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COMMUNICATION FROM THE COMMISSION

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PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE
EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF
THE REGIONS AND THE EUROPEAN INVESTMENT BANK**
Growth for Greece

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1. INTRODUCTION

Greece is going through an economic and social crisis which is unprecedented in Europe in modern times. To get through it and to rebuild a successful economy will require a united national commitment by the population and their political leaders – only Greece can put itself on a different path for the future. The underlying causes of the crisis had been building up for several years and reversing these negative trends will take time. A crisis of such magnitude calls for far-reaching changes in Greece so that a new, dynamic, competitive Greek economy can emerge, one that is capable of generating sustainable growth, creating jobs, supporting social cohesion and delivering on the expectations of Greek citizens.

Greece does not have to face this huge challenge on its own. It can draw strength and concrete support from its membership of the European Union and of the Euro area. Supporting Greece in the effort that lies ahead requires long term solidarity from the rest of the EU. Other Member States and the EU institutions have made clear their desire to help Greece and to keep Greece in the Euro – by providing help on a scale that was unthinkable even a few years ago. The total package of assistance to Greece, including loans from EU and financial institutions, write-downs on private sector debt holdings, and grants from the EU structural and other funds, adds up to about €380 billion. This is equivalent to 177% of Greek GDP. This level of assistance is unprecedented (the US Marshall Plan for post-war reconstruction involved transfers equal to around 2.1% of GDP of recipient countries).

Table 1. EU and international support to Greece in recent years

<u>Various forms of EU and international support ≈ € 380 bn</u>	<u>The equivalent of: (2011 data)</u>	<u>By comparison:</u>
Financial assistance (loans): € 240 bn	<ul style="list-style-type: none">• 3% of EU GDP• 177% of Greek GDP• €33 600 per Greek inhabitant	<ul style="list-style-type: none">• Total US Marshall plan 1948-1951:<ul style="list-style-type: none">– ≈ USD 13 bn (85% grants, 15% loans)– ≈ 5% of US GDP– ≈ 2.1% of GDP of recipient countries
Private sector involvement (debt write-downs): € 100 bn		
EU funding for the period 2007-2013 (grants): > € 40 bn (including €20 bn from EU structural and cohesion funds and €20 bn under the Common Agricultural Policy)		

The crisis has underlined the interdependence of all EU Member States, and more particularly among those that share the same currency. Such an advanced degree of economic, social and political integration can only work when every member is able to deliver fully on its obligations. Greece needs the EU to get through this crisis – and the EU needs a well functioning and dynamic Greece to play its full role as a Member State, helping to make EU policies work across its full territory.

Throughout the crisis, the Commission has been active in assisting Greece, delivering direct support and liaising with the other Member States, EU institutions and the international community to devise unprecedented solutions and to deliver lasting results on the ground. Across the Commission, teams have been mobilised to the full and are working actively with the Greek administration in Brussels and Athens. To provide the technical assistance required, the Commission also set up a dedicated Taskforce for Greece in July 2011. Moreover, the Commission is tasked with enhanced monitoring of commitments and progress. As the annex to this Communication shows, tangible results are beginning to emerge and promising avenues have been identified through this work.

The Commission has decided to issue this Communication now because after many months of uncertainty the main framework for recovery in Greece is in place. Greece has taken important steps to reduce its public sector deficit and adopted new fiscal and economic policies. Agreement on the Second Economic Adjustment Programme and the success of the recent private sector debt reduction operation provide an opportunity to create a new dynamic to speed up the badly needed structural reforms.

This Communication will be of interest to a wide range of readers:

- To the people of Greece, because it shows that a more fair, socially cohesive, trustworthy and efficient system can emerge from the current crisis. Greece has the capacity to change and many valuable assets to draw on – but all of the unprecedented support that Greece is now receiving can only produce results if Greek citizens put their weight behind the programme and work to build a different future.
- To the democratic institutions of Greece, which have agreed to the Second Economic Adjustment Programme and are committed to its implementation. This Communication underlines the need to create a more positive atmosphere by emphasising the rapid benefits that can be achieved by the full implementation of the early measures of the programme.
- To other EU Member States, the EU institutions and our international partners, who are providing unprecedented support to Greece and who will want reassurance that their contribution is being put to good use, and in ways that avoid recurrence of problems.

The purpose of the Communication is to highlight the positive impact that the full and effective implementation of the Second Economic Adjustment Programme¹ can have by laying the foundations for growth, investment and social renewal. This Communication

¹ The full text of the Programme can be found at:
http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp94_en.pdf

identifies ways to maximise the impact of early deliverables through swift actions and EU support.²

While Greece is faced with a long process of transformation and adjustment, implementation of these actions will start the recovery process. Broad public understanding of the programme and of the expected results of the major changes that will be made in the coming months will be needed to convince people that the sacrifices and efforts being made now will yield tangible results in the future.

2. AN HISTORIC OPPORTUNITY TO BUILD A BRIGHTER FUTURE

The full and timely implementation of the Second Economic Adjustment Programme must be the top priority for Greece. The reform measures it contains are designed to restore the growth and job creating potential of the Greek economy and to do away with the value-destroying rules and opportunities for corruption and bureaucracy that prevent Greek citizens and businesses from engaging in productive activities. Currently, over-regulation and a poorly performing public administration create inefficiency and too many cases of rent-seeking behaviour.

The removal of the most blatant obstacles to growth can significantly improve the situation of citizens and companies in a relatively short time-frame. In the medium term, more profound reforms of the Greek public administration and justice system are required to ensure faster, more efficient procedures, a substantially more effective and equitable tax collection system, less red tape and more legal certainty for investment and new business activities.

The reforms agreed under the Second Economic Adjustment Programme seek to create a more equitable society – where all segments of the population bear a fair share of the burden of adjustment and will all enjoy the benefits of reform. The impact of the severe imbalances that have built up in the Greek economy has hit the less well-off particularly hard, making the need for reform even more pressing. Vested interests, both inside and outside the public administration, which have exploited their position in an opaque and bureaucratic system which lends itself to corruption, should no longer be tolerated. However, the whole population will benefit from these changes and deserve better governance.

2.1. It can be done

Greece has already made important progress in substantially reducing its public deficit through expenditure and tax measures. The government deficit has been cut from almost 16 percent of GDP in 2009 to 9.25 percent of GDP last year. The parliament has enacted a huge volume of new legislation and all of the prior actions which were needed before the Second Economic Adjustment Programme could enter into force were completed. As the recent past shows, when the entire system of government is concentrated on meeting clear goals, it can deliver.

The route to economic renewal is clearly marked out in the Second Economic Adjustment Programme. This programme will deliver an historic transformation, equipping Greece with a modern economy and governance structures to help it face the future with confidence. Greece

² This Communication does not modify or add to the formal decisions regarding Greece adopted within the applicable Treaty procedures of economic policy coordination.

can build on its many strengths – such as its shipping sector, its tourism potential, its universities and generally well-educated work force as well as its location as a potential logistics and energy hub in South Eastern Europe.

Early implementation of a number of headline actions will make a decisive contribution to creating growth and jobs, boosting competitiveness and stimulating investment. Results will be tangible and visible to citizens and businesses within a relatively short period of time. Implementing these actions will create momentum in the reform process and give a strong signal that Greece is committed to reform. It will help Greece to move from a vicious to a virtuous cycle – where commitment to reform is rewarded by renewal of confidence and growth, creating the incentives for further progress.

While the Second Economic Adjustment Programme must be delivered in full, in this Communication the Commission highlights three broad areas where action taken by the Greek authorities during 2012 can already be expected to show promising results by the end of 2012. These are:

- Getting control over public finances and revenues so that public finances become sustainable over time;
- Getting lending flowing to the real economy by recapitalising the banks and helping SMEs to get affordable loans;
- Freeing business to drive growth - a major overhaul of the business environment and labour market is urgently needed so that Greece becomes once again a place where domestic and foreign investors have confidence to invest and create jobs.

2.1.1. Getting control over public finances - a precondition for growth and jobs

The objective of the programme is to prepare the economy to be more dynamic and fairer in the medium term. International experience shows that attempts to generate growth and jobs will be frustrated unless public debt is put back on to a sustainable path and competitiveness is restored. To be sustainable, further efforts will be needed in 2013 and 2014 to enable Greece to reduce its debt ratio to around 117% of GDP by 2020. Focusing on targeted expenditure reductions will mitigate the short-term impact on the real economy. Moreover, the reduction in the deficit will improve the liquidity of Greek firms as less domestic and foreign savings will be absorbed by the government. It will increase Greece's credibility in the markets and allow it to finance itself at affordable cost at the end of the period of official financing, which will ease financing conditions for businesses. Reform of the tax system and tax administration, as spelled out below in section 2.3.2, is also crucial for getting control over public finances.

Actions in 2012 (cf. §1 of the MoU):

The Greek authorities will need to identify measures to close the existing fiscal gaps for 2013 and 2014. These measures should focus on spending savings.

2.1.2. Getting lending flowing to the real economy through bank recapitalisation and help for SMEs

The Greek banking system has suffered huge deposit outflows, which has resulted in limited access to liquidity and caused a deterioration in the value of its assets. This has translated into a reduction of lending to the real economy.

Tackling this problem and restoring the flow of liquidity to Greek businesses is a prerequisite for economic recovery. The Second Economic Adjustment Programme provides financial resources to recapitalise the Greek banking system with a double objective: ensuring financial stability and allowing banks to finance the real economy.

Greek SMEs are currently facing very challenging operating conditions: 6 out of 10 firms saw their earnings deteriorate in 2011 compared to 2010 and 150,000 jobs were lost. These stark figures underline the need for quick and targeted action to support SMEs – EU support for their maintenance and development is described later in this Communication.

To counter this threat it will be essential to deploy all available resources, notably from the EU structural funds,³ to inject liquidity into new activities to support jobs and sustainable growth. Over €4 billion is already available in liquidity assistance for SMEs from the EU structural funds, in the form of financial engineering instruments and grants. In addition, a new SME Guarantee Fund has been set up with €500 million from the EU structural funds, which could be multiplied to release a further €1 billion in loans from the EIB to Greek banks, for on-lending to Greek SMEs.

However, at present, this money is not reaching Greek SMEs because of reduced demand for investment, the high risk associated with loans for SMEs in the present circumstances and consequently the difficulty SMEs have in securing the necessary co-financing from the banks. Changes to EU legislation to permit the co-financing of working capital for SMEs still need to be implemented by the Greek authorities.

Removing these blockages is an immediate priority. In addition, there are several projects and schemes co-funded by the EU structural funds which are designed to boost entrepreneurial skills and provide support for business start-up, as well as access to micro-finance schemes.

Actions in 2012:

Bank recapitalisation should be completed by September 2012, safeguarding the business autonomy of the banks.

In the next 8 months the Greek banking sector and administration should speed up disbursement of the €4 billion already available for SME funding. The change in EU rules to permit the co-financing of working capital should be implemented in Greek legislation.

The EIB should disburse loans to SMEs backed by the SME Guarantee Fund with a target of €160 million in 2012, a further €400 million by the end of 2013 and €440 million before 2015. Moreover, during the course of 2012, the EIB will provide an additional €440 million to SMEs, guaranteed by the Greek authorities.

³ For more information on EU funding and liquidity for SMEs, see sections 2.2 and 3.2 in annex.

Increased financial support should also be given to entrepreneurship training (with a focus on new innovative products and services), including mentoring, coaching and consultancy.

2.1.3. Freeing business to drive growth

A permanent exit from the crisis will require growth in Greece's productive sector. It is estimated that reform of product and service markets could add up to 13.5% to Greek GDP over the long term.⁴ Freeing business from bureaucracy and corruption can unleash pent-up growth potential in sectors such as tourism, port services and food processing among many others. It will facilitate the rebalancing of the economy towards stronger investment and export performance and can trigger a decisive shift towards higher value-added activities. In this section eight areas for action are highlighted where progress should be made before the end of 2012.⁵

- **Restoring cost competitiveness**

As part of the modernisation efforts of the Greek labour market, measures are needed to foster a rapid adjustment of unit labour costs to fight unemployment and restore the cost-competitiveness of the Greek economy. As agreed in the Second Economic Adjustment Programme, measures to foster a rapid adjustment of labour costs to fight unemployment and restore cost competitiveness should aim, together with measures that have already been taken, at reducing nominal unit labour costs in the business economy by 15 percent in 2012-2014. Such measures should take account of the outcome of the social dialogue and go hand-in-hand with broader efforts at strengthening labour market institutions, smoothing wage bargaining at all levels and fighting undeclared work.

Actions in 2012 (cf. § 4.1 of the MoU):

A timetable for an overhaul of the national collective agreement for the wage-setting system should be prepared by end July 2012, in consultation with social partners. The Greek authorities should also enact measures to reduce social contributions weighing on the cost of labour in a budget-neutral way.

- **Facilitating exports**

It takes an average of 20 days to complete export clearance and customs formalities in Greece – compared to an EU average of 10 days. This is estimated to result in total export value which is around 10% less than it would otherwise be.⁶ Disproportionate and often unnecessary documentary or procedural requirements should be eliminated.

Actions in 2012 (cf. §4.2 of the MoU):

A systematic review of export clearance and customs formalities should be completed, stripping away excessive controls and aligning control systems on practices in the rest of the single market. Once simplification is underway, its benefits can be maximised by developing migrating procedures to ICT solutions. Efforts should also focus on equipping exporters to identify opportunities in promising markets.

⁴ Foundation of Economic and Industrial Research, Quarterly Bulletin 2/10, 2010

⁵ For more information on these areas, see section 3 in annex.

⁶ Source: Trading on Time: World Bank Policy Research Working Paper 3909

- **Stimulating new investment**

Investment in new facilities or projects is subject to delays and costs resulting from regulatory and administrative barriers involving many authorities. Land-use planning and environmental licensing rules are often cited as obstacles to investment. Companies operating in the energy sector, distribution and logistics and transport sectors are the worst affected. Problems are compounded in the event of disputes because of the suspensive effect of many administrative and legal actions, lack of staff or competence in key services of the administration. The completion of the land registry will also facilitate investment by protecting investors from litigation over ownership of land. Access to skills is also a problem for research and innovation intensive foreign investors, due to the mismatch between the public education system and the needs of a knowledge-based economy.

Actions in 2012 (cf. §4.2 of the MoU):

Recently adopted laws to fast track certain licensing procedures for certain professions and manufacturing activities, and for environmental licensing of projects and activities should now be fully activated.

Further steps should be taken to make it easier to set up a new company – the EU target set out in the Small Business Act is 3 days at a cost of no more than € 100. Greece should also complete the point of single contact as required by the Services Directive.

- **Modernising public procurement**

Public procurement accounts for 12% of Greek GDP. Bidders for Greek public contracts wait for twice as long as the EU average for contracts to be awarded (nearly 1 year). Procedures are inefficient and resource-consuming: the public sector invests twice as many person-days in running procedures. On average, each procedure triggers two appeals. This situation penalises suppliers to the public sector and increases costs. It prevents the acquisition of supplies and services needed to perform public services, and prevents the completion of works funded by the EU funds.

Actions in 2012 (cf. § 2.6 of the MoU):

Public procurement legislation should be radically overhauled by the end of the year, and the newly created single procurement authority should become fully operational. A blue-print for more professional and transparent procurement administration should be developed and implemented in a number of large spending Ministries before rolling out successful practices to other parts of government. In addition, the development of e-procurement, steps to aggregate public procurement through central purchasing bodies and wider use of framework contracts for standard supplies and services could yield important savings.

- **Unleashing competition and freeing prices**

Prices have remained high in many sectors of the Greek economy throughout the economic contraction – adding to the economic pain felt by consumers and businesses on shrinking incomes. There is a need for determined action to remove the many regulatory barriers that impede competition and new entry. This includes continued efforts to change existing regulations that create protected income streams or shelter regulated professions from competition. Increased competition and flexibility in prices is also necessary to ensure that the

reduction in labour costs is translated into a reduction in prices, thereby mitigating the impact on disposable income and ensuring that the reduction in production costs benefits Greek society as a whole.

Actions in 2012 (cf. §4.2 of the MoU):

The full implementation of the 2011 law on regulated professions should be finalised before the end of the year, combined with the additional liberalising measures included in the MoU. Effective implementation of EU rules on the recognition of professional qualifications is also needed. A health check of the regulatory environment in selected economic sectors will be completed by the autumn and will be the basis for the repeal of anti-competitive and unnecessarily burdensome legislation.

- **A competitive energy sector**

Greece is highly dependent on fossil fuels (lignite accounts for the bulk of its electricity generation). Most islands remain isolated and are reliant on diesel generators and oil-fired plants. The overall efficiency of electricity production is amongst the lowest in Europe. The energy sector is dominated by a few state-owned enterprises with low productivity and which still have a quasi-monopoly position in the market. Transmission system operators still need to be fully unbundled. Industrial customers complain that their competitiveness is jeopardised by having to pay some of the highest energy prices in Europe.

Electricity and gas grids need to be modernised. Improvements in gas storage and pipeline networks, as well as investments in new pipeline projects that diversify gas sources, will enable Greece to exploit its strategic geographic position providing a gateway to the European gas market. Electricity grid interconnection of the larger islands with the mainland and between smaller islands is a prerequisite for the large-scale deployment of wind and photovoltaic installations.

Reinforcement of the mainland transmission grid is also essential to integrate renewable energy installations for the domestic market and to enable important electricity exports to the rest of Europe. Greece is a natural passage for much of the gas originating in the Caspian and Eastern Mediterranean basins. The TEN-E programme and the proposed Connecting Europe Facility can play a major role in focusing and funding efforts in this area. Ensuring an open and functioning energy sector and ensuring non-discriminatory access to its infrastructure and networks, is a prerequisite to help attract private finance for such investment. Projects such as Helios could be the springboard to a truly integrated European market for energy from renewable sources, while simultaneously helping the Greek economy to recover.

Actions in 2012 (cf. §4.2 of the MoU):

Privatisation of public gas and electricity companies this year will provide private sector investors with the opportunity to enter a huge new market, and increase the scope for major cost savings from efficiency gains in the former public companies.

The separation of gas and electricity transmission system operation from generation and supply activities will increase the transparency of the sector, and facilitate competition through the entry of new market players.

Technical assistance will help reform Greek support schemes for renewable energy, to improve the investment climate for developing Greece's plentiful solar and wind energy resources.

- **Efficient transport services**

The Greek transport sector has undergone important changes, with the creation of a rail regulator, the opening of road haulage and the liberalisation of the occasional coach passenger transport.

Much, however, remains to be done. Administrative barriers and poor management prevent the efficient exploitation of ports and airports, having a negative impact on two of the most important sectors of the economy: the logistics industry and the tourism sector. In the case of airports and of air traffic management, significant additional capacity and lower costs to operators could be made available in a short time, which would boost the inflow of tourists. Rail operations could be improved by creating the framework for EU passenger operators to enter the Greek market and by facilitating procedures for international freight traffic.

Actions in 2012 (cf. §4.2 of the MoU):

The Transport Policy Paper (due date June 2012) that will set out the strategic and regulatory framework for the entire transport sector should be finalised. The regulatory and operational functions of the Hellenic Civil Aviation Authority should be separated and funding provided for modern air traffic control equipment, the recruitment of qualified air traffic controllers and the contracting of modern slot allocation software. The establishment of independent award authorities for rail passenger services should be completed. Border crossing procedures and agreements to facilitate freight flows on corridor X should be reviewed and border closures abandoned.

- **Making a success of the privatisation programme**

The €50 billion privatisation plan set out in the Second Economic Adjustment Programme should provide a platform to attract foreign direct investment, bring new players into the market and increase competition, as well as helping with the repayment of public debt. It should also pave the way for more efficient management of key enterprises in the economy which are currently state owned if implemented with a long-term strategic vision.

Railways, ports and airports need a more coherent regulatory framework while they are being prepared for privatisation. The framework should clarify the respective roles of public authorities and infrastructure managers, guarantee access to the facilities without discrimination, facilitate infrastructure development as part of a coherent transport system, and ensure the efficient use of structural and cohesion funds and the implementation of the TEN-T priorities.

Actions in 2012 (cf. §2.1 of the MoU):

A sound regulatory and institutional framework for infrastructure-related assets should be established, the sale of which has been delayed by technical barriers and uncertainty regarding the conditions under which they can be exploited. The full inventory of state-owned real estate assets should be completed. State land registration should also be accelerated. There is a need to ensure that the planned receipts are achieved to avoid financing gaps in

fiscal accounts and to strengthen the credibility of privatisation as a tool for debt sustainability.

2.2. Tackling the social impact of the crisis

In addition to the three action areas outlined above, the rapid deterioration of the social situation in Greece requires an urgent response. Unemployment, particularly among young people, has increased dramatically since the onset of the crisis and poverty levels are unacceptably high. The Economic Adjustment Programmes have been designed to turn this around by reforming the economy so that the benefits of future growth and employment are enjoyed by all.

Further progress to reduce labour costs and to improve productivity to help restore the competitiveness of the Greek economy is essential. These necessary steps must be accompanied by robust measures to ensure social justice and help the most vulnerable.

These considerations have been reflected in the design of the programme, for example by reviewing social programmes to make sure that they target beneficiaries better and protect the vulnerable effectively; by ensuring that reductions in pensions are targeted and protect the lowest pensions; by fighting fraud in social benefits; by reducing the costs of health care without endangering the quality of care; by increasing the fairness of the tax system; and by fighting tax evasion.

2.2.1. Promoting youth employment and training

The Commission is working actively with the Greek authorities on ways of tackling the extremely high levels of youth unemployment. This includes taking a fresh look at the use of EU structural funds in Greece and at how to help the Greek authorities to reallocate them to projects that will make the biggest difference to growth and jobs in the shortest time.

An action plan is being defined to focus on clear priority target groups and policy objectives. A re-orientation of EU funding of around €200-250 million from the European Social Fund could be allocated under existing EU structural fund programmes to support measures which can deliver immediate results for the young people who are failing to find work.

These measures could include support for the acquisition of first work experience or short-term job placements in the private sector or in local communities; expanding apprenticeship or traineeship opportunities for students and graduates; promoting re-skilling or up-skilling as part of a growth and development pathway; boosting entrepreneurship, including social entrepreneurship; and study or training periods abroad, for instance through the Leonardo and Erasmus programmes.

Actions in 2012:

An action plan to promote youth employment, including through training and entrepreneurship, should be finalised and implemented before the end of 2012.

2.2.2. Active labour market policy

Public employment services should be strengthened to offer better, more individually tailored services to the rising number of unemployed. More effective and targeted investment in active

labour market policies is needed to support a job-rich recovery and a more systematic evaluation of the effectiveness of active labour market measures should be undertaken. Priority should be given to the most vulnerable groups (low-skilled unemployed, early school leavers, older workers, long-term unemployed, migrants and minorities, etc). Efforts at skills development should be geared towards identifying and responding to the needs of the sectors and clusters which can become the key drivers of future growth.

The EU structural funds can support various schemes for short-term recruitment especially focused on the needs of disadvantaged groups. These can provide temporary economic relief and an opportunity to those most affected by the crisis to develop their skills and remain in the labour market.

In addition, Greece could use the currently untapped potential of the social economy], through the support of the European Social Fund, which provides an important support for new job creation and can address the growing need for social services

Actions in 2012:

More effective use of the available European Social Fund resources to put in place a fully functioning framework to support the social economy and social enterprises as well as the key drivers for a job rich recovery and to address the multi-faceted integration needs of vulnerable groups.

2.2.3. Invest in education and training

In order to enable growth to resume and to fully exploit Greece's competitive advantages, the relevance, quality and attractiveness of initial vocational education and training should be improved. Cooperation between business and educational institutions should be encouraged to ensure that young people leaving education and training have the skills and competences required by the economy – in terms of both employability and entrepreneurship. This should also involve the creation of flexible pathways between general and vocational tracks, and from initial vocational education and training into further learning and into higher education.

2.3. Building a modern public administration

The reform of Greece has to begin with the modernisation of the Greek public administration. Currently Greece suffers from a lack of capacity to implement policy, manage public finances, collect taxes, open markets to competition, make public procurement work efficiently and innovatively, pay suppliers, or offer timely judicial review to its citizens. Complexity and opacity at all levels create opportunities for corruption that undermine citizens' confidence in the system and corrode its effectiveness. Getting these elements right will create a basis for re-establishing a social contract between Greek citizens and the state, based on transparency, trust and solidarity. The re-establishment of confidence in official statistics is an integral part of this social contract.

2.3.1. Public administration reform

The structures and working methods of the Greek public service need root and branch reform. There is a need for clear assignment of lead policy responsibilities, in order to ensure accountability and overcome inertia and to end the current dispersion of responsibility for different aspects of a policy across different Ministries and agencies. A strong inter-

Ministerial coordination capacity is needed to implement complex reform processes. Reforms are also needed to improve the functioning and organisation of individual Greek Ministries and public services. All the principles of coherence and efficiency set up by the reform of the administration at the central level must be translated at the regional and local levels.

The EU is tangibly supporting the administrative reform agenda in Greece, in particular through the European Social Fund with a budget of € 505 million. Reform of the public administration is also a central aspect of the Second Economic Adjustment Programme.⁷

Actions in 2012 (cf. §2.6 of the MoU):

The high level steering group, set up in early 2012 to supervise and monitor the implementation of administrative reforms, should start operating as soon as possible under the Prime Minister's authority. A stable structure for inter-ministerial coordination should be established. Horizontal structures should be created in each Ministry, implementing the relevant procedures with Budget/Finance Audit, Internal Control or Human Resource Management, acting under common rules.

A roadmap and actions for administrative reform at the regional and local levels should be decided and implemented with a high degree of urgency. The acceleration of the implementation of the ESF-funded "Administrative Reform" programme is crucial to achieving timely results.

2.3.2. Tax reform, tax administration and public financial management

The Greek tax system is in urgent need of an overhaul. The design of both direct and indirect – including property – taxes could be improved to support stability and growth. Extensive exemptions, special rules and preferential regimes in addition to reducing the size of the tax base have made the system complex and difficult to administer and to comply with. By adding complexity, these exemptions and exceptions also create potential for extensive avoidance and abuse and also lend themselves to tax evasion and corruption resulting in huge revenue losses to the state and threatening the viability of businesses. Tax reform should thus also improve the quality of tax legislation, tax administration and the degree of tax compliance.

Greek tax administration must be the focus of relentless efforts to strengthen its capacity to collect taxes owed by all sections of society. Effective measures should be taken to improve the governance framework and independence of the tax administration. Progress in improving national budgetary accounting must be sustained. Weaknesses on these fronts were critical factors in the deterioration of the Greek fiscal situation. Improving tax administration and curbing tax evasion is also important so as to ensure that the burden of adjustment is fairly distributed.

Conversely, the Greek tax administration must urgently refund up to €700 million in advance VAT tax payments paid by export companies. It is deeply damaging for struggling companies to delay these payments subject to performance of discretionary audits by individual tax officers.

⁷ For more information on the reform of public administration, see section 3.6 in annex.

Capacity in relation to the transparent management of public funds, and in fighting fraud and corruption must also be increased.

Actions in 2012 (cf. §2.3 and §2.4 of the MoU):

The comprehensive reform of the tax system should be carefully prepared in the coming months in order to enhance its efficiency and growth-friendliness.

Efforts on tax debt collection should be stepped up as well as on the audit of high-wealth individuals, while at the same time making efforts to fundamentally simplify the legal and procedural taxation framework, drawing on the technical assistance that is being provided

An antifraud strategy, covering public revenues and public expenditures, should be adopted.

2.3.3. Healthcare and pension system reform

To maintain universal access and improve the quality of healthcare delivery within a framework of much greater budgetary discipline, Greece must find ways to contain the costs of inputs and increase the overall efficiency of the system. This must be done with a view to enhancing the the overall quality of public healthcare services, including by addressing inequalities in coverage and reducing the fragmentation in the governance and administration of the system.

More responsible consumption of healthcare services and products will help, in particular by reducing outlays and waste on medical equipment and pharmaceuticals. This can be done through more transparent and professional prescriptions systems and health procurement (Greece is implementing e-prescription and has recently held a first e-auction for pharmaceuticals). Balancing long-term human resource needs with a focus in particular on training and retention of primary care healthcare professionals and nurses will be important for the sustainability of the healthcare system.

In 2010 Greece adopted one of the most ambitious pension reforms in the EU. These reforms will underpin the long term sustainability of the Greek pension system.

As life expectancy at birth significantly improved over the last decade - in 2010 it reached 78.4 years for men and 82.8 years for women (respective EU-27 rates for 2008: 76.4 and 82.4 years) - the impact of ageing on health and pension system should feature prominently in the reform process.

Actions in 2012 (cf. §2.7 and 2.8 of the MoU):

Greece should work towards a comprehensive set of measures to: i) strengthen the governance of the health system while reducing fragmentation and administrative costs; ii) reduce pharmaceutical spending through changes in pricing, prescription and reimbursement of medicines, as well as via the promotion of generic medicines; iii) centralise procurement; iv) develop a comprehensive and uniform e-health system to improve the monitoring, transparency and the efficiency of the healthcare system; and v) present a human resource planning instrument to outline long-term health workforce needs. These are necessary steps towards a truly national health service guaranteeing fairness, equity, efficiency and quality of services and expenditures.

The reform of the pension system should be finalised through the reform of secondary and supplementary pension schemes and fighting fraud in disability pensions.

2.3.4. *Judicial reform*

The Greek judicial administration is also in need of reform as it is highly inefficient by international standards. People and businesses need to have confidence that the judicial system will provide effective solutions and uphold their rights. It is characterised by complex procedures resulting in excessive delays in the resolution of cases (well above the OECD average) with a significant case backlog despite a relatively large number of courts and judges relative to the size of the Greek population. The judicial reform measures set out in the Second Economic Adjustment Programme can make an important contribution to economic recovery by stimulating private consumption, foreign investment and domestic entrepreneurship.

Actions in 2012 (cfr. §4.5 of the MoU):

Greece should work towards i) clearing the existing case backlog in courts (for tax, civil and commercial cases); ii) encouraging private individuals and businesses to use alternative modes of dispute resolution, such as mediation, so as to reduce the work load of court officials; iii) introducing new e-justice applications; iv) reviewing the Greek Code of Civil Procedure; and v) adopting and implementing an anti-corruption strategy.

2.3.5. *Improving internal coordination*

The Second Economic Adjustment Programme sets out a full agenda to be implemented by the Greek authorities. It also constitutes the "critical mass" needed to put structural reform in Greece on a self-perpetuating path.

However, there is currently no "nerve centre" for coordinating and monitoring the reform process inside the Greek government. Such a mechanism will be needed to keep the reform process on track, and facilitate transparent and effective government control of the overall process. This would provide the basis for governmental and Parliamentary scrutiny of the process and to help correct any slippages. It would also help to create an autonomous capacity to frame and implement structural reforms.

Technical assistance is also being provided to enhance the quality of official statistics, for which the Joint Overall Statistical Greek Action Plan (JOSGAP) has been put in place.

Actions in 2012 (cf. §5 of the MoU):

A mechanism for the monitoring and coordination of structural reforms should be created and be fully operational by mid-2012.

3. THE EUROPEAN UNION CAN HELP

3.1.1. Putting the EU funds to work

The resources available through EU funds represent significant economic fire-power.⁸ Over € 20 billion has been allocated for the period 2007-2013 under structural and cohesion funding and a further €21 billion through the Common Agricultural Policy. However, less than half of the structural and cohesion fund allocation has been spent and there is room for improvement in the absorption of rural development funds. This implies significant unused capacity to boost demand and investment and create employment in the short term, while laying the foundations for sustainable growth in the future.

Together with the Greek authorities, the Commission has identified a number of priority projects that can give an immediate boost to growth and jobs. The Commission has also proposed a Risk Sharing Instrument to boost private investment in major infrastructure projects. This instrument will provide a vital catalyst for key projects such as the motorway concessions and major waste management investments.

Actions in 2012 (cf. §4.3 of the MoU):

Greece should continue working towards meeting the targets for absorption of structural and cohesion funds, for the submission of major project applications and for the gradual reduction in the use of non-targeted de minimis State aid. Simplification efforts in the management of EU funds should be pursued by removing unnecessary administrative burden, while ensuring stability in the framework for implementation.

Technical preparations for the Risk Sharing Instrument should proceed swiftly so that the instrument can be activated as soon as possible after political agreement is reached by the European Parliament and the Council.

Greece should finalise agreement on the necessary restructuring of the motorway concessions to ensure their economic viability.

The number of contracted projects - and in particular the 181 priority projects - should increase substantially and faster so as to ensure their completion before the end of 2015.

3.1.2. Technical assistance / the Taskforce for Greece

The European Commission, through the specially-created Taskforce for Greece which reports to President Barroso, will continue to support Greece in framing and mobilising technical assistance needed to implement these challenging reforms.

The Taskforce is already working closely with Greek authorities to identify needs, and mobilise expertise from other Member States and international organisations in the areas of structural fund absorption, tax administration / public financial management, including the fight against fraud, smuggling and corruption, the reform of the public administration, business environment, judicial reform and healthcare reform. Many Member States are playing their part in making leading specialists available to advise the Greek authorities.

⁸ For more information on EU funding, see sections 2.2 and 2.3 in annex.

The Commission will make regular reports on the implementation of the Second Economic Adjustment Programme and on the work of the dedicated Taskforce for Greece.

4. CONCLUSION

The economic transformation of Greece will not be completed overnight, but significant steps can be expected already in 2012. Deep structural reform and the correction of imbalances that have built up over many years will take time but actions spelled out in this Communication should pave the way for recovery and lead to a more dynamic, modern, innovative, sustainable and fair Greece.

The challenges are many. Greece needs to remodel large parts of its public administration and to make the country an attractive place to invest and to do business. It needs to implement a profound rebalancing of its economy – towards more productive activities based on competition and high value added innovative products and services. The Greek labour market must be reformed to mobilise and upgrade human capital, provide more and better employment opportunities and restore competitiveness. Preserving the conditions for an effective and meaningful social dialogue should also contribute to the successful outcome of the reform process.

Greece has already made important progress in substantially reducing its fiscal imbalances, reining in expenditure and increasing tax revenue. The Second Economic Adjustment Programme provides the right framework for this transformation to continue. It will allow Greece to turn the page on years of unsustainable policies and declining competitiveness through decisive steps to return the public deficit and debt to a sustainable path and to unlock the potential of the Greek economy. The full implementation of the programme, including through the mobilisation of existing EU support instruments, will lay the foundations for future growth, employment and social cohesion, rebuild confidence in Greece at home and abroad and pave the way for a fairer society for those who have suffered the most from the crisis. The success of this process ultimately depends on Greece. The solidarity shown by the rest of the EU and the European institutions throughout the crisis is expressed in very concrete terms through the considerable financial support and expertise that is being made available to support this process of transformation. This Communication highlights key actions to be taken in the coming weeks and months to show that a negative situation can be turned around and that real change can follow for the benefit of all Greek citizens.

ANNEX

In this annex the Commission sets out in more detail the extent of the support available from the EU level:

- Section 1 outlines the impact of the crisis on Greece.
- Section 2 gives details of financial support from the EU budget and explains how the general rules have been tailored to the specific situation of Greece.
- Section 3 explains how key EU policies can help to support growth and jobs in Greece and outlines what Greece has to do to tap into their potential. Results in all of these areas will be enhanced as the structural reforms of the Second Economic Adjustment Programme are implemented and start to bring change to the economy.

1. IMPACT OF THE CRISIS IN GREECE

Looking back, it is now clear that Greece's strong GDP growth of an average of 4% per year in the decade before the crisis was unsustainable. It was built on real wage increases out of step with productivity, excessive credit growth, low real interest rates and loose fiscal policy. Short-term performance masked the many serious weaknesses in the Greek economy, in particular low competitiveness and productivity, an unfavourable business environment, weak investment by the private and public sectors, a complex and outdated tax system and an inefficient judicial system.

Dangerous imbalances built up over this period. The demand boom coupled with weak external competitiveness led to a rapid increase in external imbalances. Competitiveness deteriorated by 10-20 percent from 2000 to 2009. The current account deficit had climbed to 14 percent of GDP by 2008. Fiscal imbalances grew and remained persistently high, as excessive spending was not compensated by higher revenues. The government deficit consistently exceeded 3% of GDP since the adoption of the euro and in 2009 the deficit soared to almost 16% of GDP.

These imbalances left the country very exposed to the global economic downturn and led to a very significant increase in government debt, threatening the financing capacity of the Greek economy. Government debt increased to 129 percent of GDP in 2009 from around 100 percent in 2000. Bond spreads surged to record levels as markets lost confidence in the ability of the Greek economy and government to pay its debts, triggering the sovereign debt crisis.

The problems were compounded and a corrective response was delayed by the fact that government budgetary forecasts and official Greek statistics did not reveal the true extent of the problem. In 2009, when the scale of the problem was officially acknowledged by the government which took office in October, the government deficit forecasts were revised up by 6 percentage points of GDP.

Faced with the consequences of a rapid economic adjustment, Greece is now in the midst of a very deep recession. GDP has fallen by more than 11 percent since the beginning of the crisis and is expected to continue to contract in 2012. Part of this contraction in economic activity was unavoidable given the unsustainable growth prior to the crisis. However, external demand has been weaker than expected and insufficient implementation of structural reforms and

political and social instability, together with liquidity shortages relating to capital flight have also deepened the economic crisis. A possible return to positive growth by 2014 depends critically on the measures taken in the weeks and months to come.

The social impact of this crisis has been severe. Unemployment has risen dramatically over the last two years, currently standing at 17.7% (annual average for 2011). Recent forecasts indicate that unemployment may rise above 20% in 2012 and 2013 before declining. Long term unemployment has increased to 9.1% of the labour force and is unlikely to have reached its peak. Greece has experienced one of the strongest recent increases in the number of jobless households in Europe. Young people have been hit especially hard. Youth unemployment stood at 48% in November 2011, twice as high as two years previously. In the third quarter of 2011, some 45% of the unemployed aged 15 to 24 were long-term unemployed, against 30% two years earlier.

Prior to the crisis, Greece already suffered from one of the highest poverty rates in the EU and the deep economic downturn has increased levels of poverty and social and housing exclusion and has hit disposable income. Homelessness is increasing among families with children and young people, as well as among the rising numbers of irregular migrants, which have further exacerbated the pressures.

2. HOW IS THE EU SUPPORTING GREECE?

2.1. The First and Second Economic Adjustment Programmes – programmes for economic reform

The EU and the international community stepped in quickly to help Greece in 2010 once the true scale of the crisis became apparent. Support has come in the form of two ambitious economic adjustment programmes, providing massive financial aid on condition that comprehensive and lasting action is taken to stabilise public finances, to restore financial stability and to implement growth-enhancing structural reforms.

The **First Economic Adjustment Programme** was launched in May 2010 and committed a loan package of €110 billion, of which €73 billion was disbursed. The Second Economic Adjustment Programme was agreed in March 2012 with a loan package of €130 billion in addition to the amounts not disbursed from the first programme.

The First Economic Adjustment Programme has already brought about a very significant fiscal consolidation. Measures implemented since the start of the crisis amount in total to over 20 percent of GDP, one of the largest fiscal adjustments ever experienced by an EU country. This required tough but necessary measures scaling back public sector wages and pensions, increased taxes as well as labour market reforms, including the introduction of sub-minima wages for the young and long-term unemployed.

Progress towards the ambitious targets of the First Economic Adjustment Programme has been mixed although important efforts have been made. The government deficit has been cut from almost 16 percent of GDP in 2009 to 9.25 percent of GDP last year, while the current account deficit fell by 4 percentage points between 2009 and 2011 to just above 10% of GDP.

In this context, State aid to the banking sector in Greece - together with the interventions of the European Central Bank and the National Central Bank - has contributed to stabilising the

Greek economy, ensuring that the system continues to function and avoiding a financial meltdown that would further endanger the wider economy, including depositors.

Agreement was reached in February 2012 on a new and ambitious **Second Economic Adjustment Programme** for Greece. Over 2013-2014, a further fiscal adjustment of about 5.5 percent of GDP will be needed to bring the public debt onto a more sustainable trajectory. Fiscal adjustment will mainly involve reductions on the expenditure side of the budget to limit the negative impact on the potential growth of the Greek economy. Savings will primarily come from streamlining and better targeting welfare benefits, while preserving basic social protection of the most vulnerable.

The Second Economic Adjustment Programme gives greater prominence to growth enhancing structural reforms. A growth friendly tax reform – to be prepared in the coming months - will make the tax system simpler and more efficient, reducing compliance costs for businesses and individuals and eliminating exemptions and preferential regimes. The reform will concern all areas of direct and indirect taxation (personal income, corporate, VAT and property taxes, as well as employers' social contributions). By broadening the tax bases, the reform would allow for a reduction of the high marginal tax rates on labour . This is one of the key areas where the Commission, working with the IMF and several Member States, is providing technical assistance to help the Greek authorities overhaul an outdated system and replace it by a highly performing, modern tax system.

Once the fight against tax evasion and a fairer tax system start producing results, they will help to build broader social acceptance of the adjustment programme. Social equity has always featured strongly in the design of the programmes. This is reflected in reforms of pensions, other social programmes, labour market, and health care and in the fight against tax evasion, where particular efforts have been made to protect the most vulnerable parts of the population.

The programme is designed to ensure debt sustainability and to build a new Greek economy. The goal is to help Greece regain competitiveness in the coming years and to respond quickly to the unacceptably high levels of unemployment by cutting labour costs from the current unsustainable levels and creating a more modern, flexible labour market. Product and service markets will also be overhauled so as to increase competition and price flexibility and to help ensure that lower costs feed through into higher economic growth to the benefit of all. The programme will also transform the business environment, improving framework conditions for entrepreneurship and innovative projects, a prerequisite for the future dynamism of the Greek economy.

2.2. Support from the EU budget

Over the period from 2007 to 2013, Greece has and will continue to receive extensive financial support from the EU budget. EU funds are helping to drive economic renewal in many sectors of the economy and to get citizens back into work. In total, over €20 billion is available from the EU structural funds: this represents a major investment fund for growth and jobs in Greece.

Table: How EU funding is helping the Greek economy and society

Source of funding from EU budget	Amounts available and paid
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Structural and cohesion funds	€20.2 billion allocated; €8.4 billion already paid
Agriculture: Direct payments and market interventions	Around €2.4 billion annually; €17 billion over the period
Rural development	€3.9 billion allocated; €1.7 billion already paid
European Fisheries Fund	€ 210 million allocated; € 70 million already paid
Research Framework Programme	Up to € 1 billion may be granted to Greek organisations following calls for proposals over the period
Competitiveness and Innovation Programme	€14 million paid to Greek beneficiaries so far
Lifelong Learning and Youth in Action	€188 million allocated, ≈ €108 million paid
Solidarity and Management of Migration Flows (SOLID)	€228 million allocated, , ≈ €70 million paid
European Progress Microfinance Facility (Progress Microfinance)	€ 8.75 million allocated for a senior loan and €0.8 million allocated for a guarantee to a Greek microcredit provider

Action to date

While there is no shortage of EU funding available to support growth-enhancing projects in Greece, the full benefits of the structural funds are not yet being fully realised. This is due to a variety of administrative bottlenecks which prevent financial support from reaching the real economy where it is needed.

To address this, the Commission has proposed a number of concrete steps to simplify and streamline the management of structural funds and to accelerate their absorption so as to boost investment. Many of these measures have already been put into practice and are delivering results in Greece.

Box: how has the Commission helped Greece make the most of EU structural funding?

The Commission has made a range of proposals to **simplify the implementation of cohesion policy and to make it more flexible**. These changes have removed administrative barriers to investment and made it easier to reprogramme funds to support the top growth priorities. Proposed in 2008, entered into force 2009.

The Commission also proposed to increase pre-financing by raising **advance payments** for programmes supported by the EU structural funds. This has allowed money to flow to priority

projects much more quickly - total advance payments to Greece amount to around € 1.5 billion. Implemented in 2009.

The threshold for projects requiring prior approval from the Commission was raised from € 25 million to €50 million, making it easier to get projects off the ground while still ensuring that the funds are spent properly. Implemented in June 2010.

Following an earlier increase to 85%, the Commission proposed to **increase the EU co-financing rate** of structural funding in Greece by a further 10%. This change means that key projects get more support from the EU budget and will not be delayed due to the ongoing fiscal consolidation in Greece. The combined impact of the increased co-financing and of the top-up is very significant: around € 958 million for all structural funds. Proposed August 2011, entered into force December 2011.

The Commission modified EU rules to allow the **co-financing of working capital for businesses**, thus providing a vital boost to SMEs. Implemented in November 2011; this legislation now has to be fully implemented by the Greek administration.

The Commission is working closely with the **European Investment Bank** to unblock a number of financial instruments supported by the structural funds which aim to provide much-needed credit to Greek SMEs, including JEREMIE, the ETEAN Entrepreneurship Fund and the European Progress Microfinance Facility.

A **Guarantee Fund for SMEs** has recently been created with the support of the Commission, backed by €500 million from the structural funds. Once operational, this will provide banks with up to €1 billion in additional liquidity to lend to SMEs. Making this Guarantee Fund operational and working with the EIB to get liquidity flowing to the real economy is an urgent priority. Proposed in 2011, signed in March 2012.

The Commission has proposed to create a **Risk Sharing Instrument** to support large scale infrastructure projects in the transport, energy and environmental sectors. Loans backed by the Risk Sharing Instrument will allow existing investment projects to be completed and will help to get new projects up and running. Critical projects such as the major motorway concessions – which cover 1400 km of the Trans European Network – and essential waste management projects could be supported in this way. Proposed in October 2011; political agreement expected in May 2012.

Next steps

Working with the Greek authorities, the Commission has compiled a list of **181 co-funded priority projects** of high investment value in important sectors. These projects total some € 11.5 billion from the EU structural funds. The aim is to produce visible results and boost the economy, competitiveness and employment.

A dedicated Action Team is working with the Greek government to identify opportunities to **reallocate funds to support priority projects**, for example to combat youth unemployment and support SMEs.

Several hundred **important projects from the 2000-2006 programming period remain uncompleted**, with the consequent risk that funds allocated to these projects may have to be

repaid to the EU budget. Urgent action is needed from the Greek authorities to ensure that these projects are completed within the agreed deadlines.

Making the **SME Guarantee Fund** fully operational is an urgent priority so as to get liquidity flowing to the real economy.

More must also be done to **unblock funds** that have already been disbursed to the banking system but have not yet been on-lent to SMEs. Completing the ongoing bank recapitalisation will help in this regard.

Preparations for using the **Risk Sharing Instrument** should start as soon as possible following the formal agreement foreseen in May. Funding will need to be provided within the existing structural fund allocations, which should be leveraged significantly. The Instrument will be managed by the EIB and the Commission is committed to finalising the operating arrangements as soon as possible in the form of a cooperation agreement with the EIB.

In addition, Greece also benefits from the European Progress **Microfinance Facility**. An agreement has been recently reached for a provision of a guarantee under Progress Microfinance to a Greek microcredit provider, the Pancretan Cooperative Bank Ltd (PCB) which will allow PCB to offer up to €6 million of microloans to Greek micro-entrepreneurs (focus on financing start-ups and new borrowers). A further senior loan up to EUR 8.75 million is expected to allow PCB to meet the demand of numerous micro-enterprises facing difficulties in accessing finance due to the credit crunch and the stricter eligibility requirements applied by the Greek banking sector. With a leverage of 1.5 times, this senior loan is expected to generate up to €13 million microloans to micro-enterprises.

Steps have been taken to **simplify procedures** in the Greek administration and to accelerate project selection and implementation. For example, procedures for issuing archaeological permits and environmental licenses have been streamlined and shortened in line with the MoU.

However, much more can be done to **accelerate the absorption of structural funds** and maximise their impact by removing administrative obstacles and streamlining management, while pursuing improved co-ordination and synergy between all related EU co-funded interventions. The adoption of the necessary legislation to shorten and simplify procedures on contract awards and land expropriation will speed up the implementation of EU co-financed projects. A number of further procedural simplifications, including speeding up the implementation of new projects and the streamlining of the payments process, have already been agreed. The revised procedures will be introduced from April.

2.3. Other support for Greece from the EU budget

Support for growth and jobs in Greece from the EU budget is not limited to the structural funds. A wide range of other EU programmes are playing their part in modernising the Greek economy, creating job opportunities and improving competitiveness.

Agriculture, rural development and fisheries

Greece receives around € 2.4 billion annually in **direct payments to farmers**, plus approximately €70 million in market-related expenditure.

In addition, € 3.9 billion is available to support **development in rural areas**. As for the structural funds, the co-financing rate for the EAFRD has been increased by 10% on the basis of a Commission proposal. This will result in national budget savings of around €567 million.

By December 2011, €1.7 billion in rural development funding had already been paid, helping over 8,000 young men and women to set-up as farmers in rural areas of Greece. These funds have been used to support economic growth in rural areas through direct investments in the agricultural sector as well as in the processing and marketing of agricultural products. The funds also support the necessary diversification of the rural economy, for example by promoting tourism, small businesses and environmental protection.

The **European Fisheries Fund** contributes to the creation of new jobs, mainly in aquaculture and processing. It supports the implementation of local development strategies both in the islands and in coastal areas of mainland Greece, in particular in remote areas where unemployment is high. EU funds help maintain and develop jobs by supporting diversification of economic activities and promoting the quality of the coastal environment, for example through support for eco-tourism and the preservation of natural and architectural heritage.

Research, innovation and entrepreneurship

EU support to Greece in the area of **research and technological development** takes the form of contributions to costs incurred by Greek organisations participating in the Seventh Framework programme for Research and Technological Development. A total of € 622 million has been granted to Greek organisations during the period from 2007 to 2011, and several hundred million more may be granted in the forthcoming calls for proposals by 2013.

Greek organisations have been particularly successful in the field of Information and Communication Technologies, which accounts for around €211 million of the funds awarded to Greek organisations. This funding will support cutting edge research that will help build the competitiveness of the Greek economy in technologically advanced sectors. Greek researchers have also received around €50 million from the 'Marie Curie' programme. This has allowed Greek researchers to collaborate with their counterparts elsewhere in the Union and has attracted top researchers to Greece.

From 2007 to 2011 Greek beneficiaries have also received over €14 million in grants from the **Entrepreneurship and Innovation Programme**. These funds have been used to create hubs for the Enterprise Europe Network in Greece, which offer free of charge services for businesses in Greece, and to support a variety of projects to unlock the growth potential of eco-innovations.

The **Intelligent Energy-Europe II Programme** provided Greek beneficiaries with €10 million of grant financing for projects removing the barriers to market uptake of renewable energy and energy efficiency. Furthermore, Greek project promoters have access to the financing products offered by the **European Energy Efficiency Fund**, for energy efficiency and renewable energy investment projects in cities and regions.

Education

The reform of the Greek education system and the fight against youth unemployment have been buttressed by the large-scale support provided by the **European Social Fund** as well as by extensive assistance for Greek organisations and citizens through the **European Lifelong**

Learning Programme. Greek organisations will receive around €165 million over the period and grants worth over €94 million have already been made to help students, teachers and trainers study and develop skills in other countries. In 2009-10 alone, nearly 8,000 students and teachers participated in the programme. The programme has also facilitated cooperation between Greek education and training institutions and those in other Member States, which will help the Greek education system to develop. Several thousand young people have participated in projects funded by the **Youth in Action** programme, helping to boost their employability and mobility. Around €23 million will be available to Greece through this programme over the period of which €13.6 million has already been paid

Home affairs

The Commission has provided considerable financial support for **asylum, migration and border management systems** and to address the humanitarian consequences of the pressure generated by high numbers of irregular migrants and asylum seekers. Greece has adopted two plans in this area, an Action Plan on Migration and Asylum Management, identifying concrete actions to address shortcomings in asylum and return; and a "Schengen-Greece" Action Plan" identifying concrete actions to address shortcomings in border management. Progress has been made, though uneven, in all the areas concerned. It is now important to make more progress, building on what has been achieved. Sound and efficient migration and asylum policies in Greece are in the interest of all EU countries.

Greece is one of the main beneficiaries of the programme for **Solidarity and Management of Migration Flows (SOLID)**. A total of €228 million was allocated for the period 2010-2012 to help Greece in the implementation of effective control at external borders, returns of irregular migrants and the establishment of credible asylum policy. Steps are under consideration to help improve the absorption of this funding inter alia through an increase in the co-financing rate.

2.4. Technical Assistance – the Taskforce for Greece (TFGR)

In addition to financial support from the EU budget, the EU also provides extensive technical assistance to the Greek authorities. In July 2011, at the request of the Greek government, the Commission set up a dedicated Taskforce to provide technical assistance to the Greek authorities to help them implement the Economic Adjustment Programmes and to support the modernisation of the Greek administration, as well as the absorption of EU funds.⁹

The Taskforce supports Greece by mobilising relevant expertise from Member States and European or international organisations. Since its creation, the Taskforce has been involved in setting-up and launching technical assistance work-streams. It is currently working with the Greek authorities on over 20 technical assistance projects in 9 different policy domains. Some of these work-streams are already active; a number are ripe for launch. In addition, exploratory discussions are underway on a number of other projects.

During the first months of its operation, the TFGR coordinated inter alia a total of 200 person/days of short-term experts from national tax administrations in Athens for the provision of technical assistance, trainings and seminars, including about 20 meetings in different areas of tax administration. The Commission also concluded an agreement with the

⁹ MEX/11/0720 'Commission appoints Task Force for Greece'

IMF for reinforced TA in the area of Public Financial Management and Revenue Administration, which contributes to the financing of three resident advisors (2 in the field of revenue administration / 1 in the field of public financial management) until December 2013 and about 900 days of short term missions.

This technical assistance will focus on several areas crucial for the success of the programme. It will promote a sound and sustainable regulatory environment that supports enterprise-led growth and address market failures in a proportionate and consistent manner. This programme of technical assistance also aims to improve the ability to implement legislative or administrative requirements effectively and equitably and to support the reform of the tax administration and fight against tax evasion and fraud, public financial management, and the reform of the public administration.

The EU is also helping Greece to create an independent and reinforced National Statistical Authority, with priority on high quality public finance statistics through a dedicated action plan (JOSGAP). The plan also contains support in a variety of other statistical domains as well as in re-establishing the organisation of the National Statistical Authority. A resident high level advisor has been appointed and sustained technical assistance organised by experts, on a permanent basis in public finance, and as appropriate in national accounts and other statistical areas. These improvements, facilitated by the new governance of the National Statistical Authority, have already yielded positive results, with three successive deficit and debt notifications validated by Eurostat. This progress needs to be sustained and the capacity of Greek statisticians enhanced.

3. HARNESSING KEY POLICIES TO DELIVER GROWTH AND JOBS

3.1. Structural reforms to support enterprise and investment

Realising the potential of Greek product and service markets will require sustained efforts and strong political commitment to remove a tangled web of complex legislation and ineffective administrative structures. Overly prescriptive rules and disproportionate and intrusive controls contribute to closed markets and sclerotic competition. These factors help to explain why Greece consistently scores so poorly in international rankings on the ease of doing business and corruption.

To succeed, the Greek government should champion the cause of business and see business as a partner rather than a source of risk. Business for its part must repay this trust through compliance with regulatory and fiscal requirements.

There are many obvious - albeit not easy - steps that the Greek authorities can take to improve the difficult conditions in which Greek businesses currently operate. Some of these reforms will take time to deliver. However, early and decisive action will send a clear signal that Greece is committed to providing a more hospitable environment for business.

The commitments contained in the revised MoU constitute a good template for this reform which will require a wholesale re-engineering of the public administration so that it helps rather than hinders Greek business. The reform process can continue with areas that urgently need reform – such as exports, customs and public procurement.

Export facilitation and promotion

The Greek economy has traditionally been less open than that of many other similarly-sized economies, importing (33% of GDP) more than it exports (22% of GDP) and financing the gap through borrowing. It must now take steps to rebalance its economy, and support the emergence of a successful export sector.

Removing administrative procedures and barriers that make it unnecessarily hard to ship goods to other countries can be done quickly. The current organisation of export clearance and customs formalities represents a significant hurdle for enterprises – and almost certainly deters many smaller potential exporters from exploring overseas markets.

Exports clearance involves a paper-chase of unnecessary certificates and documents, required by a large number of different Ministries and agencies. It takes on average 20 days for product shipments to complete customs clearance in Greece compared to an EU average of 10 days. 90% of Greek export shipments are subject to physical or documentary control compared to an EU average of 5%.

The speedy removal of unproductive documentary requirements and a re-engineering of customs procedures can eliminate much of these 'pure costs'. Efforts, supported by technical assistance, are underway to streamline and automate exports clearance and customs formalities. This work should be completed as a matter of urgency.

These efforts should be supported by a government strategy, and reform/coordination of all relevant Ministries / agencies, to assist exporters wishing to broaden their sales strategy towards overseas markets. Efforts should in particular focus on equipping new exporters to find opportunities in promising markets.

While exports of goods and manufacturing products is a short-term priority, linked to the fact that, traditionally, Greece is an SME-based economy and based on transformation activities from agricultural productions; further medium term initiatives should aim at enhancing the export of services and improve the country's potential in the tourism industry.

Competition and market access

More competitive markets and less discretionary public support will benefit Greece. For instance, more competition in energy markets will help consumers, improve security of supply and will help achieve environmental targets. Similarly, in the pharmaceutical sector, more competition is needed in the off patent medicines market in order to obtain cheaper generic products which can help keep the health budget under control.

A targeted state aid policy can support the recovery of the Greek economy while at the same time minimizing the burden of aid on public resources, provided public spending is directed to areas which enhance long-term growth and foster job creation. The Greek government has agreed to set up a central unit for controlling and verifying state aid prior to notification of potential aid measures to the Commission. The Commission can provide the necessary technical assistance to the Greek authorities in order to help them implement this objective.

Important initiatives are underway to improve access to markets, spur competition and encourage more competitive pricing. The full application of the 2011 law on regulated professions (law 3919/2011) can strike down many restrictive provisions on the right to or way in which a profession could be practiced. This law is now being implemented, and proposals to introduce 'public interest' restrictions are subject to careful vetting. The

Taskforce is coordinating technical assistance, providing the Greek authorities with legal expertise to adapt secondary legislation which supports the liberalisation of regulated professions, analyse the impacts of these measures and review the organisation of certain legal professions, notably lawyers.

A rigorous health-check of the policy framework in a number of key sectors should be completed in the autumn. This should pave the way for legislative action to scrap regulatory provisions that prevent competition and price flexibility in early 2013.

Transparent and efficient public procurement markets

Greek procurement markets are hugely inefficient to the detriment of both public purchasers, who cannot buy the inputs needed to deliver public services, and suppliers. The award of contracts is slow, costly, opaque and leads to poor procurement outcomes. Procedures are often suspended due to litigation. Public procurement is dispersed across large numbers of small contracts organised by myriad purchasing entities that lack the capacity to define their needs and organise procedures effectively.

The Greek government has undertaken to implement a coherent and ambitious agenda to overhaul Greek procurement legislation, structures and practices. This will involve simplification of the rules, creation of a procurement oversight body, greater use of specialised purchasing bodies and framework contracts, a wider use of new procurement techniques, as well as the creation of a portal for all public procurement tenders, building e-procurement solutions and increased attention to conflict of interests. The Greek government has undertaken to publish a road-map for comprehensive reform of its procurement legislation and administration by mid 2012. The European Commission will support this important project through technical assistance.

Reduce administrative burdens and implement 'better regulation' practices

Greek legislation is often developed on a sectoral basis, without sufficient regard for the overall impact on stakeholders and businesses. Greek businesses cite numerous examples of regulations or administrative practices that give rise to disproportionate costs or restrictions. The soon-to-be-adopted better regulation law will ensure that greater discipline is brought to new rule-making by tackling administrative burdens that hinder commercial transactions, and applying 'better regulation' methods to new legislative initiatives.

The commitment to create a Directorate in the Finance Ministry with overall responsibility for planning, management and monitoring of structural reforms provides an opportunity to place business and enterprise at the heart of a new growth strategy. This can serve as the 'nerve centre' for the entire reform process. This reform management capacity urgently needs to be created and nurtured.

Facilitate new investment

Investment in new facilities or projects is subject to delays and costs resulting from regulatory and administrative barriers involving many authorities. Land-use planning and environmental licensing rules are often cited as obstacles to investment. Companies operating in the energy (and especially renewable energy), distribution and logistics and transport sectors are the worst affected. Problems are compounded in the case of disputes both in the administrative

but also in the judicial phase due to the suspensive effect of many legal actions, lack of staff or competence in key services of the administration etc.

The Greek government has undertaken to implement a number of recent laws to fast track certain licensing procedures for certain professions and manufacturing activities, and for environmental licensing of projects and activities. The expropriation processes, which were subject to complex administrative and judiciary proceedings are also about to be revised. Developments related to judicial reform will accelerate judicial procedures and reduce / eliminate the existing case backlog.

The Greek government has also taken steps to make it easier to set up a new company. However, there is scope to rationalise further these procedures.

The completion of the land register will also help to stimulate investment. €83 million has already been provided through the EU structural funds to create an IT infrastructure for the digital registration of active property rights and validation of state ownership claims, including the delimitation of forests and the digitisation of active property rights retained on paper by the mortgage offices in urban areas. The MoU concerning the Land register stipulates specific objectives and provides for the establishment of a complete cadastral register and exclusively operating cadastral offices nationwide by 2020. The Commission will support the efforts of the Greek authorities to respect the above timetable in order to complete the land register which provides security and can help in attracting investment.

While a number of disparate actions are underway or planned to remove administrative obstacles to investment, there is scope for a systematic and concerted project to tackle these barriers.

Helping business through tax reform

Progress in reforming the tax administration and necessary reforms of tax legislation would also greatly improve the business environment in Greece. The fight against tax evasion is essential to level the playing field in favour of those economic actors who comply with tax regulation and who suffer from unfair competition from tax and social security contribution evaders. The Memorandum of Understanding for the Second Economic Adjustment Programme contains a number of provisions aimed at creating a modern, responsive and efficient tax administration.

This effort will be helped by technical assistance provided within the framework of an IMF/EU action plan, covering nine areas identified with the Greek authorities (audit, debt collection, dispute resolution, large taxpayers, high wealth individuals and high income self employed, risk and revenue analysis, taxpayer services, registration, filing and payment enforcement, organization and management).

The simplification of tax legislation will also play a crucial part in the success of the overall effort. In this field, efforts can build on the decision taken under the MoU of the First Economic Adjustment Programme to repeal the Code of Books and Records and to replace it with substantially simpler legislation as current rules render compliance difficult, hamper entrepreneurship and act as a strong deterrent to foreign investment in Greece.

The streamlining of the tax administration should also speed up due VAT refunds and would thus help in particular SMEs and Greek exporters by removing administrative burdens on their liquidity.

Finally, in the context of ongoing efforts to combat tax evasion, the Commission is ready to assist Greece in negotiating a tax agreement with Switzerland which could help it recoup taxes owed by its citizens. Such an agreement would need to be fully consistent with the relevant requirements of EU law.

3.2. Increasing liquidity for SMEs

SMEs are key drivers for economic growth and employment in Greece. They represent 99.9 % of all companies in Greece, with micro-enterprises representing 96.5%. SMEs face serious survival problems: 6 out of 10 firms saw deterioration in their earnings in 2011 compared to 2010. 150,000 jobs were lost in SMEs in 2011. A recent survey commissioned by the Greek association for SMEs estimated that in 2012, 60,000 small- and medium-sized firms will close their doors and a further 240,000 jobs will be lost.

As described in section 2 of this annex, the EU structural funds provide extensive support for SMEs. More than €4 billion is available to provide liquidity, working capital and guarantees for lending to SMEs and a further €1 billion will be made available through the newly-created SME Guarantee Fund. Yet this funding is not always finding its way to the real economy. The Greek authorities and Greek banks should undertake stronger efforts to monitor the disbursement of existing schemes and overcome together the obstacles to their effective implementation.

In particular, greater efforts are needed to accelerate processes and remove administrative bottlenecks in the approval of grants (notably intensive monitoring of disbursements, simplification of contracts and approval processes, reduction of approval deadlines and number of actors intervening in the process etc). Moreover the relevant legislation and contracts for grants needs urgent adjustment to provide for the lending of working capital. In addition, early implementation of the Late Payments Directive would be of great benefit to Greek SMEs.

3.3. Using privatisation to improve the functioning of important sectors of the economy

Privatisation is a crucial part of the reform process. The most compelling reason for privatisation in Greece is that assets may be better utilised in the private sector, thus enhancing the competitiveness of the real economy. In addition, successfully privatised and better managed firms will act as "role models", generating additional positive externalities.

The Hellenic Republic Asset Development Fund (HRADF) has been set up to dispose of state-owned assets. It invites submissions of interest for state-owned assets on a regular basis including recent tenders for real estate assets and the sale of the gas utility. This development points in the right direction in terms of sustainability and anchoring the privatisation process on a growing variety of asset classes.

However, for many assets, current market conditions and the technical barriers existing in Greece are not yet conducive to advancing privatisation on a large scale. This uncertainty stems, inter alia, from current difficulties in arriving at reasonable valuations of state-owned

assets. Moreover, there are a number of challenges to be addressed by the Greek authorities, the HRADF and the European Commission. These include, inter alia the existence of 'golden share' regulations in a post-privatisation environment and the need for ex ante clearance of state aid measures for state-owned enterprises. Other issues which need to be resolved are the acceleration of state land ownership registration, the legal status of land titles, the provision of economic information on individual property titles or the mapping/zoning capacity through the land registry.

Assets need to be appropriately 'prepared' prior to sale. The pre-privatisation process includes the establishment of properly audited accounts, restructuring roadmaps, personnel changes, financial engineering etc. Taking these factors into account suggests that the value enhancement of assets should normally take place prior to their privatisation. In addition, the successful ownership transfer of public assets requires the development of a suitable regulatory framework and a clear long-term strategy. Such frameworks define public policy priorities in order to avoid the creation of unregulated private monopolies.

The Commission is in close contact with both the HRADF and the Ministry of Finance, to make the privatisation programme a success and to help design measures in compliance with state aid rules. In this regard, the Commission has provided a guidance paper on the application of State aid rules when restructuring and/or privatising State-owned enterprises.

In some well-defined cases and without taking away from the priority projects mentioned in section 3.4, the EU structural funds may be able to play a role in supporting the privatisation programme through technical assistance or by supporting physical investment in areas such as energy or transport to help prepare state owned assets for sale by first improving their operations, thereby delivering better results to users and enhancing the potential value creation of these assets.

3.4. Growth and jobs through boosting infrastructure investment

The lack of suitable infrastructure in Greece is a major obstacle to growth. Well targeted infrastructure investment can make an important contribution to growth and employment. The EU structural funds can make an important contribution in this area. The Risk Sharing Instrument, once agreed, will help to attract essential private investment.

Among the 181 priority projects for growth and employment identified by the Greek authorities and the Commission in November 2011 were numerous infrastructure projects in the field of transport, waste management or energy. Some are in the phase of implementation while others are in preparation to be implemented. A number are experiencing serious blockages that need to be promptly addressed.

Their full implementation at the latest by 2015 should improve the competitiveness of the Greek economy, have a positive impact on other sectors like tourism and improve quality of life. The resources mobilised through the structural funds should be complemented by additional public resources and private investments. Obstacles to the full implementation of these projects should be removed.

In terms of size and impact, the most important projects are five motorway concessions (1,400 km of the Trans-European-Network) which currently account for €3.2 billion of national and EU expenditure. If completed, they may represent up to an estimated 30,000 direct and indirect jobs and inject a much-needed boost to investment and employment. Four of these

projects are currently blocked and need to be restarted without further delay. The implementation of these networks can contribute to the modernisation of infrastructures which remains a crucial factor for boosting the development of the country. It will also strengthen the position of Greece in South-Eastern Europe by completing the main corridors linking the country with other Member States and candidate and potential candidate countries. It will also contribute to better road safety.

Transport networks

More than in other Member States, the economy and living standards in Greece depend on the quality and efficiency of port services and maritime connections. Ports handle more than 85% of the external freight trade of Greece and ensure the security of supply of the islands. Passenger traffic through Greek ports accounts for 22% of the total number of sea passengers in the whole EU. Greek ports also have the potential to capture a large part of the intercontinental trade flows to Eastern Europe.

Greek ports have three main problems: poor equipment and low capital expenditure on infrastructure; very poor connections with the hinterland (railways, road) and administrative and operational deficiencies. Often, port developments have been made on a local or regional basis, without considering strategic priorities at the national level.

The tourism sector accounts for 15% of the Greek economy – when the indirect impact on other economic sectors is taken into account - and relies fundamentally on affordable and efficient travel connections. Air connections to Greece, particularly to regional airports, suffer from a lack of modern Air Traffic Management, inefficient airport operations (limited operation time, etc) and costly airport fees. The lack of adequate infrastructure – for example marinas and cruise embarkation points – also negatively affects the quality of tourism.

The new TEN-T strategy includes the ports of Igoumenitsa, Patras, Piraeus and Thessaloniki in the core European transport network. The crucial rail connection between Piraeus and Thessaloniki and the motorway of the seas between Athens/Piraeus and Limassol are part of one of the transport corridors included in the proposed Connecting Europe Facility.

The transport system in Greece could be modernised by:

- Opening passenger transport services by coach and taxis by removing remaining restrictions.
- Establishing single window administrative services for vessel related reporting. Ships are now subject to a number of obligatory formalities which cause delays for cargo and passengers. These formalities also absorb resources from the shipping industry and the state.
- Providing a suitable governance model and a framework for privatisation of ports and airports that avoids the creation of private monopolies and does not discriminate between users and imposes full transparency of accounts and adequate supervision by public authorities. New owners or concessionaires should be required to respect the commitments taken in relation to projects that have been granted EU support.

Rail operations could be improved by:

- Leasing passenger rolling stock that is not needed by the incumbent;

- Creating a framework for EU passenger operators to start new business in fair competition with the incumbent;
- Reviewing border crossing procedures and agreements to facilitate freight flows on Corridor X and abandon border closures.

The Commission can organise technical assistance to help the Greek authorities to adapt to best practice in cooperation with their counterparts in other Member States. It can also provide technical assistance for Air Traffic Management and possibly financing for modern equipment.

Shipping

Shipping has traditionally been a main pillar of the Greek economy. A combination of factors (low freight rates, abolition of a dedicated Ministry) have influenced shipowners' decisions to flag-out their vessels. If this trend continues, apart from employment on-board and tax revenues, it may also affect employment in shore-based shipping companies. The economic crisis has affected the Greek coastal shipping industry. Companies are operating at marginal or no profit, even where they have public service contracts. In some cases this has affected the network coverage and quality of services especially (but not exclusively) towards smaller islands which see their growth opportunities undermined. In order to make full use of its maritime potential and exploit the opportunities for maritime growth, Greece needs to develop a more appropriate administrative structure in the shipping industry overall.

ICT and broadband infrastructure

Greece is still lagging behind the EU average in broadband penetration, mainly due to the lack of development of e-services. Efforts should be concentrated on the completion of projects of national importance in order to extend the broadband network to more towns and to provide high-speed broadband connections (optical fibre) to additional public buildings to deliver savings on public telecom expenditure, and to citizens.

An increase in broadband penetration depends on broadening the offer of e-services. Emphasis should be given to sectors highlighted in the MoU. The use of ICT is expected to bring considerable benefits both to citizens and to public finances in areas such as healthcare (e.g. e-prescription, interoperability between Ministry of Health and public hospitals), the land registry (e.g. further digitisation of the real property rights) and public procurement (e.g. e-procurement). In the corporate sector, the opportunities afforded by digital services should be exploited to the full, for example by helping SMEs to take advantage of the internet to access international markets.

3.5. Sources of future growth

3.5.1. Harnessing the potential of the energy sector for growth and jobs

Energy policy in Greece has the potential to make a significant contribution to the country's economic recovery. In addition, the development of energy infrastructures interconnected with the rest of the region will help to boost the competitiveness and the productivity of the energy sector in Greece.

In the energy area Greece faces huge challenges. It is highly dependent on fossil fuels (lignite accounts for the bulk of its electricity generation). Most islands remain isolated and are reliant

on diesel generators or oil-fired plants. The overall efficiency of electricity production is amongst the lowest in Europe. The energy sector is dominated by a few state-owned enterprises with low productivity and still to be unbundled. Industrial customers complain that their competitiveness is jeopardised by having to pay some of the highest energy prices in Europe. Especially in the building sector there is considerable scope to improve energy efficiency.

Greece has the opportunity to be at the vanguard of sustainable energy production. Few European countries benefit from such a variety of renewable energy sources: abundant wind and sunshine but also hydro, geothermal and biomass offer the potential of moving to the forefront of green electricity production. Greece's strategic geographic position as well as the exploration of off-shore hydrocarbon reserves provides the opportunity of developing the country into a gas hub. The implementation of EU liberalisation measures and privatisation efforts should lead to a more competitive industry.

In order to achieve this potential, for the benefit of Greek energy consumers but also in support of EU targets on supply security and climate, the following actions will need to be pursued.

The **privatisation** of the gas and electricity sector provides an opportunity to enhance their efficiency. The privatisation process must be finalised swiftly whilst at the same time creating a framework for competitive markets to develop in the near future. With a well-functioning framework, including the proper unbundling and the full opening up of both the electricity and gas markets, new investment opportunities arise for large and small energy producers. This will ensure that the Greek energy sector will become a dynamic, competitive sector, yielding economic benefits to all other sectors of the economy.

Electricity and gas **grids** need to be modernised. Improvements in gas storage and pipeline networks will enable Greece to exploit its strategic geographic position providing a gateway to the European gas market. Electricity grid interconnection of the larger islands with the mainland and between smaller islands is a prerequisite for the large-scale deployment of wind and photovoltaic installations. Reinforcement of the mainland transmission grid is also essential to integrate renewable energy installations for the domestic market and to enable massive electricity exports to the rest of Europe. Greece is a natural passage for much of the gas originating in the Caspian and Eastern Mediterranean basins.

The TEN-E programme and the new Connecting Europe Facility can play a major role in focusing and funding efforts in this area. Clear signals that the energy sector is an open and functional sector of the Greek economy, and access to its infrastructure is based on non-discriminatory network access, will also help attract private finance for such investment.

The widespread deployment of **renewable energy sources** requires a comprehensive reform of the support scheme. To attract the necessary investment the framework will have to adhere to the principles of cost-efficiency and financial stability. To exploit its comparative advantage Greece is placing special emphasis on the development of solar and wind resources. With investor confidence restored, a competitive renewable energy sector can develop across the value chain. The contribution of the sector to economic growth could be additionally increased by the HELIOS initiative. It should start by launching a few large-scale photovoltaic installations, initially for domestic consumption, but as the project scales up and as transmission capacity becomes available exports to the rest of Europe should be pursued, helping other Member States to achieve their 2020 goals cost-efficiently.

Public and private **building renovation** is critical to achieving energy efficiency goals but also creates jobs. The funding available for households under the “Exoikonomo” scheme is not used to its full effect and should be made available to SMEs. Additional instruments are required to support efforts in public buildings, urban transport and local energy infrastructure. In this respect, the proposed risk-sharing instrument could help de-risk the investments in the building retrofits sector and as such boost jobs and local growth.

3.5.2. *Promoting sustainable growth - environment and waste management*

Solid waste management can make a significant contribution to the quality of life of Greek citizens and in the development of economic activity. Full implementation of the existing legislation could create thousands of jobs in Greece and increase the annual turnover of the waste sector substantially. Progress with solid waste management will also facilitate compliance with EU environmental legislation, and avoid potentially costly infringement procedures.

Even though Greece has already benefited massively from the EU structural funds for its basic infrastructure in this sector, it is still lagging behind, in particular as regards solid and waste water management. Perhaps more than in any other sector, there is an urgent need to work towards respecting the EU *acquis* in order to create the necessary infrastructure in line with EU standards.

In order to comply with its obligations under EU law and with judgements of the European Court of Justice, Greece needs to urgently:

- (a) build waste facilities (i.e. mechanical-biological treatment plants, landfills) and close and rehabilitate all remaining illegal and uncontrolled dumping sites (as regards the rehabilitation process, co-financing is available); and
- (b) build several UWWT plants (with special attention needing to be paid to the Attica region, but also other major urban agglomerations like Thessaloniki, Patras, etc).

In addition, full compliance with two Court rulings (one concerning the construction of an urban waste water treatment plant in Western Attica, in the area of Thriassio Pedio, a project which is co-financed by the EU structural funds and one concerning the absence of collection and treatment of Urban Waste Water in five Eastern Attica agglomerations) must be ensured.

Legal clarity on producer responsibility (currently absent from Greek legislation) can provide Greece with the instruments to collect the resources needed for implementing schemes on separate collection and recycling. Progress in establishing land-fill taxes or pricing can also contribute to enhance resource efficiency as would the application of incentive systems to favour prevention and participation to separate collection ('pay-as-you-throw' schemes).

As mentioned above, the new EIA (environmental impact assessment) legislation for Greece should lead to streamlined and more effective procedures. A new law on environmental permits was included in the MoU and the Medium-Term Fiscal Strategy Framework. This law was adopted in September 2011 and implementing decisions will be adopted in 2012 (the first was adopted in January 2012 and is related to the categorisation of projects to be subject to an environmental assessment/permit). The new law is expected to reduce the time needed for issuing permits, mainly because it introduces specific deadlines for each of the administrative

steps and milestones of the authorisation process. This practice is based on experience in other Member States.

The EAFRD supports the sustainable development of rural areas across the whole Greek territory through a variety of agri-environmental measures. € 720 million has already been disbursed for this purpose.

3.5.3. *Building an innovative, knowledge-based economy*

In the last decade, R&D intensity in Greece has stagnated at 0.6% of GDP (2007) and is marked by a very low private R&D intensity, which increased slightly from 0.15% in 2000 to 0.17% in 2007, according to the latest official data available. In absolute terms, however, overall R&D investment grew significantly during the years 2001-2007.

The main engine behind the Greek research and innovation system is EU cohesion policy. For the current programming period 2007-2013 and in addition to the main national operational programme, several regional programmes include research, innovation and business competitiveness support measures. The core programme "Competitiveness and Entrepreneurship" has a total budget of €1.5 million of which EU cohesion policy provides € 1.3 million. The Operational Programme has 3 strategic objectives for the period 2007-2013, with Research and Innovation as one of the major intervention areas. However, the take-up of EU structural funds for research is low and the incentives for the use of the funds in the private sector, in order to encourage the transformation of the economy, are currently insufficient.

The private sector has a low share in total R&D expenditure, reflecting the weak demand for research-based knowledge from the business sector. Also, the low absorptive capacity of the business sector is both a cause and effect of the low demand for knowledge. Restricted access to capital, especially for new firms, due to the reluctance of the financial system to finance innovation and risky investments is among the factors hindering mobilisation of resources for R&D.

Based on the Innovation Union Scoreboard 2011, **Greece** ranks among the moderate innovators and its performance is below average. Its relative strengths are in human resources, linkages and entrepreneurship and innovators and relative weaknesses are in finance and support, firm investments and intellectual assets. High growth is observed for Community designs while a relatively strong decline is observed for non-R&D innovation expenditure and knowledge-intensive services exports.

Technological collaboration as expressed through co-patenting applications is very modest when compared with the EU average. More than 65% of the total patent applications are made by a single inventor and thus less than 35% in collaboration. From these, 7.4% are co-patents involving a non-EU country, a low figure evidencing the need for a higher degree of collaboration and internationalisation of the research and innovation activities.

Looking ahead, the main challenges are to:

- Ensure adequate and effective R&I public investment and increase the efficiency of the use of EU structural funds, through focussing on a range of clusters and technology platforms.

- Finalise the development of an integrated legal framework for R&D performers and implement it. This should include the setting of a Europe 2020 headline target for R&D investment, associated with multi-annual budgetary programming;
- Ensure a much more effective and growth-enhancing use of structural funds by promoting private investment in R&I in support of a smart specialisation strategy.

3.5.4. *Exploiting Greece's potential as a tourist and cultural destination*

Greece has a comparative advantage in culture and tourism, both of which bring important growth and job-creating potential. Monuments and archaeological sites are poles around which economic activities can now be developed. It is important to design rapidly a strategy to explore and develop more synergies among culture, tourism, entrepreneurship, education, medical and gastronomy sectors and to invest in new technology (use of ICT to promote Greece cultural treasures) with a view to improving value-for-money and positioning Greece as a high-quality tourist destination while focusing on environmentally-friendly tourism.

Tourism is one of the key sectors in the Greek economy, both in terms of economic growth and employment. The direct contribution of the Travel and Tourism industry to the country's GDP was €12.6 billion in 2011 (5.6% of total GDP, the figure for EU is 2.9%). Travel and Tourism supported directly 332,000 jobs or 8.0% of the country's total employment (3.2% in the EU), and 768,000 jobs or 18.4% of total employment if indirectly supported jobs are added (8.4% in the EU). Yet Greece has had limited success in attracting visitors from emerging markets. The tourist season is concentrated in the summer months and tourists spend relatively less money in Greece than tourists visiting competing destinations.

The Greek tourist industry can be developed in a variety of ways, including:

- Increasing demand for tourism: The primary objectives of actions taken in this field focus on extending the tourism season, empowering people to go on holiday as well as increasing the number of tourists (mainly from outside the EU). With a mild climate year round, Greece is very well placed to benefit from receiving tourists outside the core season. The main initiatives aiming at boosting tourism demand in the EU include the Calypso social tourism initiative, 50,000 tourists or low season initiative (aimed at combating seasonality) and a web portal to attract visitors from outside of the EU.
- Raising awareness and promoting destinations: The main actions include European Destinations of Excellence (EDEN), which promotes sustainable tourism development of small emerging destinations, development of thematic cultural routes (i.e. olive tree route) and raising awareness of cycling tourism in the EU.
- Providing a platform for exchange of best practices: The Tourism Advisory Committee (TAC) constitutes a discussion forum for tourism policy representatives from EU Member States. Greece can benefit from best practices of other Member States
- The extension of the tourism season, the diversification of tourist products and the improvement of the quality of the services offered, to attract higher income tourists, should be the main drivers of development of the Greek tourism industry.

3.6. Strengthening public administration and the judicial system

3.6.1. A modern public administration for a new economy

The Greek public administration currently lacks the stable, coordinated and empowered structures that would provide the necessary ownership and accountability for the reforms set out in the Second Economic Adjustment Programme and described in this Communication. It is caught up in a very complex legal framework, which has detrimental impacts on all aspects of the public service and the economy. The approach of the administration is too focused on producing laws rather than on their implementation.

The EU is supporting the administrative reform agenda in Greece among others through a European Social Fund programme with a budget of €505 million. The main objective of this programme is to enhance the quality of public policies through the modernisation of the regulatory framework and the reform of structures and procedures. The planned operations include among others flagship projects for the establishment, organisation and operation of "Units for Planning and Budgeting" in line ministries, the reorganisation of the tax and customs administration, the reorganisation of the General Accounting Office of Greece and the standardisation of the implementing procedures of the New Civil Servants' Code.

To ensure that Greece has a modern administration capable of supporting a revitalised and dynamic economy there is a need to improve the effectiveness, accountability and integrity of the administration and to simplify the administration's decision making processes. The MoU provides for the modernisation of the public administration by December 2012, by setting up, inter alia, a high-level transformation steering group (created in February 2012), chaired by the Prime Minister, which will supervise the implementation of administrative reforms. In January 2012, France and Greece, in collaboration with the Taskforce, signed a memorandum of understanding paving the way for the implementation of the central administrative reform. The German government has started to provide technical assistance for administrative reform at the local and regional levels.

A strong centre of decision making with real inter-ministerial coordination is required - under the MoU of the Second Economic Adjustment Programme this has to be delivered by May 2012. It will provide better guidance and a more strategic vision across the central government by improving and speeding coordination among Ministries, breaking the currently vertical and intra-Ministry attitude, and by arbitrating on ongoing inter-ministerial issues. This structure will be crucial for the implementation of all reform processes towards growth and jobs and of the decisions issued by the High Level transformation steering group.

Greece also needs to create the necessary structures in each line Ministry for effective monitoring of administrative procedures (including expenditure, internal control and audit, Human Resource Management and ICT) with a view to applying common rules and harmonised procedures before end 2012.

All the principles of coherence and efficiency underlying the reform of the administration at the central level will have to be replicated at regional/local level with a view to supporting growth and jobs at all levels of the economy. In April 2012, Germany and Greece, in collaboration with the Taskforce, signed a memorandum of understanding, including a roadmap to implement reform in areas such as as improving the supervision and effectiveness of municipalities and regions in urban planning, rural development and strengthening the

capacity of local government to effectively plan, design, implement and monitor investment programmes.

In order to make sure that these funds can be used as effectively as possible, and in order to increase transparency of the economy, fighting fraud and corruption is essential. Greece, with the support of the Commission should prepare an antifraud strategy covering all aspects of public revenues and expenditures, and including the protection of the financial interests of the EU. This will help restoring confidence and establishing a fair and equal level playing field. At the same time, an effective fight against fraud and corruption, including the fight against smuggling at the borders, will contribute to stabilising Greece's revenue further.

Government use of IT in Greece is currently very low. Improving the situation would help to speed-up procedures, streamline processes and increase transparency for the administration and business. The Greek authorities have started the implementation of projects in several major e-government fields, namely Enterprise Resource Planning (ERP) (Finance and HRM), Citizen Relationship Management and e-Procurement. The Greek Authorities intend to deploy these projects in the priority sectors of finance, administrative reform and health. The deployment of e-Government will have to be done in coordination and as a complement to the reform of the administrative procedures.

The restoration of the credibility of official statistics is an essential part of the social contract that will allow the stabilisation of Greece. While significant progress has been made since 2009, statistics remain a divisive issue in Greek society. The reestablishment of confidence in statistics will require the full implementation of the action plan included in the recent Commitment on Confidence in statistics, signed on 29 February by the Greek government, the Commission and approved by the Parliament. This implies the review of the Statistical law and the provision of the necessary financial and human resources to the National Statistical Authority.

3.6.2. Restoring confidence in the judicial system

A dysfunctional judiciary is an obstacle to economic development and undermines Greece's social fabric. It is a system that allows debtors - including unwilling tax payers - of all kinds to abscond at will, knowing that none but the most determined of creditors will pursue them through court and enforcement action. A backlog of hundreds of thousands of cases in the courts and long delays in obtaining a hearing date are the most visible signs of the malfunctioning of the Greek justice system. This has led to a general feeling of 'injustice' amongst Greek people. The Greek authorities have shown a clear willingness to change this situation and to make important efforts to create an efficient and citizen- and business-friendly judiciary. A comprehensive and much-needed review of the judicial system is underway. These reforms are designed to re-establish trust in the functioning of the Greek State and its institutions and support economic recovery.

The Greek government has committed to meet a series of targets for the elimination of the backlog of tax cases before the administrative courts and for the reduction of the backlog in civil cases. It has also undertaken to promote alternative dispute resolution methods to free-up resources in courts and help to develop a non litigious culture and find more economic ways of resolving problems and conflicts. The Commission is working with the Greek authorities and stakeholders in this area.

As long as potential investors do not believe that the Greek judiciary is efficient and fair and will uphold their rights, they are unlikely to take important investment decisions. Taking further measures to find efficient ways of recovering debt owed to the State and streamlining the legal framework for transactions in immovable property will boost investor confidence and at the same time increase state revenue. Building a modern e-justice system will make justice swifter and more transparent with substantial gains in time and efficiency likely to be felt by users of the justice system and improved performance of judicial officials. Rationalisation and reorganisation of the magistrates' courts will not only lead to cost savings but also bring justice closer to the citizen by establishing these courts as a one-stop gateway to justice for most of the common justice issues with which citizens are confronted (e.g. authentication of documents, family law and inheritance matters etc.).

A modern insolvency regime is key to facilitating both the orderly market exit of inefficient companies and the restructuring of viable companies. Insolvency reform is one of the areas for close attention and the Commission stands ready to work with the Greek government in this regard.

3.7. Tackling the social impact of the crisis

Prior to the crisis, Greece already suffered from one of the highest poverty rates in the EU. The overall at-risk-of-poverty or social exclusion rate for the total population stood at 27.7 % in 2010, higher than the EU average of 23.5%. The in-work poverty rate in Greece was the second highest in the EU in 2010. The deep economic downturn has increased levels of poverty and social and housing exclusion and has hit disposable income (down 9.3% in 2010). Homelessness is increasing among families with children and young people, as well as among the rising numbers of irregular migrants, which have further exacerbated the pressures. Urgent action is needed to address these problems.

The Commission is working with the Greek authorities to tackle the unacceptably high levels of youth unemployment. In order to focus financial support where it is needed most, funding could be redirected to boost measures supporting youth employment. These measures currently include actions supporting the acquisition of first work experience; subsidising short-term job placements in the private section or in local communities; expanding apprenticeship or traineeship opportunities for students and graduates; promoting re-skilling or up-skilling; boosting entrepreneurship, including social entrepreneurship; and study periods abroad.

An additional €200-250 million could be available for reallocation in this way, potentially leading to the creation of thousands of jobs.

There are a number of other short-term priorities where immediate action is necessary. The European Social Fund can help to improve the functioning of the labour market, strengthen the links between education/training and the labour market, enhance human capital and tackle widespread undeclared labour. Public employment services should be strengthened to offer better services to the rising number of unemployed. More effective and targeted investment in active labour market policies is needed and a more systematic evaluation of the effectiveness of active labour market measures should be undertaken. Priority should be given to the most vulnerable groups (low-skilled unemployed, early school leavers, older workers, long-term unemployed, migrants and minorities, etc).

EU structural funds could also be mobilised to set up and finance an integrated urban regeneration strategy to fight against poverty and social exclusion.

In order to prevent social marginalisation and provide members of vulnerable groups with the skills required for entering or re-entering the labour market, the national lifelong learning strategy announced in 2011 should be implemented. This should include widening the access to education and training to non traditional learners by involving regional and local communities as well as higher education institutions.

Improved access to employment, notably through the increased financial support to entrepreneurship (with focus on new innovative products and services) and the wider use of wage subsidies for short-term recruitment especially focused on disadvantaged groups, should be considered to provide temporary economic relief and an opportunity to those most affected by the crisis to remain in the labour market. The development of the social economy will also create new employment opportunities led by social entrepreneurs and innovators in key sectors such as social care, services for the unemployed, local and community development, food production and distribution and energy efficiency.

3.8. Managing migration and asylum

Greek membership of the Schengen area provides freedom of movement for Greek citizens to other countries and for travellers to Greece. This underpins travel, tourism and business relations, which are beneficial to the economy. However, the strong, irregular migratory pressures faced by Greece in recent years, coupled with the current economic crisis, is having a negative social and economic impact, and endangering the smooth functioning of the Schengen area. The humanitarian situation faced on occasions by migrants and asylum seekers is tarnishing the image of Greece and is not in line with its long standing human rights and hospitable tradition.

In order to tackle this issue, Greece needs to continue to reform its asylum and migration policies and to efficiently manage its external borders. The frameworks for action, namely the Action Plan on Migration and Asylum Management and the Action Plan "Schengen-Greece" are already in place. They must now be implemented including through the adoption and implementation of standards in the field of migration and asylum which are in conformity with existing EU law and Greece's international obligations. Greece needs to improve the humanitarian situation of migrants and asylum seekers in the Greek/Turkish border region and in Athens and to enhance reception capacity for both irregular migrants and asylum seekers, with a particular focus on vulnerable groups. It should also build capacity in the field of voluntary return, in full respect of fundamental rights. There is considerable untapped potential, as many migrants find themselves trapped in Greece, with no real opportunities for integration and would be interested to return to their countries of origin.

The EU has provided significant financial support for asylum, migration and border management systems and to address the humanitarian consequences of the pressure generated by high numbers of irregular migrants and asylum seekers. Greece is one of the main beneficiaries of the Solidarity and Management of Migration Flows (SOLID) programme.