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## Regional Policy in Greece: An Overview and the Recent Policy Change

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# REGIONAL POLICY IN GREECE: AN OVERVIEW AND THE RECENT POLICY CHANGE

*George Petrakos and Yannis Psycharis<sup>1</sup>*

## 1.1 Introduction

This paper provides a broad overview of the most recent changes in regional policy in Greece. It is structured in six sections. After this introduction, the second section reviews the Greek regional problem and considers different approaches to understanding and perceiving it. The third section provides an overview of the recent key regional policy changes. The fourth section then focuses on changes to different components of regional policy i.e. regional incentives, regional programmes and the regional allocation of public investment. The fifth section discusses changes in the implementation and delivery of regional policy. The sixth section summaries the regional policy changes in Greece during the recent period.

## 1.2 Perceptions of the regional problem

Greece has a number of peculiarities that affect its spatial structure and the level and type of its regional imbalances. At the macro-geographical level, it faces a range of constraints arising from its peripheral position and limited access to major economic agglomerations and markets. In addition, it is characterised by unique border conditions, as it has no common borders with any other EU country and, until recently, had only limited economic (or any other) relations with its neighbours (Albania, FYROM, Bulgaria and Turkey). As a result, the country has been deprived of economic relations with neighbouring countries (of similar levels of development) and has been restricted to relations with distant and usually more advanced partners. This has affected the type and quality of cross-border infrastructure, as well as the development prospects of border regions (Economou *et. al.* 2005).

Internally, Greece is characterised by a highly fragmented physical and economic space, due to the existence of hundreds of inhabited islands and the limitations imposed by its mountainous territory. This fragmentation increases transportation and accessibility costs, requires major investment in infrastructure and inhibits the internal integration of the economy. In addition, physical and political geography have clearly affected development prospects. Limited accessibility to internal and external markets has created a productive structure dominated by small inward looking firms serving local markets and having limited capacity to adapt and compete in national or international markets.

Partly because of these conditions, the economy has a relatively low level of development and a weak production structure. Greece has the lowest GDP per capita in EU15 and the highest dependency on

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the primary sector. In addition, the share of industry in GDP has been in continuous decline (and is the lowest in EU15), while the productive base is characterised by traditional sectors, small size and low capital and technology intensity. This picture continued even after EU membership in 1981, as the economy experienced strong competitive pressures, which were partly responsible for its poor performance relative to the EU average in the 1980s and early 1990s. The entire country was defined as, and remains, an Objective 1 region. GDP per capita was 67 percent of the EU15 average in 2000. On the other hand, progress has been made in a number of ways: Greece has grown faster than the EU average over the last five or six years and has managed to meet the Maastricht criteria and become a member of the EMU.

External asymmetries in the EU context are closely linked to internal disparities at the regional level. Greece is divided into 13 NUTS II regions (*periferia*) and 51 NUTS III regions (Prefecture/*nomos*). The metropolitan region of Attica, with 3.7 million inhabitants, contains over one-third of the national population (of just under 11 million). The prefecture of Thessaloniki (belonging in the NUTS II region of Central Macedonia) comes next, with about one million people, followed by six or seven NUTS III regions with populations between 200,000 and 300,000. The rest of the spatial system comprises small NUTS III regions with populations in the range of 20,000 to 200,000. The dominance of Athens (and Thessaloniki) has been consolidated – if not increased – over the last two decades, through the fast growth of their suburbs and satellite cities or regions (Petraikos *et al*, 1999).

The problem of regional inequality in Greece is an issue that strongly concerns both the country's public administration, at national and local level, and broader public opinion, since large concentrations of population and economic activities are clearly observed in the metropolitan areas of Athens (the capital city) and Thessaloniki.

Most studies, including European Commission reports, consider that regional inequalities in Greece are limited compared to other EU15 countries. These studies make this assertion on the basis of GDP per capita figures where regional disparities are modest (see [Table 1](#)). Compared to the EU15 average of GDP per head in PPS, the range in Greece is from 79 percent (South Aegean) to 46 percent (Epirus). Attica, the Athens region, is ranked only third, due to the fact that a significant part of the industrial activities of the metropolitan region have spread to surrounding 'satellite' regions – either to avoid regulations and environmental restrictions or in search of investment subsidies not available in Attica. For the year 2000, the weighted coefficient of variation (CV) was 0.16 and the max/min ratio 1.70, modest or low figures by EU15 standards (Petraikos G. and Rodriguez-Pose, 2003).

**Table 1: Regional Population, GDP Per Capita and Composite Index of Development (CID) for the NUTS II Regions of Greece**

Regional level	Regional Population	Regional share of population	Regional share of GDP	GDP per capita in PPS		GDP per capita in PPS EU-15=100	Composite Index of Welfare and Development (CIWD)	
<i>Regions (NUTS II)</i>	<i>2001</i>	<i>2001</i>	<i>2000</i>	<i>2000</i>			<i>Max = 100</i>	
European Union EU-15					22576	100		
Greece	10964020	100.00			15098	67		
Attica	3761810	34.31	36.96	1	17046	76	74.5	1
Central Macedonia	1874214	17.09	17.18	2	15139	67	39.2	3
Continental Greece	605329	5.52	7.28	3	17474	77	29.4	7
Thessaly	753888	6.88	6.46	4	13832	61	27.4	8
Peloponnese	638942	5.83	5.48	5	13010	58	26.0	10
W. Greece	740506	6.75	5.29	6	11379	50	18.9	13
Crete	601131	5.48	5.25	7	14781	66	38.8	4
E. Macedonia-Thrace	611067	5.57	4.34	8	12250	54	26.1	9
S. Aegean	302686	2.76	3.05	9	17790	79	52.6	2
W. Macedonia	301522	2.75	2.91	10	15226	67	23.4	11
Epirus	353820	3.23	2.47	11	10474	46	22.2	12
N. Aegean	206121	1.88	1.67	12	14563	65	35.0	5
Ionian Islands	212984	1.94	1.67	13	12956	57	33.9	6
<i>Max/min</i>					<i>1.70</i>		<i>3.98</i>	
<i>CV<sub>w</sub></i>					<i>0.16</i>		<i>0.71</i>	

Source: Petrakos and Psycharis (2004)

Academic debate about the level of regional inequalities and, consequently, the policies that are necessary to cope with the regional problem, is characterised by many different opinions, estimations and approaches, producing a rather controversial picture. Giannias *et al* (1997) and Liargovas *et al* (2003) found a weak trend of convergence in levels of wealth between regions for the period 1960-2000 (Liargovas *et al* 2003). Konsolas *et al* (2002) also reported the existence of a clear trend of convergence in the income of Greek regions, although without providing specific evidence. Siriopoulos and Asteriou (1998) and Petrakos and Rodriguez-Pose (2003), using the  $\beta$ -convergence and the  $\sigma$ -convergence indices, found divergence between Greek regions for the periods 1970-1996 and 1981-1997, respectively. Tsionas (2002) and Fotopoulos *et al* (2002), using Markov chains procedures, found strong evidence in favour of club formation duality and polarisation for the periods 1971-1993 and 1970-1994, respectively. Petrakos and Saratsis (2000) and Petrakos *et al* (2005) maintained that regional inequalities have a pro-cyclical character, increasing in periods of economic expansion and decreasing in periods of economic recession. Ioannides and Petrakos (2000) attributed spatial imbalances in Greece to the country's dualistic economic base.

Over and above such debated scientific findings - a side-effect of the use of different scientific techniques covering different time periods - a major measurement problem is evident concerning the level of economic development in each area. This problem is, to a great extent, the symptom of the limited accuracy of economic data provided by the National Statistical Service of Greece (NSSG) in the cases of the prefectures of Attiki (including the city of Athens) and Thessaloniki. This situation is explained by the fact that, in the last two decades, the prefecture of Attiki, for reasons to do with the implementation of decentralised economic policies, has "exported" a significant part of its manufacturing capacity to the neighbouring prefectures of Voiotia (to the north) and Korinthia (to the south). This manufacturing capacity relates to industrial firms established a short distance outside the borders of Attica, but with management, ownership, labour force and resources all coming from

Athens. This diffusion of Attiki's industrial activity falsifies the statistical data, causing a significant problem in both the evaluation of regional inequalities and the design of proper regional policies.

In recently published work, Petrakos and Psycharis (2004a, 2004b) provide a new methodological framework for the estimation of regional inequalities in Greece, based on the observation that the regional distribution of GDP per head fails to reveal reality. As a first step, they correct regional GDP figures while, in a second step, they estimate a Composite Index of Welfare and Development (CIWD) by using 21 social, economic and demographic variables, including the corrected GDP per head. These variables are in a standardised format from 0 (minimum value) to 100 (maximum value) and have dispersion greater than that of GDP per head, whether corrected or not. The same, of course, is true for the composite (CIWD) index. Several versions of the index are used and, in each, the region of Attiki is at the top of the developmental scale, a significant distance ahead of all the other regions. Adversely, Continental Greece, holding the second position in the ranking in terms of GDP per capita, is placed in the seventh position in the CIWD ranking. Second in the ranking is the island region of Southern Aegean followed by Central Macedonia in the third place and Crete at the fourth place, while the less developed regions of Western Macedonia, Epirus and Western Greece fill the final places.

By applying this methodology it seems that regional inequalities in Greece are not only much more significantly in favour of the greater Athens area than is estimated from the use of conventional indicators, but are also more persistent over time, despite the fact that well-funded regional development policies have been applied systematically over the last two decades. This conclusion is at variance with the established view that regional inequalities in Greece have diminished over time and also contrasts with the results anticipated by neoclassical convergence models. Obviously, the selection of the method to estimate regional inequalities affects empirical results and conclusions. Nevertheless, the construction of a composite index of development in the case of Greece provides a more realistic view of the regional problem.

In summary, Greece has significant internal and external spatial disparities that reflect its peripheral position with respect to core EU15 markets, a lack of adjacency to the 'single European market', a highly fragmented economic and physical space and an unbalanced distribution of regional population and activities. Although GDP per capita based estimates of regional inequality are modest, more developed indicators of economic disparity produce a picture of significant disparities that, over time, have remained high.

### **1.3 The policy response**

In the 2004 elections, the country voted in a new government. PASOK, the Socialist Party, stepped down after having held office for the previous 12 years. The New Democracy Party received a strong mandate, with a political programme in favour of 'transparency' and 'reduction' of the public sector, 'greater economic efficiency' and greater support for social and economic groups facing serious difficulties in the new economic environment.

Regional problems were also high on the political agenda of the ruling party while in the opposition. The new government declared that improving the prospects of the less developed regions was an important policy priority. After a little more than a year in power, the government has given some indication of its plans, although a number of critical decisions remain to be taken in the near future.

The most important policy change in the context of this study is the new law on regional incentives, which is analysed in the next section. In addition, and at a symbolic level, the government moved all the functions of the Ministry of National Economy related to INTERREG programmes from Athens to Thessaloniki, in order to highlight the importance of northern Greek regions to regional integration and cross-border cooperation. The new government also continued the practice of the previous one, to establish new universities or new academic departments in cities or regions that did not previously have one. Although such policies of creating new academic and research institutes outside the large urban areas is popular in local constituencies, it has been criticised by the academic community, as these new units often lack the basic conditions and requirements to allow them to fulfil their academic role. A new university has been established in Central Greece, with one or two academic departments located in almost all the cities of the region. In general, this policy has received (now and in the past) considerable criticism, on the ground that there is no clear strategy linking higher education to regional development. The most critical view states that these policies do not serve the regional development goal efficiently, while undermining the level and quality of higher education, since the new locations inevitably find it hard to attract suitable human resources. On the other side of the spectrum, more positive views claim that this policy will take time to deliver but, in the long-run, will have overall positive effects on the development of the less favoured and remote areas.

Two other recent developments can be considered, to some degree, to signify a new direction in policy compared to the past. The first has to do with spatial planning. The Ministry of Planning, Environment and Public Works has launched a series of sectoral spatial plans for tourism, industry, coastal regions, etc. These plans will deal with important issues related to the location of activities, land use policy, protected areas and types of restriction and are very important for investment location and housing. In the past, the lack of consolidated national plans (and the absence of enforcement mechanisms) has led to serious obstacles to the location of new firms (in cases where regulations from different ministries or local policies were vague or conflicting) as well as to a great deal of illegal construction, especially in coastal areas, suburban areas of Athens and on the islands.

The second sign of policy change is related to the preparations for the 2007-2013 CSF. A planning process has been initiated by the Ministry of Economy and Finance (MEF), where bottom-up practices have, for the time being, a very high status. Decentralised regional administration units have, over the last few months, coordinated a dialogue at the local and regional level concerning strategic objectives and suitable policies for each region. They have also commissioned regional development studies that aim to take into consideration the main points arising from public debate, past experience and performance as well as the guidelines of the EU in order to design an appropriate regional development strategy for each region. Ideally, these studies will be taken into consideration by the MEF, when it prepares the national development strategy for the next programming period. Of course, this remains to be seen; past experience has been rather disappointing in this respect.

## **1.4 The components of regional policy**

### ***1.4.1 Regional incentives and support for the business environment***

In December 2004, the Greek Government (Ministry of Finance) adopted the new Development Law 3299/2004, entitled 'Private investment incentives towards economic development and regional convergence', which replaced the previous Development Law 2601/1998.

The main purpose of the new law is to change the investment profile of the country and the policy approach in a more positive direction through the improvement of the competitiveness and the attractiveness of Greece as an investment location. The main aims of the law refer to the balanced growth and development of the Greek economy combined with regional convergence, focusing on improved competitiveness, employment growth, the promotion of lagging regions, support for specific high value added sectors, technological change and innovation, and environmental protection and energy saving. Nevertheless, as can be seen in the tables which follow, the main focus of the law seems to be more on the support of strategic innovative sectors rather than the development of specific lagging regions.

Investment plans are aided with respect to the coverage they provide in four main respects:

- Innovation, technology promotion and research and development
- Production of new products with high added value, contributing to economic growth
- Improvement of the trade and export orientation and internationalisation of the economy
- Promotion of regional convergence, giving priority to lagging or less favoured regions

Focusing on the main points, Development Law 3299/2004 foresees:

- A stable tax regime for investments under the new law
- Subsidies for high value added as well as job-creating investments
- Promotion of large-scale investments and investments with an international and export orientation
- A flexible tax regime for investments in high technology and in the manufacturing of new products
- Simplification of administrative procedures
- Special provisions for lagging regions and certain categories of investment considered important for national growth, as well as large enterprises in severe danger of closure
- Promotion of small and medium enterprises located mainly in lagging regions
- Special *ad hoc* incentives regarding specific sectors or regions facing serious problems in employment and development, or being of significant importance for the economic development of the country

The spatial coverage of the new law is as set out in [Table 2](#). It can be seen that, for the implementation of incentive policy, the Greek territory is divided into four main areas - Regions D, C, B, and A.

**Table 2: Incentive Areas**

Region	Comprising:	Development level
<b>A</b>	Departments of Athens and Thessaloniki, other than in areas D, C or B	Very high
<b>B</b>	<ul style="list-style-type: none"> <li>▪ BEPE industrial entrepreneur estate</li> <li>▪ Province of Lagadas</li> <li>▪ Part of Thessaloniki department on the west bank of the river Axios</li> <li>▪ Province of Trizinia in the department of Athens</li> </ul>	High
<b>C</b>	Areas of: <ul style="list-style-type: none"> <li>▪ The Lavreotiki zone of the prefecture of Attiki</li> <li>▪ Departments or parts of departments not in Regions A, B or D</li> </ul>	Medium
<b>D</b>	Areas of: <ul style="list-style-type: none"> <li>▪ Xanthi, Rodopi and Evros</li> <li>▪ BEPE industrial entrepreneur estates in the Epirus region</li> <li>▪ Islands with population of less than 3100</li> <li>▪ Islands of the Northern Aegean region</li> <li>▪ Thassos</li> <li>▪ Department of Dodecanese (except part of Rhodes)</li> <li>▪ The border zone of continental Greece, 20 km from the border</li> </ul>	Low
<b>D1</b>	Areas of: <ul style="list-style-type: none"> <li>▪ The border zone of continental regions of Central and West Macedonia, 20 km from the border</li> <li>▪ Department of Dodecanese (except part of Rhodes)</li> <li>▪ Islands of Central Macedonia, Thessaly, Ionian Islands, Continental Greece, Attika, Southern Aegean Islands and Crete regions, with population less than 3100</li> </ul>	Low
<b>D2</b>	Areas of: <ul style="list-style-type: none"> <li>▪ The border zone of continental regions of Eastern Macedonia and Thrace and Epirus, 20 km from the border</li> <li>▪ BEPE industrial entrepreneur estates in the Epirus region</li> <li>▪ Islands of the Northern Aegean region</li> <li>▪ Thassos</li> <li>▪ Islands of Eastern Macedonia and Thrace, Epirus, Western Greece and Peloponnese regions with population less than 3100</li> </ul>	Low
<b>D3</b>	Areas (prefectures) of: <ul style="list-style-type: none"> <li>▪ Xanthi, Rodopi and Evros</li> </ul>	Low

The incentive tools adopted by the law include:

- Direct subsidies and leasing subsidies
- Tax exemptions
- Employment creation subsidies

The above incentive types are generally available as alternatives; only in specific cases can a combination of these different incentive types be offered.

As far as the financial characteristics of the law are concerned, it foresees aid for investment plans, which exceed the following minimum amounts:

- €500,000 for large enterprises
- €250,000 for medium-sized enterprises



- €150,000 for small enterprises
- €100,000 for very small enterprises

Specifically, the incentives provided by the law vary depending on the region, the activity and the type of incentive chosen (see [Tables 3, 4 and 5](#)):

**Table 3: Direct subsidies and leasing subsidies**

Investment category	Region A	Region B	Region C	Region D1	Region D2	Region D3
Category 1	0%	18%	30%	35%	40%	40%
Category 2	0%	13%	25%	35%	35%	35%
Category 3	40%	40%	40%	40%	40%	40%
Category 4	30%	30%	35%	35%	40%	40%
Category 5	35%	35%	35%	35%	35%	35%

**Table 4: Tax exemptions**

Investment category	Region A	Region B	Region C	Region D1	Region D2	Region D3
Category 1	0%	50%	100%	100%	100%	100%
Category 2	0%	50%	100%	100%	100%	100%
Category 3	100%	100%	100%	100%	100%	100%
Category 4	100%	100%	100%	100%	100%	100%
Category 5	100%	100%	100%	100%	100%	100%

**Table 5: Employment creation subsidies**

Investment category	Region A	Region B	Region C	Region D1	Region D2	Region D3
Category 1	0.0%	18.4%	35.1%	40.0%	45.5%	48.1%
Category 2	0.0%	18.4%	33.2%	40.0%	45.5%	45.5%
Category 3	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Category 4	35.0%	35.0%	40.0%	40.0%	45.5%	48.1%
Category 5	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%

Categories 1 and 2 include financial projects in the primary and secondary sectors. More dynamic and technologically advanced projects are found in Categories 3 and 4, while Category 5 includes multi-annual and very high budget business plans.

The main differences between the new law and the previous one can be summarised as: an increase in the level of subsidies; a decrease in the initial investment costs required for eligibility, the absence of discrimination between new and previously existing enterprises; and the separation of the award of incentives from mandatory conditions relating to employment creation.

The new legislation puts much more emphasis on the promotion of competitiveness and entrepreneurship and on the adoption of new technologies and innovative products, as well as on the

promotion of exports and the internationalisation of the economy. In support of these policy directions, the new law widens the types of subsidised investment eligible for support, incorporating projects from all three sectors of production (primary, industrial, tertiary), especially projects which involve investment in new high value added products and services that contribute to the overall growth of the economy.

In particular, the new law provides a stimulus for the technological modernisation of the productive base of established and new enterprises. Enterprises, which focus on new technologies, innovative products and exports, have priority in receiving subsidies under the new Development Law. The emphasis is put on the promotion of technology and innovation, aiming at the incorporation of new technologies in fixed capital formation and the promotion of R&D.

Furthermore, one of the main features of the new legislation is the elimination of discrimination between old and new enterprises, establishing equal investment opportunities for all business units.

Last but not least, some of the most important changes introduced by the new law relate to its administration. It has introduced a reduction in bureaucracy and a simplification of administrative processes. The new law establishes a new committee, which is responsible for the simplification of administrative processes and the unification of different existing legislative provisions, as well as the establishment of a new independent agency responsible for the management and monitoring of development programmes. In practical terms, the main administrative objectives of the new law are to ensure that there is prompt correspondence with respect to the application, control and payments procedures.

Administrative differences can also be found with respect to the process of submitting and approving investment proposals. Under the new provisions, applications can be submitted throughout the year (whereas, previously, they could be submitted only up until 15 September). Further, independent experts and external evaluators may now participate in the application evaluation process, in order to speed up procedures.

The maximum time required for making a decision on investment plans has been reduced. Furthermore, there is a provision for the adoption of information systems for all investment projects, in order to achieve a transparent, objective and quantitative evaluation and monitoring system. Lastly, with respect to administration, simplifications have also been introduced regarding the application process and subsidy payments.

Despite its intentions, it is uncertain whether the new law will favour regional convergence. Although the whole system of incentives has been modernised, the main effort has been placed on the competitiveness of the economy through investment in large, technologically advanced projects, which usually locate in the developed areas. For such projects, there is no regional differentiation in the incentive package. This might favour the competitiveness of the economy but, at the same time, it might lead to a higher concentration of economic activity in the most prosperous regions. As a result, the new law seems to be closer to an improvement in industrial rather than regional policy. It may succeed in stimulating investment activities and contributing to national growth, but it may be questioned whether it will contribute to the reduction of regional inequalities.

## 1.4.2 The regional allocation of public investment

### (i) The structure of the public investment budget

The Public Investment Programme (Budget) (PIP) is part of the Greek annual budget. It forms a very important element of the budget and, of course, is approved by Parliament. It is the main mechanism for providing the economy with infrastructure and it also encompasses structural funding from the European Union.

From 1988 onwards, the PIP was divided into two main parts. The first included projects co-financed by the Structural Funds and the Cohesion Fund. In the current period, 3<sup>rd</sup> Community Support Framework and all projects financed by the Cohesion Fund and Community Initiatives are implemented through the PIP. The second part relates to projects that are financed only from national resources. For the year 2003, the first part represented 65 percent and the second 35 percent of the total budget.

Control of the implementation of projects is shared among the national (ministerial), regional, prefect, and local levels. During the 1980-97 period, the decision-making process for the spatial allocation of funding was under the absolute control of the central and decentralised tiers of the State. At the central level, ministries were responsible for the realisation of the highest percentage (almost 80 percent) of the programme (a small part of which was allocated to local self-government). The remaining 20 percent was transferred to the prefectures (the decentralised arms of the State), which were responsible for the allocated amount in line with their own decision-making processes and priorities. At that time, the organisation of the State was based on three distinct tiers. First, there was the central level, based upon the ministries. Second, there were decentralised structures, based on the prefectures. Third, there was the first tier of self-government, based on municipalities and communes; this was the only elected decentralised level. While this level enjoyed a high degree of political significance, it had very limited institutional capacity and authority.

Law 1622/1986 created the 13 NUTS II regions. However, until 1997, regions were not able to participate in the allocation of public investment funding. It has only been since 1997 that there have been two tiers of administration at the central (national) and decentralised (regional) levels and two tiers of self-government (prefectural and municipal).

According to the most recent data available, public investment expenditure in 2002 amounted to €7,898 million or 5.6 percent of GDP. The national programme is the dominant one, making up about 91,1 percent of the total budget. The regional programme accounts for a further 7.6 percent, while the prefectural level receives 3.3 percent of the total public investment budget. This is confirmed by **Table 6**, which makes clear that public investment provision in Greece is highly centralised.

**Table 6: Public Investment Programme 2002**

	Nationally-funded section	EU co-financed section	Total
National	43.66%	47.42%	91.07%

Regional	1.87%	5.74%	7.61%
Prefectural	-	1.32%	1.32%
Total	45.53%	54.47%	100.00%

(ii) *The regional allocation of public investment expenditure*

Table 7 presents the regional allocation of public investment for the year 2002.

**Table 7: Regional allocation of public investment expenditure, 2002**

REGIONS	Population ('000)	Number of projects	Payments (in €mn, and as % of the total)	Public investment per head (€)
East Macedonia, Thrace	611	855	133 (1.87%)	439
Attica	3762	1960	2.581 (36.21%)	907
North Aegean	206	438	69 (0.97%)	556
West Greece	741	950	275 (3.85%)	592
West Macedonia	302	1150	133 (1.86%)	662
Epirus	354	1096	138 (1.94%)	611
Thessaly	754	896	234 (3.28%)	532
Ionian Islands	213	535	72 (1.02%)	559
Central Macedonia	1874	1707	466 (6.54%)	470
Crete	601	782	222 (3.11%)	591
South Aegean	303	505	81 (1.14%)	489
Peloponnese	639	667	127 (1.78%)	420
Continental Greece	605	761	169 (2.37%)	501
Not assigned to a specific region		1419	2.427 (34.04%)	

The lion's share of public investment goes to Attika (36.21 percent of the total). The same is true of public investment per head.<sup>2</sup> However, the table shows that there is a relatively complex picture with respect to the allocation of funds. The regions favoured most in terms of public investment per head

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<sup>2</sup> In the table, the 'not assigned to any region' amount has been distributed to the regions in line with their population shares.

are both the more advanced (Attica) and the some of the less advanced (Western Greece and Western Macedonia). This suggests that there is no clear regional strategy and that the allocation of funds is following other criteria (including political ones) (Psycharis, 2005; Lambrinidis *at al*, 2005).

### 1.4.3 Regional programmes and strategy development

Community Support Frameworks provide the framework for Greek national and regional economic development. The scale of EU financial provision nearly doubled between the 1989-93 and 1994-99 periods, rising from 9.168 MECU to 17.736 MECU. As a percentage of average annual GDP, EU assistance increased over the same period from 2.65 percent to 3.67 percent. Taking into account both national co-finance and the funding provided by the private sector, total funds mobilised by structural interventions amounted to 4.4 percent of the average annual GDP in 1989-93 rising to 7.2 percent in 1994-99 (EC 1997). EU financial provision for 3<sup>rd</sup> CSF amounts to 22.707 MECU. National co-finance is 11.206 MECU and the private sector contribution 10.379 MECU, giving a grand total of 44.292 MECU.

In the new 2007-2013 planning period, the nature of regional policy in Greece will change as some Greek regions have now exceeded the Objective 1/Convergence priority threshold of 75 percent of EU average GDP (PPS) per head. A number of these regions have experienced real growth (Southern Aegean, Crete); some others are victims of the Greek statistical system that overestimates their GDP (Continental Greece and Western Macedonia), while others have been affected by the statistical effect of enlargement.

Although it is too early to make safe predictions with respect to the future of EU regional policy, it seems certain that both the number of areas eligible as Convergence regions in Greece and the funds to be allocated to the country as a whole through the 4<sup>th</sup> CSF will be reduced. This environment is much more demanding comparing with the recent past and the regional strategy much more complex.

## 1.5 The administration of regional policy

During the 1990s, a new multi-level administrative system was established in Greece. As noted earlier, the top tier consisted of the central public administration at ministerial level, followed by a decentralised regional tier and two tiers of local self-government, one at the prefecture level and one at the municipal and communal level (see [Table 8](#)). The evolution of the Greek public administration reflects many reforms since the mid 1970s.

**Table 8: Tiers of local government and decentralised structures in Greece**

<p><b>Municipality and Commune – (Demos)</b></p> <p>1<sup>st</sup> tier of self-government (local <i>NUTS V</i> tier) 1033 <i>Demoi</i></p>	<ul style="list-style-type: none"> <li>• Fully elected</li> <li>• Underwent drastic amalgamation in 1999 in a process of municipalisation (5825 previously existing municipalities and communes (438 and 5387 respectively) were reduced into 1033 municipalities and communes (900 and 133 respectively)</li> </ul>
<p><b>Prefecture – (Nomos)</b></p> <p>2<sup>nd</sup> tier of self government (prefectural <i>NUTS III</i> tier) 51 <i>Nomoi</i> grouped into</p>	<ul style="list-style-type: none"> <li>• Led by a single government-appointed Prefect (<i>Nomarchis</i>) till 1982</li> <li>• Increased participation with co-opted members in the Prefectural Council established in 1982. Prefect remains centrally appointed</li> <li>• Fully elected tier of self-government since 1994.</li> </ul>

50 <i>self-government organizations</i> .	
<b>Region – (<i>Perifereia</i>)</b>  3 <sup>rd</sup> tier of decentralization (regional <i>NUTS II</i> tier) 13 <i>Perifereies</i> – regions	<ul style="list-style-type: none"> <li>• Non-existent till 1986</li> <li>• Legislated for in 1986, but not fully functional till 1997</li> <li>• Since 1997 fully functional with a centrally-appointed General Secretary (<i>Periferiarchis</i>) and co-opted members participating in the Regional Council</li> </ul>

During the early post-dictatorship period, after 1974, there were two sub-national elements to the administration: on the one hand, the prefecture level which was an extension of central decision-making and, on the other, ‘first-level’ local self-government. This consisted of very many, mainly small, communes and municipalities and the subsequent over-fragmentation created serious problems. Although this level of local self-government enjoyed a very high degree of local legitimisation and was therefore significant politically, it could not intervene effectively and thus influence regional growth trajectories. In this early period, the pressing political priority was to restore constitutional legitimacy; no serious attempts were made to reform the spatial model of public administration Georgantas and Psycharis (1999).

With full EU membership in 1980, along with the emergence and gradual establishment of the PASOK Socialist Party in 1981, Greek public administration underwent structural change. Over the 1982-88 period, the spatial model of public administration gradually developed, combining elements of the old decentralised prefectural system with some new forms of quasi-representational politics. Law 1235/82 retained the government-appointed prefect as a central feature of the decentralised system. However, the prefect was surrounded in the new scheme by indirectly-elected representatives of local interest groups (chambers of commerce, trade union organisations etc.), which gave the system a distinct meso-corporatist flavour. At that time, there was no form of regional public administration. Law 1622/86 created the 13 Greek regions but they did not become fully functional until 1997.

Under the combined institutional pressure of European funding programmes, after 1988, and their formal requirements for mature and effective mechanisms of regional management, the Greek spatial model of public administration came under extreme strain. The prevailing administrative model could not fulfil even the minimum operational specifications for effectively absorbing EU funding. This became all the more visible with the first Community Support Framework programme (1989-93), which completely changed the country’s fiscal profile. Despite the potential for taking advantage of EU funds, Greek governments found themselves in the difficult position of not having the required institutional capacity.

The 1994-99 period, which coincided with the implementation of Community Support Framework II, saw some significant attempts to create an institutional framework, which would satisfy at least some of the specifications required. In the first place, the prefectural level was transformed from an administrative unit of decentralisation, in origin and character, into a fully elected second level of local government (Laws 2218/94 and 2240/94). Second, after eight years of hesitation, regional decentralisation was finally enacted (via Law 2503/97), with the establishment of a unitary institutional body with substantive responsibilities in the fields of planning and development. The presence of a centrally-appointed Regional Secretary, framed by a corporatist structure of interest

group representation almost identical to that which surrounded the non-elected prefect, suggests strongly that the previous spatial model of allocating powers was being reproduced at a higher level.

A third feature of the period was the total reconstruction of the first level of local administration. Up until 1998, there were 457 municipalities and 5,318 communes in Greece. Subsequently, in a process of drastic amalgamation/municipalisation, following Act 2539/97, these were reduced into 900 municipalities and only 133 communes. This cut down the total number of local government organisations to less than one-fifth of the previous number.

More recently, there have been no further changes to the broad administrative framework in Greece. However, as discussed above, there have been a number of developments which suggest a degree of further (minor) decentralisation in the administration of regional policy. Two changes in particular are worth mentioning in this context. One is the fact that the government has moved a number of functions away from Athens. Mention was made earlier of the move of the INTERREG programme administration to Thessaloniki and more general measures to establish universities and academic departments outside their traditional centres. Another has been the active involvement of decentralised administrative units in the preparation of the CSF for 2007-2013 (though it remains to be seen whether this will be carried over into the preparation of the national development strategy for the next programming period). Finally in the context of administrative change, it is worth highlighting again the degree to which the new regional incentive legislation has attempted to reduce bureaucracy and simplify administrative procedures. Indeed, this is one of the most important features of Development Law 3299/2004.

## **1.6 Conclusions**

The new policy environment in Greece is influenced by offsetting processes and dynamics. On the one hand, the new government has declared long and loud that regional development and the reduction of regional inequalities is on its list of priorities. In the minds of many people, this is a legitimate and fair priority, given that Athens has been the focus of attention for many years due to the preparation for the Olympic Games. The Games are now over, Athens has some important new infrastructure (airport, metro, suburban train, new ring road, other new roads, athletic infrastructure, etc), and it is reasonable to shift the policy focus to other regions. In addition, a new CSF is under preparation and this is a good opportunity for the government to meet its promises.

On the other hand, there are a number of factors or conditions that may influence the regional policy environment in an adverse way. The first is the budgetary difficulties of the State. Greece is the EU country with the highest public debt, a feature which has lately fallen under the scrutiny of the European Commission. This will demand significant spending cuts in future and this may affect the ability of the government to allocate more funds to regional development policies.

The second factor is related to the experience of the first year in office of the new government. If one were to pass judgement on the basis of the new investment law, regional policy does not appear to be a top priority in practice, in that there is no regional differentiation in the incentives provided with respect to a number of key activities.

The third parameter of the new policy environment is related to the prospects of the 4<sup>th</sup> CSF for Greece. For a number of reasons (related to the burden of the recent enlargement of the EU and the

changing views within the European Council), Greece is expected to receive limited funds compared to its past experience and this will certainly affect the strength of regional policy.

Two further problems are institutional in nature. Although regional policy is officially coordinated by the Ministry of Economy and Finance, in practice there are a number of ministries which play an important role in the design and implementation of policy, such as the Ministry of Planning, Environment and Public Works and the Ministry of Development. Traditional rivalries amongst ministries have usually resulted in a lack of cooperation and coordination. The problem is an old one and, in the absence of a national plan for regional development, leads to policy conflicts and inconsistencies. In addition, notwithstanding some moves to involve the regional level more in policy administration, there is a natural tendency towards administrative centralisation in Greece. This leads to a position where the State maintains almost all of the key powers with respect to regional policy in its hands, albeit (on the basis of the evidence) with less than satisfactory results.

Overall, regional inequalities in Greece have proved to be a long lasting and difficult to deal with. In the past, policies have not proved to be very successful, while the policy environment of the new government is characterised by contradictory elements. To these factors, one may have to add the traditional impact of the political cycle, since 2006 is an election year for mayors, prefects and local councils in nearly 900 municipalities and about 50 prefectures. Past experience indicates a strong dependence of the intensity of regional policy to the political cycle. If this proves to be the case again, then it might be reasonable to expect a warming up of regional policies in the current period.

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