



ENTREPRENEURSHIP IN GREECE:

AN INTRAREGIONAL SECTORAL ANALYSIS

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Biographical Notes

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Abstract

Within the scope of the current adverse for entrepreneurship in the development context of the Greek economy, due to the significant influence of the economic crisis upon enterprises, we conducted this research in order to examine both from a theoretical and an empirical view point whether the initial eligible investments under the framework of National Strategic Reference Framework 2007-2013 (NSRF) programs are completed and to what extent and if the relevant investors had access to loan providing funds. Furthermore, we elaborate an intraregional (Regional Unity of Serres) comparative sectoral analysis of the implementation of the said program. The used methodology based on formalized questionnaires, addressed to eligible enterprises in the framework of NSRF Programs. Our main findings indicate that many of the eligible investments were not completed due to lack of sufficient funding.

Keywords: NSRF, Depression, Entrepreneurship, Funding, Greece

JEL Classification: R58

1. Introduction

It is common knowledge that Small and Medium Enterprises (SMEs) contribute to local development. Considering the fact that SMEs are the backbone of Greek economy, Greek State - under the cofinancing of European Union - made some serious efforts to support local enterprises in order to minimize the consequences of crisis. Thus, on November 2013 the National Strategic Reference Framework (NSRF) programs started to subsidize SMEs. At Regional Unity of Serres – the examining area in our work - only 123 enterprises were eligible for this program.

While international scientific community had – and still has – a constant involvement with Greek economy, we studied recent articles and literature. Thus we refrain from a comprehensive review and concentrate on selected work. An overview of the Greek bad macroeconomic environment had been presented 4 years ago by Samir Amin (2011) who highlighted, as follows, that the bad macroeconomic environment “recession in Greece returned to depression”. Recently, according to P. Krugman (2015) “Greece (is) on the brink”. In addition, J. Stiglitz (2015) had referred, specifically, to the underfunding of SME’s. “When the banking system in Greece is so destroyed, it cannot do much for small and medium-sized enterprises, and Greece is a country of small and medium-sized enterprises. We must find a way to restart their financing”. In the empirical part, there are presented the results of a formalized questionnaire-based research which took place in December 2014. Our data based, only, to the eligible (114 up to 123) local enterprises that already have received subsidies from NSRF. This work is complementary to our previous survey

which has conducted at the beginning of 2014. In that work we examined the way intraregional disparities hold back recovery in Greece, whereas in the current research our main goal is to gauge the degree to which intraregional sectoral differentiations have influenced or affected the implementation and the funding of the eligible investments.

This article is structured as follows. In the first theoretical part, we examine investments in such an unstable macroeconomic environment as it was two and a half years ago – and remains the same still in our country, Greece. Then we present the subprogram of NSRF programs “Support of SMEs which are activate in Manufacturing - Tourism - Commerce & Services” together with the ways of financing an investment. Our data were extracted by the extensive use of web links on the internet. Most data were taken from the websites of the above mentioned NSRF, governmental websites etc. Afterwards, we will refer to entrepreneurship at R.U. of Serres using data provided to us by the Hellenic Statistical Authority, Serres Chamber of Commerce and Industry and Developmental Company of Serres. At the end of the theoretical part, we pose the research questions of our study. In the second empirical part, there are presented the results of a formalized questionnaire, addressed to the aforementioned eligible enterprises, based on the research questions, from 114 up to total 123 (93%) local eligible enterprises (9 entrepreneurs refused to participate in this research), that received subsidizes from NSRF. The empirical research results are in accordance to the relevant literature.

This research started on February 2014. The main purpose of our work was to examine whether the investments were completed and to what extent. Simultaneously, we examine if entrepreneurs had access to loan providing funds. According to our main findings, as many investments would not be implemented – although there were just 123 eligible enterprises, and it is revealed that, especially in crisis periods, programs such as NSRF could not achieve their real purpose (i.e. the supporting of local entrepreneurship and reinforcing of endogenous regional growth) without ensuring adequate and sufficient, but also effective and efficient funding. Thus, as the lack of funding is the main obstacle to the realization of investments, we focused on financing. Furthermore, we found statistical measurable differences on entrepreneurs’ behavior per sector, or per enterprises’ age, or per enterprises’ size. Consequently, it is obvious that the results of our empirical analysis are strongly related to the relevant literature. Considerably general conclusions, policy proposals and questions /challenges for further research are presented at the end of our study.

2.1 Theoretical grounds: Crisis and local Entrepreneurship

Investments during the recession

As the spectre of Greece's bankruptcy is haunting Europe, Europe is gripped with fear. "Fear - specifically, fear that nations that don't turn their backs on stimulus and move to austerity, even in the face of high unemployment, will find themselves confronting debt crises similar to that of Greece" (Krugman, 2012, pp. 59).

Scientists such as Nobel laureate P. Krugman (above mentioned) and J. Stiglitz have referred to Greece in their recent articles and literature. Krugman considers that "Greece (is) on the brink" (2015) and Stiglitz sees Greece as the "the Sacrificial Lamb" (2015). A few years ago, Samir Amin (2011) wrote that "Recession in Greece returned to depression". Scientists - as the above mentioned - study Greek macroeconomics in order to compare fiscal policies in the EU and USA. Krugman underlines that "For the past few years the comparison between economic developments in Europe and in the United States has seemed like a race between the halt and the lame — or, if you like, a competition over who can bungle the crisis response more. At the time of writing, Europe seemed to be nosing ahead in the race to disaster, but give it time." (Krugman, 2012, pp. 87) and he adds: "The last thing Europe needs is for fraying tempers to bring on yet another catastrophe, this one completely gratuitous" (2015). Krugman calls "lame" USA politics as he considers Obama's measures as "adequate response" (Krugman, 2012, pp. 59). He writes: "That left, as the obvious answer, fiscal stimulus—temporary increases in government spending and/or tax cuts, designed to support overall spending and create jobs. And the Obama administration did in fact design and enact a stimulus bill, the American Recovery and Reinvestment Act. Unfortunately, the bill, clocking in at \$787 billion, was far too small for the job. It surely mitigated the recession, but it fell far short of what would have been needed to restore full employment, or even to create a sense of progress. Worse yet, the failure of the stimulus to deliver clear success had the effect, in the minds of voters, of discrediting the whole concept of using government spending to create jobs. So the Obama administration didn't get a chance for a do-over". (Krugman, 2012, pp. 63). Stiglitz adds that: "I think there is a broad consensus but not universal among economists that the stimulus package that was passed was badly designed and not enough. I know it is not universal but let me try to explain. First of all that it was not enough should be pretty apparent from what I just said: It is trying to offset the deficiency in aggregate demand and it is just too small." (Stiglitz cited in Krugman, 2012, pp. 63). For EU politics which is characterized as "halt", Krugman refers: "Spain is on its own, as are Greece, Portugal, and Ireland. So in Europe the depressed economy has caused fiscal crises, in which private investors are no longer willing to lend to a number of countries. And

the response to these fiscal crises—frantic, savage attempts to slash spending—has pushed unemployment all around Europe’s periphery to Great Depression levels, and seems at the time of writing to be pushing Europe back into outright recession”. (Krugman, 2012, pp. 13).

In such an adverse environment, it is very difficult for a businessman to invest. As we will see in the empirical part, the lack of funds is the main reason for the missing investments. J. Stiglitz (2015) writes about: “...Greece is a country of small and medium-sized enterprises. We must find a way to restart their financing”. On the other hand, the USA did not face such great problems as theirs SMEs had better access to funds. “Then the Fed stepped into the market for commercial paper, which businesses use for short-term funding, helping to keep the wheels of commerce turning at a time when banks probably wouldn’t have provided the necessary finance. So the Fed was doing things that arguably prevented a much worse financial crisis” (Krugman, 2012, p. 81). From all the above, we can consider that local entrepreneurship has been hardly affected by the current financial crisis.

Subprogram of National Strategic Reference Framework (NSRF)

The Ministry of Development, Competiveness, Infrastructure, Transport & Networks, under the framework of the Regional Operational Programs of the NSRF 2007-2013, taking into account the specific needs of the thirteen Greek Regions, announced three years ago (spring 2013) the program: "Support of SMEs which are activate in Manufacturing - Tourism - Commerce & Services". The NSRF constitutes the reference document for the programming of European Union Funds at national level for the above-mentioned period. It was elaborated within the framework of the new strategic approach to the Cohesion Policy of the European Union, according to which NSRF “...ensures that the assistance from the Funds is consistent with the Community strategic guidelines on cohesion and identifies the link between Community priorities, on the one hand, and the national reform program, on the other”. In the Table 1 we present the total distribution of the budget and the distribution for the Region of Central Macedonia for new and existing enterprises.

Table 1. NSRF Distribution of the budget by Region for new and existing enterprises

GREEK REGIONS	Total Budget per Region (in Euros) New enterprises	Total Budget per Region (in Euros) Existing enterprises	Total Budget per Region (in Euros)
CENTRAL MACEDONIA	27.000.000,00	63.000.000,00	90.000.000,00
TOTAL	111.000.000,00	345.000.000,00	456.000.000,00

Source: National Strategic Reference Framework (www.espa.gr)

The total budget was 456.000.000€. Many of the eligible investments under the umbrella of the program were not implemented. At the second part, we conclude that the lack of funds is the main reason for the uncompleted investments. NSRF program provided to enterprises subsidies of 50% or 60% of the total budget according to the region richness or respectively where an enterprise is located. That is to say an entrepreneur has to find respectively an amount of 50% or 40% of the total budget. The common ways of funding were: a) own financing (cash or deposit), b) bank loans c) Hellenic Fund for Entrepreneurship and Development (ETEAN SA in Greek language).

In nowadays Greece, it is rather difficult for a potential investor to maintain deposits of thousands (even hundreds of thousands) Euros. So, the great majority of businessmen addressed to a credit institution in order to receive a loan. Loans to SMEs are considered to be unsafe ones. “Unsafe loans, say, to small businesses or corporations with somewhat risky prospects, carry higher interest rates—but they’re, well, not safe” (Krugman, 2012, pp. 81). Thus, there is only the third option: ETAN SA.

ETEAN SA was established by Law 3912/2011 and is a valuable element in the integration of Micro, Small and Medium size enterprises (MSMEs) financing cycle, through the collateralization of the fraction of business risk not accepted by the banking system, thus amplifying the scope of viable entrepreneurial initiatives undertaken by MSMEs.

As many investments could not be completed, the efficiency of ETEAN SA to provide the necessary funds to enterprises is taken under serious consideration.

Taking under consideration the fact that banks do not provide financial support to investments by enterprises without enterprises’ own capital contribution, it is worth mentioning the importance of a business's own funding to a potential investment. “Obviously, being highly leveraged—having a lot of debt relative to your income or assets—makes you vulnerable when things go wrong. A family that bought its house with no money down and an interest-only mortgage is going to find itself underwater and in trouble if the housing market turns down, even a bit; a family that put 20 percent down and has been paying off principal ever since is a lot more likely to weather a downturn. A company obliged to devote most of its cash flow to paying off debt incurred from a leveraged buyout may go under quickly if sales falter, while a debt-free business may be able to ride out the storm.” (Krugman, 2012, pp. 26).

Entrepreneurship at R.U. of Serres

Regional Unity of Serres which is located in north Greece and has borders with Bulgaria and FYROM.

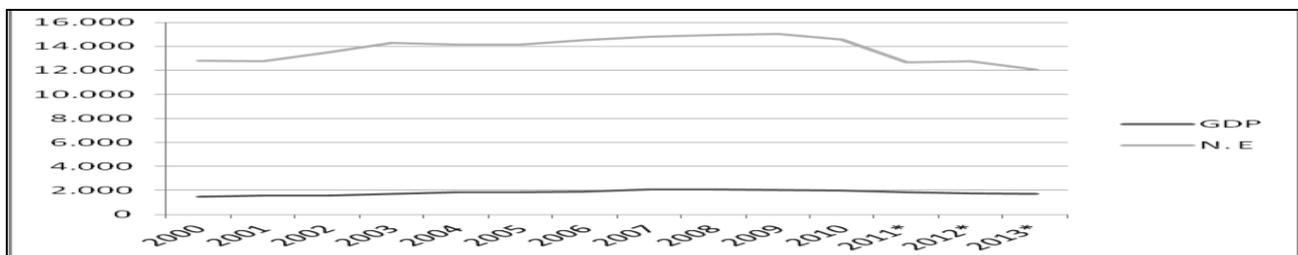
At the beginning of our research, we addressed to Serres Chamber and to AN.E.SER. (AN.E.SER. has the form of the Development Limited Company, with shareholders Authorities (A and B degree) of Regional Unity of Serres and local institutions). The president of Serres Chamber of Commerce and Industry, Mr C. Meglas, told: “There is a great necessity of the economic encouragement (back up-support) to the local small medium enterprises that are severely suffocated from liquidity problems”. The Executives of Developmental Company of Serres (AN.E.SER. in Greek language) Mr J. Kalogeroudis & Mr N. Anixiadis noticed that: “Many local investments were not completed due to lack of loan providing funds”.

On the table 2, we present the Gross Domestic Product (in million Euros) and the Number of Enterprises in Regional Unity of Serres. Both GDP and Number of Enterprises have decreased since 2008, thus crisis affected local entrepreneurship.

Table 2. Gross Domestic Product and Number of Enterprises on Regional Unity of Serres

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012*	2013*
GDP (mil.€)	1.487	1.563	1.568	1.712	1.841	1.839	1.888	2.084	2.071	2.030	2.004	1.859	1.756	1.700
N. E.	12.784	12.738	13.516	14.268	14.146	14.133	14.499	14.799	14.956	15.021	14.585	12.666	12.773	12.078

Source: Hellenic Statistical Authority (<http://www.statistics.gr/>) a) Gross Domestic Product years 2000-2013 β) Number of Enterprises years 2000-2010



Source: Serres Chamber of Commerce and Industry (<http://www.serreschamber.gr>) Enterprises members of the Chamber years 2011-2013

As the number of enterprises is continuing to reduce after 5 years, we conclude that crisis becomes deeper.

The small increase of the number of enterprises during 2012 led us to further research. According to data extracted from Serres Chamber, at the examining year 2012, 532 enterprises were closed, while 633 were characterized as Start Ups. The latter ones were activate mainly in two fields: a) entertainment (restaurants, coffee shops) as the city center became a pedestrian area, b) alternative energy sources, as a high increase in oil prices took place. In the table 3, it is presented the number of enterprises –members of Serres Chamber per sector during the last 6 years.

Table 3:Number of enterprises–Members of Serres Chamber on Regional Unity of Serres per sector

Sectors	JANUARY 2010	JANUARY 2012	JANUARY 2014	JANUARY 2016
COMMERCIAL	4.180	4.423	4.146	3.733
SECONDARY INDUSTRY	4.026	1.641	1.531	1.374
SERVICES	5.897	5.828	5.663	5.126
TOTAL	14.103	11.892	11.340	10.233

Source: Serres Chamber of Commerce and Industry (<http://www.serreschamber.gr>)

Although R.U. of Serres is a typical rural area, we can observe that the number of secondary industries has sharply diminished.

It is worth referring to the fact that “in periods of recession, the crisis policy responses focus on more resources in core regions” (Myrdal (1969) cited in Konsolas (1997) & Balomenou (2003)). More specifically, during these periods, it is preferable to enforce, via “backwash effects”, the metropolitan centers (like Athens and Thessaloniki), which, in any case, had the appropriate socioeconomic background, in order to support - in periods of economic growth - the peripheral, developing and under developing regions, via “spread effects”. Thus, during periods of crisis, R.U. of Serres will continue to be an underdevelopment area.

Research Questions

Taking under consideration that Greek banks do not always provide the necessary loans to enterprises, our main target in this research was to examine whether the initial eligible investments under the framework of National Strategic Reference Framework 2007-2013 (NSRF) programs are completed and to what extent. We also investigate whether the relevant investors had access to loan providing funds or not and in case that they have - to what extend this access took place. Finally, our research focused on examining the consequences of the crisis on local entrepreneurship.

2.2 Empirical part: Research on local enterprises-Sectoral Analysis

Data

This research started in February 2014. We conducted a question-based research concentrated on formalized questionnaire. We did not use the random sampling method, on the contrary, our survey focused on all (123) eligible enterprises under the umbrella of at NSRF program. More specifically, to those whose headquarters were situated at Regional Unity of Serres (specific invitation "Support of SMEs which are activate in Manufacturing - Tourism - Commerce & Services under the NSRF

2007 - 2013"). All the eligible enterprises (100%) participated at the first part. The results have been published at Elsevier – Procedia Economics. From the 123 entrepreneurs, in this second part participated 114 (92.7%). This part of our research took place from 3-12-2014 up to 10-12-2014. Micro, Small and Medium enterprises responded to our questionnaire. Actually, we conducted a sectorial analysis (secondary industry, commerce and services, tourism), a distinction between Start ups and Existing (Old) firms, between the size of investments, a distinction per form of business and finally a distinction per enterprises' headquarter.

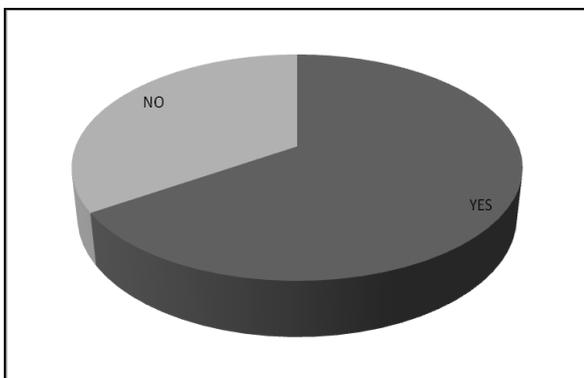
Methodology implementation - Descriptive statistics and correlations

Firstly, we present the results of our question-based research and we analyze them using the variables 1 for positive answer and 2 for negative answer. Then, we calculate the average, the standard deviation, the coefficient of variation and the coefficient of correlation.

Results

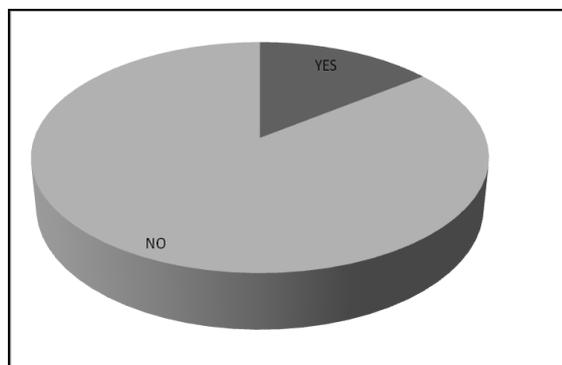
We examined firstly the total implementation of the investments. The results are presented in the Figures 1 & 2.

Figure 1. Implementation of the investments



Source: authors' proposal

Figure 2. Loans for the implementation of the Investments



Source: authors' proposal

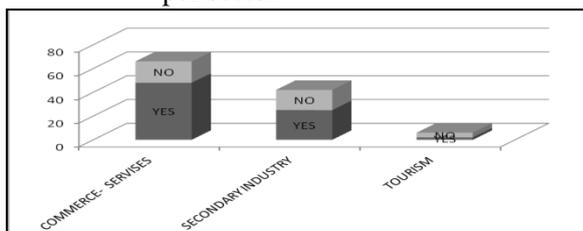
From the 114 entrepreneurs who participated, the vast majority has used the NSRF program and they have completed their investment. While we were interviewing the participants, we realized that the lack of funds is the main reason of the missing investments. On the Diagram 2 it is presented the number of Loans which was given to eligible enterprises.

According to our research, only 75 (out of 114) local entrepreneurs have implemented their investments and the great majority has not received any kind of loan. As only 11 received loans

from a bank, we conclude that most local businessmen either have no access to funds or they have not applied for loans.

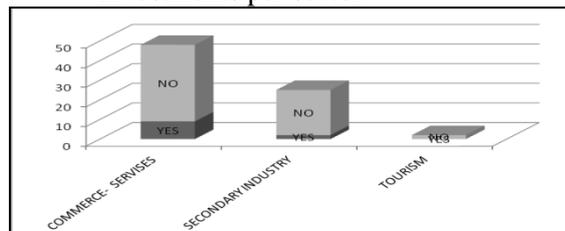
On Figures 3 & 4 we present the Implementation of the investments per sector & the received Loans for the implementation of the investments per sector. It is obvious that the majority of tertiary sector enterprises realized the investments, while entrepreneurs focusing on industries, such as food industries - have not. Thus, agricultural products are transferred from the countryside without any added value. As there are only 6 touristic investments, the results are not statistical important. The fact that only two entrepreneurs have invested in tourism, proves that tourism does not exist at Serres. According to our sectoral analysis on access to funds, tertiary sector enterprises have better access to funds than secondary sector ones. None of the two touristic enterprises has received any kind of loan.

Figure 3. Implementation of the investments per sector



Source: authors' proposal

Figure 4. Loans for the implementation of the investments per sector

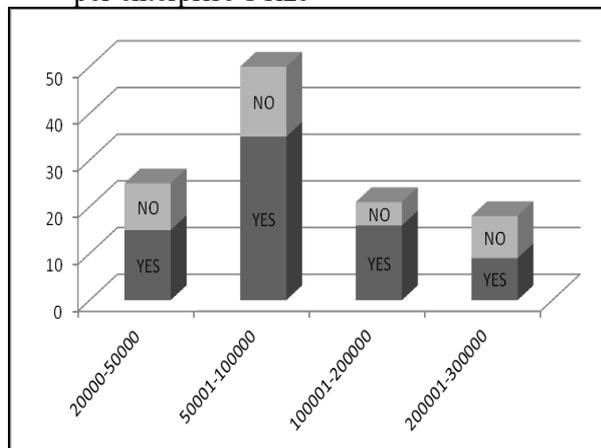


Source: authors' proposal

Given that enterprises' size is analogue to investment' s size, (at the new NSRF program enterprises' size – expressed by the turnover - is the major precondition for any business plan of existing enterprises), we examining the size of investments. In Figure 5 we present the implementation of the investments per size. We noticed that the smaller and the greater investments are not very likely to be implemented. Investments from 100.000€ up to 200.000€ have more possibilities to be completed. It is worth mentioning that from our previous research (Balomenou/Maliari, 2015), it is revealed that great investments have been realized at the secondary industry sector. There is a correlation between the size, the sector and the implementation of the investments which indicates that great investments on secondary industries are more difficult to be completed. In addition, in Figure 6 we present loans for the implementation of the investments per size. According to Nobel nominated Pissaridis (cited in Piperopoulos, 2007) “in every type of economy, smaller enterprises are punished by facing higher interest rates than bigger enterprises”. In our research, enterprises which invest 50.000€ up to 100.000€ have applied for loans more that other ones. It is important to comment that none of the enterprises which invested from 100.000€ up

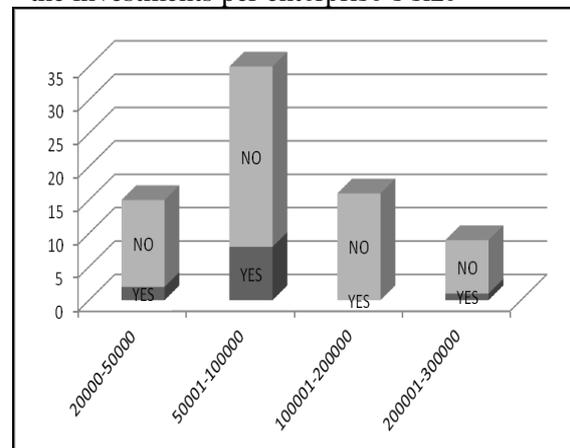
to 200.000€ have received any kind of loan, and this category – as we saw earlier - has the biggest percentage of investments completion. These businessmen completed their investments with their own capital. In Greece we say “based on their own feet”.

Figure 5. Implementation of the investments per enterprise’s size



Source: authors’ proposal

Figure 6. Loans for the implementation of the investments per enterprise’s size

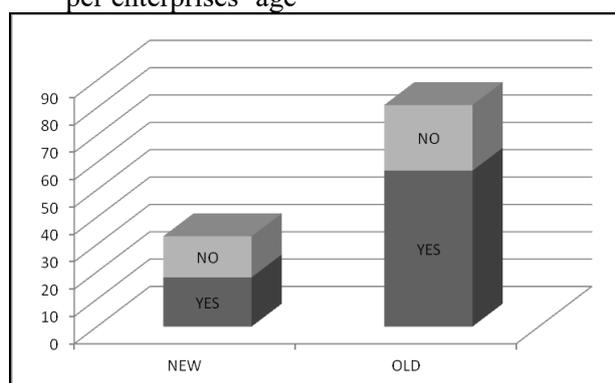


Source: authors’ proposal

As the total budget of NSRF program distributed between new and old (existing) enterprises and points awarded was quite different in order to support new enterprises, a third of the eligible enterprises were new ones. On Diagram 5 we present the implementation of the investments per enterprises’ age. Despite the fact that both Greek state and the EU made some efforts to support start ups, only the half of the eligible new enterprises carried out the investments, whereas the majority of the existing eligible firms completed their investments.

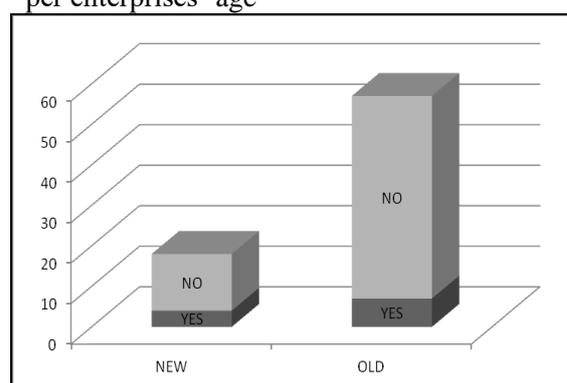
On Figure 7 we present loans for the implementation of the investments per enterprises’ age. Nobel nominated scientist Porter dealt with the problems that new enterprises face when they applied for loans. He refers that: “As a result of newness, the high level of uncertainty, customer confusion, and erratic quality, the emerging industry’s image and credibility with the financial community may be poor”. (Porter, 1998, pp. 223). Actually, from our research it is obvious that the new firms had not faced serious problems for obtaining funds by credit institutions. Considering, that only the half of the eligible new enterprises completed their investments, and examining the very strict preconditions for a start up to be eligible for NSRF program, we conclude that only a few new enterprises finally completed their investment. These creditworthiness enterprises manage to find the necessary funds. The results are presented at Figure 8.

Figure 7. Implementation of the investments per enterprises' age



Source: authors' proposal

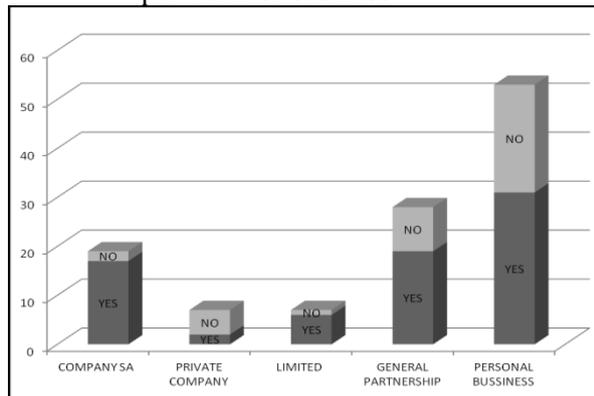
Figure 8. Loans for the implementation per enterprises' age



Source: authors' proposal

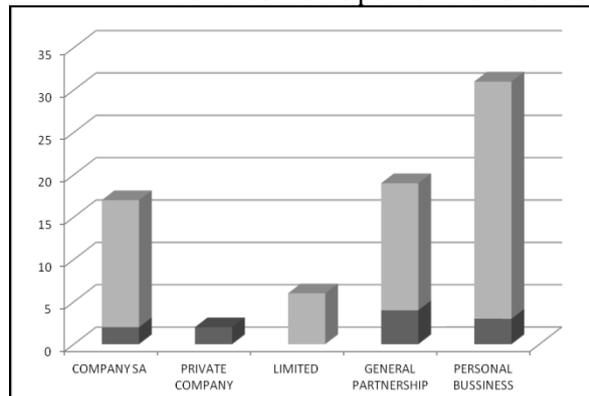
In the Figure 9, we present the implementation of the investments per form of business. We will refer to Private (Equity) Companies, as in their case the percentage of investments' implementation is only 28%, whereas the average percentage of investments' implementation is 65%. This new corporate form, Private (Equity) Company was established by the Law 4072/2012 (Government Gazette A 86) (Part Two - Articles 43-120). Greek state, in order to reinforce entrepreneurship, voted the above-mentioned Law. A PC has the form of a capital company with a legal personality and it has a commercial nature even if it is not established for commercial purposes. Only the company is liable for its obligations with its assets, with the exception of the liability primarily assumed by the partner who participates with a guarantee contribution. Its main feature is that at least one partner must participate by acquiring at least one share equal to a capital contribution (at least €1). However, there is the possibility for partners to participate and acquire shares by using different kinds of contributions such as non-capital and guarantee contributions whose value cannot exceed 75% of the amount of the liability assumed by the partner towards the company's creditors. According to World Bank (republished in Serres Chamber Magazine 10/31/2014, cited in Balomenou/Maliari, 2015): "The great importance - if the new Law has been recognized by World Bank. In its report for supporting business development, Greece is making progress and from the 65th position moves to 61st position". However, the majority of Private (Equity) Companies did not implement their investments, while Companies S.A. completed their investments. Additionally, in Figure, 10 we present loans for the implementation of the investments per form of business. As it is obvious, all Private Companies received loans in order to complete their investments, while none of the Limited Companies received any kind of loan.

Figure 9. Implementation of the investments per form of business



Source: authors' proposal

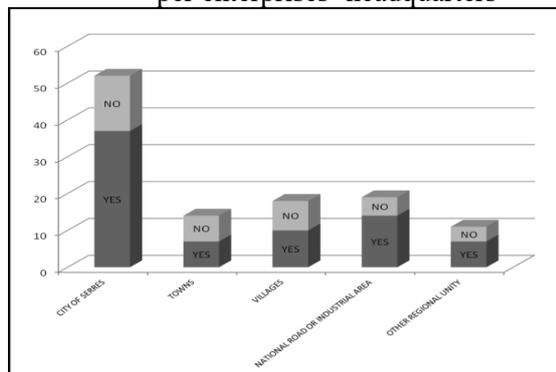
Figure 10. Loans for the implementation of the investments per form of business



Source: authors' proposal

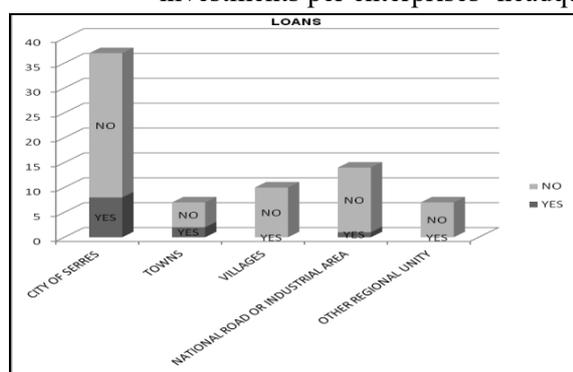
In the Figure 11, we present the implementation of the investments per enterprises' headquarters. More investments were implemented in urban areas such as City of Serres, national road and Industrial area, while investments in semi urban areas were not implemented. In Figure 12 we present loans for the implementation of the investments per enterprises' headquarters. Although there are only 11 enterprises that applied for loans, it is noticed that enterprises cited in urban areas are more likely to apply for loans, whereas those in rural areas did not applied for loans. The findings are in accordance to the ones of our previous research (Balomemou/ Maliari/ Lagos, 2012) when we wrote that: "it is obvious the fact that enterprises founded in towns with the presence of a bank branch have better access to non-interest or low interest funds. The presence of bank branches in towns at the past contributed to local development".

Figure 11. Implementation of the investments per enterprises' headquarters



Source: authors proposal

Figure 12. Loans for the implementation of the investments per enterprises' headquarters

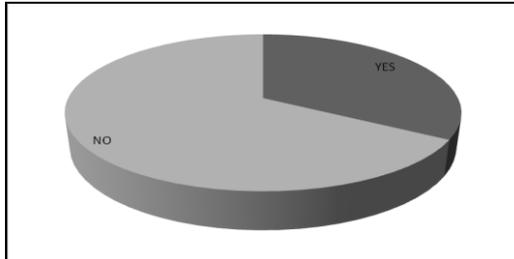


Source: authors' proposal

Finally, in Figure 13 we present loans for the implementation of the investments at the Border Zone, and in Figure 14 the loans for the implementation of the investments at the Border Zone. Border zone is now characterized by the absence of new investments. According to Nijkamp

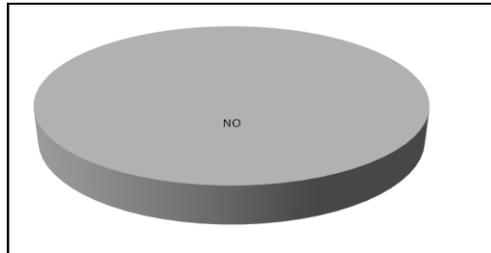
(cited by Consolas, 1997): “Opposite to the past, now border zones are not considered to be break even points”. Taking under consideration that only a few enterprises have implemented their investments and none of them received any loan, we conclude that this area is continuing to be a break even point.

Figure 13. Implementation of the investments at the Border Zone



Source: authors’ proposal

Figure 14. Loans for the implementation of the investments at the Border Zone



Source: authors’ proposal

Conclusion and proposals

This research was conducted in order to give answers to the posed research questions. The main findings are in accordance to our targets and to the used relevant literature.

Firstly, Greek banks nowadays do not support firms sufficiently. Thus, many of the eligible investments (under the umbrella of the examining program) have not been completed. Hellenic Fund for Entrepreneurship and Development (ETEAN S.A.), which is the relevant institution, did not provide the necessary funds to all the entrepreneurs. During the last 6 years, almost 30% of local enterprises have been closed. It is obvious that the crisis badly affected local entrepreneurship.

It is considered as a result of the current paper that the findings could be useful for the support of the development both of the relevant legislation and the academic community for further in depth analysis during the procedure of the ongoing research.

As one of our targets is to propose improvements on Developmental Laws - programs and NSRF announcements, we suggest that the above mentioned Laws – announcements should provide extra financial tools (such as escrow accounts on new NSRF announcement), that eligible investments should be in accordance to the enterprise’s turnover (something that wasn’t subject of the examining NSRF program and exists on the new announcement) and finally potential investors should keep in mind that own capital contribution is an indispensable element for the implementation of the proposed investment project.

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