**Medium and small enterprises in Greece**
**Executive summary**
**Part B: Paths to Growth - The need for a SME Pact**

## A. The comparative picture

**Divergence from EU performance.** Greece lags on indexes pertaining to presence, size and efficiency of SME's.

SME growth and productive enlargement has been hampered by the crisis but also by the various structural weaknesses stemming from misguided public policies which still continue to prevent growth. Simply addressing the consequences of the crisis, although necessary, is not sufficient to reverse these structural weaknesses. Instead, strategic choices must reflect the emphasis on SME growth and scaling up as per in the EU.

**Low competitiveness of Greek SMEs**:

- **High Fragmentation & Entrepreneurship of need**: The percentage of small businesses is significantly higher in Greece than the EU (96.9% of the total compared to 93% in EU). Total small and medium enterprises are less than half when compared with the EU average (3.1% to 7%). Very small enterprises are principally single-person and / or family businesses which have stemmed from need and have limited growth ambitions.
- **Low number of workers per company**. Medium-sized businesses in Greece offer approximately 94 jobs, 9 less than the EU average. This difference rises as the size lessens and is unrelated to the crisis.
- **Low added value,** at around 1/3 of the EU average.
- **Limited productivity** and consequently, limited contribution to growth. Very small SME's productivity in Greece is estimated at just 40% of the EU average (€ 14,000 for € 35,000 per employee). Productivity of the small ones is at 65%, but medium ones are at 75% of EU average. Overall, SMEs' productivity is at 50% of the EU.
- **Limited exports and few exporting SMEs.** Only 17.460 exporting SMEs (2.5% of total). When comparing exports over sales, the larger the SME, the closer it is to EU averages (70% -78% of EU exports on sales). Very small companies are at 42% of EU average.
- **Exports which are detached from international value chains.** SMEs' participation in value chains remains limited. Of the 17,460 export SMEs, about half of them (1.24% of total) are active in wholesale and retail trade. Only 5.700 (0.8%) are in Manufacturing. The rest are in agriculture, construction, services etc.
- **Stagnation and lack of new endeavours.** Only 25% of Greek SMEs have been active for less than 3 years when, for example, in Ireland the number is 43%. Nearly 50% of SMEs in Greece are older than 10 years, whereas 60% are 6 years old.
- **Limited growth potential even before the crisis.** 87% of startups and new ventures declared no intention of hiring more than 5 employees over the next five years (GEM survey). Before the crisis, the number was still high, at 71% in 2006. Only 4.1% think they will be in a position to create more than 10 jobs. The equivalent figure in the EU is 15%.

## B. SMEs' Growth as a national objective

**Scaling up, or SME growth, is defined by the OECD as** at least 20% average annual rate of growth of employment or income for a three year period and at least 10 employees.

The competitive disadvantages stemming from small relative size was presented in the first part of the SEV-EY study.

The second part of the study links dynamic SMEs with the strategic decision to scale them up. EY's research has shown that the prioritization of SME growth is crucial for achieving higher survival and growth rates. Reducing stagnant SMEs by 5% could increase GDP by 1% from productivity alone.

Greek SMEs need a set of specially designed policies prioritising their productive growth in a new SME Pact.

**Policies should aim to transition towards business growth as reflected in most EU countries in order to ensure SMEs' survival and the growth of the national economy.**

For SEV, the goal should be a conservative increase of small and medium enterprises. **8.000 more of them would cover half the gap % (from 3% as it stands today to 5% and towards the EU's 7%) with the EU**.

**Expected benefits** would include an estimated 100.000 new jobs (6% rise) in addition to €7.7 billion IN GDP (+4%).

Crucially, a Pact for SME Growth requires a broad consensus, consistent application and evaluation, and policy-cycles which exceed the normal political cycle.

**C. Paths to Growth**

1. **Exports and participation in international vale chains.** Relying on domestic demand curtails SME growth, inhibits economies of scale and reduces productivity. Participating in B2B networks increased internationalization and prospects. The **aim is 10% increase in exporting SMEs (+1750)** particularly in value chains. This could increase exports by €6 billion.
2. **Personal and Businesses' skills to improve adaptability to Industry 4.0.** Bridging the knowledge gap, governance skills and business transfer procedures strengthen SMEs' resilience. **Improving SMEs' productivity by** 10% could create up to €4.3 billion (2.3% GDP)
3. **Innovation – Technology – Knowledge:** SMEs need incentives in order to transform knowledge into innovative products and services, while accelerating technology transfer to SMEs vastly improves their outlook. **More knowledge and technology:** A conservative increase of the SMEs' mix with around 14.000 more SMEs of high and medium technological intensity (i.e. an increase of 2%, namely half the distance from EU average) would translate into an additional €11 billion in value added and 6% GDP.
4. **Access to Finance:** Beyond banking, SMEs can secure finance from various sources of available capital including, participating in EU programs, investment capital, Stock market products, etc. **We must aim to ensure the effective utilization of EU and government funds.** Criteria should include growth prospects and not emphasize on spending. A system of revolving funding could help secure viability of both SMEs and public finances.
5. **Mergers, Acquisitions, collaborations** because achieving critical mass is key for improving competitiveness. In 2016, only 33 M&A deals were effectuated (28 in 2015 and 22 in 2014). In these three years, total value of M&As was $1.27billion. SMEs were involved in only 27% of these deals. In order to accelerate growth, a set of incentives is needed. It could include increased depreciations for merged companies, Special financing agreements, guarantees for small enterprises wishing to enter value chains, erc.
6. **A conducive regulatory environment.** The regulatory burden for SMEs in Greece can be up to six times that of other EU countries. **The aims is to reduce the administrative burden and compliance costs by 50%.** Policies to achieve that could include investment promotion, addressing market failures, ensuring fair competition, modern employment legislation, simplified procedures and stable, simple taxation.

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