ΙΝΣΤΙΤΟΥΤΟ ΤΟΥΡΙΣΤΙΚΩΝ ΕΡΕΥΝΩΝ ΚΑΙ ΠΡΟΒΛΕΨΕΩΝ
RESEARCH INSTITUTE FOR TOURISM

RESEARCH INSTITUTE
FOR TOURISM
Stadiou str. 24, 105 64 Athens
Tel. 331 2253, 331 0022
Fax 33 120 33

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PRESS RELEASE

Evaluation of the Efficiency of Investment Incentives: The Greek Experience

Investments are one of the most significant factors of economic development. Incentives are necessary in order to attract investors. In Greece, their establishment began in 1950. In European countries the emphasis was given on tax breaks, private participation in the aid process and stability over time in the legal framework for aid. On the contrary, in our country the emphasis was given (mainly during the last twenty years) on grants and state intervention, while changes in the legislative framework were frequent. In addition, this legislative framework clearly shows a lack of control criteria regarding the quality and viability of the supported companies.

Therefore, the efficiency of the investment incentives established over time is an issue that has to be analyzed. This was attempted by estimating the impact of grants on investments of the tourism sector during the 1990s. Grants were taken as a criterion, as they are provided by company and therefore there is sufficient statistical information.

The necessary data were obtained from the Tables of Subsidized Tourism Enterprises of the Ministry of National Economy, as well as from the ICAP study "Hotel Enterprises (Lux, A΄ and B΄)", Sector Studies, 1999. The method of analysis was Statistics Case Control.

In the first phase, various indicators of economic and investment activity were estimated, both of the units that were subsidized and those that did not receive the relevant aid. The following results were recorded:

- Liquidity: For the subsidized enterprises there was over-coverage of the short-term liabilities, while for the non-subsidized the coverage reached 88%.
- Production Activity: In the subsidized enterprises the net sales were six times the average receivables, while the corresponding ratio in the non-subsidized enterprises was more than eight times.
- Profitability: In subsidized enterprises, gross profit for the year accounted for 16.81% of net sales, compared to 22.86% of non-subsidized units. However, net operating profit, together with financial expenses, accounted for 4.5% of total capital employed in both categories of units.
- Capital Structure: Foreign capital accounted for 148% of equity in subsidized enterprises, compared to 194% in non-subsidized.
- Viability: Net profit before financial expenses was a multiple of financial expenses in both categories.
- Investment Activity: Cash flow was 73.8% of net sales to subsidized enterprises and 60.99% to non-subsidized enterprises. Regarding net assets, it was estimated that the subsidized units took 5.8 years to be covered by cash flow, compared to 6.9 years for the non-subsidized ones.

In the second phase, it was analyzed whether the observed differences in the numerical values of the above indicators are systematic or not, due to the random sampling. The analysis showed that in all cases the observed differences in the numerical values of the indicators were random and not systematic.

The above indicate that both the investment and the financial performance of the subsidized tourism enterprises did not differ statistically from those of the non-subsidized ones. Therefore, it was concluded that the grants of development laws 1262/82, 1892/90, 2234/94 and 2601/98 to tourism and hotel enterprises, did not seem to have the expected beneficial effect on investment industry activity. This does not mean, of course, that such aid is not necessary. On the contrary, they contributed to the existing investments.

The observed phenomenon was due to two main causes: the side effects of grants as a financial incentive and the validity of existing disincentives.

The question regarding side effects of the grants is whether, in the end, they keep unhealthy enterprises running, which are crowding out the healthy ones from the market. They thus limit the share of healthy enterprises in the market, discouraging them from taking investment initiatives.

Concerning existing disincentives, they are a strong deterrent to investment, as they reduce the viability of operating units. Such disincentives are:

- The continuous changes of the legal development framework (See law 1262/82, law 1892/90, law 2234/94, law 2601/98 etc.).
- The observed deficiencies of the current framework. For example, the current development law 2601/98 is moving in the right direction, as it tries to upgrade the quality of the tourism product, while strengthening those units that are considered viable. To achieve these goals, it adopts measures, which, mainly, favor large tourist units for reasons of achieving economies of scale. However, it has significant weaknesses, such as the fact that the established criteria do not make a clear distinction in favor of the type of accommodation being promoted. Also, the characteristics of a unit are not precisely identified in order to be classified in a specific category. In addition, there is no limit to the tourist saturation of an area, nor are there effective criteria for controlling the tourism knowledge of those who decide to work in the sector. Moreover, effective criteria for the viability of tourism units are not established, and, finally, the modernization of many units is not promoted effectively, as the conditions can often not be met (e.g. small and medium-sized units do not have the financial capacity to meet the equity participation or the cost of the study or the liquidity index limit, while the 25% subsidy is considered insufficient. In this case, it is noted that the support of small and medium-sized enterprises does not go against the goal of promoting large units, because in many cases they cover special categories of tourists that are not covered by large ones).
- The significant deficiencies of the country's infrastructure (insufficient telecommunications and transport, bureaucracy, high cost of capital, etc.).

It was concluded from the above that in order to enable the beneficial impact of grants (and other investment incentives) on investments in the tourism sector, it is necessary to take measures to support the action of healthy businesses and weaken existing disincentives. These include:

- the categorization of the range of tourism accommodation,
- the establishment of a degree of tourist saturation of the regions of the country,
- the proper definition of the concept of viability of a tourism business,
- the increase of the amount of financial support for small and medium-sized units,
- the increase of advertising expenditure for tourism and launch of the relevant campaign,
- the simplification and acceleration of financial aid procedures (application, approval and disbursement),
- the abolition of the Liquidity Index as a criterion for evaluating modernization investment plans,
- the establishment of the participation of representatives of the Local Hotel Associations in the Advisory Committees of the Regions for the approval of the support funding,
- the establishment of the institutional framework for development incentives,
- the improvement of the country's infrastructure etc.

As long as the above are implemented to a satisfactory degree, the activation of investment incentives for the benefit of the tourism sector, but also of our national economy, can be expected. The same applies to the other productive sectors, as long as the necessary interventions are adjusted to every case.