor pool supporting a rapidly aging population. Also, a steep drop in gross capital formation as a result of sharply reduced investment over the last few years. From a pre-crisis level of 24% of GDP, investment has collapsed to just slightly over 12% of GDP.

This drop in investment cannot be covered by public expenditure. Domestic savings have shrunk dramatically, and the banks will be unable to finance the economy for several years. This means the country must urgently attract foreign capital, on a much larger scale than current Foreign Direct Investment (FDI) inflows and on an ongoing basis. Although FDI is rising, mainly due to privatizations, levels remain below the EU average.

Productivity growth in the past has been among the lowest in the Eurozone. This is related to the structure of the Greek economy: a low level of exports and an economy dominated by non-tradable products and services for domestic consumption. This has started to change, but at a slow pace. From a very low share, exports now constitute 33% of GDP. This is a clear improvement, yet still less than that of Portugal or Spain, and lower than what the economy needs in order boost revenue from supplying more products and services to the international market. The small size of Greek businesses is also an impediment.

The economy needs larger enterprises and more multinationals. Establishing these in Greece through foreign investment can contribute to reducing the investment gap in the economy. Their international character can also contribute to the effective interconnection of the Greek economy with the necessary international networks and global supply chains. Foreign businesses bring valuable know-how and innovative practices, boost productivity, and can contribute to the overall upgrading and growth of the Greek economy.

A strong international presence is necessary to enable the economy to overcome structural problems, negative trends, and reinforce the demand for reforms. Not wage cuts and austerity measures, but reforms that increase productivity, available capital and jobs and integrate the economy with international supply chains. A simple reading of international competitiveness indicators (World Economic Forum, World Bank) suggests the institutional and regulatory interventions that can make the country an attractive investment destination. These must form the core of the reform agenda for the country's development program.

The findings and suggestions of this paper are based on the input and suggestions of executives of foreign multinationals present in Greece. These are companies that at some point in the past found opportunities in the Greek market that outweighed the obstacles, they trusted the country and invested in it. These executives combine international know-how with local experience, and therefore their input is particularly important.

These proposals and remarks serve as feedback for the Greek government, institutions, political and social partners, and offer useful conclusions. They could be the starting point for further action to make the Greek economy even more attractive and investment-worthy. The executives of foreign companies active in Greece are waiting for this: they want to show headquarters that they made – and are making – a good investment and, what's more, that Greece deserves a spot on the roadmap of future investment destinations.

How Many and Where? The State of Foreign Investment and Multinational Companies in Greece

According to the latest data from Eurostat (Inward Foreign Affiliates Statistics-FATS) 2,437 foreign affiliates, excluding the financial and insurance sectors, were active in Greece in 2015, employing 123,696 people. Foreign affiliates are defined as enterprises that, while based in one country, are owned or controlled by a multinational company established outside that country. Most of these subsidiaries are owned either by a single investor or a group of investors holding more than 50% of shares or voting rights.

In January 2018, the Greek edition of Forbes published a list of all Greek companies with turnover above €100 million, based on publicly available financial statements as of December 2017. Based on our analysis of the available data, we ascertain that, of the 170 enterprises on the list, 51 belong either partly or wholly to multinationals holding an equity capital stake of at least 10% of shares or voting rights.

In 2016, these companies had total turnover of €11.2 billion. Their sectors of operation, from highest turnover to lowest, are: telecommunications, supermarkets, insurance, pharmaceuticals & cosmetics, transportation, electrical appliances, beverages, food, glassware, packaging, tobacco, non-metallic minerals, clothing & footwear, construction, razors, petroleum products, furniture, carpets & lighting, car rental, passenger ferries, mobile telephony, transportation means & spare parts, lifts, electrical materials, aquaculture, and detergents. This is the profile of the largest multinational companies in Greece.

Investment Opportunities and Advantages: Greece as an Investment Destination

Greece, as one of the 19 member countries of the Eurozone, enjoys a number of basic advantages as a destination for foreign investment. However, inflows remain low compared with other European countries and internationally. This is mainly due to Greece's inability to compete internationally with other countries as a destination for FDI, as reflected in Greece's 67th place rank among 190 countries worldwide in the World Bank's (2018) Doing Business Report.

This despite the fact that some recent high-profile privatizations by the Greek state attracted foreign institutional and strategic funds and raised interest in Greece, returning it to the world map of FDI destinations. Indeed, total FDI inflows in 2017 reached €3.6 billion, compared to €2.8 billion in 2016. This is the best annual performance since the beginning of the crisis. However, overall FDI to GDP rates remain among the lowest of the Eurozone, indicating that there is still a long way to go.

France and Germany are by far the two largest source countries for FDI during the years 2006-16. The bulk of the FDI inflows, 87% in the period 2006-16, went into the services sector (financial sector, telecommunications, real estate, trade, tourism, logistics, etc.) and the remaining 13% into the secondary sector (chemicals, pharmaceuticals, food, beverages).

Several studies (McKinsey, EY, IOBE, KEPE etc.) have over time highlighted areas in which the country has comparative advantages and could develop enterprises attracting FDI. These areas include, in addition to tourism and shipping, infrastructure, renewable energy, agro-food, real estate, logistics, but also information technology, the pharmaceutical industry, the health and care sector for seniors, research and higher education.

Why Greece Is an Attractive FDI Destination for ICT

- Availability of graduates and professionals in the fields of science, technology, engineering and mathematics (STEM), including computer science and electrical engineering:
    a) High number of academic institutions for undergraduate and graduate studies
    b) High rates (35%-40%) of tertiary education graduates among the young
    c) Tens of thousands Greek students also receive training abroad, at Western European and US universities, and are looking for opportunities to work in Greece
- Almost all graduates speak English and often additional foreign languages as well

- High quality infrastructure:
    a) Telecommunications
    b) Airline connections
    c) Public transportation
    d) Modern office space available at attractive prices
    e) Business services

- Ideal weather and climate, conducive to attracting expats, staging corporate events etc.

- Competitive wages relative to services performed compared to Western Europe and the US:
    a) Reformed labor law – quite liberal by EU standards
    b) Easy to train workforce, flexible and hard-working
    c) Large labor pool, due, inter alia, to very high unemployment among the young and low-paying jobs
    d) Work culture in the private sector is compatible with Western European and US standards

- EU Member State since 1981, with numerous benefits for companies active within or outside Greece. All EU legislation has been fully integrated into the domestic legal system, including personal data protection rules.

- Geographically, historically and culturally in a unique position to serve international markets, such as:
    a) Southeast Europe
    b) Middle East
    c) Africa

- Well-developed ICT market for decades, in all sectors (such as telecommunications, financial services, the public sector, industry), with experienced professionals available on the labor market.

Investment opportunities in ICT:

- Centers for proprietary software development through subcontracting or joint ventures
- Research and development centers (R&D)
- High-Tech centers of excellence in specific areas of vertical specializations (near-shore and off-shore)
- Outsourcing service centers for international customer operations (either inter-company services, or services to external customers)
- Cloud management centers
- Technical support call centers
- Training centers for customers and employees

In recent years, Greece has made steady and decisive steps, especially in implementing the reforms of the three adjustment programs to address weaknesses and inadequacies in attracting FDI. However, there is still significant room for improvement in key aspects of the ecosystem for business activity, such as administrative procedures, the regulatory, legal and fiscal framework, human and intellectual capital and infrastructure. These specific areas are analyzed below.

Public Administration, Regulatory Framework, Bureaucracy

A number of international reports (such as by the World Economic Forum and the World Bank) have found that bureaucracy, the regulatory framework, and dysfunctional public administration are among the leading deterrents for investing and doing business in Greece. This problem remains despite the significant interventions and improvements, which have been carried out in recent years.

Multinational companies operating in Greece fully share this assessment. Problems with the bureaucracy and the regulatory framework have featured regularly for decades in international reports dealing with Greek public administration.

In the latest World Bank Doing Business Report 2018, Greece is ranked second to last of the 28 EU countries, and 67th out of a total of 190 countries. In the similar Global Competitiveness Report, 2017-18, by the World Economic Forum, Greece receives an even poorer rating, ranked 87th out of a total of 137 countries.

In the Doing Business Report 2018, Greece ranked the worst or among the worst EU economies on each of the individual criteria: enforcing contracts, permits, getting electricity, registering property, ease of real estate transfer, deed registry, bank financing, paying taxes, trading across borders, resolving insolvency. All these obstacles and problems have a negative impact on the breadth of entrepreneurship, the opportunities for business partnerships and the appetite for new investment. They must be systematically addressed in the context of a broad, long-term reform program of the state and the regulatory and legal framework.

Problems:

Some of the major, chronic problems with public administration, adversely affecting business activity, are:

a) Overregulation, poorly drafted laws, enormously complex and contradictory legal and regulatory framework.
b) Poor regulatory framework creates legal uncertainty and perpetuates bureaucracy. It creates barriers to entry into the Greek market, to the detriment of competition.
c) Overlapping responsibilities of public bodies.

d) Excessive bureaucracy, with multiple and uncoordinated public services discouraging private investment.
e) Complex and time-consuming licensing procedures to set up and run a company.
f) Several of the initial stages, such as licensing or bidding, remain complex and lacking in transparency. Many businesses operating in Greece cite signs of corruption and lack of transparency in the public sector.
g) The absence of a spatial planning framework for businesses creates insurmountable problems in the land use, change of use, and transfer of existing businesses, as well as in the establishment of new business facilities.
h) Legislation for business parks is incomplete, and the ministerial decisions that have been issued create more problems than they solve. For example, the process for collecting the levies (to be included in the city plan) by the body establishing the park is byzantine, with delays of 2-3 years.

Suggestions:

• State commitment to a long-term strategy that responds to strategic needs of investors. Countries with high FDI inflows have adopted credible and clear regulatory frameworks that eliminate regulatory uncertainty and hassle for investors.

• Establish mechanisms and adopt best legislative practices. It is worth noting that Greece adopted legislation on "good lawmaking," in 2012, which has largely failed in improving the quality of the legislative and regulatory framework.

• Take measures to alleviate the administrative and regulatory burden of business.

• Training of civil servants involved in development and entrepreneurship.

• Emphasis on public accountability.

• Utilization of digital tools in public administration.

• Automate procedures.

• Obligate public administration to respond promptly to taxpayers' questions.

• Introduction of one-in, one-out logic for new regulations:

a) Cutting bureaucracy by introducing a one-in, one-out rule, according to which no new regulation will be adopted without eliminating another, even greater regulatory barrier.
b) The rule has been successfully implemented in the United Kingdom, with positive effect on all government agencies and regulators whose work affects businesses and civil society organizations.
c) In addition, the rule could be supplemented by developing a system where the

d) INS and OUTS of regulations are recorded and credited.

• Customer-centric public administration i.e. focused on providing service to the public: Creating a help desk in all ministries and regulatory authorities, which will provide guidance to the public on how to resolve their issues.

• Digitization of public services and extension of eGovernment can:

a) Reduce bureaucracy,
b) Reduce corruption by limiting, de facto, the involvement of the human factor.

• Continuous simplification and computerization of the licensing process. The registration and licensing to start a business must be a clear, simple, fast and inexpensive procedure. The transition to a web-based system, available in foreign languages, but at minimum in English, is necessary. Several countries that rank high on the "Starting a Business" criterion of the World Bank offer online business registration (New Zealand, Australia, Singapore, Canada). The relevant international experience could be a used as a prototype.

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Example:

Cider production was banned in Greece until recently, based on a law from 1922. After repeated protests by the brewers active in the Greek market, a ministerial decision was issued in 2018, which defines the specifications for the production and distribution of fermented fruit beverages. However, a number of similar anachronistic regulations survive and await the mobilization of the business community to have them abolished.

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• Reduce preemptive regulation and replace with stronger oversight.

• Better management and utilization of Big Data by public administration.

• Reducing excessive and poorly conceived legislation. Specialists in the public administration should undertake to re-codify legislation to streamline the legal and regulatory framework.

• Systematic training and development of public officials skilled in effective public management and who speak the same language as private sector executives.

• Strategic management of human resources in the public administration with procedures for the evaluation of senior management.

• Adopt best international practices to remove barriers in the market, and in cooperation with the private sector through a regular consultation process.

• Anti-corruption initiatives to improve ranking in related indices (World Bank, Transparency International, etc.).

Access to Justice and Dispute Resolution

The enforcement of contracts, in other words, the ability to effectively enforce the law, adhere to agreements and obtain judicial settlement of disputes, is one of the most important factors influencing investment decisions. In the recent Doing Business Report 2018 from the World Bank, on the specific criterion of enforcing contracts, Greece ranks 131st of a total of 190 countries. Greece is also last in the EU with regard to the total time needed for final settlement of litigation (1580 days). The second worst, Slovenia, averages 1160 days. In 11 countries it takes less than 500 days.

The weakness of the justice system in protecting property and contractual rights and the enormous delays in the administration of justice are a deterrent to foreign investment. According to the 2017 Investment Climate Statement of the US Department of State, foreign firms report that Greek courts do not always provide effective and impartial protection. There are enormous delays in completing tax, criminal and administrative cases. One of the multinationals gave the example of an appeal to the Piraeus Administrative Court of Appeal from 2013, which at the time of writing had yet to be ruled on.

In recent years, significant improvements have been made to the legal framework for the settlement of disputes in and out of court, with a view to provide timely, effective and definitive dispute resolution and access to justice. The interventions focused in particular on:

a) the management of problem debt and non-performing loans in order to facilitate the restructuring of the Greek banks
b) simplifying licensing procedures for establishing a new business and for private investment. In these areas, and according to the Memorandums, significant changes have been made to the civil code, out-of-court settlement of debts and other important changes.

But the rapid, fast track adoption of so many legislative reforms during the years of the crisis – despite the many benefits embodied in the substance of the changes – also had a significant side effect: the quality, continuity, compatibility and effectiveness of new legislation suffered, with ramifications on both the broader legislative and institutional framework, and the surrounding legal and judicial culture.

In particular, the successive and often ad hoc amendments to legislation, the rapid pace of new lawmaking – with no prior consultation or thorough evaluation of the potential results – led to significant regulatory gaps or overlaps, contradictions and legal ambiguities. These leave a wide margin of discretion to the administration and courts, undermining legal certainty and fueling lengthy legal disputes.

Problems:

• The slow pace of the justice system, where the extreme delays in dispensing justice is often tantamount to a denial of justice, has enormous costs for business and also the country's growth prospects. The significant delays in issuing decisions has a negative impact on investment decisions, and may even lead to projects being canceled, exacerbating the already poor investment and business climate.

• Low legal costs lend themselves to a very large caseload in the justice system, inevitably delaying court decisions. Also, the penal nature of Greek business law inhibits the recruitment of competent senior executives and further complicates business and investment decisions.

• The new legislation establishes deadlines (for filing lawsuits, issuing of court orders and decisions, etc.), but these are frequently ignored because of the overloaded court system.

• Significant technological and organizational weaknesses and lack of compatibility between information systems, both at the level of the administration and within the courts.

• The long backlog of court cases actually hinders the implementation of law and reduces the incentives of both individuals and entities to comply with the law, given the low levels of enforcement (bankruptcy, competition, tax evasion, etc.).

• Deficiencies in public administration and in its enforcement and implementation of existing laws have effectively shifted the burden to the judiciary, and in an effort to increase public revenue, often at the expense of procedural guarantees.

Suggestions:

• Speeding up justice. Justice delayed is justice denied: swift court decisions, especially in cases of contractual disputes, constitute the foundation for legal certainty and, consequently, the creation of a safe environment for investment.

• Exploiting the technology available in our digital age.

• Incentives and disincentives to limit the number of lawsuits.

• Reducing the caseload in the court system by strengthening out-of-court dispute resolution mechanisms. Creating the institutional framework alone is not sufficient, there must be substantial incentives (carrots or sticks) to encourage litigants to choose an out-of-court settlement process.

• Training of court officials.

• Upgrade the administrative functioning of the judicial system and streamline internal procedures for awarding justice.

• Adopting modern technologies throughout the court process which, currently, is limited (and with significant delays) to simply tracking the progression of a case and is not even available for all processes.

• Continuous education and training of judges.

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Example:

Health & Safety Violations in the Cleaning Services Sector

Problem:

Labor regulations for janitorial and cleaning services companies prescribe severe consequences for any company charged with three or more health and safety violations within a two-year period. These consequences include: being barred from bidding on public contracts, termination of existing public contracts, the company being declared in default, termination of contracts with any private sector company of more than 50 employees.

In practical terms, this means that any company receiving three fines from Greece's labor inspector within a two-year period will be forced out of business. The likelihood of this is high: the companies in the sector are large, have thousands of employees all over the country, and provide services to countless numbers of third parties. Health and safety checks on these employees occur almost daily.

But the backlog in the courts means that companies accused of violating health and safety rules are denied effective legal remedy. Specifically, any appeal lodged against a health and safety citation may not be heard in court until long after the two-year period during which it was issued. For example, in the Athens Administrative Court of First Instance, such appeals are typically heard 6-7 years after the fact.

So, even if the appeal succeeds and the violations are overturned by the court, the company will already have suffered the devastating and potentially irreparable consequences imposed by the law.

Suggestions:

Amend the law to allow for appeals before imposing penalties, as is the case for companies not in the janitorial and cleaning services sector. Reinstate previous law, which allowed companies to press an appeal without paying the full fine. Under the old law, a company would pay 20% of the fine when lodging an appeal, and the balance only if the appeal was dismissed.

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Taxation and Social Security Contributions

A constant problem in Greece has been the frequent changes to the tax code, a problem further aggravated by the crisis. Businesses in Greece operate in an unstable regulatory environment. In addition to the heavy tax burden, the constantly changing tax framework often reduces visibility for businesses and deters potential investors from Greece.

Throughout the crisis, tax policy has been a government priority, with the overriding goal of boosting short-term tax revenue. This has not always resulted in the best possible outcomes, and has further compounded the distortions and disincentives of the tax code.

The results are visible. In the most recent Global Competitiveness Report by the World Economic Forum (2017-2018), Greece is ranked last (137th out of 137 countries) in providing tax incentives for investment. It is ranked 111th in terms of total tax burden (including social security contributions).

In the same WEF report, tax rates, inefficient state bureaucracy, and the overall tax, legal and regulatory framework are cited as the three most important factors hindering business and investment activity in Greece.

Multinational companies in Greece have pointed out that excessive taxation for business executives (a combination of taxation, insurance contributions and taxation of benefits) creates disincentives. The cost of foreign executives at multinational companies is prohibitive. The tax rules on the payment of benefits-in-kind is particularly burdensome for certain sectors, such as the car industry.

All of the above act as a disincentive and ultimately encourage tax evasion, the shadow economy and illegal employment.

Problems:

- Very high tax rates on capital and labor, especially in combination with health and pension contributions.
- High corporate income tax rate of 29% and 15% on dividends: effective rate 39.65% (in the top five in Europe).
- VAT rate 24% (in the top five in Europe).

• Social security contributions as high as 42-45% on employees' pre-tax salary and wage income.

• Two years prepayment of projected corporate taxes significantly impacts the cash flow of businesses.

• Incomplete balance sheets, absence of tax certificates, or certificates with reservations, complicate accounting practices making accurate assessments of company net positions difficult.

• Tax and regulatory framework discourages consolidation, particularly in cases of partnerships and limited liability companies. Mergers and acquisitions face a complex process involving the general company registry, the tax system, accountants and the Athens Chamber of Commerce and Industry.

• Unaudited financial statements that hinder accurate valuations of a company.

• Legal jeopardy for company managers. New managers assume all past company obligations and are held personally responsible for them. This discourages risk taking by executives.

• Very high Weighted Average Cost of Capital (WACC) for Greece, due to a high risk premium, which dramatically reduces return on investment (IRR).

Suggestions:

• The top priority is restoring transparency and stability to the tax regime. The multinational companies invested in Greece have underscored the importance of legal certainty, the absence of regulatory surprises, and making it possible for investors to forecast at least 3-5 years ahead.

• Simplification of the tax code, comprehensive revision and codification of the tax laws. Tax officials should work in collaboration with business representatives to create a simple and clear tax framework. The codification of tax laws and regulations would be a useful tool to facilitate business and investment activity.

• Revising tax rates. Direct taxes of all kinds (especially corporate taxes, payroll taxes, and taxes on profits) need to be re-examined and reduced.

• In particular, with regard to payroll taxes, tax incentives (such as adoption of non-domiciliation status for foreign executives) should be considered in order to attract high quality personnel.

• Revising social security contributions. Although these are not directly linked to taxation, they should be recalibrated towards a more balanced cost/benefit ratio.

• Reducing tax rates and social security contributions would have an enormous impact in stemming the outflow of talent and experienced executives abroad.

• Rewarding companies that reinvest profits by reducing their tax rates.

• Increasing tax revenue by combating tax avoidance and tax evasion more effectively, as well as cracking down on smuggling.

• Adoption of best practices for the establishment of a single national tax policy, with, at a minimum, a national agreement on the system and procedures.

• Technological upgrading and digitization of the tax administration: while important initiatives have been taken to adopt a modern, electronic tax process, there is still much to be done in the computerization of procedures. Further steps would be to move all taxable transactions online, ranging from the electronic filing of all tax statements, to the issuance of invoices and the submission of accounting data. This would allow tax authorities to collect data in (almost) real time, and give them the power to better monitor tax compliance risks and make tax assessments.

• Improving tax justice and dispute resolution procedures. The results of tax audits must be incorporated in the final dispute resolution and/or court order. That is, the arbitrator or court must disclose whether the findings of the tax audit have been ultimately adopted. Also, it would be advisable to consider the establishment of a tax arbitration mechanism.

• Continuous training of tax administration staff. Tax personnel should be kept continuously up to date on developments in domestic tax legislation, as well as on a European and international level, in order to correctly interpret and implement the tax code and with an understanding of prevailing economic and market conditions. Such highly trained personnel could help bridge the traditional distrust of Greek tax authorities towards foreign multinationals, foreign investors, and innovative new businesses.

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Example:

The Tax Treatment of Cash Pooling

Cash pooling is a method for managing the cash reserves of a multinational group in a centralized manner. By using this method, affiliates can avoid borrowing from third parties on unfavorable terms, when other subsidiaries of the group have surplus cash. Cash pooling allows the company that needs liquidity to use cash from another subsidiary or affiliate that has a surplus of cash, accumulating the group's cash holdings in one company. In this way, companies can negotiate better interest rates with third parties and the group can minimize their interest burden and/or maximize their revenue from interest. Cash pooling also allows immediate payment of payables (payroll, taxes, suppliers, etc.) and, in general, the smooth running of the company.

However, the Greek tax authorities treat the cash pool as a current bank account that is subject to a stamp duty and an OGA stamp tax of 2.4%. According to the law, the 2.4% stamp tax is imposed on each transaction. The tax authority recognizes the stamp duty in the calculation of debit or credit balances produced. But even with this allowance, the amounts paid by companies using cash pooling are excessive and hold those companies hostage to future tax audits. Although there is now a five-year statute of limitations on tax audits, various court decisions have established a 20-year statute of limitations for the payment of the stamp duty.

In a sense, companies that are self-financing through cash pooling and on time in meeting their obligations, tax and other, are being punished. At a time when the banks can no longer finance companies, but funding is still needed to keep companies operating. The state needs to promote economic growth and reduce unemployment, and the only way to achieve that is through maintaining existing businesses and creating new ones.

Solution:

Immediately abolish the stamp duty and end the tax uncertainty facing companies that use cash pooling. Cash pooling is a sound means for securing funding and should be maintained.

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Financial Conditions

The restrictive financial conditions were highlighted by several companies as a deterrent to further investment, although their impact on multinational companies is less compared with domestic companies.

The continued imposition of capital controls, which have been steadily relaxed, signifies that conditions have not yet been normalized. Removing capital controls will signal restored confidence and a return to normality in the economy.

Foreign investors or multinationals already operating businesses in Greece, must demonstrate enormous flexibility in servicing their loans from banks abroad.

When it is both difficult to borrow from Greek banks, and complicated to repay loans abroad, this undermines foreign investor confidence in the country. State and banking bureaucracies work together to keep funds in Greece. This, however, sends a negative signal to foreign investors.

Access to an integrated and credible financial system is essential, coupled with ease in the movement of capital. Investors should be able to repatriate, if necessary, their profits or part of their investments easily.

The Value of Human Resources

Human resources are the most important asset for a business. Although Greece has high-quality human resources, the labor market remains rigid and is characterized by skills mismatch. Improved cost competitiveness achieved through wage depreciation during the crisis was partly offset by the increases in payroll tax and social insurance contributions.

Talented, highly qualified Greeks are driven to relocate abroad, due to inadequate incentives or unfavorable conditions that also prevent the influx of skilled foreign workers. The flight of capable executives and scientists abroad creates difficulties in staffing and management for companies undertaking investments.

In the World Competitiveness Report of the World Economic Forum (2017-2018), Greece is ranked 133rd of a total of 137 countries on its "capacity to attract talent," and 121st on its ability to keep talent in the country. The reason for the low ranking is partly found in two other indicators: "the effect of taxes on employment incentives," and the effect of taxes "incentives for investment." In those two categories, Greece is ranked second-to-last and last respectively.

Having a skilled and flexible workforce is an important factor in attracting foreign investment. In Ireland (ranked first worldwide on attracting high value FDI for the sixth consecutive year in 2017 by IBM Global Locations Trends), the availability of talented human resources is a key differentiator, while the country also stands out for the flexibility and adaptability of its workforce. A basic criterion is the cultivation in the educational system of soft skills, like creativity, problem-solving, communication skills and general learning methods.

Investing in developing competitive human resources and providing incentives to attract and preserve talent is crucial. This can be achieved by strengthening the internationalization of the educational system, while at the same time focusing on developing the soft and technical skills of the workforce in relation to the market, as well as expertise that aligns with the national FDI strategy.

The biggest challenges in the Greek labor market are: inadequate professional orientation of young people, the mismatch between market needs and the educational system, the low level of interconnection between educational institutions and businesses, the absence of soft skills, the state's inability to reintegrate thousands of unemployed into the labor market through vocational and ongoing training.

Problems:

• A key factor for companies and employees is the non-wage labor costs. Greece is known to have a high payroll tax cost, which contributes to low labor performance.

At the same time, it makes it difficult for companies to raise wages and/or add new jobs. Finally, it leads to tax evasion that deprives the public coffers of precious resources.

• During the crisis, most of the new jobs created were in flexible forms of employment (part-time, temporary, etc.). One of the factors that drive businesses to these forms of employment is the rigid legislative framework, which despite labor market liberalization, still, for example, defines the work schedule of employees.

• The educational system remains largely disconnected from the main economic activities of the Greek economy and, in particular, the sectors in which the country already has or could develop a comparative advantage, with accompanying FDI potential.

• The educational system produces graduates with skills (including technical and soft skills) that are largely incompatible with both the national and international needs of the market. While employment trends are changing drastically, the curricula of Greek universities are slow to adapt to developments, with the possible exception of postgraduate programs.

• In addition, most Greek businesses (even start-ups) continue to overlook rapidly evolving international trends. There are bright exceptions, particularly in high-tech and research areas – however, they are small-scale and not the general rule.

• There is, therefore, a need to better align entrepreneurship, the educational system, and the country's development prospects. In this endeavor, all stakeholders have a role to play: the state, by developing a clear national strategy and action plan linking education with labor market needs; the educational system, by developing programs better suited to market needs; businesses, by developing their own practical and vocational training initiatives; lastly, by society in general, in accepting the necessary changes, as opposed to old, engrained perceptions about education and professional qualifications.

Suggestions:

• Gradual reduction of insurance contributions, especially for the lower pay scales. Subsidy for insurance contributions for new entrants to the labor market. Provide tax incentives to employers who add jobs and provide benefits to their employees.

• Simplification and codification of the labor law and simplification of the business framework in this area.

• Reviewing the rules for work schedules, aimed at increasing the flexibility of businesses, always in the context of respecting workers' rights. There are specific business sectors (particularly companies that work internationally) that can't operate without flexibility in working hours.

• Strengthen controls to combat uninsured work.

• Strengthen the skills of the unemployed, based on the needs of the market. Develop programs to radically retrain in professions with high unemployment rates, as well as introduction of similar programs for company executives.

• Redesign the educational system by assimilating new technology and responding to other conditions (4th industrial revolution), as well as modernization of vocational guidance.

• Strengthen the link between higher education and the labor market. Redesign university programs in order to better align with market trends. Liberalize higher education by allowing the operation of non-state tertiary institutions, which would facilitate functional expertise and competition.

• Upgrade and make mandatory student internships at businesses and organizations to give students work experience.

• Design targeted programs for retraining/recertification of executives.

• In professions requiring professional certification, better coordination is needed between relevant government agencies and representatives of the industry in question to reduce the frequency of examinations required for professional certification. Simplify and rationalize certification processes by assigning them to more educational institutions, under the supervision of the relevant ministries.

• It is important to increase the proportion of enterprises, which is low in Greece compared to other developed economies, providing education and training to their staff. It would be advisable to restore the subsidy for intra-business training to the previous 0.45% of social security contributions (LAEK funds) that applied before it was dropped to 0.24%.

• Introduce international education/training centers in Greece focusing on strategic development sectors, such as tourism, shipping, agricultural production.

• Implement targeted policies and incentives for repatriating Greek professionals from abroad, with the aim of better exploiting this precious human resource. Turn the brain drain into a brain gain.

• Reforms to ensure the viability of social insurance funds, in light of the unfavorable demographic prospects facing the pension system, but without further burdening businesses.

• Improve infrastructure for foreign business executives, such as English-language services in public administration, schools and public order.

Research, Development and Innovation

In the latest Global Competitiveness Report of the World Economic Forum (2017-2018), Greece ranks very low on the criterion “FDI and technology transfer” (112th of 137 countries). In same report, Greece ranks in the top ten for engineering, 65th in the quality of scientific research institutions, 85th in its capacity for innovation, 87th in corporate spending for research and development, but 129th in cooperation between universities and enterprises for research and development, and 131st in state procurement of high technology products. These rankings summarize the relative advantages, but also the significant shortcomings, of Greece in the very important field of research, technology and innovation. These weaknesses further exacerbate the problem of brain drain.

Therefore, a strategic priority for the Greek economy is to attract more FDI while also offering incentives to large multinationals to establish research and development (R&D) departments in Greece. By positioning Greece as a center of innovation, this would have a significant multiplier effect on the economy, education, and society. There are already some promising examples in this area, but more should be encouraged.

Problems:

- Despite some select and noteworthy efforts, R&D still plays only a limited role in the country’s business model.
- The country's total expenditure on R&D continues to be among the lowest in the EU. The added value created by this sector is thus lost to businesses and the economy.
- The level of cooperation and exchange between institutions of basic & applied research with businesses is quite low.
- Financing for start-ups is inadequate – although recent initiatives, funded by the European Investment Fund, have to a large extent filled this gap.
- There is still no suitable regulatory framework for the development of start-ups and associated research.
- Inadequate enforcement of copyright protection laws discourages foreign investment in R&D.
- Greek universities have not managed to be sufficiently open to students and researchers from abroad.

Suggestions:

- Introduction of tax and other incentives to invest in R&D, based on successful international practices.
- Strict implementation of laws to protect innovation and intellectual rights, comprehensive and practical protection for distributors of intellectual property. The regulatory framework must be fully compatible with international guidelines and practices.
- Introducing a supportive regulatory framework for start-ups.

• Patent box regime.

• Ease regulatory restrictions on universities to allow them to better develop research partnerships and partnerships with the private sector. For example, eliminate restrictions on state funding of postgraduate programs, and the operation of the special funds that manage research grants, awarded competitively, to universities.

The Importance of Infrastructure

Infrastructure plays an extremely important role in the productivity and competitiveness of the Greek economy. Infrastructure is a key factor for sustainable development and provides a key contribution both to boosting entrepreneurship and creating a positive environment for investment.

The state of infrastructure in the country is generally good, mainly due to the stock of infrastructure created during the pre-crisis period. Although several major road projects were built, the country still lags behind in rail and port infrastructure (except for the port of Piraeus), with a significant negative impact on transport costs.

Lack of cargo infrastructure, transportation, storage, etc., combined with problematic zoning rules and land use (e.g. Thriasio, Oinophyta, etc.), hinders freight transport both domestically and for export. At the same time, only a fraction of existing infrastructure is geared towards environmental sustainability.

Suggestions:

• Design investments in infrastructure for efficient operation (increase of productivity, lower business costs, more direct access to foreign markets).

• Emphasize the development of technology business parks, including the upgrading of digital infrastructure.

• Modernizing and upgrading of infrastructure in industrial areas.

• Development of sewage treatment systems and municipal waste management.

• Modernizing the system of power production and removal of existing barriers, with the aim of reducing energy costs.

• Creation of business parks.

• Accelerating privatizations that introduce capital, know-how and improve the quality of infrastructure.

• Orienting most of the Public Investment Program in this direction and, in particular the areas of water management, waste management and tourism.

- Integrated transport development plan (ports – railways – motorways – airports).
- Exploiting European resources and absorbing funds effectively through a transparent system for distributing funds.
- Expansion of PPP and project financing through project bonds (mainly due to budgetary constraints and weak bank balance sheets).
- Tax incentives for green growth infrastructure investment.

APPENDIX:

A Proposal for Attracting High-Tech Investment on the Basis of the Educated Workforce

Human Resources

From the perspective of a high-tech, multinational company, a major comparative advantage of the Greek market at this time is the availability of highly skilled professionals (scientists, engineers, etc.). This fact, combined with the geopolitical position of the country and other factors (geographical proximity to large business centers, EU/Eurozone member, energy/infrastructure, etc.), could make the country ideal for investments focused on the development of innovative technology for the global market. It should be noted that the global trend in terms of investment, especially in high-tech sectors, is that capital needs (Capex-intensive) are lower than operational expenditure needs (Opex-intensive), that hardware is replaced by software and that value creation is centered on human resources. Combined with digitalization and the development of new communications technologies, Greece could become a hub for remote and ICT services – namely, support services for global customers rather than just the local market – something that would enhance the country's international orientation as well as reverse the brain drain. Both are basic requirements for the country's development.

This type of foreign investment can be affected through two mechanisms:

1) Technology Development Centers in Innovation & Digitalization

Creation or relocation of development centers (R&D, product development and software centers) of large companies, for the development of solutions, products, and/or support for the global market. Such centers (Centers of Competence) could also be located outside major urban centers provided certain conditions are met such as, adequate infrastructure, telecommunications, networks, transport, favorable local environment and so on.

Factors and criteria related to the above investment decisions:

- Availability of human resources with the appropriate training
- Quality education
- Availability of additional skills (foreign languages, etc.)
- Basic infrastructure (telecommunications, networks, energy, office space, international and local transport)
- Smart infrastructure (technology parks, high tech work areas, wireless networks and high level digital services)

• Local market, business and scientific community (size, depth, corresponding activities of local businesses and international competitors)

• Regulatory framework (establishment procedures, legal status, harmonization with European and international norms)

• International trade relations and business environment (freedom of movement of goods, services and people, imports of high-tech hardware, availability of local suppliers, presence of international vendors)

• Labor costs (basic salary, tax/social insurance contributions)

• Labor legislation/flexibility of labor (e.g. telecommuting, flexible working hours, etc.)

• Taxation (tax rates, stability of tax framework, procedures, etc.)

• Financial environment (economic stability, banking system).

The centralization and systematic strengthening by the state of the above factors would have a positive effect on the potential for high-tech companies to develop such centers in Greece, which would strengthen Greece's international competitiveness.

Also, the establishment of state support structures for such investments, e.g. an agency facilitating connections and finding suitable human resources, infrastructure, etc., could enhance the attraction of corresponding activities.

Important to implementing such policies is that they aim to attract further investments by other companies in the same field, creating a competitive advantage in terms of know-how, making the country an international reference point in the technology sector.

Moreover, in addition to direct job creation through the recruitment of engineers and scientists, each Center of Competence will have a multiplier effect on job creation, with at least one additional job for each new position created (a factor that for high-tech jobs stands at 4.3).

2) Investing in Specialized and High-Tech Start-Ups

Domestic and international technology companies could exploit the opportunities in the Greek economy by investing in the support and financing of Greek start-up & spin-off companies in their areas of activity and, in particular, in the high-value sectors of the Greek economy.

Apart from funding investors, they could also help support start-ups in various ways through their business operations, such as providing the start-ups access to their international network (e.g. clientele), through collaboration with internal production departments and in new product development, marketing and financial analysis, etc.

The general preconditions for promoting such investments include a favorable environment for start-ups (a supportive licensing, regulatory and legal framework, etc.); a favorable environment for innovation centers (universities/research centers) that allows them to establish private companies to market their innovations (e.g. registration and exploitation of intellectual property rights, etc.); the existence of technology business parks; incubators, etc. An important factor is also financial support, either through the market or by the state, by providing the initial capital for start-ups in a range of sectors.

Research and Innovation

Parallel and complementary activities of potential interest for international companies would be the funding and support of research activities at local research centers and universities and/or cooperation with such institutions to produce innovations for a global market. Such collaborations are widely used, e.g. in Germany, where companies, on a systematic basis, outsource part of their R&D to research centers with appropriate expertise in the fields of interest, and with special agreements on commercial exploitation of the research product. Corresponding initiatives in Greece could support the country's research institutions with additional funding and infrastructure building. This would allow scientists to remain in the country, employed in cutting-edge sectors of the global market, while strengthening the link between research and production, which needs to be improved (as can be seen from the text of the National Strategic Research Survey, Innovation for Smart Specialization 2014-2020).

In the areas of high-tech business, special potential exists in the following areas, which can be combined with the development of smart infrastructure, discussed below:

- Industry 4.0 (industrial digitalization and industrial software)
- Energy management
- Smart grids & interconnections
- Intelligent transport
- Smart cities solutions
- Green islands technologies (Green islands)
- The Internet of Things (IOT)
- Sustainable energy production
- Logistics and telematics

Infrastructure

To effectively modernize and exploit the country's infrastructure, so as to make it more internationally competitive and sustainable within an increasingly globalized economy, we believe that digitalization is a key area for future investment, both foreign and domestic. Digitalization and the smart use of technologies, combined with human resources training and the development of research and innovation activities, will allow the country to make up for lost time and the lack of competitiveness brought on by the crisis. Such steps will allow Greece to offer higher value added services internationally, while enhancing the competitiveness of domestic products and services.

A few selected examples of where digitalization and smart technologies can support the modernization of critical infrastructure for the Greek economy:

• **Promoting energy and environmental development of non-interconnected island groups.**
In Greece there are 32 island groups not interconnected with the national grid. Power generation on these islands is mainly from thermoelectric power plants (diesel generators) with an installed base from 0.5 MW to 800 MW. The environmental impact (CO^2 emissions, microparticles, etc.) and the high production cost, on average six times that of the national grid, make it imperative to promote new technologies of innovation and entrepreneurship with emphasis in the fields of renewable energy, energy saving, development of infrastructure with the creation of smart networks, as well as water management and desalination.

• **Promotion of renewable energy projects,** taking advantage of the huge potential of the country in sun, geothermal and wind energy, including the possibility of deploying offshore wind farms, where geologically appropriate (Northeast Aegean, Euboea Gulf, Thracian Sea).

• **Development of smart grid infrastructure** in stand-alone non-interconnected energy systems, large or autonomous building complexes, islands or small towns, etc. Smart networks allow greater energy savings, improved power quality, greater penetration of RES and, above all, consumer interactivity with energy producers. The determining factor for optimal production management and proper market operation in island systems is the equipment of the network operator with energy control centers (ECCs).

• **Development of energy storage systems.**
In recent years, the increasing contribution of photovoltaic and wind farms to the electricity supply mix of the country has increased the importance of energy storage systems. These systems allow for the smooth incorporation of RES units into the electricity network and can have a catalytic role in the higher penetration of RES, reducing the oil dependency of the island networks and providing greater flexibility and stability for the power grid.

• **Improving infrastructure and equipment for port facilities.**
In ports with heavy tourist activity and, in particular, those serving cruise shipping such as Piraeus, Thessaloniki, Heraklion and Katakolo, the environmental impact from cruise ship engines is considerable. During a cruise ship's stay in port, its engines continue to operate in order to produce the electricity needed for onboard systems. Apart from the vibration and noise, there is a heavy environmental impact (CO^2, SOx and NOx emissions) on the harbor area and the surrounding cities they serve. The NOx emissions from a single cruise ship during an 8-hour berth are equal to that of 10,000 cars driving from Paris to Berlin.
It is essential to invest in onshore power supply infrastructure that will allow cruise ships to connect to the grid and draw the electricity they need for the duration of their stay. Such a system allows ships to stop their engines thereby reducing noise, vibration and emissions (up to 97%).

• **Logistic Centers**
The geographical location of the country and the development of the supply chain can turn Greece into a competitive and high-quality transit hub for Southeastern Europe, with the aim of exploiting the transit cargo trade and developing related support services.
Development of the sector could be further enhanced by improvements in: land use regulations, modernization and integration of infrastructure projects, vehicle fleet modernization, the promotion of nationwide business parks, setting up logistics studies departments at universities.

• **Rail Infrastructure**
The country's railways are in a process of privatization and liberalization, but investment will be needed to make them internationally competitive and to support the development of the country as a logistics hub. Direct rail links to all major ports and service centers in the country are needed. Further investment in the modernization and development of the rail infrastructure and services is also required, such as the electrification of the entire network, digitalizing control and management operations, and establishing online services for passengers and commercial customers. The goal is for Greek rail transport to become both a competitive service supporting the country's role as a logistics hub, as well as provide a comparative advantage for the export of domestic products.

• **Digitalized industry - Industry 4.0**
Manufacturing, as a pillar of the economy, is an area that needs to be strengthened, taking into account the characteristics of the Greek economy, specifically the prevalence of small- and medium-sized businesses that make up the bulk of Greek industrial production.
In line with global data, the main driver for production growth, efficiency and competitiveness is Industry 4.0 technologies. Full automation and digitalization of production throughout the value chain, from the design of the production line and the products themselves up to control of the production chain, quality control and logistics, offers an opportunity for both increasing and customizing output. With the

right investments, this trend allows Greek companies to compete internationally in niche areas where they have comparative advantages. At the same time, digitalization enhances global supply chain management. With the right incentives and an investment-friendly environment, Greek manufacturers could increasingly become part of that global supply chain. Italy, for example, is promoting industrial investments through its strategic plan, Industria 4.0. The plan offers tax incentives, such as “hyper and super depreciations” schemes (140% -250%) for qualifying investments, tax credits for R&D, and incentives for start-ups and investment in innovative businesses.

Epilogue:

The Necessary Preconditions of Macroeconomic and Political Stability

No national campaign to attract foreign investment, no attempt to consolidate and expand the presence of high-quality multinational enterprises in our country, can succeed without the basic preconditions of macroeconomic and political stability.

The severe economic imbalances that led the Greek economy to bankruptcy and the memoranda produced the country’s greatest economic and social crisis in its post-war history. An early exit from the crisis was dramatically delayed, and the effects of the crisis multiplied, due to the social and political tensions that intensified during the period 2010-15. The absence of social and political consensus cost the country heavily, alienated investors and depositors, and brought economic restructuring to a halt. The painful experience of the crisis shows that macroeconomic and socio-political stability along with rule of law and competent authorities are imperative for foreign investors to trust the country and invest in its future.

Greece is emerging from the crisis after correcting the imbalances that led to it and having adopted a wide range of constructive reforms to increase productivity, the benefits of which will become more and more apparent as the economy recovers. In addition, the country has emerged from the crisis with a degree of political stability and political consensus regarding its future orientation, namely, the policies that keep it anchored in the European institutions and the common European currency.

There is also broad political consensus on the need to safeguard budgetary discipline. The consensus extends as well to the need for adopting a new, outward-looking development model that exploits the comparative advantages of the Greek economy to attract investment to tradable sectors and exports.

This foundation guarantees stability. Combined with the steps the country still needs to take, Greece has the potential to develop into the place that business, societal and political forces want: a country capable of attracting foreign investment.