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Aims of the Journal: Journal of Regional Socio-Economic Issues (JRSEI) is an international multidisciplinary refereed journal the purpose of which is to present papers manuscripts linked to all aspects of regional socio-economic and business and related issues. The journal welcomes all points of view and perspectives and encourages original research or applied study in any of the areas of regional socio-economic and business. The views expressed in this journal are the personal views of the authors and do not necessarily reflect the views of JRSEI journal. The journal invites contributions from both academic and industry scholars. Electronic submissions are highly encouraged (mail to: **gkorres@geo.aegean.gr**).

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Strategic Internationalization of Mexican Emerging Multinationals

Abstract:
The opening of the Mexican economy and globalization bring new opportunities for Mexican companies to expand their markets and get their products around the world. The internationalization process requires a sound strategy for the consolidation in foreign markets. The aim of this study is to analyze the different internationalization strategies followed by three Mexican companies with a global presence: Grupo Modelo, Grupo Bimbo and Cemex. We conclude that the differences in their strategies arise from the characteristics of each of these companies.

Keywords: Mexican companies, strategy, expansion, internationalization.

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1. Introduction

The landscape of this century requires companies to be increasingly competitive, and that not only have to compete with domestic rivals but new players come in search of a single market. Today's competitive advantages and are no guarantee of success without a solid strategy that will ward. The role and process of Mexican multinationals doing business abroad has not been homogeneous although their export products have had a heterogeneous performance. Little empirical research has been carried out on performance of Mexican multinational firms and their foreign subsidiaries in emerging markets.

Mexican multinational firms contribute to the exports and have important investments abroad, fundamentally in Latin America, although some are truly global. The expansion of Mexican multinational firms in other Latin-American markets demonstrates the Dunning's ownership, location and investment (OLI) paradigm influenced by specific attributes such as the role of economic development in foreign direct investment (FDI), cultural and language specifics of a given country (Dunning and Narula, 1996). The culture and language-specific attributes of host countries benefit Mexican multinational firms when competing with other home countries that do not share these specific characteristics in investing. Mexican multinationals are driven by systems thinking approach to coordinate all the activities while maintaining personal culture.

A key factor in the internationalization of Mexican multinational business was the fact that they could have access to local and international financial markets (Claessens y Schmukler, 2007). The decision made at the time a local company to expand its market to new countries, must be supported by an internationalization strategy appropriate to the characteristics of the company. It also has a wide range of options for entering new markets, exports, licensing, and joint ventures with foreign partners, strategic alliances, acquisitions, establish subsidiaries, among others. Mexican multinationals rank among the most internationalized and world’s largest in services such as telecommunications. Mexican multinational firms have been able to enter foreign markets showing more dynamic growth. VITRO was the first Mexican multinational to take over a large American company, and boosted margins in its strongest businesses, chiefly glass-making (Vasquez-Parraga and Felix 2004). However the best strategic choice will be consistent with its objectives and characteristics.

2. Background

Globalization is an economic phenomenon that accelerated in the late twentieth century, in the last three decades, increasing international economic transactions, thus expanding economic relations between countries. Protectionist economic policies in the market enforced by the Mexican government have given support to the birth, formation and consolidation of large private Mexican multinational firms. The world economy entered a process of numerous scientific and technological advances that changed production patterns worldwide. Some structural factors contributed to the expansion of Mexican multinational firms in international markets such as the implementation of market oriented macro-economic policies surge of cheap information and communication technologies. The deregulation aimed at removing trade barriers between countries was a consequence of globalization, which for some companies has been a growth opportunity, whiles for others a latent threat to the entry of new competitors.

In the mid-eighties with the entrance to the General Agreement on Tariffs and Trade (GATT), the Mexican economy began a process of trade liberalization which is consolidated with the entry into force of the North American Free Trade Agreement (NAFTA). NAFTA as a regional trade agreement has an impact on foreign direct investment, the vehicle of emerging Mexican multinational firms. The North American market is the most important for Mexican manufactured exports for both foreign-owned subsidiaries operating in Mexico and wholly locally-owned Mexican multinational firms. In the post-NAFTA era, Mexican multinational firms venture and invest abroad in manufacturing mainly in emerging markets where they sell most of the output in host countries.

Thus, our country adapts a new economic model: the neoliberal model, which encouraged external competitiveness from trade liberalization (Branches, 2005). The Mexican economy opened to international trade and financial markets, gave a strong boost to exports and foreign investment was allowed in more sectors of the economy. Some obstacles contributed to the transformation of large business groups in multinational firms to develop new innovation capabilities and managerial skills to make the right decisions to adapt to the new competitive global environment and to take advantage of the new opportunities. By the time new competitors entered the domestic markets of Mexican emerging multinationals, a need to entry to international markets was an imperative to maintain competitiveness and to create value. A favorable financial international environment supported the new endeavors of Mexican multinational firms in foreign markets. Risk portfolio management is also an important factor leading to the expansion of Mexican emergent multinational firms in foreign

markets used to gain access to capital market, diversified localization of assets and risks associated to foreign exchange and investments, prices fluctuations, etc. Mexican multinational corporations have taken loans or issued bonds abroad in 1996 for over $10 billion (Marichal, 1997).

The new economic policies of this new model involve change and restructuring of Mexican companies. Mexican multinationals, large and medium size businesses operate in many different industries using their organizational and technical capabilities and competencies to develop and deliver market-based products and services that meet the needs of local consumers. All these actions benefited large Mexican companies in their growth and expansion, while allowed to integrate into international production and exports through acquisition of companies abroad (De Gortari, 2005). To achieve these tasks, Mexican multinationals design and implement strategies to create scale and scope economies; engaging in strategic alliances, joint ventures, partnerships, and associations with other partners, NGOs, community developers, supply and distribution chain partners; leveraging logistical networks; decreasing prices; removing and liberating market constraints, etc. (Rangan, Quelch, Herrero and Barton, 2007; UNDP, 2008).

Emerging Mexican multinational firms are doing complementary trade and investment operations in US and other Latin American countries. Mexican multinational firms play an important and more promising role in Latin American countries. The surge of Mexican multinational firms in Latin American markets since the mid-90 may be explained by the cultural ties between geographical locations of investments abroad. Cultural and language dimensions determining locational and investment decisions can explain the dynamics of inward-outward investment flows of Mexican multinational firms in Latin America markets and the latin-hispanic market in USA.

Grupo Modelo, Bimbo and Cemex were three large Mexican companies that were consolidated in the country and sought to internationalize through different positioning strategies in international markets. A common denominator among these companies was the use of acquisitions and alliances with foreign partners, but the strategies followed by each were different.

3. Definition of the Problem

According to De los Rios (2005) among Mexican multinational companies successfully in the internationalization process are: America Movil, Bimbo, Gruma and

Cemex. Clarifying the process of internationalization beyond imports and exports, i.e. involves the establishment of subsidiaries or the acquisition of companies is elsewhere.

This research focuses on the analysis of internationalization strategies followed by three of Mexico's most important companies of our country with a presence in international markets: Bimbo, Cemex and Grupo Modelo were chosen because these three companies have been recognized by national and international magazines as successful businesses in foreign markets. According to the ranking made by the group and published on its website CNN Expansion, these companies are among the 500 most important companies in Mexico. Cemex is in the number 6 in the place Grupo Bimbo and Grupo Modelo 11 at number 22 (see Attachment A). Moreover these companies to analyze different strategies to position it clearly in foreign markets.

1). Hypothesis:

The characteristics of each of these three Mexican companies are a major determinant of the choice of different strategies and ways of entering foreign markets.

4. Objective

To analyze the internationalization strategies and positioning in international markets of three Mexican companies with a worldwide presence: Grupo Bimbo, Cemex and Model and demonstrate that these three companies have expanded their market by using mergers and acquisitions as growth strategy.

• Analyze the trajectory of each of the three companies in the global context.

• Establish the most important factors influencing the success of each of the companies chosen.

5. Framework

Most Mexican multinational firms public or privately held, are family-owned and the appointment of the board directors relies largely on family matters (Husted and Serrano, 2002). Most of the Mexican multinationals are legally formed as open societies, not controlled by the state and participate in the stock exchange. Mexican multinationals have become emerging international players in the global marketplace, being motivated for some important drivers to the design and implementation of marketing strategies to establish businesses overseas through. Mexican multinationals have adopted the economic globalization strategies and have surpassed the traditional merchandise exports. Mexican

multinationals manage the process of new investments creating and increasing the market share, particularly in some important high and middle-technology manufacturing industries, particularly in the automobile industry. Mexican multinational firms are characterized in the medium and high-technology, originally local-market oriented and increased sales and exports to foreign markets (Pozas, 2005) and some began to invest abroad.

The first wave of outward foreign direct investment originated predominantly from Latin America where among multinational firms from other countries, new Mexican multinationals emerged (Andreff 2003). According to the characterization of Gammeltoft, P. (2008) the first wave of outward foreign direct investment from Mexico took place from 1960s to mid-1980s destined to mainly other developing countries in same Latin American region. Cortes de los Rios (2005) says that many of Mexico's most important economic groups were created and managed its expansion, consolidation and development thanks to the acquirers and mergers took place. It analyzes the behavior of the acquisitions in Mexico in the period 1986-2005, concluding that this type of operation shows a cyclical and economic fluctuation coincide with the country, increasing in the late eighties and early nineties.

The first Mexican multinational enterprise, Ingenieros Civiles Asociados (ICA) or Civil Engineers Associates is a civil engineering services and construction’s company achieved rapid and consisting growth after it adopted computer technology, as it was recorded by Batiz-Lazo, B. and Haigh (2009). The firm was positioned as the first indigenous Mexican multinational firm. The growth of ICA’s reputation and success in delivering engineering and construction services to the Mexican government secured a leading role in the construction industries in Colombia in 1974 and attracted other contracts within Central and South America. By 2009 ICA had been involved in civil engineering projects in 21 countries in America, Europe and Asia.

The emergence of Mexican multinational firms is a rather recent phenomenon that started on the 1990s when the flows of inward and outward FDI can be compared and related to the economic globalization and liberalization processes. The third wave of outward foreign direct investment from Mexican multinationals according to Gammeltoft, P. (2008) took place from the 1990s to the 2000s. During the first half of the 1990s, Mexican multinationals were more than the second half to rise again in the first half of the 2000s. A rapid expansion of Mexican multinational firms around the world since the 1990’s Mexico received $4 billion in1994 and at $14 billion in 2002 in foreign direct investment through multinational firms mainly (UNCTAD, WID, Vol. IX, 2004). In 1990, only a few emerging Mexican multinationals were listed in Fortune 500, increasing the number listed in 2005.

Mexican companies became competitive in a new global economic environment. Mexican outward foreign direct investment was 17.5 billion USD in 2004. There is not valid official data to show the investments of the emerging Mexican multinational firms, so the only way is to analyze the firms as units of outward foreign investments. The magnitude of entrepreneurial business developed by the Mexican emerging multinationals in the last two decades to become major players in the global economy. The entrepreneurial pragmatism has taken advantage of the macro-economic monetary and fiscal policies (Santiso, 2006b; Feenstra and Hamilton, 2006). Although this wave is more geographically diverse country origins, it is a resurgence of Latin America and more specifically Mexican multinationals. Mexican multinationals are destined to knowledge-intensive services, mainly regional destinations, mature sectors increasingly also into developed economies.

On the other hand shows that mergers and acquisitions for our country are concentrated in banking, finance and telecommunications. In the study period prevailed horizontal acquisitions, followed by vertical and finally concludes that the process of mergers and acquisitions is indeed, as she defines a "vehicle" for the internationalization of Mexican companies. Moreover, Celso Garrido (2001) a study on cross-border operations during the nineties in Mexico, distinguishing foreign acquisitions made by companies established in Mexico, Mexican takeovers by foreign companies. This study shows results that say the process undertaken grades Mexican companies and groups to internationalize their production activity. Garrido ranks results of acquisitions fleshed out by Mexican companies at three levels: macro, meso and micro. A new group of Mexican multinational firms are reaching out beyond regional Latin America markets and establishing foreign subsidiaries and affiliates in other emergent and developed markets (Rugman 2005).

Mexican multinational firms have been very active investing abroad, mainly in Latin-American economies and other emerging economies and have attained leading market positions in telecommunications and manufacturing. Mexican total outward FDI and exports stand far behind other emerging economies such as Brazil, Rusia, India and China. There are considerable evidences Mexican FDI outflows to other Latin American emerging markets tend to be strong despite that a large amount are from multinational companies who used the country as a platform to enter to Latin American emerging markets. Camino Blasco and Pradas Poveda (2001) have found similar pattern for Spanish multinational corporations. Large Mexican multinational firms changed behavior of making business after going to the hardships and sufferings of at least two financial crises in the last 25 years and aggressive

global economic environment that required economic liberalization policies, open competitiveness and the slowdown of growth rates.

This work is a case study of the different strategies for entering international markets and show that despite the existence of a common denominator among these strategies, as is the case of acquisitions, the company's own resources play a key role to allow them to take different paths to achieve their goal.

6. Conceptual - Theoretical

When a company decides to expand into new markets is essential to plan a strategy to reduce the risk of failure, for this is to consider the advantages and disadvantages of different forms that have to enter these markets and also to consider its position market and the characteristics of your company. In this context we say that an international strategy is one used by a company to sell its products outside its national territory. Internationalization is a process by which a domestic company can extend their productive activities to other countries, according to Peng (2006), is a process where a multinational organization is responsible for any commercial or production of an enterprise located in different parts the world.

The reasons that lead companies to make the decision to internationalize your business are the benefits they can acquire if they implement the strategy succeed. These expected benefits are:

1. Increased market size. Expand their productive activities to another country gives them the opportunity to captivate new customers, new markets to sell their products.
2. Better returns on their investments. It is expected that investments in other countries generate above average returns.
3. Better economies of scale, scope or learning. Producing under economies of scale production reduces costs and produces the same internationalization synergies, which shares knowledge and learning.
4. A competitive advantage of location. Location of Mexican multinational firms in Latin America may be influenced by a common cultural link variables, religion, ethnic background, language ties, colonial period, etc. When a company decides to settle in another country with the intention of reducing costs many times companies are looking for markets where they can get cheap labor, natural resources or cheaper energy or potential new customers in that country (Hitt, Ireland & Hoskisson, 2008).

There are two ways of entering foreign markets, on one hand the non-property, as its name suggests involve entering new markets without the need to use part of its assets or capital. Examples of these: Exports and contractual agreements. Moreover there are still properties, which involve the establishment of subsidiaries in new markets; investment is needed to begin operations. Some examples of these: Joint ventures (joint adventure) and partially owned subsidiaries. This approach gives rise to multinational corporations (MNCs) which are companies that operate with foreign direct investment, its function is the control and management of value-generating activities in foreign countries (Peng, 2006).

If a company decides to export has two possibilities: Direct export is the direct sale of goods to foreign customers or where the indirect export sales to foreign markets is through intermediaries.

Contractual agreements are classified as:

A. Licenses / franchises. When a foreign company buys the rights to manufacture and / or sell products in the domestic business. This in exchange for a royalty per unit produced or sold (Hitt, et al., 2008).

B. Projects ready to operate. Projects are paid for certain activities for a business (construction of facilities or personnel training, etc.)

C. Research and development contracts. Agreements between companies to assist in research and development one can work for another.

D. Joint marketing. A set of companies agree to jointly market their products.

Regarding property forms and returning to internationalization. a company defines what is a joint venture (EC) which is understood as a company originated and owned by two or more companies This new company can be a minority (when one of the generating company has less than 50% ownership), 50/50 (partners have the same percentage of ownership) or majority (a company has more than 50% of CD). For their part, wholly owned subsidiaries (SPT) are subsidiaries of the multinational company, located in different countries. In turn, these can be of two types: operations on a blank field, when companies begin operations from the construction of these. Moreover mergers or acquisitions are the most popular form of entering foreign markets. Involve the transfer of assets, knowledge, and control operations between companies.

Because the latter is the most sought after by companies wishing to establish themselves in other markets then we pause this for a better understanding.

A merger is defined as the combination of assets, operations and management of two companies to establish a new legal entity (Peng, 2006). Meanwhile an acquisition is the

transfer of control of the assets, operations and management of a company (object) to another (purchaser), making the object in a unit of the purchaser (Wright, 2002). In reality the acquisitions are more common than mergers. These operations can be carried out in three directions:

A. Horizontal. Are acquisitions between competitors within the same industry? This is the most common type, as it increases the market power of the synergies obtained by exploiting the costs and revenues.

B. Vertical. This type involves the relationships between companies which makes them focus their suppliers (up) or its buyers (up). With this acquisition the company is vertically integrated, controlling additional parts of the value chain

C. Conglomerate. These are transactions where companies produce unrelated products.

Hitt et al. (2008) adds the related acquisitions occur within an industry closely related and trans-border acquisitions are those which as its name says, transcend territorial boundaries. Moreover, this type of transaction may be hostile or friendly, the first concern when management of a target company is against the acquisition, this company is not seeking a takeover bid. Such events increases during downturns in the economies, as it is easier to detect companies that are undervalued mismanaged in relation to its assets (Thornton, Keesnan, Palmeri & Himelsten, 2002). The acquisitions are friendly when both companies are in agreement to carry out the transaction. The table in Annex A summarizes the advantages and disadvantages of each of the modes of entry to foreign markets.

A complete model of foreign market entry described in Peng (2006), which considers the tripod base of the strategy as a sound strategy. Considerations based on the industry through the diamond of Porter's five forces suggests a review of the industry environment it belongs to the company, this analysis can uncover opportunities to open new markets. For their part, resource-based considerations, led by the model VRIO (value, rareness, imitation and organization) are a factor to be taken into consideration the managers of a company when deciding to enter international markets. Many times the value of the assets of a company are key factor to compete abroad, likewise if a company with resources much rare and difficult to imitate, has assets that can exploit an opportunity in other markets.

Multinational firms operating at global level are modifying their business models towards a more strategic orientation to responsible new standards to improve the impacts on environmental and social impact (Crane et al., 2008). The emergence of diversified multidivisional firms was explained by Chandler (1962) as an adaptation of business structure to new strategies although in the case of Mexican multinational firms appear to have taken

place as a response to the distinctive political economy; internal market shaped by the Mexican regulatory environment and public infrastructure projects. Mexican multinational corporations are taking important steps to become more innovative and more efficient by adopting new business models. Mexican multinational firms are developing a strong understanding of the international markets for sustainable products supported by public sector institutions and NGOs initiatives.

In their engagements with partner firms in strategic alliances, Mexican multinationals share expertise, innovation, technology, joint-strategies and developed technology. Strategic alliances build up sustainable relationships with other firms, gain corporate recognition, customer brand trust and loyalty, expansion and penetration to new and existing markets and creating shared value (Lelo de Larrea Gaudiano, 2009). Global corporate policies have been a larger driving force for CSR strategy than local business incentives in Mexican multinational firms influencing initiatives of subsidiaries on all types of issues. Context specific factors may not be sufficiently fulfilled by corporate governance policies and international CSR standards of Mexican multinational firms (Porter and Kramer, 2006). Mexican multinationals firms and subsidiaries engaged in international trade have adopted environmental standards and practices as a corporative strategy (Husted and Logsdon, 2000).

Multinational firms engage with local NGO's and government to build synergies between them to play a vital role in economic development. Corporate social responsibility (CSR) shaped by local contexts is considered as competitive advantage for strategic internationalization of multinational corporations (Lelo de Larrea Gaudiano, 2009) that has brought some benefits to Mexican multinational firms. Mexican multinational firms are increasingly aware of economic and social benefits of having a SCR strategy focusing on responsibilities in regular business operations (Weyzig, 2006). Mexican multinational firms' strategies on corporate social responsibilities to influence social and economic development programs of international organizations and associations, bilateral and multilateral trade agreements, local governmental agencies, community organizations, civil society, etc. (Paul et al., 2006).

Although global multinational corporations strategically engage with stakeholders in corporate social responsibilities, Mexican multinational firms hardly do it (Holme and Watts, 2000 cited in Weyzig, 2006) although Mexican government has supported and engaged in more CSR initiatives from the private sector than with NGOs. Corporate social responsibility of Mexican multinational firms challenges a more complex global economy and economic, social and environmental inequalities to demonstrate its commitment and accountability for

improvement of environmental performance, pollution control and eco-efficiency (Acutt and Medina-Ross, 2004, pp. 303). CSR considered as a strategy for international business to put in practice may have an impact on the effectiveness of multinational operations of Mexican companies.

Mexican multinational firms normally associate the corporate social responsibility as a cause related marketing strategy leaving absent strategic CSR approach (Weyzig, 2006) as a corporate competitive advantage in the global context. The corporate social responsibility as a competitive advantage strategy is leading Mexican multinational firms to move forward to form strategic alliances engaging other partners to achieve minimum CSR standards. A code of ethics and a corporate social responsibility of Mexican multinational firms may be designed and implemented in their local and global contexts to be expected to have a positive impact on both the social performance of Mexican multinational firms and on the attractiveness and reputation of the corporations to other stakeholders such as investors, employees, suppliers and consumers and a code of ethics (Paul et al., 2006).

The strategy of corporate social responsibility driven by many internal and external, national and international factor, maybe found in some Mexican multinational firms. This situation may represent several challenges for Mexican multinational firms in order to become more attractive for foreign investments and partnerships. Industrias Peñoles, the mining and chemical Mexican multinational firm supports community participation boards, social welfare centers and a volunteer network, achieving several local and international CSR awards for its information disclosure, environmental policy and annual indicator comparison report (Paul et al., 2006). Some large Mexican multinational firms have interest in forming links with academia in the areas of materials, polymers, and metallurgy that are related with the cement. The Mexican multinational firm, Savia has created a strategic international network to turn it into the largest fruit and vegetable seed producer, one of the largest operators of fresh vegetables and a world leader in agro biotechnology.

Finally institutional considerations are perhaps one of the key firms in search of new markets should consider when embarking on new markets. Knowledge of the rules is vital for easier entry to markets unknown. Although globalization seeks the integration of countries, institutions and culture rules are factors that have not yet unified. Mexican multinational firms may require fiscal and financial incentives from local governments to secure long term economic growth and to improve environmental and working conditions (Velazquez et al., 2008).

After the theoretical review that supports the internationalization of companies in the next section proceeds with the individual analysis of each selected Mexican firms to conclude this section with a comparison of the various factors that influenced the success of internationalization of each company.

7. Methodology

The methodology for the preparation of this work was the revision of the paths that have these three companies since its inception to the present, past and putting special emphasis on internationalization. It also is evident through its success through the search and tracking of recognition has been given to these companies. The information collected for this analysis comes from the official website of each company, as well as annual reports and additional sources such as empirical studies for these companies. The next section will be the case study of each selected Mexican firms: Grupo Bimbo, Cemex and Grupo Modelo.

8. Analysis of Mexican Companies

A. GRUPO BIMBO

Founded in 1945, today this company is one of the largest bakery companies in the world and a leader in the Americas has earned recognition for their production and sales volumes. According to its annual report 2010 (Grupo Bimbo, 2010) has 103 plants and over 1000 strategically located distribution centers in 17 countries in America and Asia. One of its most valuable assets is the possession of one of the most extensive distribution networks in the world with over 41,000 routes. Starting operations on December 2, 1945 the first production plant in Mexico, under the direction of Jaime Sendra and Lorenzo Servitje, Bimbo is placed on consumer preferences through the presentation and quality of their products. In 1946 this plant is expanded and begins structuring the area of vehicles, which later became his strategic asset for the growth of the company. The Bimbo distribution network began with an agreement to distribute its products with carriers who distributed newspapers in the province. However this was not enough and had to open routes and outside agencies, the first in Puebla in 1949. The distribution of products of this company took from town to town, following the paths, roads and railways, so vendors were opening up the market.

The growth of this company in our country was the result of knowledge of the needs of its consumers (building products) and vision of its managers to take advantage of opportunities offered by the market, spread around the country through establishment of new silver and the acquisition of some of its competitors. In search of closer integration in 1973, Bimbo began making jam in order to supply one of its lines (Marineo dedicated to making cakes and cookies) of raw material. Also in the late seventies Bimbo executives found themselves in the market for sweets and chocolates retailer an opportunity, as this was poorly attended, and decided to put a small candy manufacturing plant (Ricolino). Thus began a diversification outside the bakery and confectionery.

After consolidating the domestic market, leaving Mexico in 1984 the first trailer with Marinela products, bound for Houston, Texas. And in 1989 began international expansion with the creation of Bimbo Bimbo Central America and Guatemala with the construction of the first plant outside the country. In 1991 created the Latin America Division (OLA) to operate the expansion south of the country. In this decade the company acquired Alesa (Chile) and Holsum, bakery leader in Venezuela. Bimbo is created El Salvador, Costa Rica, Argentina and Peru in Colombia, established a partnership with Noel, the largest biscuit company in the country In 1998, the purchase of American bakery Mrs. Baird's, a leader in Texas that had 11 floors. In 2001 he made the purchase of Plus Vita from Brazil, which confirmed its leadership Bimbo Latin America and in 2002 acquired the Canadian company George Weston Ltd. Bimbo In this decade, began its presence in Europe with the purchase of the company confectionery Park Lane, located in the Czech Republic.

This decade also acquired in Mexico: Bakeries El Globo, La Corona, Gabi Cookies and Joyce. Bought outside the country: Pan Europe (Guatemala), Los Sorchantes (Uruguay), South Lakes (Chile), Lalo's Bakery (Colombia), and finally Laura, and Plus Vita Nutrella LTDA, the latter one of the bakery companies more large and important in Brazil. In 2010, specifically three strategic acquisitions: Dulces Vero in Jalisco, Mexico, Hong Jin Wei in China and the U.S. Foods Bimar Finally in November of that year announced the purchase of the bakery division of Sara Lee bakery largest U.S., which as a group Grupo Bimbo Baker worldwide. In short today Grupo Bimbo has 103 plants worldwide, 42 plants in Mexico, 34 in the United States, 25 in Central and South America and 2 in China. The first quarter reported sales of $ 29.312 million pesos, an increase of 3.5% over the previous year.

Currently this group has more than 150 brands, the best known are: Bimbo, Marinela, Milpa Real, Aunt Rosa, Oroweat, Entenmann's, Thomas', Boboli, Mrs. Baird's, Barcel, Ricolino, Coronado, La Corona, El Globo bakeries, Suandy, among many others. All group

companies are located in four divisions: Bimbo SA, brings together companies bakers and confectioners in Mexico and Central America, Barcel SA, which integrates the business of snacks and Ricolino, Bimbo Bakeries USA (BBU), serving the U.S. market and Organization finally Latin America (OLA), responsible for operations in Latin America.

1). Analysis Grupo Bimbo

As we can see, the expansion of Grupo Bimbo is the result of significant investments it has made to establish new production plants, strategic alliances and acquisition of companies. His strategy was to acquire or ally with local companies that will offer something in terms of technology or distribution capacity, choosing only those companies that share their values; if the companies did not meet the latter requirement would enter the market from scratch. One of the key factors that have influenced the success of Grupo Bimbo in the national and international market, innovation is not only their products but to organize the company as the coordination of their plants requires the use computing platforms that support business processes. On the other hand is a company that knows its customers, the distribution network has created allows a more direct and frequent contact with customers, allowing you to identify new growth opportunities and product innovation based on consumer preferences.

In this sense Bimbo has a very important competitive advantage: its ability to reach more distant outlets. Bimbo in our country has to sell their products to an average of less than a mile from each consumer (Grupo Bimbo, 2011). This distribution network is one of the intangibles of the company, which tried to establish the same way in other countries, without a clutch that has found cultural differences that have led to the need to adapt to each country based on their conditions individuals. Finally Grupo Bimbo is a company that just look to expand geographically, also seeks to be a profitable company, which has managed to increase the efficiency of each of its processes. For that seeks to optimize its resources by using technology.

B. CEMEX

Cemex, the cement Mexican company is a firm producing capital-intensive industrial commodities. CEMEX shows that processes innovations are a step toward global leadership in business. It is a Mexican company initially dedicated to the production and distribution of cement and concrete, but is now a global company that offers products for the construction industry. It began operations in 1906 with Cementos Hidalgo plant in the north. After significant growth for six years, the operation of this company is affected by the Mexican

Revolution forced to suspend operations. In 1919, partially resume their operations and not until two years later when the market comes back completely. Cementos Hidalgo in 1931 merged with its competitor Cementos Portland Monterrey, giving rise to what is now known as Cementos Mexicanos SA (CEMEX). For about thirty-five years, this company has a steady growth backed by the expansion of its plants in the northern region.

Until 1966, decided to venture into the southern part of the Mexican Republic, acquiring in that year the plant Cementos Maya, Mérida. With this acquisition continues to meet demand in this part of the country through Portland cement brand Maya. That same year the new plant Valles starts operation, in order to meet the Huasteca region in Mexico. In order to expand across the country in 1967 opened a plant in Torreon through brands pozzolanic Portland cement Portland Cement Monterrey and Monterrey; the plant is responsible for meeting growing demand in the Northeast. Plants installed in all regions continue to grow by increasing its production capacity.

In 1973 Cemex acquired Portland cement plant in the Bajio region of central Mexico. 1976 was a watershed for the company as a part begins trading on the Mexican Stock Exchange and on the other side becomes the leading Mexican producer of cement to its acquisition of Cementos Guadalajara.

In 1986 starts joint venture with U.S. cement companies, in order to enter that market. In 1987 acquires Cementos Anahuac. And this year it created a solid team of professionals who are in charge of the integration of acquired companies. It also implements a satellite system that allows you to connect all the facilities of the company (CEMEXNET). When purchasing your competition, Cementos Tolteca Cement Company in Mexico second in 1989, Cemex became even without significant presence in other countries, one of the ten largest cement companies worldwide.

CEMEX operated in a highly protected legal environment and no significant competition on price until the 1990s and controlled 65 percent of the market share in Mexico. Cemex was accused of dumping cement on the U.S. market and severe penalties were imposed on imports. Mexican multinational Cemex owns a 40 percent stake in Grupo Cementos, acquired Texas-based Southdown, which has a cement plant in Lyons. Economic liberalization and openness of Mexican market break down legal barriers leading to strong international competition environment. CEMEX had to adapt to this new economic environment challenging global markets through acquisitions and global expansion. It was not until 1992, when he decides to start its internationalization process, which starts on the European market by acquiring the two largest cements in Spain: Valenciana and Sanson. Two

years later ventures into Central and South America, buying Cemento Bayano in Panama and the company expires, Venezuela's largest cement. Also, the purchase of Balcones cements plant in the United States.

In 1995 Cemex continues its international expansion this time to acquire Cementos Nacionales, the leading company in the Dominican Republic. A year later became the third largest cement company in the world to be part of your company Cementos Diamante and Samper in Colombia. Not content with its spectacular growth in such a short time in 1997 the largest cement company in Mexico comes to Asia with the purchase of Rizal Cement and APO Cement in the Philippines two years later. That same year, Cemex ventures into Africa by acquiring Assiut Cement Company, one of the leading cement producers in Egypt also buying Cementos del Pacifico, Costa Rica.

In 1998, CEMEX launched the program called Patrimonio Hoy that enables very poor and low income people to pay for services and building materials to upgrade their homes. The program Patrimonio Hoy is a strategy of CEMEX that blends the pursuit of profit and social responsiveness. One of the main objectives of the program Patrimonio Hoy is to position CEMEX as a responsible corporate citizen that is committed to society. Cemex, one of the world's largest cement companies follows an approach in its do-it-yourself business focused to the low income people's market and poor communities. CEMEX leads the paradigm shift of multinational firms profitably providing housing for the low incomers in poor communities. CEMEX realized the average revenue per low-income customers in the informal sector, and then identified potential business opportunities to establish a competitive advantage and turning them into profitable activities while developing corporate citizenship and becoming a more socially responsive company. Converting the 60% low-income population into customers, the steady revenues are very high. Patrimonio Hoy has based its revenues on a per-transaction basis which are in addition to the sale of cement by CEMEX.

CEMEX, The Mexican multinational construction firm, recognized the increased demand of cement in Mexico growing at a rate of one million homes per year. Cemex, the Mexican multinational firm in the cement industry designed the program Patrimonio Hoy (Patrimony Now) to benefit the poor people by building their own homes. The poor low income consumers experience a dire housing shortage. CEMEX evaluated this situation as a market opportunity and have designed and implement a micro-credit program Patrimonio Hoy, which has partnered the Mexican construction materials supplies with distributors and community groups to deliver to low income people to build their houses in less time and at the lower price. Patrimonio Hoy and CEMEX sell cement at a slightly higher price than that

of its competitors, but the higher price charged is more than offset by the value-added services Patrimonio Hoy collaborates in negotiating prices of raw material with suppliers. Cemex developed a program of savings and investments for the poor. CEMEX has developed an organizational capability through its Patrimonio Hoy (PH) program.

CEMEX integrates resource capabilities using and joining its distribution channels with grassroots communities, which extends in-house micro-financing program to people in base of the pyramid to address unmet housing needs of low income market in Mexico. CEMEX provide technical assistance and advice on how to "do it yourself" with skilled technicians helping families to build their housing. Low income customers get access to good-quality building materials and the housing's design. While solving the problem of a housing shortage in México, the program Patrimonio Hoy is creating a large market opportunity for CEMEX of about 40% of cement consumption (Segel, Meghji and R. Garcia-Cuellar, 2007). According to Barcelo (2007) by the end of 2007, a total of 185,000 Mexican families had benefited from the Programa Hoy, investing $83 million of microfinance, and achieving an on-time payment rate of more than 99 percent.

Mexican Cement century starts with the determination to consolidate the already developed markets in 2000 purchase Southdown, Inc. in the United States in 2001 and acquired Nicaragua enters Saraburi Cement Company in Thailand. In Mexico CEMEX had 15 cement plants and 220 ready-mix plants spread throughout Mexican territory, 60 in the United States, 85 in Spain, 45 in Venezuela, 4 in Indonesia, and 4 in Egypt. CEMEX the Mexican multinational group has the monopoly of cement industry in Latin America. Mexican multinational company (CEMEX) is operating quarries and cement plants in Chester, North West England. Cemex, is Mexican multinational that is the market leader with 26% in Spain, in a relatively fragmented market, as it has been reported by Wagner and Triebswetter (2001).

The operation performed in 2005, doubling its size and expanding its market to more than twenty countries, mainly in Europe. This transaction is the acquisition of the British building materials RMC, which according to a press release on September 27, 2004 posted on the website of the Mexican company and meant a great synergy that will allow the centralization administrative functions, optimization of network marketing, logistics and process standardization. Far from purchases made by the Mexican company in 2000, implemented an initiative to identify, incorporate and implement standardized best practices within the entire organization (CEMEXway). This initiative consolidates the group that was responsible for the integration of acquired companies.

CEMEX produces and sells raw cement, ready-mix concrete, aggregates, and clinker used to make cement, under different brand names CEMEX is a multinational cement manufacturing company operating as the largest cement manufacturer in Mexico, the second largest in the United States and the third largest in the world. Challenged by more competitive markets, CEMEX changed its business model under new leadership and designed a strategy on innovation in housing for the low income people. During the Mexican economic crisis in 1994-1995, CEMEX experienced a significant drop by around 50 percent in domestic sales in the formal segment and a very low percentage in the informal and self-construction segment. That program Patrimonio Hoy has triple cement sales. The higher dependency on the formal segment left it very vulnerable to business cycles. CEMEX estimated that the do-it-yourself segment accounted for more than 40 percent of cement consumption in Mexico.

Project Patrimonio Hoy was conceived by CEMEX from a social perspective and different mindset to overcome some critical challenges specific to the low-income market. CEMEX had to be trusted and convince the poor people they can be able to have credit to build a house. Patrimonio Hoy was launched to improve and change for CEMEX strategies: To identify innovative ways to provide access to credit for the poor, to improve the brand perception of CEMEX as a socially responsive company to earn trust among the people, especially the poor, and change and improve distribution methods and construction practices to make it cost-effective for CEMEX, its distributors, and the low-income customers. The distributors are selected rigorously for an exclusive relationship with CEMEX. CEMEX has significant bargaining power with its suppliers and distributors.

To service the informal sector, CEMEX expanded the retail channel by setting up 2,020 kiosks or Construramas. Tied to its strategy, CEMEX build a very strong brand link to selling complete solutions more than specific products and improving profitability from a commodity-driven business. As a new business model, Patrimonio Hoy manages the existing CEMEX distributor network relationships; the margins in the new channel are slightly different. The project Patrimonio Hoy has strategic implications for CEMEX although might not be generating a high margin but it is generating positive cash flows from operations. CEMEX is a complete solutions provider of low cost cement and other raw materials as a package such as pack Tolteca to tap into the huge low-income market.

According to CEMEX, the sources of its competitive advantage are continued innovation, high level of commitment to customer service and satisfaction, proven post merger integration expertise, digital evolution: efficient production, distribution, and delivery processes through sophisticated information systems, ability to identify high-growth market

opportunities in developing economies. Delivery of materials is offered to "socios" or partners by two choices, immediately and a delivery voucher to be exchanged later when needed the building material.

CEMEX has developed information technology to manage its operations and distribution infrastructure efficiently enabling on time delivery of cement and ready-mix with this achievements, CEMEX won the CIO-100. The program Patrimonio Hoy (PH) relies on local construction suppliers having distribution networks to reach local private low income customers, members of poor communities. CEMEX has taken advantage of this program publicizing its commitment to corporate social responsibility (Segel, et al., 2007). These members organize and promote potential groups of three families-home builders to be lent the suppliers being collectively responsible for making a loan payment to CEMEX to receive next delivery. CEMEX holds in storage a package of materials needed to build until the customers are ready.

According to (Segel et al., 2007: 159), the program Patrimonio Hoy takes advantage of the Mexican social behavior of "mutual accountability" inducing members with strong social network ties to fulfill their financial obligations to one another while promoting the participation of reliable and trustworthy individuals. Organized poor people as a cement consumers learn to save as a group and invest creating value by building their homes, while CEMEX facilitates access to credit and the process of consumption and at the end of the process, Cemex provides access to good quality housing. Organizing the low income customers, CEMEX gives them the tools and materials for building but also gives them legal identity. CEMEX offer a savings-credit system combination of savings and access to credit based on payment discipline, changing the basic spending pattern of the poor in Mexico. The enrollment of a partner (socio) ensures steady sources of revenue that has implications across the value chain.

The strategy followed by CEMEX in the implementation of this program Patrimonio Hoy have given good results for all the partners, low income people, poor communities, distributors and suppliers, etc. (Prahalad, 2006; Hart and Sharma, 2004). The supply manager is in charge of negotiation of prices for raw materials with corporate CEMEX, supervises distributors for the delivery in terms of quality, time, prices, etc. Patrimonio Hoy has created a pull for cement that CEMEX on the supply side pushes it. Low income people gain access to inexpensive credit to build cheaper and faster houses, creating value for their investments in the home-building market and improving living conditions. Distributors and suppliers gain additional income. Poor communities create some jobs. CEMEX has gained understanding of

the low-income population through the Patrimonio Hoy program, changing the misconception about the poor and the potential to form a good and profitable segment of the market where the traditional methods of operation would not work. Salazar, J. and Husted, B. (2008) measure the social impacts of Patrimonio Hoy (PH), a CSR project of the Mexican multinational cement manufacturer, CEMEX, one of the largest cement manufacturers in the world. The case illustrates some of the challenges of measuring the social impacts of CSR initiatives in a multinational firm setting.

CEMEX captures a share of the remittance market to Mexico through the program Patrimonio Hoy. Mexican immigrants expend a significant percentage of about 10 percent for construction of housing. This situation identified in a need for an easier and cheaper way to build houses turned to other opportunity for CEMEX to be served by the subsidiary, Construmex as a business model supports Mexicans living abroad to send their money directly to cement distributors in Mexico with instructions to deliver cement and other building materials anywhere in Mexican territory. Construmex channels as large a share of the remittance flows to CEMEX and CEMEX distributors are part of the Construmex program. CEMEX Philippines is replicating this model with the great potential because Filipinos remittances are much more. Perez Chavarria, M. (2001) has study the way organizational culture is formally communicated in a Multinational Mexican company (CEMEX assuming that the organizational culture is composed essentially of cultural substance and forms (Harrison and Beyer, 1993; Bantz,1993) to reach the inference of meanings that can be taken as the basis or support of its culture. The findings reflect a possible interpretation of the culture that sustains that symbolic reality of the organization.

The Mexican multinational CEMEX on October 2008 reduced its labor force by ten per cent because of a declining world demand of cement and aggregates. Finally the integration of the Australian company Rinker Group Limited, the Mexican company consolidates its position as a leader in the cement industry.

1). Analysis of Cemex

As we see in the above description Cemex in less than twenty years the company extended global territory through the use of acquisitions. The surprising success of this instrument through which CEMEX has achieved its growth, although not clearly mentioned in its path, also has been due to the economic and financial company that manages CEMEX. Cementos de Mexico took advantage of the benefits it gives its sector to grow; among them is

the oligopolistic power that exists in the cement industry worldwide and on the other hand the technology needed to get started in this industry. It is also important to highlight the use of information technology as a key tool for coordination and smooth running of all its businesses. In addition to this we believe that one of the intangibles that this company has is the group of professionals responsible for integrating each of the acquired companies, which we believe has been a fundamental part of their success in geographic expansion.

Finally for this company innovation is also one of its strategies on the one hand to stay ahead in terms of the needs of the construction industry. On the other hand has also allowed innovation the production process which has gained efficiency by getting competitive production costs and has remained a profitable company. For the first quarter of 2011, record gross profit by 963 million dollars and a profit margin of 28.5 percent. Your total debt arises to 17,059 million dollars. Finally, to confirm the success of global expansion strategy we can summarize that has followed it, one of Mexico's most important companies of our country and worldwide presence, has been placed today in 35 countries. In Central and South America is in Argentina, Colombia, Costa Rica, Dominican Republic, Guatemala, Jamaica, Nicaragua, Panama and Puerto Rico and our trading operations in the Caribbean. In Europe in Austria, Croatia, Czech Republic, Denmark, Spain, Finland, France, Germany, Hungary, Ireland, Latvia, Norway, Poland, Sweden and the UK. In Africa and the Middle East with operations in Egypt, Israel and the United Arab Emirates Finally in Asia is found in Bangladesh, Malaysia, Philippines, Taiwan and Thailand.

This company has continued growth by taking advantage offered by your industry and geographic expansion strategy. The cement industry has a short chain which facilitates the vertical integration (Torres, 2006). In this sense the location of subsidiaries in places where you can extract the raw material, was one of the strategies for geographic expansion. Cemex has a presence in other countries by building or acquiring complementary businesses in these markets, this has been done without the need to accept foreign capital. This type of strategy was successful thanks to the short chain of cement, and innovations necessary minimum the oligopolistic structure of this market (Pozas 2002). According to de Gortari (2005) when Cemex acquisition takes place, first make a review of the country's culture and the target company after that his team, made up of trained professionals in the area of systems, resources human, financial, acquisitions, business relationship management, conducts a comprehensive analysis of the company. If the transaction takes place beginning a process of integration with the aim of unifying the levels of productivity and culture will be outcome. In

addition, this company takes advantage of regional economic activity and consumption capacity.

C. GRUPO MODELO.

Today, Grupo Modelo is the leader in developing, distributing and selling beer in Mexico Founded in Mexico City in the year by 1925. Since its founding the basis of growth of this company took in two ways, firstly the acquisition of breweries in the country thus acquired new brands and on the other hand the construction of new plants will allow increasing production capacity. In addition to these two pathways, exports have been the tool that this group has chosen to internationalize in markets around the world, which has contributed significantly to its growth.

I make the first acquisition was the purchase of Brewing Company in Toluca and Mexico, Victoria Marks and Pilsener in 1935. By 1954 the brewery acquired the Pacific, Mazatlán, Sinaloa and Brewery Star in Guadalajara, Jalisco. In 1960 he joined the group Northwest Cervecería Modelo, Ciudad Obregon, Sonora. Exports of beer of Grupo Modelo in 1933 started albeit sporadically, with the first American foreign market.

In 1964 he established the Cervecería Modelo de Guadalajara in 1964 and in 1967 opened the Cerveceria Modelo Torreon. For the year 1979 built the Tropical Brewing Company, located in Tuxtepec, Oaxaca, but starts to operate until 1984. A strength of this group is the vertical integration that have since not only focused on building new breweries but also worried about the creation of companies that produce the inputs required by the brewer. That is why in 1979 he founded the company Cebadas and Malta Calpulalpan, Tlaxcala and in 1981 the company Inamex Beer and Malta, in Texcoco, Mexico State. In the same year acquired Cervecería Yucatan. We can say that the internationalization of the Mexican company gains importance from 1985 when Grupo Modelo beer exports start to new foreign markets, this time the beer the company heads to Japan, Australia, New Zealand and some European countries. In 1990 Corona beer is exported to Hong Kong, Singapore, Greece, Holland, Germany and Belgium. Zacatecas Brewing Company began operations in 1997. That same year, Corona beer stands as the first imported beer in the United States.

In 2006 Grupo Modelo set up an alliance (Joint Venture) with Constellation Brands, a leading international wine and spirits. This alliance creates Crown Import LLC, headquartered in Chicago. Began operations in 2007 and the main reason being is that Grupo Modelo has a single importer in the North American market. That same year he started building another

brewery in Nava, Coahuila. Grupo Modelo currently exports about 6 brands of beer in 156 countries around the world, these brands include: Corona Extra, Corona Light, Negra Modelo, Modelo Especial, and the Pacific.

1). Analysis: Grupo Modelo.

According to the trajectory described by this company, its expansion into territory was through the acquisition of breweries from other companies and the construction of plants characteristic of the group. One of its strengths is its vertical integration which allowed him to strategically integrate companies that provide their own raw materials and packaging. In this sense also has a strategic partnership that gives it mainly American machinery of high technology, which guarantees the efficiency of their processes. With regard to international expansion, as it says Hitt et al. (2007) companies engaged in the production and marketing of beers have few growth opportunities in its home market, which urges them to offer their products abroad. This was the case of the Mexican company, however as some firms internationalize by acquiring companies in other countries, this Mexican company has achieved its goal of placing their products in different countries of the world only through exports. Although exports have certain constraints such as less control of the marketing and distribution, this group has dispelled this disadvantage by establishing offices in strategic locations in order to respond in a timely fashion importers, distributors and customers, it also meets the goal of placing products in a strategic model.

When Grupo Modelo decided to venture into new markets, makes a study of the target market considering their economic and cultural conditions, likewise due to their experience have learned to look after intellectual property issues and laws. Finally enter the market with adequate infrastructure in sales, promotion and marketing.

9. Conclusions

International markets are highly fragmented despite the economic globalization processes due to control variables such as culture, language and other intangible barriers, which in turn may influence the location of Mexican multinational firms. Mexican multinational firms have as an advantage an economic development that has shifted from inward to an outward FDI positions against the level of per capita GDP in terms of purchasing power parity. We conclude that a common denominator in its internationalization strategy

between the three companies chosen for this work was to use acquisitions to expand its market. But while two of them, Grupo Bimbo and Cemex, these types of transactions conducted in foreign markets, Grupo Modelo now consolidated its position by acquiring companies in the same business only in the country. Cemex was the three most dynamic in terms of foreign companies compare in terms of time and quantity.

Among these companies there are common elements that have been present in their internationalization strategies such as innovation not only in products but in new systems of organization. All three make use of information technology for better coordination of all group companies or company. Some of the Mexican emergent multinationals could take advantage of emerging markets such as the case of Hispanic and Latin communities in USA. A good example is Bimbo that also has taken the competitive advantage of the agri-food industry.

Despite having a similar strategy, each of these companies differentiates your strategy based on characteristics of the company. On the one hand Cemex has advantages given the sector where, as it is an industry with few producers of cement. On the other hand Grupo Modelo by the type of good it produces, allows you to use exports, it does not require the installation of plants in each market again. In this study we recognize intangible assets of two companies, which have been a tool that has helped the success of your business. Cemex has a group of professionals responsible for integrating each of the acquired companies, allowing them to be integrated resources, knowledge and learning specific to the company obtained in each market.

One of the intangible assets was recognized of Grupo Bimbo's distribution network which has enabled it to reach a large number of consumers and be at the forefront in meeting the needs of its consumers. Examples of these needs have been a wide range of products more healthy. Grupo Modelo because it only makes its internationalization through exports, has expanded to a large number of countries through the establishment of offices in foreign markets not only engaged in the marketing and distribution of their products, but also is responsible for positioning your product in strategic locations.

Mexican multinational companies are investing abroad in emerging economies in sectors in which they hold capabilities and advantages. The investments follow some location patterns either for the acquisition of existing firms abroad or greenfield investment establishing new businesses abroad. Mexican multinational firms have developed some pockets of high productivity operating in high and middle-tech industries, although they are enclaves in the Mexican economy. Mexican multinational firms are converging toward world

standards in corporate governance leading to their encouragement and adherence at the headquarters and subsidiaries abroad. Stakeholders of Mexican multinational firms lack engagement in a strategy of CSR due to a no ideal chaotic environment framed by historical confrontational attitudes and the lack of alliance culture, although sometimes firms may be inclined to make some philantrophic actions. Given that Mexican multinational firms have a low level of intra firm transaction, going to global markets with out a clear incentive program may have low contributions to improve economic development.

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Appendix
Anex A. Ranking of the 500 most important companies in Mexico

	Business	Loca-tion	Sector	Jobs	Origin of capital	Net Sale (mps)	Operating income (pesos)	Net income (pesos)	Total assets (million pesos)	Total liabilities (camera)	Equity (million pesos)
1	Mexican Petroleum	DF	Petróleo y gas	147,294	MX	1,094,155.00	476,812.30	46,137.30	1,332,037.20	1,398,877.20	66,840.00
2	American Mobile	DF	Telecomunicaci ones	55,627	MX	394,711.00	104,209.00	76,913.50	453,008.00	275,102.40	177,905.60
3	Walmart of Mexico	DF	Comercio autoservicio	176,463	EU	270,451.20	22,268.50	16,806.10	133,139.20	49,991.40	83,147.80
4	Commission of Federal Electricity	DF	Electricidad	83,812	MX	220,034.00	39,818.00	1,185.00	803,044.00	422,342.00	380,702.00
5	Carso Global Telecom	DF	Holding	77,729	MX	209,539.10	44,035.20	16,004.70	369,790.20	244,966.20	124,823.90
6	Cemex	NL	Cemento y materiales	47,624	MX	197,801.00	15,833.30	1,409.20	582,647.30	326,288.80	256,358.50
7	Fomento Mexican Ecinomic	NL	Bebidas y cervezas	127,179	MX	196,103.00	27,012.00	15,082.00	211,091.00	95,262.00	115,829.00
8	Telcel	DF	Telecomunicaci ones	17,347	MX	142,362.20	69,154.00	0.00	0.00	0.00	0.00
9	Grupo Financiero BBVA-Bancomer	DF	Servicios financieros	32,568	ESP	137,709.20	26,955.60	21,612.40	1,107,779.50	993,065.50	114,714.10
10	Telephone of Mexic	DF	Telecomunicaci ones	52,586	MX	119,100.20	52,315.00	20,468.70	178,355.40	140,034.60	38,320.80
11	group baby	DF	Alimentos	102,000	MX	116,353.00	12,054.00	6,081.00	96,713.00	55,756.00	40,957.00
12	Alfa group	NL	Holding	52,384	MX	115,632.00	8,762.00	2,020.60	108,088.00	71,729.40	36,359.30
13	Group Financiero Banamex	DF	Servicios financieros	40,000	EU	115,535.20	21,595.00	18,755.70	1,124,690.00	967,893.00	156,797.00
14	General Motors of Mexico	DF	Armadora	11,000	EU	110,422.00	0.00	0.00	63,897.00	52,449.00	11,448.00
15	Coca-Cola FEMSA	NL	Bebidas y cervezas	67,426	MX	102,229.00	15,835.00	8,970.00	110,661.00	42,189.00	68,472.00
16	Telmex International	DF	Telecomunicaci ones	24,769	MX	92,540.10	11,051.80	9,104.50	174,300.70	74,815.80	99,485.00
17	Volkswagen of Mexico	Pue.	Armadora	14,255	ALE	92,531.30	58.00	203.50	47,736.90	25,410.90	22,326.00
18	Nissan Mexicana	DF	Armadora	0.00	JAP	90,000.00	0.00	0.00	0.00	0.00	0.00
19	Organización Soriana	NL	Comercio autoservicio	76,800	MX	88,637.30	4,584.00	2,868.30	65,725.40	33,794.90	31,930.50
20	Grupo BAL	DF	Holding	39,303	MX	88,045.00	12,177.00	7,836.00	145,460.00	90,511.00	54,949.00
21	Ford Motor Company	DF	Armadora	7,700	EU	86,000.00	0.00	0.00	0.00	0.00	0.00
22	Grupo Modelo	DF	Bebidas y cervezas	36,707	MX	81,861.60	21,730.00	8,630.00	117,362.20	21,129.80	96,232.50
23	Infonavit	DF	Servicios financieros	3,966	MX	67,906.00	4,575.00	11,168.00	599,403.00	539,718.00	59,685.00
24	Grupo Carso	DF	Holding	70,377	MX	66,035.60	9,073.60	7,339.40	97,677.50	37,980.30	59,697.30
25	Chrysler México Holding	DF	Armadora	6,200	EU	65,800.00	0.00	0.00	0.00	0.00	0.00

Source: extracted from the ranking of 500 most important companies in Mexico, CNN Expansión.

Annex B. Forms of internationalization

Modes without equity			
		advantage	Disadvantages
Export	direct	Control distribution Economies of scale	• High transport costs • Little control over marketing • Trade barriers (tariffs)
	indirect	• Focus on production • Do not pay the export process	Menor control de distribución Desconocimiento del mercado extranjero
Acuerdos contractuales	Licenses / franchises	• Low expansion • Low risk • How to expand yields based on previous innovations.	• Little control technology and marketing • Ability to create competitors • Low Income
	Projects ready for operation	• Ability to gain technology from countries with restricted FDI	• Ability to create competitors • Lack of long-term presence
	Contract R & D	• Ability to access the best technologies at low cost	• Difficulty negotiating • Risk of causing competitors • Loss of innovative capacity
	joint marketing	Ability to get more customers	• Coordination Limited
Modes that involve equity			
		Advantage	disadvantages
joint Venture	joint Venture	• Risk sharing • Access to new assets, knowledge and skills	• objectives and interests between partners • Heritage Limited • Difficulty coordinating globally
Wholly owned subsidiaries	Greenfield operations	• Total Ownership • Control operations • Protection of knowledge	• Political risks • High development costs • Speed slow entry
	acquisitions	• Input speed • Do not add new capacity	• Add new capacity • Political risks • High costs • Low speed • Integration Issues

Source: Authors' estimations based on data from Peng (2006) and Hitt et al. (2008).

An approach to the development possibilities of small Greek settlements: The case of Chania's region in Crete

Abstract:

The survival of small scale settlements –with a population under 2.000 inhabitants– is a prerequisite for any regional development policy concerning the Greek territory. Furthermore, as the population, economic and social changes in them during the last years have reversed every attempt for balanced development of this country, having lead to the overcrowding of the main cities and the desertion of the countryside.

This paper attempts to investigate the development possibilities of small settlements in Chania's region of Crete, in conjunction with the more important spatial parameters involved in this procedure (for example the geomorphologic, demographic and employment characteristics). The main thesis of this research is that the basic infrastructure works and other services constitute a determinative factor in the economic growth at micro–local level and contribute to the survival of the small settlements.

In methodological terms, first a record of small settlements is built up where their spatial features are registered according to the date of the more recent censuses (1991 and 2001). Second, the changes which occurred in the decade 1991-2000 are examined. Third, the small settlements are investigated according to their spatial parameters in order to assess the level of influence of the existing infrastructure works on the development procedure in relation to their typology.

Key–words: Greek small settlements, Chania's region, infrastructure works, and development procedure.

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1. Introduction

The small-scale settlements are basic components for the development of the Greek territory. Although they constitute important parts of the Greek urban web, until today they have been faced fragmentarily with the criterion of their population by the Urban and Regional policies that are applied. Therefore, planning is based on population changes that have been recorded while other parameters as altitude, productive sectors and infrastructures, the reasons that cause these phenomena are ignored.

The current research aims to investigate the factors that cause the population changes in small-scale settlements. It tries to reveal the reasons that attract or repulse the small-scale settlements residents as it focuses on the reasons and not on the results that cause small-scale settlements development. The case study is the region of Chania an area of Crete that concentrates a diversity of productive sectors and road network, a variety of altitude and small settlements that differ as many of them are abandoned while others are continuously growing.

2. The small settlements of Greece

The Greek territory has been developed for the past 200 years without Regional Planning procedures. The industrialization, the immigration and the enlargement of the tertiary sector in the big cities have shaped different kinds of areas. So there are regions that are overpopulated and their urban centers are continuously expanding at the expense of agriculture and forest areas, and there are regions that lose their inhabitants while the productive sectors in which their economy is based, are declining.

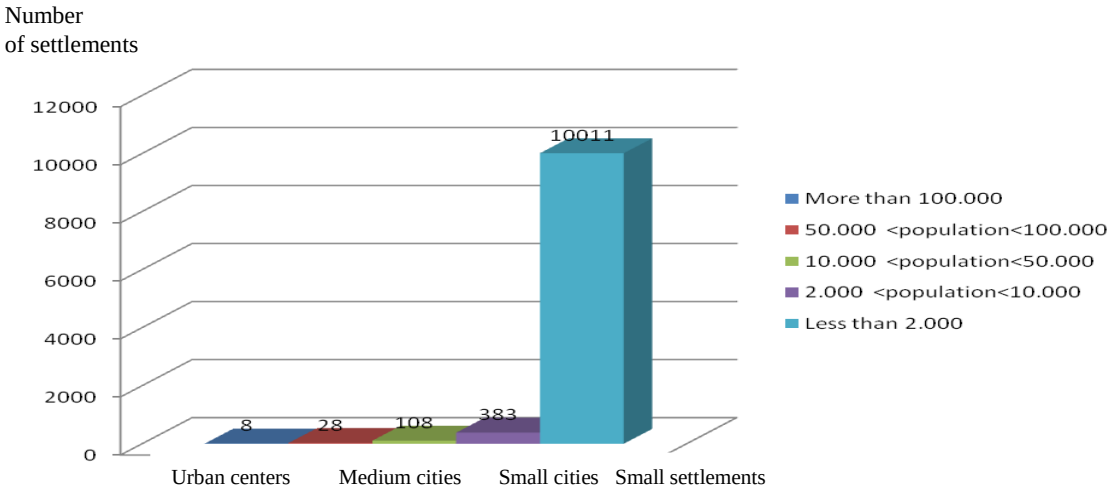
Furthermore, the geomorphology of Greece with its mountainous areas and its 227 inhabited, islands have led to its population's distribution in many different areas. A large part of the population lives in urban centers[3] where 35% of the population is recorded while the 491 small cities of Greece[4] assemble 36,4% of the total Greek population (Table 1 and Diagram 1). The 10.011 small settlements[5], that are recorded in the total Greek urban network, concentrate 28,6%[6] of the total Greek population according to the census of 2001. The definition "small settlements" is not precise as their population varies. The majority of small settlements (8.072 of the total 10.011, 81%) have less than 500 residents concentrating 44,7% of the small settlements population, while the rest 1.939 settlements are inhabited by 1.731.103 people (Table 2 and Diagram 2).

[3] With more than 50.000 inhabitants.
[4] With more than 2.000 inhabitants.
[5] Areas that are inhabited with less than 2.000 people.
[6] 3.135.678 of 10.964.020 inhabitants.

Table 1: **The Greek population's distribution in different size settlements**

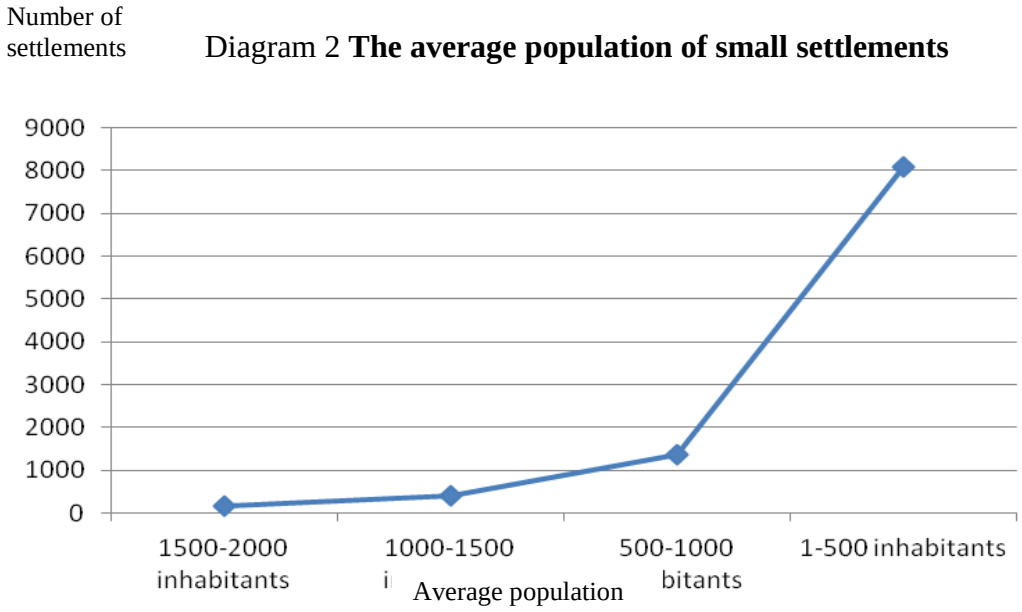
	Population	**Number of settlements**	**% of the total population**
Urban centers	More than 100.000	8	17,7
Medium cities	50.000 <population<100.000	28	17,3
	10.000 <population<50.000	108	22,8
Small cities	2.000 <population<10.000	383	13,6
Small settlements	Less than 2.000	10.011	28,6

Diagram 1: **The Greek population's distribution in different size settlements**



Source: National Statistical Services of Greece, census 2001.

Diagram 2 **The average population of small settlements**



Source: National Statistical Services of Greece, census 2001.

Table 2: **The distribution of small settlements regarding their population**

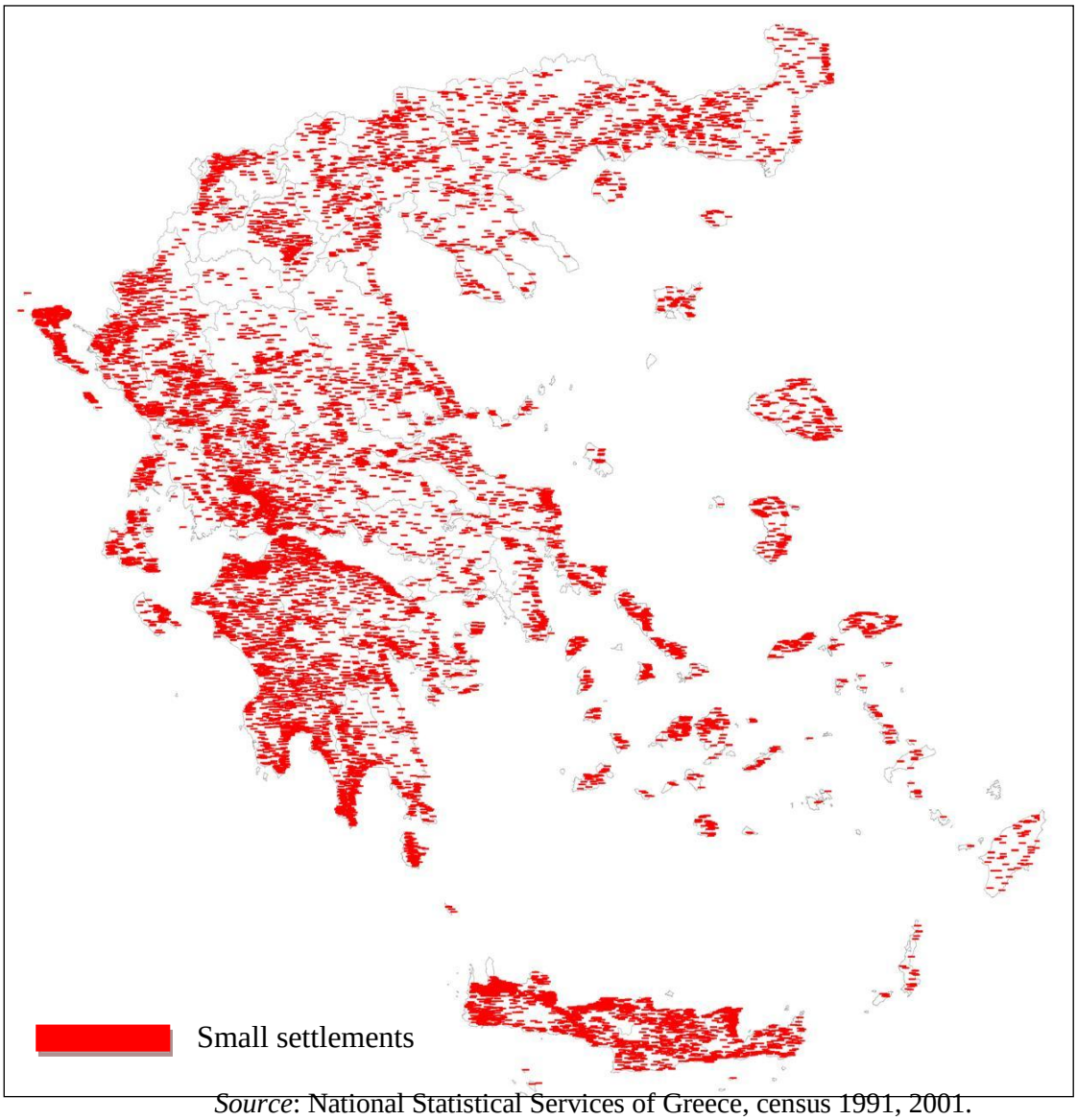
Small Settlements			
population	**Number of settlements**	**Average population**	**Total population**
1500-2000 inhabitants	173	1.730	299.340
1000-1500 inhabitants	411	1.208	496.674
500-1000 inhabitants	1355	690	935.089
1-500 inhabitants	8072	174	1.404.575

The small settlements are allocated in all areas of Greece. The areas that concentrate the majority of small settlements are the coastal and the interior flat areas. The relation of the number of small settlements with the recorded altitude is reversely proportional as the majority of small settlements is allocated in areas with low altitude, (only 356 small settlements 3,55% of the total are recorded in areas with altitude that is higher than 1.000 meters). The allocation of small settlements in the Greek territory is shown in Map 1.

The investigation of the small settlements population changes during the 1991-2001 decade shows that in 1991, 3.083.415 inhabitants were recorded in small settlements, while in 2001 3.135.678 are recorded. So it is concluded that small settlements population has increased. This increase is not uniformly distributed as in many small settlements new residents are recorded, while in others, the inhabitants have moved, not to the urban centers where the population is also recorded decreased, but in other small cities where the population oscillates between 2.000 and 10.000 inhabitants. The factors that cause these population changes in small settlements and accordingly their development possibilities are the subject of the current research. This happens because small settlements planning is necessary for the achievement of a successful regional development policy, that aims to their survival via the improvement of the factors that will lead to their population's increase.

The case study of the current research is the region of Chania, (Map 2) an area that has coastal, interior flat and mountainous small settlements and concentrates all kinds of activities so it constitutes a representative example for the investigation of the basic infrastructure works effect in the development of small settlements. It is an area that gathers all the characteristics (small cities that attract small settlements population, productive sectors that are abandoned and new sectors that are developed, variety of bas-relief) that are faced in the total Greek territory.

Map 1: The spatial distribution of small settlements in Greece



Source: National Statistical Services of Greece, census 1991, 2001.

Map 2: The case study area: Chania region

3. The small settlements in Chania's region

The question that arises is the following: what are the factors and in what degree do they cause these demographic changes? The paper will examine the relation of these population changes with the geomorphology, the infrastructures and the economic activities, parameters that affect the population changes in an area.

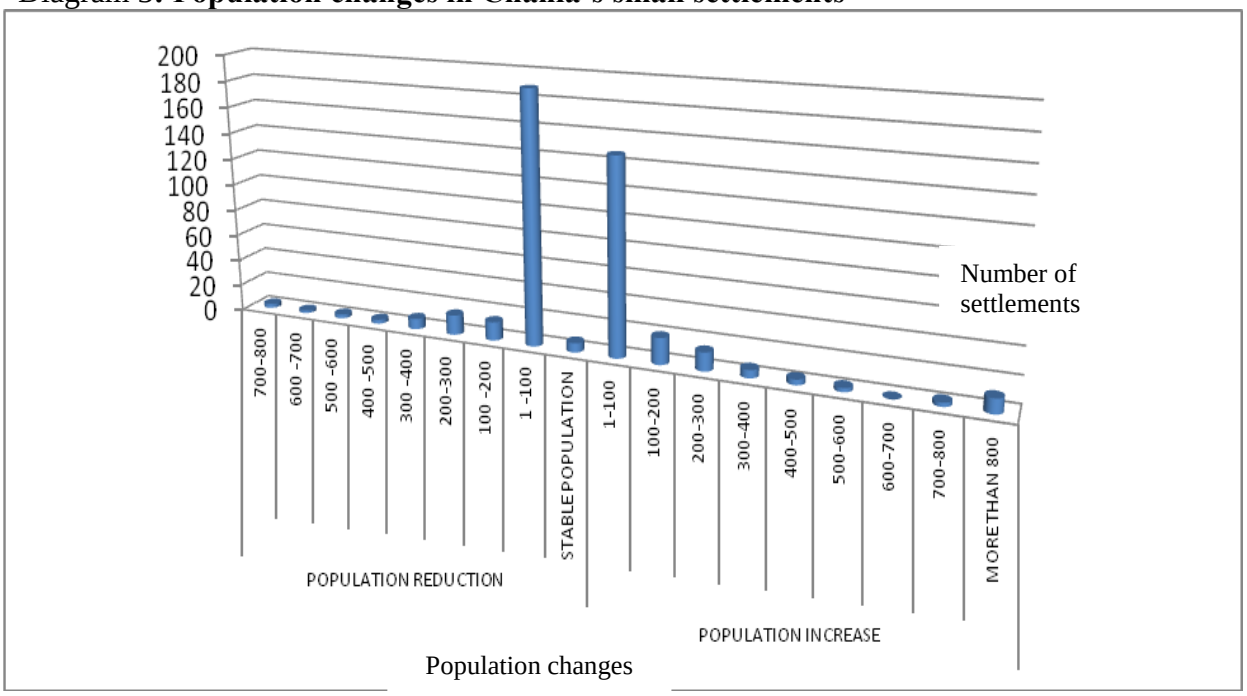
The island regions combine mountainous and coastal characteristics, so they require particular attention when we are planning their development. They are also mainly connected with the rest areas by ship so they constitute autonomous regions that are depending on the their own development. The up to today followed policies applied in Crete and more particularly in Chania's region aimed in the tourism exploitation that has caused many problems in the fragile environment of the area, particularly in the north coastal zone.

The region of Chania is one of the four in which the island of Crete is divided. It's population is growing as in the last decade (according to the census of 1991 and 2001) 16.613 new inhabitants are recorded. Though in Greece's total the population's increase is 6,86% in Chania this percentage is higher as it is recorded to be 12,4% . This increase is not uniformly distributed in the region's area. The population of the capital of the region, Chania city and the nine biggest settlements has increased, while from the rest 459 small settlements in the 255 the population has decreased and in the rest 204 the population has increased. More specifically, the differentiation of the population changes is shown in Diagram 3. The records from the Greek National Statistical Service show that the variation of the population changes has a wide variety as the population increase and decrease varies from 1 resident to 1.628 during one decade per settlement.

Table 3: **Population changes in Chania's small settlements**

POPULATION REDUCTION									
Inhabitants Changes	**1 -100**	**100 -200**	**200-300**	**300 -400**	**400 -500**	**500 -600**	**600 -700**	**700-800**	
Number Of Settlements	189	14	15	8	3	3	2	3	
STABLE POPULATION	7								
POPULATION INCREASE									
Inhabitants Changes	**1-100**	**100-200**	**200-300**	**300-400**	**400-500**	**500-600**	**600-700**	**700-800**	**MORE THAN 800**
Number Of Settlements	147	20	14	6	4	3	0	3	11

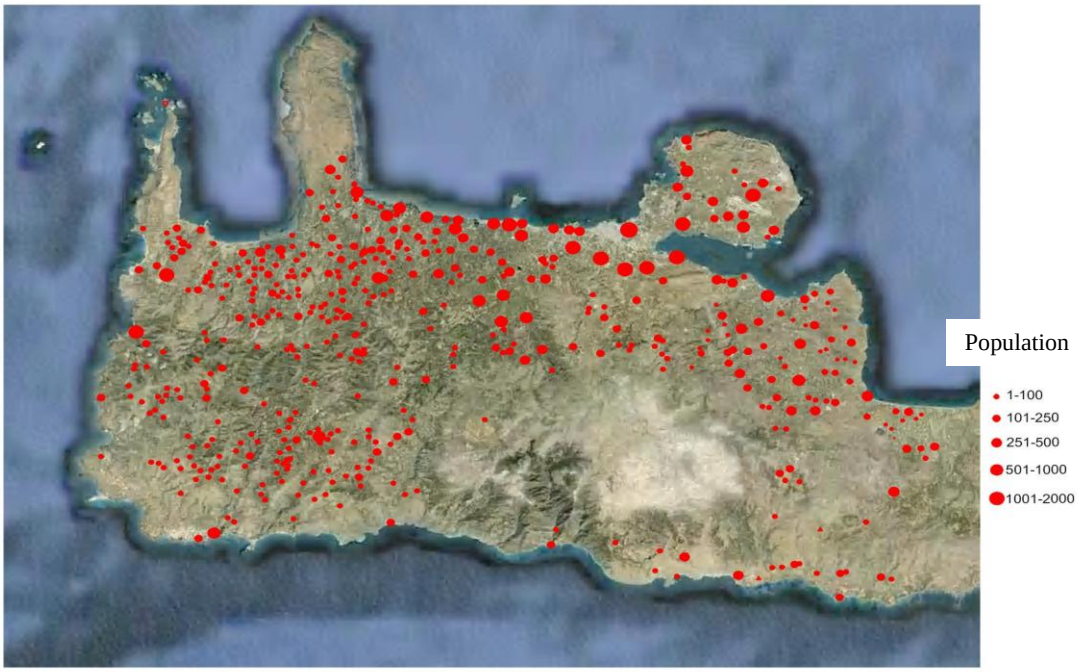
Diagram 3**: Population changes in Chania's small settlements**



Source: National Statistical Services of Greece, census1991, 2001.

The distribution of Chania's small settlements and their hierarchy according to the recorded population is shown in Map 3. The north area concentrates the majority of settlements, while the east mountainous area has only 33 small settlements that are allocated in the White Mountains (Lefka Ori) foot that cover almost one third of Chania region's total area.

Map 3: The positions of small settlements in Chania's region



Source: National Statistical Services of Greece, census1991, 2001.

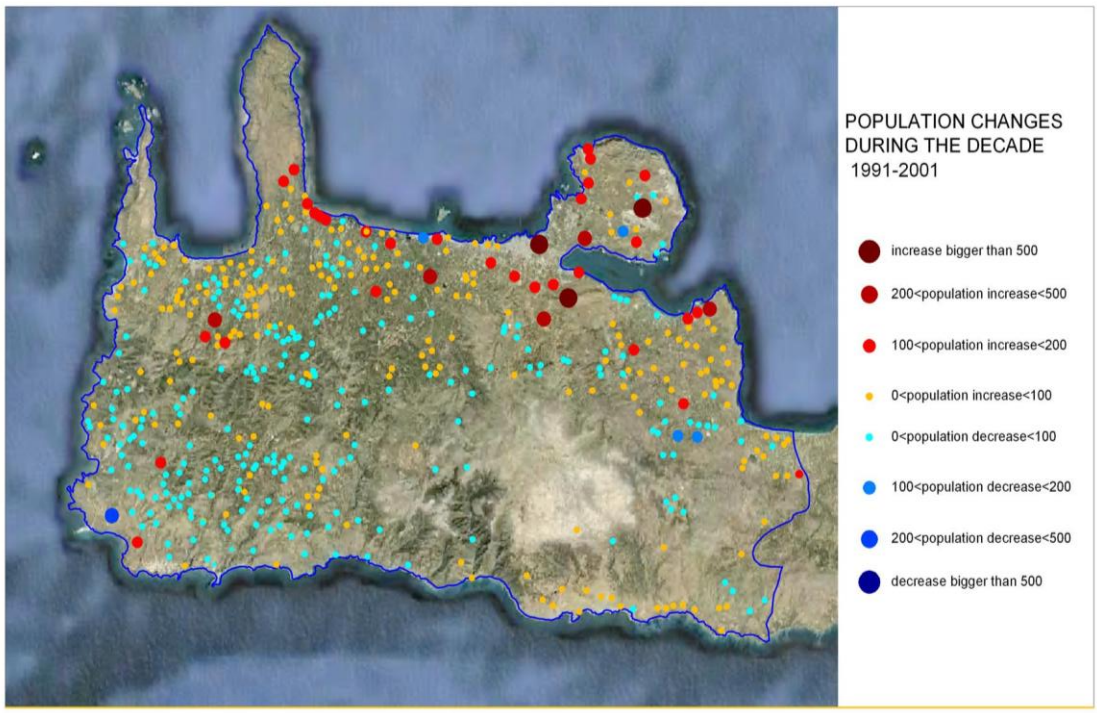
The changes of small settlements population during the 1991-2001 decade are shown in Map 4. The small settlements that present population's increase appear with intense concentration in the north coastal side, with dispersed form in the interior north area and in the south zone. The majority of the small settlements where the population has decreased are recorded in the middle inner zone, not only around the White Mountains but also in the coastal west area. This population movement towards areas with intense land exploitation and the abandonment of the isolated mountainous areas are complicated facts that result from a combination of factors.

Regarding the relation of the population changes in conjunction with the altitude of small settlements it is realised that in the settlements which are in higher altitude than 500 metres the biggest population decrease is recorded, while in the low areas (with altitude less than 100 metres) the highest population increase is recorded. The changes in the settlements between 100 and 500 meters differ, as 112 settlements of this zone have attracted new inhabitants, while in the rest 112 settlement the population has decreased. So, in Chania's region the small settlements that are allocated in areas with high altitude face the phenomenon of population reduction, while in the majority of the settlements with low altitude the population has increased

4. The effect of the infrastructures network in Chania's region small settlements development

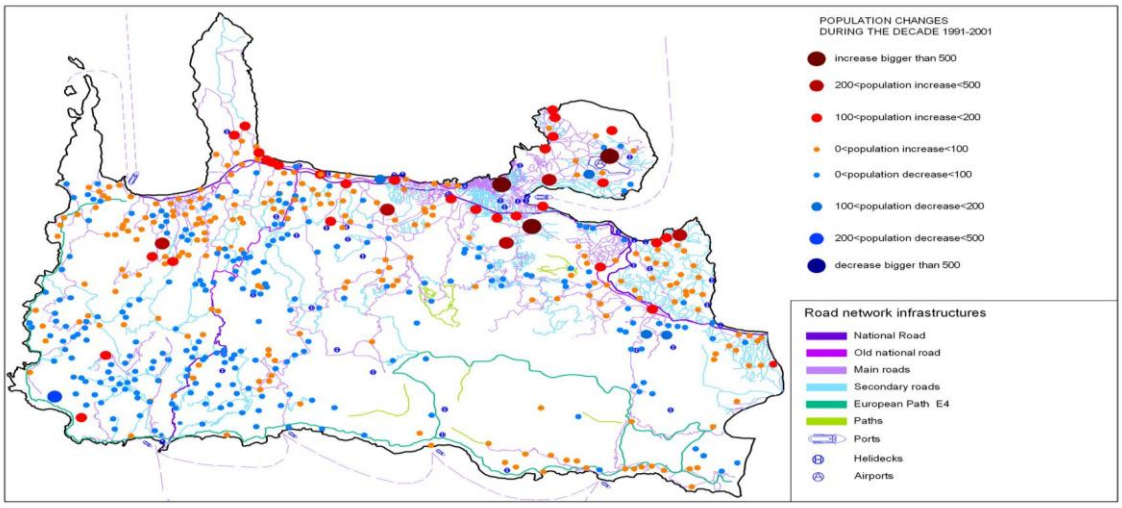
The accessibility of a settlement is a factor that affects its development. The Greek experience has shown that all financing that emanates from the European Union and aims in the road infrastructures improvement (http://europa.eu/pol/reg/index_el.htm). is channeled in urban centers while in the small settlements the road network is worsened. This fact combined with the difficulty of big length roads maintenance that lead to areas where very few people are served, has led to the abandonment of these roads. So, the connection of small settlements with places that would cover their residents needs (employment, education, recreation, health care e.t.c.) is difficult and it is a factor that worsens the living conditions of these settlements residents, while in many cases it constitutes a reason for the imigration to more populated settlements.

Map 4: The population changes of small settlements in Chania's region



Source: National Statistical Services of Greece, census1991, 2001.

Map 5: The relation of the road network with the population changes of small settlements in Chania's region



Source: National Statistical Services of Greece, census1991, 2001.
Research of a. the Town Planning course (2009) and b. the Regional Planning course (2011) of Technical University of Crete.

The road network of Chania's region is divided in three categories (Map 5). The national road that crosses the north coastal area, the main roads that vertically connect the south area with the north, except the area with the intense bas-relief that cannot be approached, and the secondary roads that connect the above roads with the majority of the small settlements. The last twenty years new roads have not been constructed, but only some of the existing roads paving has been improved.

The geomorphology of the region has led to two different types of areas. In the coastal zones and the areas of low altitude, the road network that has been developed is condensed and most of the small settlements are connected. On the contrary, in the mountainous areas the road network could not be developed, so these areas are isolated.

The examination of the relation of small settlements population shows changes related to the road network crossing them. The settlements on the main axes have increased their population, while settlements that are connected with the rest region through secondary roads face the phenomenon of population's decrease. As the road network is depending on an area's geomorphology it is concluded that areas with high altitude that are not crossed by a satisfactory main road network, which can ensure their accessibility, lose their inhabitants, while the areas with good road connection have increased their population. An exception to this rule is observed in the north zone where settlements may be connected to the national road through secondary roads but the small distance that must be covered in order to approach the national road, which connects these areas with the region's capital, is a motive for the attraction of new residents. Finally, the settlements close to the airport and the three ports (Souda, Kasteli and Gavdos) which are functioning with different intensity[7] have all recorded inhabitants increase during the examined decade. This happens because in Souda port, manufacture infrastructures are functioning, as it constitutes a node with the rest country while in the other two ports, touristic infrastructures are developed so job offers are provided.

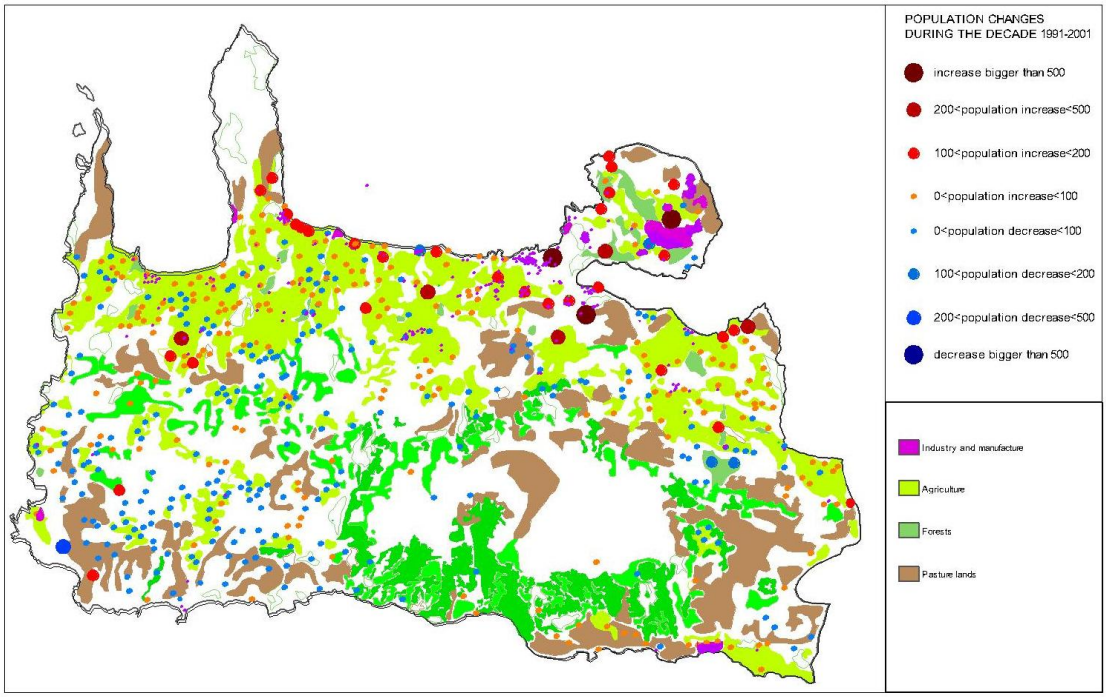
In Chania, the basic productive sectors that had been recorded until 1991 were agriculture and livestock farming. Progressively, services became the main sector of employment while the other sectors were abandoned. The fact that a large area of the region is mountainous and the division of land to many owners with small ownerships made the extensional agriculture difficult and gradually the people employed in this sector, diminished.(Gousios,1998: 13)

[7] Souda the main region's port and Kasteli and Gavdos ports that are mainly functioning for touristic reasons

5. The influence of productive sectors in Chania's region small settlements.

The development model of the rural areas has been focusing until recently only on the sector of agriculture. Nowadays, sustainable development renders essential the balance between social, economic and environmental parameters and needs (Deaton & Nelson, 1992: 84).

Map 6: The relation of the productive sectors with the population changes of small settlements in Chania's region



Source: National Statistical Services of Greece, census1991, 2001.
Research of a. the Town Planning course (2009) and b. the Regional Planning course (2011) of Technical University of Crete.

The relation of small settlements population with the productive sectors that are developed around them is shown in Map 6. It is obvious that in the small settlements which abut with forest and pasture lands the population has decreased, while in the agriculture zones and in the areas with big manufacture and industry units new residents are attracted. So, employment is a factor that influences the development of small settlements. But it must be pointed out that in Chania's region the agricultural and industrial areas are allocated in places with low altitude and good road network which ensure their best function.

As for the touristic infrastructures, it is recorded by the 2001 census, that settlements that are close to tourist areas, and more specifically on the north zone and settlements with employment based on tourism, according to the recorded employment of the 2001 census, , have increased their population. This population increase combined with the intense land use, the mass tourism, the environmental alteration and the use of areas that must be protected (NATURA, et.c) creates a non sustainable environment that already is not attractive enough for tourists as it has lost its initial identity.

6. The factors that influence the small settlements development.

The study of the small settlements of Chania's region has shown that in different degrees their development depends on various factors.

The basic factor that defines the small settlement's population's size is the employment which is provided to its inhabitants. In the Chania's region the result was that the touristic industrial and agricultural settlements are poles of population concentration, while in other areas such as pasture lands and forest areas, the settlements are abandoned.

This phenomenon is faced in all Greek settlements where two types are recorded (Anthopoulou Th,.2000).: The settlements where the population decrease, that are based on agriculture and livestock, and the settlements where the population increases that are based on the tertiary sector.

So the explanation key for the survival of small settlements is the ensurement that job offers are provided. This will be achieved with the Regional Planning procedures that encourage the creation of infrastructures, which provide job offers and attract new inhabitants in the abandoned settlements. It is also important that Planning focuses on the revival of the traditional productive sectors as the unilateral development of tourism has led to the isolation of areas that don't constitute touristic poles.

The road network is also a factor that influences to a smaller degree the small settlements development, as it affects the settlements population concentration, but not as decisively as employment. This has resulted after the evaluation of the road network and its relation with the small-scale settlements population changes, because many cases of development are observed although the road network's condition was not the best possible for these areas accessibility, but employment offers were provided.

Finally, it is realized that the altitude constitutes a parameter that affects the two above factors, road network and productive sectors, but it does not directly affect the development of the small settlements. This is concluded after the investigation of the relation of the altitude and the population changes which has resulted that population changes are taking place regardless the recorded altitude of small-scale settlements.

The small settlements are areas, which are today faced by the proposed Regional Planning legislation with generalizations. It is characteristic that according to the proposed National Regional Plan where small settlements are categorized in three groups based on their population and their productive sectors, without any further specialization in more particular elements. It is obvious that a more detailed analysis must be realized. This fact makes necessary the creation of a data base where all economic, physical, demographic, social e.tc.

elements will be recorded and will be taken into consideration when planning and policies are applied. As small settlements constitute areas that require specialized policies based on their existing dynamic and the estimates for their future development, it is essential for Planning to focus on their particularities in order to formulate proposals that will achieve their sustainable development

7. Conclusions

The so far absence of Regional Planning procedures in conjunction with the overexploitation of physical sources for the creation of touristic infrastructures that has been recorded in Chania's region, impose the need of an interdisciplinary approach, for the complete investigation of a region's structure. It is concluded that the variety of the social, geo-morphological, and economic parameters and the created infrastructures, shape a diversity that should be taken into consideration in planning of all levels. The programs that have been applied and aim to the stabilization and the increase of small settlements population have failed as they focus only on the economic growth, and are not adjusted to each region's various particularities. It is obvious, that the development process must combine economic, social, technical and cultural elements otherwise it cannot succeed.

The priority of planning must be the creation of employment, which is compatible with the environment, the landscape and the sectors that flourish taking account of the certain characteristics of each area. Planning must, in second level, provide the infrastructures that will ensure the productive sectors best function and simultaneously secure that these areas residents have all the necessary services for the satisfaction of their needs. This leads to a context of requirements of a non fragmental planning procedure that will result to the desired aim: the obliteration of spatial inequalities.

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Economic Crisis and Non State Actors: The case of Greece

Abstract:

The paper aims at evaluating the challenges, both opportunities and restrictions that Non-State Actors (NSAs) face in the era of world financial crisis. A whole range of options occur. From the expansionist views that consider financial crisis as an opportunity for NSAs to re-consider the institutional and operational framework in which they operate, re-address their focus, develop new strategies, establish further networking links and relationships. On the other hand, reductionist approaches face financial crisis as a restrictive variable. In this context, NSAs are considered as mere implementers and operational tools of state policies without further opportunities for development and appraisal. In this broad context of approaches we claim that truth is somewhere in the middle. Scarcity of resources and institutional re-arrangements is a challenge for both state and non-state actors. A new context of discourse may arise.

In the above framework we will evaluate the case of the NSAs social services providers, within the context of the Greek financial crisis. We use specific indicators in order to assess the impact of the crisis on the institutional and operational context Greek NSAs exist and operate. Finally, we will reach specific recommendations for the way forward.

Keywords: Economic Crisis, Non-State Actors, Greek Economy, Greek Crisis

JEL Codes: Z13

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1. Introduction

The severe financial crisis Europe faces has not only affected public spending and budget deficits but it also has an unprecedented impact on all fields of social life including social services. Social services are a core element of European society which contributes to social inclusion and cohesion. NSAs are a key actor for social inclusive and cohesive societies in Europe and worldwide. At this point we need to clarify that by NSAs we address those not for profit, private initiatives with a recognized legal, institutional basis. By this we exclude informal groups or unions of people without a legally recognized structure.

This paper looks in particular at the consequences of the financial crisis on Non-State Actors that deliver social services. Its aim is to assess the impact of the 2008-today financial crisis on the role, possibilities and limitations of NSAs in the field of social services. We briefly present the analytical framework that we employ, that is the one of sociological economics. We claim that NSAs are embedded into a social and economic reality within which they interact and formulate their own interests. In the paper we argue that the crisis may create limitations as well as challenges and potential for NSAs. We present the variety of approaches addressing the issue. From the reductionist ones which consider the crisis as a sole fragmentation to the scope of the NSAs activities to the expansionist ones which address the issue of the financial crisis as creating a new fertile background for NSAs strategies and policies.

The focus of analysis is the case of Greece and the impact of the crisis on NSAs. NSAs in Greece as elsewhere in Europe provide a series of social services especially in the fields of health, education, social inclusion, migration, culture as well as international development cooperation targeting Third World countries. In order to assess the impact of the crisis on the NSAs in the case of Greece we present the basic characteristics of the crisis in the country in order to comprehend the framework into which NSAs are now called upon to exist and function. We then use specific indicators in order to address the issue and assess the impact of the crisis as well as the NSAs reaction.

Finally, we present the main findings and the arguments of what in our opinion construct the prons and cons of the crisis on Greek NSAs.

2. The Framework of Analysis

The framework of analysis we adopt for the purposes of this paper is very much linked to the study of the impact of economic phenomena and economic developments on societal relations and vice versa. Studying the social effects and the social causes of various economic

phenomena as well as "applying the sociological tradition to economic phenomena in an attempt to explain these" remains the main scope of the work of economic sociologists (Swedberg, 2003, p. xi.) The concept of Polanyi's "embeddedness," is the one prevailing in contemporary work in (new) sociological economics. Either the term is used in its current use, that is that an economic action is in principle always "embedded" in some form or another of social structure or to the one that Polanyi originally claimed meaning that economic actions become destructive when they are "disembedded," or not governed by social or noneconomic authorities, it is still the core axis around which the notion of the interconnection among society and economy is turning around.

Granovetter (1985, p. 481) has also gone deeper in the notion of "embeddedness" by claiming that that economic relations between individuals or firms are embedded in actual social networks and do not exist in an abstract idealized market. Thus, the interconnection between society and economics is the one that prevails on the actors behavior and the formation of their interests.

As Richard Swedberg (2003) states "we have to *combine* the analysis of economic interests with an analysis of social relations. From this perspective, institutions can be understood as distinct configurations of interests and social relations, which are typically of such importance that they are enforced by law".

In our opinion the notion of interest as it is formed as a result of social and economic developments is not restricted to the one used in the concept of mainstream neoclassical economics which is missing a sociological stance. In our framework of analysis the notion of interest:

- is an analytical tool to analyze social reality, a conceptual reality to assist and support the work of social scientists;
- the social reality and the social structure is an integral part of the analysis;
- has a long-standing tradition which is not limited to the one of mainstream economics. In this framework there exists a variety of interests which may interact , thus creating different combinations with one another;
- the tautological use of the concept of interest in neoclassical economics is not the one that should be prevailing in a sociological interest analysis.

As Figure 1 captures, for the purposes of our paper we adopt an analytical framework within which :

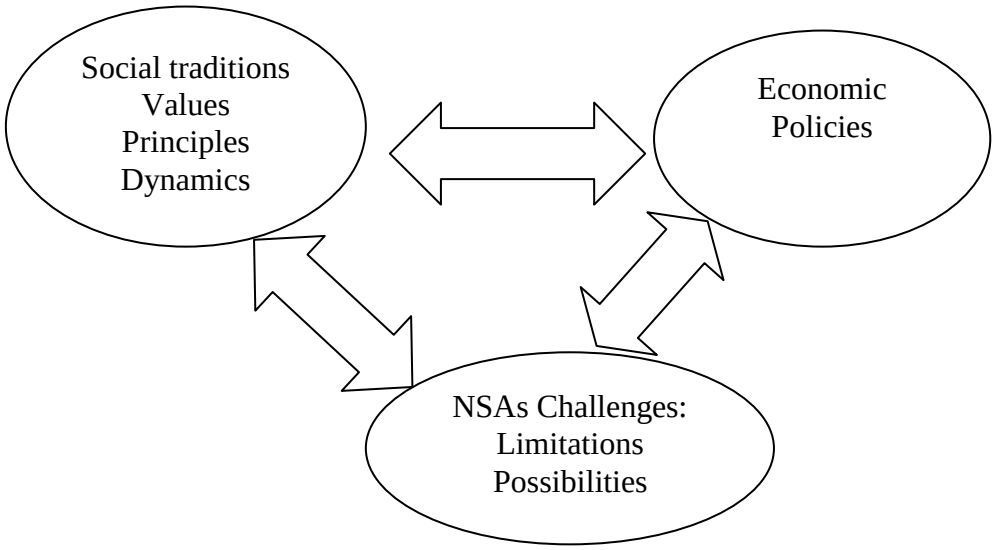
- NSAs are an embedded part of a social reality which is very much influenced by the economic phenomena development, the social consequences of economic exchanges, the

social meanings such economic exchanges involve and the social interactions they enhance or diminish;

- these social and economic interactions are of a dynamic nature, thus altering the NSAs notion of interest and their scope of activity;
- NSAs create their own limitations or potential in a process of continuous change and dynamic reformation of social and economic reality.

Those limitations and potentials we will assess in the following part of the paper.

Figure 1: The Framework of Analysis NSAs in a Dynamic Social and Economic Context



3. The approaches: NSAs limitations and possibilities in the era of the financial crisis

The financial crisis has brought forward a series of new parameters which create the new operational and institutional environment and background into which NSAs are now called upon to function. Those parameters may include the following ones:

a. Reduction of growth rates and GDPs ratios;

b. Reduction in public spending;

c. Increased unemployment;

d. Limitations to the possibility of the state to offer social services to those in need;

e. Socio-economic re-organization though the marginalization of social groups, then part of the middle classes;

f. Change in consumption patterns;

g. Public mistrust and expressions of mistrust such as manifestations;

h. Questioning of global governance structures and patterns;

i. Increased costs in borrowing money from the banking sector;

A range of approaches claim that NSAs potential will now be substantially reduced to mere implementation of state policies, while core budgets and activities will have to be cut. On the other hand, expansionist views claim that the crisis may create challenges for NSAs due to the need to develop innovative policy measures and due to the institutional re-arrangements that are taking place in societies due to the crisis.

Taking into account the reductionist approaches to the issue we can anticipate that the main impact of the current financial crisis on the NSAs function is on their operational capacity and possibility to develop their activities. This means that the reduction of public spending will automatically affect the possibility of the NSAs to plan and implement their activities due to budget cuttings, reduction of public spending.

But NSAs budgets will not only be reduced to reductions in public spending. They will also be reduced due to the reductions to the private budgets allocated for ethical and social purposes. Private sponsorship of NSAs activities will also be reduced to the fact that the turnover of those companies will also be reduced. This means a linear connection between state budgets shortcuts, reduction to private consumption and change to consumption patterns, limitations to the private sector and, finally capacity of the sector to contribute to NSAs activities.

The impact of the negative trends has already been faced by some of the major humanitarian and development NGOs working in developing countries of the Third World as well as with marginalised groups in their own countries. These trends are well documented in the testimonies of a series of NGO officials in the text that follows (Global Policy Forum, 2008):

“Some of the biggest development and humanitarian NGOs are laying off staff or revising programmes for 2009 as their income streams flatten because of the global financial crisis. Fundraising experts of three of the world's top NGOs - Oxfam GB, Save the Children UK and World Vision USA - said programme growth will slow in 2009 as a result of the squeeze. "The growth we had assumed when putting plans together a year ago is not materialising," John Shaw, director of finance and information systems at Oxfam GB, told IRIN. "The overall picture is essentially flat." Oxfam had envisaged five to six percent growth over 2009-10, but has now revised this to zero. Some of the biggest reductions are coming from corporate donors in the financial sector, NGO staff told IRIN. "The fall-off with corporate started six to nine months ago," said Tanya Steele, supporter relations and fundraising director for Save the Children in London. "The financial services and investment banking sector have been very generous in the past but we know it will be a tough financial

year for them going into 2009. We'd expect [funding from them] to be flat or potentially decline going into 2009." "Growth from corporations won't be as much so we won't be scaling up our programmes as we'd want to do," Robert Zachritz, World Vision's director of advocacy and government relations, told IRIN from Washington, DC. As a result, NGOs such as Save the Children will not be able to make substantial investments in existing or new programmes as they had hoped. The three agencies have an annual income of US$3.1 billion".

In such a reductionist framework NSAs are expected to overall adopt an introvert tendency comprising of the following elements:

- Reduction of costs , through staff and other expenses reduction;
- Reduce the scope of their activities both in terms of the numbers of beneficiaries they are approaching as well as the geographical scope of their activities
- They tend to act as mere implementators of state policies and measures without any possibility for intervention. NSAs tend to become service providers.
- They reduce their lobby and advocacy potential with limited possibility to influence state policies and initiatives.

On the opposite site, expansionist approaches consider the current financial crisis as a challenge which creates a series of potentials and possibilities for NSAs. In this framework NSAs will adopt an extrovert attitude to overcome the crisis effects on their performance. More precisely, NSAs:

- Will adopt innovative approaches and techniques to the overall scope of their function including fund raising as well as implementation of activities. New Technology will have to play a serious role in this endeavor.

New forms of increased networking via partnerships , collaborations and, why not consortia will appear in order to overcome some of the economic deficiencies that may appear due to the crisis. Through those new forms of "working together" NSAs will achieve economies of scale, thus reducing operational and implementation costs, share of knowledge and expertise thus enhancing their position in the market as well as enhancing their institutional position through joint lobby and advocacy initiatives. As Powell (2009) states:

"Here in the UK, development and environment NGOs have come together with the Trades Union Congress in an unprecedented coalition (which, in the name of transparency it should be stated that the author is a part of), initiated by the Bretton Woods Project. The Put People First coalition (PPF) has come together around a short manifesto highlighting jobs, social justice and the environment… Similar networks and coalitions have formed across Europe. Brussels-based groups Eurodad (the European network of NGOs working on debt,

development and poverty reduction) and CONCORD (the European Confederation of Relief and Development NGOs) have started to work with some European trade unions at National and Supra-national level… At the international level, the key cue for NGO policy positions comes from agreed positions at the World Social Forum (WSF) in Brazil, earlier this year. The WSF attempts to bridge the (sometimes elusive) divide between NGOs, trade unions and social movements… In the coming months the ability of all of these NGOs to sharpen and deepen their analysis of financial sector issues, and their capacity to communicate these ideas to a wider audience and build broad-based movements for fundamental change is critical if the crisis is to be transformed into opportunity".

- New opportunities for lobby and advocacy will appear due to the gaps the crisis will create in the field of social services, such as health, unemployment, youth policies, etc. The need to improve and develop social policies reflecting the new reality will create possibilities for new state-NSAs collaboration and partnerships, thus possibilities for lobby and advocacy. NSAs may find the way to influence the institutional policy-making process more than ever. Such lobby and advocacy will further enhance NSAs credibility and institutionalization within local and national communities. In this context the European Antipoverty Network (EAPN) has already expressed their worries on the EU policies to advert the extreme poverty the EU is facing by stating that (Euractiv, 2011):

"Austerity measures and public spending cuts are making life worse for the poorest members of society, whose plight is being "systematically ignored" by national and EU policymakers, according to anti-poverty campaigners".

EAPN is putting pressure on the European Commission and EU member states to carry out social impact assessments of their policies and budgetary decisions, including the crisis and recovery packages being developed by national governments. EAPN is calling on the EU and its member states to give priority to protecting the needs of the most vulnerable groups, notably by maintaining decent levels of social protection, preserving public services, and reinforcing their health and education systems.

- NSAs will have to move ahead in new, non-traditional forms of initiatives and fields of interventions. Financial crisis has also brought forward a series of questions concerning areas such as: global governance; consumption patterns; the emergence of newly excluded social classes; the behavior of financial institutions, including banks, etc. Those issues have traditionally been out of the scope of social NSAs. This is also a new field of initiating activities and new possibilities may emerge. It is characteristic that NSAs have already activated a series of initiatives towards this direction with increased participation

(C0NCORD, 2008). In this framework Mike Mathias, Chairman of the political forum CONCORD (European NGO Confederation for Relief and Development), explains "the European model of development must be reconsidered from scratch. The planet can not bear the consumption of the economically privileged populations of the world. The current model based on economic growth alone does not allow better distribution of wealth".

- The crisis has brought forward a series of important social challenges such as severe increase in unemployment, severe reductions in public spending in the social services sector, etc. Consequently, the role of the state and the possibility to intervene is limited. NSAs will have to cover the gap. This also provides an opportunity for NSAs to influence the operational mode of state intervention.
- Funding opportunities will also appear due to the fact that the private sector will also attempt to establish extrovert marketing policies in order to overcome the financial crisis and the reduction in consumption patters.

This is the case of some of the biggest NGOs which are already in the phase of developing innovative techniques in terms of formulating their strategies in fundraising, or they see marketing opportunities due to lower prices in advertising (Global Policy Forum, 2008):

“NGOs are trying to innovate their way out of the financial squeeze. Some agencies, such as Oxfam, aim to increase funding from institutional donors which they see as being steadier in the long term. Save the Children is trying to carve out more funds from wealthy individuals. "It will be a competitive market but I cannot believe we won't grow in the next four to six years," said Steele. While corporate funding is dropping off, lay-offs provide an opportunity for redundant staff from the corporate sector to volunteer for non-profits, putting their skills to good use, said Steele. "While corporate money is diminishing, that does not mean the relationship with these companies has to come to an end." And Steele hopes that drops in television advertising costs - one effect of the world credit crunch - will mean agencies such as Save the Children can now better afford to run direct marketing campaigns on television. But on the whole, many humanitarian and development NGOs are revising down their fundraising plans. Aid agencies are less likely to be knocked down if they plan ahead, said Oxfam's Shaw. "We have been revising our plans over the past six months. If we have to take knee-jerk decisions these won't be as effective as they will be if we plan for the future"”.

The above assessment of the various approaches that scholars and practitioners perceive the impact of the current financial crisis on the role of NSAs demonstrates the

spectrum of views on the issue. We will now see the broad context of the framework in which Greek NSAs have to operate, that being the elements of the Greek economic crisis.

4. The Greek crisis

The Greek economy has the structural characteristics of a "weak economy" (Sklias, Galatsidas, 2010). During the last decades, political weakness to apply policies that create a stable and powerful economy, based on strong-expanded production base, have led the economy to occasional developmental waves based on foreign factors. This was unsustainable and did not provide the economy a stable economic basis. The effects of structural weaknesses and the inefficient economic policies have been sharply accentuated during the international economic crisis. The following indicators (Hellenic Statistical Authority, 2011) now characterize the economic crisis context in Greece:

- Gross Domestic Product the for 2nd quarter of 2011: - 6.9%;
- Unemployment Rate: 16.4% for the first quarter of 2011, with unemployment rate for the ages 20-24 years reaching or exceeding 40%;
- Industrial Production Index: -13.1% for the period June 2010-June 2011
- Turnover index in retail trade: -8.8% for the period May 2010-May 2011
- Building activity: -32.3 for the period April 2010-April 2011;
- Reduction (3.3%) to the Public Investment Program, that is the public funds dedicated to investment initiatives including the state cofunding for the implementation of the EU funded structural programs (6.2 b euros), the main and probably sole development initiative in Greece for the time being, at least, while 2.5 billion for all other state initiatives and state funded projects. The program is expected to be reduced by 300 million euros in 2011 in comparison to 2010, that is from 9b euros in 2010 to 8.7 billion euros in 2011(Kathimerini, 2010).
- Salaries reduction in the public sector (at least two wages per year have already been lost);
- Tens of thousands of contracted workers, especially in the broader public sector, including state companies and public authorities have not seen their contracts renewed.
- Public deficit account for the first six months of 2011: 15.513 billion euros in comparison to 12.449 billion euros of last year (Ministry of Finance, 2011)!
- Expenses of central government have been increased by 7.1% in comparison to 2010. This has been due to increase public debt loans repayments, increased contributions to state insurance funds due to reduced social insurance income, and increased payments to Public

Manpower organization for payments against the unemployment grants which have been increased due to high unemployment rates (Ministry of Finance, 2011a)! Considering that state income has also been decreased when comparing the same periods it is more than obvious that the Austerity measures do not have an impact on state accounts, on the contrary they seem to act retrospectively and against the social cohesion in the country.

- Public debt to private contractors: 6.629 billion euros.

However, one should assess the current economic crisis in Greece and its impact, not only on mere numerical terms but also in a broader social, political and institutional context.

Sklias (2011, pp. 67-76) argued that the Greek crisis should be seen in a historical context rather than the result of failed recent economic policies. Restricting our analysis in the post 2004 economic policy performance leads us to misleading and incomplete conclusions as well as wrong policy recommendations for the future.

The same is the case when we attempt to assess the economic reality of the post 1980 era by adopting mere normative macroeconomic indicators and framework analysis. Restricting our analysis to such indicators we can wrongly anticipate the fact that Greece satisfied all the economic criteria to avoid the 2008 crisis. Nevertheless, this has not been the case and the country is under the Troika supervision, although one can easily observe that some of the crucial economic indicators are in a much better stake comparing to the ones of other EU countries.

The Greek crisis can be seen as the result of inadequate institutional building and poor political performance the last 30 years (Koniordos, 2010). Europeanization and modernization of the 90's have not been supported by the necessary institutions. The gap between typical and real modernisation policies is more than evident. The political system of the 90's has very much been based on the clientelism and premature characteristics of the 80's without any notion of innovation and political development. The issue has also been exacerbated by the incomplete framework of the EMU mechanism which was constructed in such a way that could neither predict and retain institutionally weak countries such as the case of Greece from distortive policies nor provide any kind of incentives or motivation for modernisation and political institution building. Finally, high economic performance did not coincide with the low level of political and institutional development in the country which finally led to a crisis that could have been avoided.

Having addressed the main elements of the environment in which Greek NSAs exist and function in Greece, we will now consider their role, that is their possibilities and limitations in the framework of this context.

5. Greek NSAs in the midst of the crisis

The state of play

NSAs in Greece have developed fast over the last decades. Starting from the democratic transition of 1974, they made a noteworthy appearance in the 90s and they have considerably increased in numbers in this last decade too. The availability of funding from European and Greek sources for NSAs to realize projects in the fields of social services together with the increase of the needs for the provision of services has led to the radical increase of the number of NSAs.

However, there are no precise and sufficient data regarding the number and the size of those organizations. According to a survey realized in 2004, 210 organizations have been questioned throughout Greece falling in 10 main categories: 36% of those organizations are active in the field of the protection of the environment, 29.5% work in the field of social welfare and social inclusion, 8.8% in education, 6.6% in international organizations, 6.1% in issues of health etc. Furthermore, almost 80% of all the organizations operate in Athens (Afouxenidis, Leontidou, Sklias, 2004). A 2010 survey conducted by the Harokopeio University in Athens (Harokopeio, 2010), shows that 375 non-governmental organizations work with migrants, which also demonstrates an increase in the number of NSAs. These organizations however do not focus solely on the target group of migrants but they include it as one of their target groups. However, the numbers alone cannot be considered as evidence of a vibrant civil society with healthy and active NSAs. Indeed, we have to be very careful with our conclusions as the landscape of the NSAs in Greece seems to be changing and somehow foggy. Although there are several research attempts and consequent lists of NSAs, many of them include very different organizations or/and they do not provide sufficient data regarding the profile of the organizations they include. In addition to that, we do not have any comprehensive evaluation of the services provided by the NSAs. Nevertheless, all these organizations seek to cover a real gap in the field of social services which as we saw above it widens due to the acute financial crisis and its consequences. Keeping these limitations in mind we can move on to briefly describe the profile and the role of those organizations in the Greek context over the previous years.

Concerning the capacities of those organizations and the level of their development we see that most of those organizations are relatively underdeveloped and poorly organized. According to the findings of the CIVICUS project the results of which were published in 2006, “large institutionalised civil society organisations (CSOs) are few and are not influential in Greece” (Sotiropoulos, Karamagioli, 2006).

Looking for the culture of development NGOs in Greece, meaning by that term the values and main motivation behind the action of these organizations we can identify the following different motivations. Positive values such as tolerance, human rights, gender equality and the promotion of the rights of their target groups appear to be the motive behind the establishment of most organizations of that kind. But taking a step beyond the programmatic level one can notice the lack of a code of conduct which integrates those values and guides the daily operation of the organizations. In practice it appears that a great number of those are more professional organizations which are project rather than pragmatic social vision oriented.

Concerning the capacities of the organizations we should say that they are limited. One indicator that we could use is the low annual budget of the organizations and the number of the projects implemented or/and how many organisations have accessed EU funding within the last ten years and what kind of projects they have implemented. These are only a few. It is characteristic that no more than eight (8) Greek NGOs have been implementing partners of the European Community Humanitarian Office (ECHO), the main EU service to implement humanitarian and emergency relief projects in the developing world. This number has now been diminished to only one which means that there are no organizations who can satisfy the criteria ECHO sets to sign the related Framework Partnership Agreement.

Another parameter in our discussion is the representation of the Greek NSAs within the Greek society and formal participation of the citizens. It appears that Greek NSAs have not managed so far to connect their work directly to the Greek society, although we do have signs that there is (or at least before the crisis there was) a fertile ground for that purpose. There are very few organizations with a constituency through membership. Most of those are affiliated to international organizations such as International Amnesty, Medecins Sans Frontiers, ActionAid etc. and therefore they use the practices, tools and methodologies imported from their big brothers. Polyzoidis also argues that “this sector is small in terms of membership, voluntary performance, beneficiaries and budget” (Polyzoidis, 2009).

The natural consequence of the above structural weakness of Greek NSAs is also their dependence on funding from state sources. This latter element opens the discussion of the next section that is the consequences of the crisis on the NGDOs in Greece.

The consequences of the financial crisis on the Greek NSAs

In the previous parts of the paper we saw some of the consequences of the financial crisis regarding the general environment within which NSAs operate (decrease of the GDP, increase of unemployment rates, cuts on the salaries, increase of taxes etc). To the above it

should be added that the financial crisis has already affected a lot the social welfare state in Greece. If the years after the re-establishment of the democracy in 1974 in Greece sought to expand social insurance coverage, improve the access to social services, balance regional inequalities and reallocate resources towards the needy and the lower income classes it appears that the financial crisis is reversing this process (Yfantopoulos, 2007). Indeed, the austerity packages of the last year lead to the shrinking of the Greek social welfare state. The numbers of those in need namely unemployed, poor, disabled and aged, not to mention refugees and migrants, increase dramatically and the state seems to reduce available resources allocated for their relief and social inclusion (Karatziou, 2011).

The key question is whether NSAs can contribute to the alleviation of those vulnerable groups and the empowerment and participation of the society which will also enhance social cohesion. This latter element acquires significance with the dramatic increase of xenophobia and racism manifested in frequent attacks against migrants and refugees and the increase of right wing groups which lead those activities.

It is also characteristic that nowadays Greek NSAs active in the social welfare sector are now called upon to cover additional needs under extreme poverty conditions. It is characteristic that in 2001 alone (until October 2011) Doctors of the World have received 30,000 new patients in their medical centers located in the underprivileged areas of Athens of Perama and Omonoia, out of whom 30% have been of Greek origin. Previously this percentage did not exceed the 7%. The same trend is also registered by the Praxis voluntary organization. Visits of Greek patients for receiving basic medical services have been increased by 20% and 15% in Athens and Thessaloniki respectively, this year alone (Ta Nea, 2011). We should not that such structures have been established by social welfare NSAs with the objective to cover additional needs of immigrants. Klimaka, an NSA that provides social and psychological assistance to the poor also states that suicide attempts in Greece have been increased y 40% the first 5 months of 2011. The phenomenon is more grave for males between 35-60 years old, meaning among the economically active ones (Klimaka, 2011).

Nevertheless, we will argue that given the conditions related to the NSAs that we described above and the environment within which they operate, the financial crisis has also found Greek NSAs particularly vulnerable. In what follows we provide some evidence that substantiate this argument as we identify the consequences of the crisis over the last two years that the crisis is more evident.

- Suspension of state budget available for Greek NSAs and state payments to Greek NSAs

The crisis started becoming evident in mid 2009 but as the national elections took place in October 2009 it was somehow also covered up. To take but one example, the Hellenic Aid issued its annual call for proposals in July 2009 like every other year but the evaluation process was never concluded. In 2010 it became clear that the Greek state has difficulties to even pay the salaries of the public servants and pensions. Therefore as officials of the Hellenic Aid put it, it was very difficult to determine if there will be funding available for development projects to be implemented by Greek NGDOs. By August 2011 that these lines are written there has been no funding for development projects through NGDOs. In the meantime, Greek MFA has also publicly declared that they will not provide any new funding unless they manage to evaluate all remaining projects files for contracts funded from 2002-2010! Eventually, the crisis and the lack of funding has become the alibi for covering a serious bureaucratic weakness and inability of the structure to make the necessary follow ups.

Similar were the reactions of other Ministries such as the Ministry of Employment and Social Protection and Ministry for Health and Social Solidarity, which used to fund NSAs, too. The delayed payments of ongoing projects in several cases, the radical cuts and possible stop of funding from the different Ministries and State Agencies in other cases have had an immediate impact on Greek NSAs dependent on those funding sources. Many of them cannot finish projects they have already started. Others, cannot plan for the future.

A characteristic example is the one the severe cuts (by 36,8 million Euros, that is 50% of the total budget) in the state budget supporting Non for profit Mental Health Units. It is stated that those cuts will lead to the closure of the 210 Units and 1500 patients will have to move to state psychiatric clinics, which is totally unaffordable and unrealistic (Stylianides, 2011).

- Reduction of operational capacity of Greek NSAs: institutional and operational disorganization of the sector: Consequences on human resources.[3]

Another indicator is the suspended payments of the personnel of organizations in some cases for more than 5 months. This has further negative consequences for the organizations and the people working for them as well as for the Greek society. It has for sure a cost in terms of lost jobs and expertise in Greece. Organizations reduce their staff as they cannot pay their salaries anymore. Reduction of personnel can be well calculated to reach 70% of the initial staff. It is also characteristic that all 15 NGOs we have questioned have reduced their staff (100%), while 10 out of them have been facing delays of at least two months to pay

[3] No official data exist in Greece for assessing the impact of the crisis on NSAs' human resources. Thus, data have been gathered via interviews and discussions with NSAs' staff, managers, ex-staff. This research has been realized in the period September-November 2011.

salaries. Consequently, people who have already invested in this field and developed an expertise look for a job in other fields, if not in other countries. Subsequently, this gradually leads to disorganization of the sector in Greece.

This means a direct impact on the quality of the services provided. Under those circumstances employees look for another job, consequently organizations operate with new-comers or / and volunteers (unemployed people) who will leave their position once a properly paid job is found. The fact that state budget has been elapsed also means that Greek NSAs do not have the capacity to reach EU and international funding since those type of sources also require a national co-funding element.

- Suspension of operations

One more indicator of the impact of the crisis is also the overall suspension of operations of certain organizations. One characteristic example is the Platform of Development NGOs whose members have decreased from 22 in 2008 in 12 members over the last one and half year. The Platform is the official body that represents NGOs active in relief and development operations in developing countries, member of the related European Confederation. .

- Public Mistrust and negative advertisement

Furthermore, the crisis has brought with it lots of suspicion and mistrust which puts in question the legitimization of the NSAs within the Greek society. During the last year many mass media reports refer to the lack of transparency, mismanagement and corruption in the state mechanisms which has led to the unbearable increase of the Greek debt. Given also the dependency of the NSAs on the state funds, several articles have also sought to put on the spot NSAs as corrupt and as having profited from this mismanagement of public money.

- NSAs as mere implementators of state policies

Lately there has been a growing tendency of NSAs to act as implementators of state policies, especially in the field of social welfare. The most recent example is the case of NSAs getting involved in the fight against unemployment. In this framework such non state actors will employ 55,000 unemployed people who will then be allocated to local Municipalities.

- Social re-organization – localization, solidarity, alternative/ trading systems

Having noted the above mostly negative consequences of the crisis on NGOs in Greece, we should not fail to observe that due to the financial crisis various informal civic activities have emerged over the last months, which are difficult to be measured but they worth our attention. They not only articulate arguments relevant to the crisis and its consequences on peoples' everyday lives. Perhaps equally if not more interesting is their

evolution to social movements aiming at improved quality of life through concrete practical actions.

In various towns throughout Greece, informal gatherings of citizens grow to local social movements**.** They initially emerged to protest the austerity measures undertaken by the government as the movement of "indignant" in Syntagma square and many central squares of other Greek cities (https://www.facebook.com/ksipnisame, website accessed in Sep 2011). Then, they started organizing themselves in different ways. For example, they set up networks of Local Exchange Trading Systems such as the *ovolos* social currency in Patra (http://www.ovolos.gr/ website accessed in Sep 2011), the network of exchanges and solidarity with the use of alternative currency in Corfu (http://mpoutsouni.blogspot.com/2011/10/blog-post_7120.html?spref=fb website accessed in Sep. 2011), the first network of farmers from Peloponnese and consumers from Athens (http://agronaftes.blogspot.com/ website accessed in Nov 2011), the village of Anavra in Magnesia: an autarkic community? (http://misha.pblogs.gr/2010/05/anabra-magnhsias-ena-periergo-galatiko-hwrio-isws-kai-na-deihnei.html website accessed in Sep 2011), the movement of a society without money (https://www.facebook.com/groups/kinima/261425273909195/ website accessed in Nov 2011), the network of solidarity and promotion of ecological and alternative activities (http://oikodiktyo.espivblogs.net/ website accessed in Sep 2011). They also established self-help groups such as the Pan-Hellenic Help: Help for those in Need, (https://www.facebook.com/groups/254584861242692/docs/, website accessed in Sep 2011), Alternative community of Tripoli (https://www.facebook.com/enallaktikikoinotitatripolis website accessed in Sep 2011), Working Group on Unemployment of the Open Peoples' Assembly of Holargos-Papagos (http://anoixtisyneleysixolargoupapagou.blogspot.com/2011/11/blog-post_06.html, website accessed in Sep 2011), Network for the provision of information and services to people with disabilities (http://www.liferight.gr, website accessed in Sep 2011) and they created groups of volunteers offering services to people in need like the New Samareitans in Lakonia, (http://neosamaritan.blogspot.com/, website accessed in Sep 2011).

Those initiatives are addressed directly to citizens who are concerned about the causes and consequences of the financial crisis, independently of their political affiliation. They understand the crisis as the failure of the capitalist system which has dehumanized people making them mere parts of a machine which seeks to grow huge profits for elites, banks and multinationals. They are critical of society's current destructive, as they say, consumer-culture

and support a minimalist lifestyle that promotes sustainable living based on the principles of de-growth that is re-evaluation, re-conceptualization, restructuring, redistribution, re-localization, reduction, reutilization and recycling (Latouche, 2007). They argue for the need of a vita contemplative vs. vita practica. Thus, they claim that they will bring back to their everyday lives the values of solidarity, transparency, dialogue, respect between humans and for human rights, respect for ecosystems.

Looking for the interface between these new initiatives and the more "traditional" NSAs, we see that a few NSAs which however had a strong basis within the society (members and volunteers) they continue their work despite the above mentioned challenges and in some cases they are also active in building the capacities of the new informal social movements. The Greek NGO European Network of Women could be a pertinent example of that kind. It is a registered NGO since 1991 and it has developed several initiatives supported by volunteers such as SOS lines for victims of domestic violence and a Time Bank with approximately 200 members (Presentation by Niki Roubani, 5.11.2011). They provide know-how to groups of citizens such as the Open Peoples' Assembly of Holargos – Papagos who initiated their own Time Bank. However, the majority of the "traditional" NGOs are not able to catch up with this development within the society, let alone to feel its pulse and respond to the needs of the people. On the other hand many of the new initiatives are critical towards the majority of the NGOs as depended on the EU or Greek state funding.

It is left to be seen whether and how these mushrooming local initiatives will develop, whether they will acquire a more institutional form, whether they will be able to provide services to the people at the grassroots level and to what extent, if at all, they present another challenge for the more "traditional" NSA structures / service providers.

6. The way forward: some first recommendations

In what follows, we suggest that the crisis could be an opportunity for Greek NSAs to reflect on the situation, organize themselves and address the challenge of the financial crisis. Some recommendations include the following:

1. Time for Self-reflection. Although it is evident that the crisis has hit badly the NSAs in Greece, the latter also share some responsibility about the actual impact of the crisis on their sector as they allowed themselves to be vulnerable to the financial crisis and the subsequent cuts on the funding provided by different state sources. It is thus necessary for the Greek NSAs themselves to evaluate the current situation and carefully conclude about their share of responsibility. One important focus of this discussion should be the structural weaknesses of the sector in Greece.

2. Lobbying the Greek state for necessary policy and institutional reforms with regards to the institutional framework within which NSAs operate in Greece. One thing we know for sure is that there will be cuts on the budget available for NSAs; yet, funding is not the only issue of discussion between the Greek state and the NSAs. More specifically, perhaps it is precisely the right time for the NSAs to put on the table of dialogue burning issues such as the institutional framework within which they operate, issues of financial accountability and transparency in funding projects, evaluation of the implementation, determination of priorities and different key issues for different sectors. This discussion should also encompass the formation of a framework for volunteers, their insurance and the terms and conditions for their work as well as the question of the taxes on donations for work implemented by NSAs etc.

3. Enhancing networking and cooperation within Greece and abroad.

It becomes evident that networking, under the present circumstances of the financial crisis, should be enhanced and well targeted. Many organizations have links with European, Regional and International networks which can provide access to information and knowledge, possibilities for capacity building and also access to lobbying and advocacy work which could influence the formulation of national and European policies. Networking at the EU level can be mutually profitable and clearly there is space for both sides, Greek NSAs and their counterparts to improve the understanding of each other and increase the benefits their cooperation could produce.

7. Conclusions

In the paper we attempt to make a first evaluation of the impact of the Greek financial crisis on the Greek NSAs. Preliminary indications demonstrate that the impact has been severe. First, we claim that we should evaluate the issue in its historical context taking into account the political, social, cultural and economic conditions over time and not only today. This is also due to the fact that Greek civil society and NSAs sector has been facing a series of structural weaknesses before the crisis emerged. Second, it seems that reductionist approaches are better equipped to make us comprehend the new operational framework of Greek NSAs. The financial crisis creates a new environment which makes difficult the operation of NSAs the way they used to work. Existing NSAs need to address the challenge first of all working on their weaknesses and also working for the improvement of the environment within which they provide services.

Finally, it seems that new forms of social (informal) organization emerge out of this crisis which is not only and primarily financial but also a profound crisis of values. It is early

to conclude whether these organisations can become forums of citizens' empowerment and engagement and above all reliable service providers but they present an agenda for future research and analysis. We hope that this paper can be the initiating point for such a research activity.

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Modeling the interaction between firms and institutions in a local context: A game approach

Abstract:
The article presents a simple four player game, between local institutions and local firms, in order to illustrate, dilemmas in collective action problems, and with the intention to propose conditions, for an efficient long term interaction. Game theory helps to identify the options, resulting from the nature and type of the relationships between firms and local institutions. It also identifies how the common features of trust and mutual reciprocity are sustained and unravels their implementation in different behavioral options.

Keywords: Social Capital, Game theory, local development.

JEL Classification: C79, R59.

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1. Introduction: Setting the scene for the role of Social Capital in Local Government-local firms interaction

Scholars and observers have long recognized through in-depth analysis that, local governments vary widely in their ability to establish terms of economic development as well as, in their potential to carry out efficiently the economic objectives assigned to them. Moreover, local government authorities do appear to vary significantly in their ability to forward viable, efficient and long-term partnerships, with local firms in order to attain community development. Social capital (SC) approach, seems to provide a unique way of how the analytical units, (local institutions, private firms), can be jointly studied to explain cooperation/conflicts of development priorities as well as to, uncover hurdles and opportunities, in regional collective action problems, (Heller, 1996; Knack and Keefer, 1997; Krishna and Uphoff, 1999).

Despite considerable criticism against social capital utility, (Durlauf, 1999; Manski, 2000), for being self-contradicted and methodologically weak, (Putzel, 1997), economic science emphasized the role that repeated social interaction, plays in overcoming free-rider hurdles and in reducing agent opportunism, (Ostrom, 1994). Key essays on repeated games, (Abreu, 1988; Fudenberg and Maskin, 1986), underlined why cooperation becomes easier, when agents expect to interact frequently in the future. Thus, solving the existing/potential conflicts between the common interest and each agent's interest is, at the center of the regional economic development debate. Still, skeptics on the value of Social Capital (SC), as a useful analytical tool, (Sobel, 2002), remain in neoclassical school of thought.

Neoclassical and Public choice theories, assigned no fundamental role to social relations per se, focusing instead on the rational options of economic agents, interacting under specific time, and budgetary limits. From the methodological individualism point of view, SC is at best a category of human capital, and is not capable in reducing transaction cost, or in optimizing economic efficiency in a regional context. Based on the principle that economics have nothing to do with social norms, neoclassical writers imply that social capital belongs at best, to a different category of rationality. Even more, they stress that social capital cannot be tested properly, because there is uncertainty and lack of consensus, on its content and fundamental traits. Further, some analysts argue whether the Social Capital tool, contributes anything significant to economic debate, or whether we are just well off studying institutions, reciprocity, networks and trust without combining them in a single concept. As Durlauf mentioned, (1999:2),"one problem with the analysis of social capital is that it is ill-defined, with different authors attributing different meanings to its concept. Part of this ambiguity

concerns whether social capital, is defined in terms of its effects or in terms of its characteristics".

The purpose of this article is, to analyze collective action problems in a local context. To attain this, it draws from two theoretical streams. The first is institutional theory that identifies the crucial dimensions of formal-informal norms, rules and decision making procedures in overcoming trust/transaction cost problems. It recommends strategies that close the information gap, between local governments and firms, and highlights the dynamics of their interaction. The second approach is game theory, which relates different options in collective action dilemmas. The methodological glue, of the two abovementioned approaches is Social Capital formation. The article, argues that SC significantly affects options in the interaction of local institutions with firms, and can positively contribute to no zero sum game situations. In this way the article provides a means of analyzing the influence of institutional settings, (focusing on what has been called bridging and bonding capital), and firms predispositions, (risk aversion, profit maximization), focusing on the options for effective coordination in a game situation.

We argue that neoclassical individual based theories captures partly, how separate economic agents respond to changed incentives, but it cannot capture complex decision-making procedures in local/regional context, such as public supplies, at the level of aggregate interests. Only through repeated interaction, in local business networks that are horizontal, (bringing together private and public agents in partnership agreements), collective action problems involved in providing public goods are being overcome. Facing selfish incentives and forwarding mutually beneficial results is of course not an easy task and involves among others, solving task problems and establishing an efficient framework of rules and behavioral patterns. Our effort is to drive a wedge, between neoclassical methodological individualism and state interventionism, demonstrating that the capacity of economic agents to act towards collective interest depends on the quality and depth of the local social capital. The latter creates common perceptions of economic reality, and simplifies complex and path-dependent decision making processes in local/regional context. Economic agents involved in a network-based economic exchange, switch types of actions from that of daily and ad hoc, operational situation to a constructed rule, making situation, minimizing uncertainty and information ambiguity. In order of course to permit the beneficial role of social capital, in creating permanent and operational synergies, between local institutions and local firms, there is a need for jointly agreed distribution of profits risks and costs, as well as clearly prescribed patterns of expectations.

The article presents a simple four player game, between local institutions and local firms, in order to illustrate dilemmas in collective action problems, and with the intention to propose conditions for an efficient long term interaction. Game theory helps to identify the options resulting, from the nature and type of the relationships, between firms and local institutions .It identifies how the common features of trust and mutual reciprocity, are sustained and unravels their implementation in different behavioral options.

The article is organized in six Sections. After the introduction, the analysis focuses on the definition of social capital and its fundamental features (Section two), proposing a new way of conceptualizing social capital. Section three, discusses the implications of institutional analysis on social capital. Sections four and five apply game theory analysis, on four players. Finally, Section six is devoted to the conclusions, as well as, to the policy significance of the findings being analyzed in the article.

2. On the definition of Social Capital

Several scholars tried to define social capital, (Paxton, 1999; Portes, 1998), underlining different characteristics, such as reciprocity and trust. One group of researchers' gives priority to cultural factors, while others (i.e. neoclassical authors) argue that, value and cultural variables are epiphenomenal to local development.

Fukuyama, (1999:16), argues that social capital can be defined as a set of informal values or norms among members of a group, that permits them to cooperate with one another. Durston, (1998), focuses on an organizational perception of the concept, suggesting that social capital is comprised of formal and informal systems of norms, institutions and organizations that promote trust and cooperation, in communities and also in wider society. According to his view it is capital, because it is a resource that helps to accelerate the accumulation of well-being, and social because it is not the exclusive property of individuals, but is possessed by social groups, and can be a characteristic of entire social systems. A broader and more structural view of social capital, is proposed by Coleman, (1988), who defines it as "a variety of different entities, with two elements in common: they all consist of some aspect of social structure, and they facilitate certain actions of actors-whether personal or corporate actors-within the structure".

Putnam, (1993:167), who is considered the pioneer of the field prefers a society-centered approach, (1995:67), defining social capital as those features of social organization, (i.e. networks, social norms and social trust), that enable participants, to act together more effectively, to pursue shared objectives, facilitating coordination. Social norms and networks

provide according to his study, (1993:166), "defined rules and sanctions for individual participation in organizations". He is highly skeptical, on the role of game theory in social capital analysis, because it "underestimates the ability of cooperative human behavior and actually under predicts voluntary cooperation", (1993:166). Thus, social capital refers to connections among individuals, social networks as well as to norms of reciprocity and trustworthiness that arise from them. Finally, Bowles and Gintis, (2002:1), underline the role of trust arguing that social capital refers to trust, concerns for one's associations, a willingness to live by the norms of one's community and to punish those who do not.

Moreover, a significant option is the selection of the appropriate measurement of social capital. Bjornskov& Svendsen (1997), argue that social capital should be measured in micro and macro level, in order research findings to be a guide for the public policy. Paraskevopoulos, (1998), takes evidence from Greece, and underlines the crucial interaction between the social capital formation and the public policy performance. He notifies that the low level of social capital, explains the rent seeking behavior of strong tied interests groups that restrain state and regional reforms.

According to the abovementioned definitions, the common cognitive framework of social capital seems to, be based on three fundamental pillars, namely, reciprocity, trust and networks of engagement.

Putnam, (1993:172), argues that generalized reciprocity refers to a continuing relationship of exchange, that is at any time unrequited or imbalanced, but involves mutual expectations that a benefit granted now should be repaid in the future. Oakerson, (1993), also suggests that in a reciprocal relationship, each individual contributes, to the welfare of others with an expectation that others will do likewise, but without a fully contingent quid pro quo. Unavoidably than, symmetry seems to prevail, among the economic agents who participate, in long-term reciprocal interaction.

The second key component of social capital, which has been studied in different contexts is trust, (Yamasighi, 2001:143; Hardin, 2006). Several studies by International Bank of Reconstruction and Development, (i.e. Dollar and Easterley, 1999), underlined that investment in capital maximizes its outcome in communities where effective institutions operate, and the level of trust is significantly high. However, trust is considered either as kind of belief or as a behavioral propensity, that increases the probability of choosing cooperative option in social game dilemmas, even in the absence of institutional incentives to do so. Trust is more likely to affect results when coordination tasks become more complex, and specifically when conflicting incentives, hamper attempts to attain a common cognitive

background for collective action. Mutual learning developed through networks and institutions, is essential in building trust among economic agents and promoting reinforcing expectations, in a significant manner. Thus, mutual expectations taking place repeatedly create patterns of behavior, on how risk, profits and cost will be distributed between participating agents. Similarly, norms and rules can define how certain economic exchanges will be realized repeatedly, in the long term and how commitments and punishment, for non compliance will be implemented.

Finally, networks considerably influence social capital, through routines and resolve complex collective action situations. Based on, common behavioral patterns and reputation, they have the ability, to punish and reward their members. Of course, if the network is itself undertaking economic actions, which hurt other players outside of it, there may be positive externalities within the network but negative externalities, (Putzel,1997), to the region and the local society as a whole, (Paraskevopoulos,2001). The latter, based on the stock of social capital in Greece, found that the weaker institutional capacity of the Northern Aegean region compared to the South Aegean region creates significant divergences between the two areas and explains the ineffectiveness of local actors in the North to take advantage of the European Structural funds. Fine, (2001), is also skeptical of whether social capital could face conflictual situations, and thus, of whether it could address the pervasive dynamics of parochial social groups. On the same issue, Putnam, (1993:175), distinguishes between vertical networks characterized of hierarchical and clientistic social relations, based on coercion and force, and horizontal networks characterized by good governance, bringing collaboration in broader communities, by respecting individuality and defining social obligations. To avoid this corporatism and the following vested-interests trap, the article argues that transparency of rules and efficient accountability, can act as guard of last resort protecting from negative spillovers. Thus, networks may act to create common knowledge, of information as well as increase the quality and reliability of third-party monitoring, needed to enforce cooperative dynamic equilibriums.

The article is, in favor of a multidimensional definition of social capital, focusing not just on the outcomes, but also on the sources of its formation. According to this perspective, it is argued that social capital “is the total of formal/informal interactions between institutional and non-institutional agents, influencing decision making policy, risk/profit sharing, routine formulation and cooperative/conflictual options in a regional context. The interactions are not totally embedded but are highly determined by an amalgam of economic attitudes, principles, norms, values, historical experience and cognitive-informational frameworks, in a

local/regional context",(Hazakis,2011a).Information sharing, is critical in removing uncertainty of future agent behavior and in promoting mutual knowledge, about how individuals will react to different collective action dilemmas. Trust and reciprocity result, in a mutually beneficial payoff option, permitting various forms of connectedness and strengthening reputation to achieve collective action.

The abovementioned definition addresses, the problem of how social capital is constituted and transformed overtime. While it presents institutions as a focal unit of analysis, it allows for the fact, that social capital nonetheless can be appropriated by economic agents and that how regional/local institutions, themselves are structured turns in part on their interaction with the agents. The interactions influences heavily behavioral patterns of agents, because a player in a network tends to generate a positive externality, when cooperate and a negative one when zero sum options prevail. Moreover, membership in the created networks can always change, and thus, coupling and decoupling mechanisms are always in place.

The definition also unfolds the weaknesses, obstacles and constraints of social capital maximization, making clear that, all forms of social capital, are not always conceivable and do not always, reap benefits in the medium–term. Thus, the investments made in one time period in promoting mutual reciprocity and general trust, can produce higher levels of return in the long term, even though, the agents involved in creating social capital are not fully conscious of the range and level of their contribution. Further, a given form of social capital that is valuable in facilitating certain economic actions may be useless or even harmful for others. This is because as Storper, (1997), eloquently mentioned, relational assets of local/regional societies are not always tradable, nor are easily substitutable. As a result there is a great variety of local/regional economic trajectories that differ as far as it concerns, how interaction of firms-institutions is structured, and how knowledge is diffused, within local/regional networks.

Finally, according to our view, social capital efficiency depends on five pillars, (Hazakis, 2011a), which are the strength of expectations of the agents involved, the viability of the rules established by social capital, the beliefs of agents on the superiority of decision making procedures governing local/regional economic behavior, the profits/costs/risks assigned to agents and last but not least the available resources mobilized to achieve collective targets.

3. Is Institutionalist approach useful in Social Capital analysis?

Institutionalists refer to social capital, as the full set of links among those facing collective action dilemmas, in which agent preferences, too often end up to suboptimal collective outcomes. Consequently, institutional approach argues that the capacity of various social groups, to act in their collective interest depends crucially, on the quality of institutions under which they reside. Institutions provide considerable deterrents in agents' divergent economic behavior, (Hodgson, 2009), and thus, increase the probability that all of them behave in predictable ways, even when, they come up to temptations to break the trust put in them, (Hazakis, 2010:395). Monitoring the performance of local/regional networks is facilitated by, greater social capital, because all agents are more concerned with their reputation. Vice versa, the trust and mutual reciprocity influences significantly, the long term effectiveness and viability of networks and institutional structures, and constrains local governance from acting arbitrarily. Overall, there is a focus on the interaction, between local/regional structures and economic agents, analyzing how agent behavior, structures performance and economic/social/political environment outcomes, co-evolve in the long term. Within this analytical framework, partnerships (Lowndes and Skelcher, 1998:315), have the potential to increase, resource efficiency, making better use of existing resources by reducing duplication and sharing overheads. They can further, add value bringing together complementary services, and thus, fostering innovation and synergies. Indeed, the doctrine of New Public Management, forwards the idea not only of restructuring local government structures, but also, of expanding private-public partnerships. As the spending, bias places resource-constrained local authorities, under increasing pressure to apply new ways of providing goods and services, horizontal cooperation between local firms and local governments, gathers momentum. Partnerships can use private sector agents, to overcome financial constraints on access to capital markets, and enable more efficient provision of goods, to local societies. It is too common in the last two decades, for local institutions to establish partnership agreements, with local firms in order to facilitate capital inflows, in a region or to jointly contribute, with firms goods/services in local/regional communities, (i.e. social care, education, environmental protection). Which are then the central claims of the Institutional approach, which can be used in Social Capital analysis?

First, differences in per capita incomes across regions/communities cannot be explained solely by the distribution of productive resources, but they depend on institutions and several forms of Social Capital. The latter, is considered an input into the local development process together with the other types of capital. In the same time, it is an output

enforcing other types of capital. As Putnam states, (1993a:36),"Social Capital enhances the benefits of investment in physical and human capital".

Secondly, regional/local markets are socially constructed and thus economic exchange is embedded, (Hazakis, 2011b:182), in network features such as trust, mutual reciprocity and cooperation, (Granovetter, 1985).The key features weave together, economic agents and institutions in cognitive frameworks of understanding economic environment and create routines, norms and values for economic action. Edquist, (1997:20), mentioned clearly this embedness stating that "when innovating, firms interact more or less, closely with other organizations; they do so in the context of existing laws, rules, regulations and cultural habits".

Third, path dependence produces different forms of Social Capital and economic behavior, diversifying the content of decision making mechanisms in regional/local context. Path dependency, is not just the transmission in time of our accumulated stock of knowledge (Hayek, 1960:27), neither a lock-in mechanism, but is according to North, (1990:98),"a way to narrow conceptually the choice set and link decision-making through time. It is not a story of inevitability, in which the past neatly predicts the future". The role of adaptation and learning mechanisms is vital, making firms and local institutions interdependent, and forwarding cooperation, instead of conflict in collective action dilemmas. Of course, interactive learning demands receptivity, that is absorptive capacity of firms based on common knowledge and mutual trust. The greater the interaction between firms and institutions, the more dynamic and fruitful will be the knowledge outcome.

Fourth, institutions not only create Social Capital, but also affect its mobilization through partnerships with the private sector. In this way institutions, do internalize the negative externalities, stemming from uncooperative behavior and action. Indeed, the quality of network ties, has a clear impact on the circulation of information and knowledge, taking of course into serious consideration, (as it has already been mentioned in section two), that long standing lock-in mechanisms in networks, could also prevent innovation, encouraging self-referential agent behavior. As Cheshire and Gordon underline, (1996:388), "a relatively specialized urban economy with a high degree of integration among long-established businesses, may be the most promising economic base for the organization of competitive activity, but that activity, will tend to reflect the perceptions and interests of those particular businesses, rather than, a strategic view of current competitive prospects". Within these networks, routines of economic behavior, as untraded forms of interdependence between local/regional economic agents, constitute the relational assets in a regional economy. These

assets are not freely reproducible, from one local/regional society in another, and access to them, is determined partly, through network participation. Clearly than, the institutionalist approach claims that local/regional development involves, a mixture of exogenous and endogenous economic assets, and constraints as well as Social Capital. The role of public-private partnerships in the networks, increase options for economic agents, and enhances the potential for adaptation through joint responsibilities, and common cognitive frameworks of understanding. However, the key issue is how to shift from traditional hierarchical perception of economic governance, (i.e. strong government intervention or autonomous firm action), towards terms of mutuality and interdependence, between economic agents and local institutions. The challenge is how, to develop cooperative options, in which interactive economic coordination could draw, in both local institutions, and an enlarged group of local economic agents.

Within this analytical framework, the necessity for local actors is to devise an effective mechanism that can reduce the transaction costs in the market, (Feiock and Park, 2005). As Williamson notifies (1981:552), "transaction cost becomes larger by the disability of parties, to operate their exchanges harmoniously, and to avoid misunderstandings and conflict that lead to delays, breakdowns and other malfunctions".

Game theory provides strong insights in the process of actor's selection to protect their interests (Nash, 1953; Sarafopoulos, 2009). However, the perspective of cooperation through institutional collective action is a crucial issue. Institutional collective action has the advantage of decreasing the transaction cost, and compensating partisan's uncertainty (Feiock, 2007; Andersen & Pierre, 2010). The interplay between local actors, takes the form of a static game in order to outweigh risk and uncertainty, and to secure associates shares, (Hazakis & Ioannidis, 2011).

4. Methodological Issues and Hypotheses of the Game

A game between four agents, namely two local governments and two firms, is illustrated in order to scrutinize the options of collaboration and conflict, in the market of local public supplies. The game proceeds in two stages. In the initial stage, local governments select the price, and then firms choose the quantity of the goods. Social capital and local investment multipliers of the two communities, take a crucial part in the formation of market equilibrium. High levels of social capital and high values of local investment multiplier, decrease the price of local public goods, and thus increase the equilibrium quantity. Social

capital is a multidimensional term, (see Section 2), whereas the multiplier of economic process is the typical Keynesian one, adjusted to local activity.

In the second stage, local institutions and firms interact in a static form game, confronting the options of collective action and conflict. The latter, refers to free rider strategy of both players that increases the transaction cost, and sequentially, increases the prices of local public supplies. Therefore, the adoption of collective action strategies by local governments and firms as well, has beneficial influence in local utility. The central argument of the game is that, apart from local economic activity, social capital has also decisive impact, on the effective provision of public supplies.

The basic assumptions of the game are the follows:

a. Local governments and firms are rational actors, and their strategies are constituted to protect their interests.

b. Both actors are not totally embedded in local communities but their strategies are determined by an amalgam of economic attitudes, norms, principles, norms, values, path dependence and cognitive frameworks.

c. The target of local governments is to maximize counties' utility and the aim of enterprises is to minimize cost.

d. Transaction cost is the key element in the game formation, as the cooperation strategy diminishes its value whilst in contrast defect strategies increase it.

e. The Nash equilibrium in the market accrues, as an option of high levels of social capital, local investment multipliers and low levels of transaction cost.

f. The indexes of social capital, local investment multiplier, transaction cost and transportation cost have positive signs.

5. Analysis of the Game between Local Governments and Local Firms

The interaction, between local governments and firms in a specific region is depicted as a normative form game. Two local governments, N= (LG_i, LG_j), and two firms, N= (F_i, F_j), are the institutional agents of the game. Local governments' payoff is the maximization of social welfare, of their counties. Additionally, firm's payoff is the minimization of their total cost.

5.1 Stage One

High levels of local social capital, and respectively, significant levels of local investment multiplier, increase the quantity of goods that the local government, offers to the community. Every local community, has motives to generate the most contingent level of social capital (σ^*), and the most advanced local multiplier (λ^*) as well, in order to achieve lower relative prices for its public supplies.

5.1.1 Strategies of Local Government i

It s taken for granted, that the main objective of two neighboring local governments (LG_i, LG_j,) is to satisfy the needs of their counties. Therefore, the activity of local administration i (LG_i,), is governed, by a utility function subject to a soft budget constraint i.e. max U^i_{LG} = (g , k) (1), $\Rightarrow$ $U^i_{LG} = Q^a_g Q^\beta_k$, s.t. d+s+t= $\sigma^i p^i_g Q^i_g + \lambda^i p^i_k Q^i_k$ (2), where $0 \prec \alpha \prec 1, 0 \leq \beta \prec 1 and \alpha + \beta \leq 1$. Moreover, g denotes the public consumption goods that the local government offers to citizens, and k indicates the capital goods, of local government's participation, in investment projects. It is notified that, each local government has two suppliers for every single good. Budget constraint accrues, from the funding terms of local government, and its components are the subsidies from the central government (s), the local tax revenue (t) and the loans that might take (d). Let d+s+t= R^i_{LG} and for simplicity, it is assumed that the total amount of local budget constraint is exogenously given. Further, the first term of the right hand side in (2), signifies the expenditures of local government in public supplies, and the second term symbolizes the investments.

The crucial determinants for local government's budget constraint are σ and λ . The former coefficient is an index of social capital that has been constituted, within local community. The latter, is the investment multiplier that is determined, by the efficacy of capital. It is assumed that σ >0, and $\lambda \geq 0$. The function, of the two indexes is determined endogenously and it is an issue of both local community and local government.

The composition of σ is determined, by the levels of trust, reciprocity, civic engagement and voluntary participation, in organizations and networks of local community. The index of social capital is the algebraic expression, of the multidimensional definition of social capital that is given in section 2. It is assumed that, higher levels of the aforementioned determinants induce high level of social capital. The construction of social capital index is based, on local communities' functions and its attitude demonstrates the willingness to

cooperate. Evidently, σ is an issue of institutional embeddedness that refers to the interaction level between markets and institutions. As Hazakis states (2010:393), this interaction enhances economic and social welfare and counterweighs uncertainty.

On the other hand, the local multiplier is the typical Keynesian multiplier of public expenditures, but is constituted at local level. Thus, λ is equal to $\frac{1}{1-\beta}$, and its final value is a crucial determinant, of regional development as it explains the uneven interregional development, (Faggian & Biagi, 2003). However, the most significant suggestion is that local or regional multipliers depend, on the level of local income, and on variables like trust of entrepreneurship in local proceedings (Dow, 1982).

As a result, the Langrage function then takes the form,

$L= U^{i}_{LG} + \theta[R_{LG} - \sigma^{i} p_{g} Q_{g} - \lambda^{i} p_{k} Q_{k}]$ (3), where θ is the langrage multiplier. The first order conditions are: $L^{i}_{g} = \alpha Q_{g}^{a-1} Q_{k}^{\beta} - \theta \sigma^{i} p_{g} = 0$ (4), $L^{i}_{k} = \beta Q_{g}^{a} Q_{k}^{\beta-1} - \theta \lambda^{i} p_{k} = 0$ (5), $L_{\theta} = R_{LG} - \sigma^{i} p_{g} Q_{g} - \lambda^{i} p_{k} Q_{k} = 0$ (6).

Sequentially, from (4) and (5) it is derived that $\frac{Q_k}{Q_g} = \frac{\beta\sigma^i p_g}{\alpha\lambda^i p_k}$ (7). This equation states, that the Pareto optimum in the distribution of local public supplies, is a matter not only of the relative ratio of prices, but also, depends on the fraction of social capital, to the investment multiplier, as well as on the parameters α and β . Solving in (7), the demand function of the two different public goods is expressed as follows:

$Q_{g} = \frac{\alpha R^{i}_{LG}}{(\beta+\alpha)\sigma^{i} p_{g}}$ (8), and $Q_{k} = \frac{\beta R^{i}_{LG}}{(\beta+\alpha)\lambda^{i} p_{k}}$ (9) .It is evident that, the hessian matrix has positive sign so it can be stated that local government maximizes its utility[6]. From (8) and (9), it is also clear that low levels of social capital, and local investment multiplier, increase the demand of public goods and vice versa.

[6] See appendix, for analytical algebraic operations. The respective equilibrium, for local government j, accrues by similar way.

5.1.2 Strategies of Firms and the Equilibrium in the Market of Local Public Supplies.

In the two counties (i, j), two firms operate (F_i, F_j), producing two goods, (q_g, q_k). Firm F_i, is located in the territory of municipality i, and firm F_j is located in municipality j, respectively. It is assumed that, the interaction of firms is based on Stackelberg's model (1934), whereas each firm is the leader in the territory of its origin. Consequently, firm F_i, is the leader in the market i, and firm F_j is the leader in the market j. The leadership implies the advantage, of the first movement in the game. Under the game, each firm has the motive to be a follower in the market of the county, where it has not headquarters. The validity of this option, verifies that the final outcome of the interaction, between the two firms is not a zero sum game.

Apart from, the transportation cost, the comparative advantages of the leader and the follower in each market, are based on transaction cost mechanisms. Low levels of transaction cost, decrease the price equilibrium in the market of local public supplies, and as a result increase the quantity equilibrium.

The sequence of movements in the market i of good g, is the following: Firm F_i chooses the level of quantity q_g^i, and then firm F_j, chooses quantity q_g^j. The total quantity level of good g, in this market i, $q_g^j + q_g^i = Q_g$ (10), constitutes the supply side, in local supplies market. The result is that the local government LG_i, byes its supplies from both firms. The costs of each firm for good g are:

$C^i = c_g^i + \tau_g^{ii}$, (11), $C^j = c_g^j + \tau_g^{ji}$ (12) ,

where c_g^i is the transportation cost of good g from firm F_i to the city i, c_g^j is the transportation cost of good g from firm F_j to the city i, τ_g^{ii} is the transaction cost of firm F_i, when negotiating with local government i, and τ_g^{ji} is the transaction cost of firm F_j, when negotiating with local government i . Transportation cost, is a linear function of the distance between firms and city i. It is apparent then, that for the market i, firm F_i, has lower transportation cost that firm F_j. In other words, this means that firm's location is taken for granted.

The profit of firm F_i, is given by the equation, $\Pi_i (q_g^i, q_g^j) = q_g^i [P(Q) - C]$, (13), and based on (8), it is clear that, the demand function takes on the form $P_g(Q) = \dfrac{\alpha R_{LG}^i}{(\beta+\alpha)\sigma^i Q_g}$

(14) and $Q_g = q_g^i + q_g^j$ (15). As a result, the best response of firm F_j in a given quantity of firm F_i becomes the following:

max π_j (q_g^i, q_g^j)= max q_g^j [$\frac{\alpha R_{LG}^i}{(\beta+\alpha)\sigma^i(q_g^i+q_g^j)}$ -($c_g^j + \tau_g^{ji}$)] (16), and solving it by taking the first differential to q_g^j,the result is $q_g^j = \frac{\alpha R_{LG}^i}{2\sigma^i(\alpha+\beta)(c_g^j+\tau_g^{ji})} - \frac{q_g^i}{2}$ (17), given that $q_g^i > \frac{\beta R_{LG}^i}{\sigma^i(\alpha+\beta)(c_g^j+\tau_g^{ji})}$.

Sequentially, F_i is informed about the best response of F_j, and accordingly, deals with the following problem: max π_i $(q_g^i, R_g^j(q_g^j))$= max q_g^i [$\frac{\alpha R_{LG}^i}{(\beta+\alpha)\sigma^i(q_g^i+q_g^j)}$ - $c_g^i + \tau_g^{ii}$] (18). Using (17), it is found that $q_g^i = \frac{3\alpha R_{LG}^i}{2\sigma^i(\alpha+\beta)(c_g^i+\tau_g^{ii})}$ (19), and putting (19) into (17) it is derived that $q_g^j = \frac{\alpha R_{LG}^i}{2\sigma^i(\alpha+\beta)}[\frac{1}{(c_g^j+\tau_g^{ji})} - \frac{3}{2(c_g^i+\tau_g^{ii})}]$ (20).

In order to find, the total quantity in the market we aggregate (19) and (20) and find that $Q_g = \frac{\alpha R_{LG}^i}{2\sigma^i(\alpha+\beta)(c_g^j+\tau_g^{ji})} + \frac{3\alpha R_{LG}^i}{4\sigma^i(\alpha+\beta)(c_g^i+\tau_g^{ii})}$ (21). Obviously, it can be stated that high levels of social capital in local community i, decrease the total quantity of local consumption goods. The final price of good g in market i, is given if we equate (21) with (8), $p_g^i = \frac{4(c_g^i+\tau_g^{ii})(c_g^j+\tau_g^{ji})}{[2(c_g^i+\tau_g^{ii})-3(c_g^j+\tau_g^{ji})]}$ (22)[7]

From equation (22), it is evident that the final price for the local government, increases, due to the transportation and the transaction cost. However, transportation cost is a matter of distance between firms' locations, and city i. Thus, it is difficult to be reduced in the short run, because the investment in infrastructure has long run spill over effects. In contrast,

[7] The equilibrium in the other markets of the game (market of good k in city j, market of good g in city I and market of good g in city j), accrues by similar way.

transaction cost should be reduced, allowing local governments to enjoy lower prices, and firms increasing, their quantities. Even though, the transaction cost of firm i, in the denominator, may reduce the price for local government i, the respective of firm j, increases it. Therefore, a mechanism is required in order to reduce significantly the transaction cost.

5.2. Stage Two: Strategies of Collective Action and Conflict between Local Governments and Firms.

The simultaneous adoption of Collective Action Strategies, for local governments and firms as well, decreases the transaction cost, and increases public supplies quantity in the market. The crucial factor in this game is the level of cooperation between local government and firms. We assume that, firms form an association, in order to reduce the transaction cost, and consequently, in order to produce a higher amount of the goods. Accordingly, local governments ought to cooperate, targeting the reduction of transaction cost in the market. The application of collective action strategies, by institutional actors, (firms and local governments), contributes then, to risk aversion and to profit maximization.

In table 1, the coefficient ω_{LG}, denotes the level of reduction in transaction cost, i.e. the lower the coefficient, the bigger the reduction of transaction cost[8]. Consequently, if $\omega_{LG} \to 0$, a low level of transaction cost, is signaled and contrary if $\omega_{LG} \to 1$, a high level of transaction cost is generated, raising prices and lowering quality. Therefore, ω_{LG} denotes overall, the level of non cooperation, between the two governments. This is the option for the respective ω_F, which signifies the level of non coordination, between the two firms. This mechanism is depicted in the next double entry matrix, where a static game between local governments and firms is composed.

[8] This hypothesis is consistent with the fact, that the increase of transaction cost has negative effects for price and quantity level as well.

Table 1: Static Game between Local Government and Firms

		Local Government	
		Collective Action	**Free Rider**
Firms	**Collective Action**	$\omega_F \frac{2\tau_g^{ii}+\tau_g^{ji}}{2}$ $\omega_{LG} \frac{2\tau_g^{ii}+\tau_g^{ji}}{2}$	$(1-\omega_F)(2\tau_g^{ii}+\tau_g^{ji})$, $(1-\omega_{LG})(2\tau_g^{ii}+\tau_g^{ji})$
	Free Rider	$(1-\omega_F)(2\tau_g^{ii}+\tau_g^{ji})$, $(1-\omega_{LG})(2\tau_g^{ii}+\tau_g^{ji})$	$2\tau_g^{ii}+\tau_g^{ji}$,$2\tau_g^{ii}+\tau_g^{ji}$

Due to the abovementioned game, the agents ought to choose the strategy that minimizes the transaction cost, and therefore increases their payoffs. This means, that picking the optimal strategies, is a matter of transaction cost minimization for both players. Thus, the comparison of payoffs, takes place in the second stage of the game, through the selection of minimal and not maximum payoffs. The minimal payoffs here are determinants, of higher payoffs in market of public supplies. The potential equilibrium is described as follows:

1. When firms, choose the collective action strategy, local government plays collective action if $\omega_{LG} < \frac{2}{3}$. If still $\omega_{LG} > \frac{2}{3}$, then local governments has more incentives to choose free rider strategy.
2. When firms play free rider, then local government responds through collective action. This is apparent, as the presence of ω_{LG} <1 brings in lower transaction costs.
3. When local governments strategy is collective action, firms respond in the same way if $\omega_F < \frac{2}{3}$. On the other hand, if firms do not cooperate, their option is clearly a free rider one.
4. Finally, when local governments follow free rider attitude, then firms pick up collective action.

Evidently, institutional Collective action between local governments and firms has the potential to improve the efficiency, of public supplies market. The key target is the, minimisation of transaction cost and avoidance of information vagueness. High levels of

social capital and local investment, combined to low levels of transaction cost promote efficiency, in the market of local public supplies.

5.4 Institutional Collective Action between Local Governments.

The selection of collective action strategies, between local governments is dependent on final values of σ and λ coefficients. Diversifications or similarities, in social capital and local investment activity could be determinants of institutional collective action, for neighboring institutions. Thus, the Nash equilibrium in the market of public supplies can be achieved, only if local communities, have the motive to cooperate and to trade social capital with investment activity. The central argument thus, is that the adoption of collective action strategies for both local governments (LG_i, LG_j,), guarantees lower transaction cost and higher payoffs for local institutions and firms.

Within this framework, the focus is on the dynamics that lead to a high level of cooperation, between local governments and firms. Due to the game presented above, the answer lies in levels of σ and λ. Different levels of these coefficients are signals, for collective action and free rider strategies for local governments, as depicted in table 2. It is underlined that high values of σ and λ are those that exceed the 1.5, and respectively, low values are those that are between 0 and 1.5.

Table 2: Collective Action (CA) and Free Rider (FR) Strategies according to σ and λ values

	Local Government i				
Local Governments j		High σ, High λ	High σ, Low λ	High λ, Low σ	Low λ, Low λ
	High σ, High λ	CA, CA	CA, FR	CA, FR	FR, FR
	High σ, Low λ	FR, CA	FR, FR	CA, CA	FR, FR
	High λ, Low σ	FR, CA	CA, CA	FR, FR	FR, FR
	Low λ, Low σ	FR, FR	FR, FR	FR, FR	CA, CA

The adoption of collective action strategies, by local governments obliges local communities to trade social capital with investment projects. In contrast, if free rider strategies prevail, the equilibrium in the market of local supplies is less efficient. Institutional collective action improves levels of σ and λ , lowers the prices of public supplies, and raises the quantity. Obviously, cooperation between local governments favors, lower transaction cost and delivers better conditions in market of public supplies.

According to the table 2, the simultaneous adoption of collective action strategies by local governments, is a matter of levels of σ and λ. Local governments that choose high levels of social capital and investment activity cooperate, advancing welfare. Low levels in local development, drive local communities towards collective action strategies, in order to improve their living standard, through increases in σ and λ. Further, deviations in the level of one of the two indexes, (i.e. high σ_i -low λ_i , low σ_j -high λ_j), are also reasons for institutional collective action. On the other hand, the adoption of free rider strategies dominates, when neighboring local institutions do not have the motive to deal, by swapping components of trust with comparative advantages. Even, when one of the two local institutional agents has the motive to cooperate by paying CA, the other does not, in the absence of favorable for trading, and thus selects FR. The double entry matrix of table 2, states that the adoption of collective action strategies in a local context, leads to improvements in social capital and economic activity. As a consequence, local economic activity is shaped within a no zero sum game. Obviously, strengthening social capital and investment activity, generates conditions of development in local communities.

6. Conclusions-Policy Implications

The preceding analysis made clear that regions/communities face a daunting task in building Social Capital, damaged by perceptions of corporatism, state dependency or market predominance. The interdependence between, economic decision of agents and institutions as well as the existence of externalities and common goods, makes coordination inevitable to forward general economic welfare. Efficient sharing of costs/risks/opportunities provides, an incentive for repeated coordination in handling local/regional public goods provision, maximizing regional/local welfare. Otherwise, in collective action dilemmas, participants may opt for short term maximizing strategies that leave, them all worse off. To achieve this, a broad definition of Social Capital was put forward, arguing that Social Capital is embedded in specific economic-social-political conditions. According to the article, Social Capital provides a common framework of understanding for all participants, enabling them to communicate

easily and efficiently, with one another, avoiding uncertainty and risk, containing high transaction costs and enhancing a culture of mutual reciprocity and trust. Moreover, it includes tacit knowledge, based on daily economic routines, embedded patterns of economic behavior and coupling/de-coupling, mechanisms of agents' inclusion. Social Capital affects, significantly not only the nature of economic interaction but also the capacity of local/regional networks, to upgrade and reorganize local economic activity and provision of economic knowledge, (Duranton & Monastiriotis , 2002).

Institutional analysis has a threefold mandate, on strengthening this framework. First, it should identify the nature and content of public-private agents' interactions in a regional context, developing transparent rules, norms and routines. Second, it is crucially important to capture imperfections and asymmetries of the interactions, supporting the building of strong ties between local firms and local institutions, with the intention of a long term consensus on the basics of local/regional economic development. Lastly, in order to construct common cognitive frameworks, between economic agents and local institutions, more attention should be paid on the learning/adaptation mechanisms.

The main policy recommendation is that, horizontal cooperation characterized by more equitable risk/profit/power sharing among local network participants, is more successful at producing Social Capital, than vertical/hierarchical cooperation. Within this analytical framework, local resources are transformed into local comparative advantages, (Korres et al, 2011:2). Policy implications in this case, might receive the form of preventive actions. Preventive actions include a set of measures that counterbalance, the risks and establish successful conditions of local projects (Hazakis & Mourmouris, 2011:70). Overall, collective action is the suitable response, to problems of local economic underdevelopment. The key issue however, is the realization of this problem from all local actors, according to their share of interests in local proceedings. This integration enforces the dynamics of social capital, and advances maximisation of local multipliers, for developmental purposes.

7. References

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Appendix 1. The Functions of Local Government.

From equations (3) and (4) it is evident that $\frac{Q_k}{Q_g} = \frac{\beta\sigma p_g}{\alpha\lambda p_k}$ (6), and solving (6) due to the prices, we have $Q_k = Q_g \frac{\beta\sigma p_g}{\alpha\lambda p_k}$ (7) and $Q_g = Q_k \frac{\alpha\lambda p_k}{\beta\sigma p_g}$ (8). By successive substitution of (7) and (8), in (2) the indirect demand functions of two products for local government are derived

$R^i_{LG} = \sigma\ p_g Q_g + \lambda\, p_k Q_k$

$R^i_{LG} = \sigma\ p_g Q_g + \lambda\, p_k [\ Q_g \frac{\beta\sigma p_g}{\alpha\lambda p_k}] \Rightarrow R^i_{LG} = \sigma\ p_g Q_g + Q_g \frac{\beta\sigma p_g}{\alpha} \Rightarrow R^i_{LG} =$

$\sigma\ p_g Q_g [1+\frac{\beta}{\alpha}] \Rightarrow R^i_{LG} = \sigma\ p_g Q_g [\frac{\beta+\alpha}{\alpha}] \Rightarrow Q_g = \frac{\alpha R^i_{LG}}{(\beta+\alpha)\sigma p_g}$ (9) the indirect demand function for local consumption goods.

Accordingly, $R_{LG} = \sigma\, p_g\ [Q_k \frac{\alpha\lambda p_k}{\beta\sigma p_g}] + \lambda\, p_k Q_k \Rightarrow R_{LG} = Q_k \frac{\alpha\lambda p_k}{\beta} + \lambda\, p_k Q_k \Rightarrow$

$R_{LG} = \lambda\, p_k Q_k [1+\frac{\alpha}{\beta}] \Rightarrow R_{LG} = \lambda\, p_k Q_k [\frac{\alpha+\beta}{\beta}] \Rightarrow Q_k = \frac{\beta R^i_{LG}}{(\beta+\alpha)\lambda p_k}$ (10), the indirect demand function for local investment goods.

Sequentially we analyze the hessian matrix, in order to study the utility function of local government:

$$|H| = \begin{vmatrix} U_{gg} U_{gk} \\ U_{kg} U_{kk} \end{vmatrix} \Rightarrow |H| = \begin{vmatrix} \alpha(\alpha-1)Q_g^{\alpha-2}Q_k^{\beta}, \alpha\beta Q_g^{\alpha-1}Q_k^{\beta-1} \\ \alpha\beta Q_g^{\alpha-1}Q_k^{\beta-1}, \beta(\beta-1)Q_k^{\beta-2} \end{vmatrix}$$

$$\Rightarrow |H| = \alpha\beta(\alpha-1)(\beta-1)Q_g^{2\alpha-2}Q_k^{2\beta-2} - (\alpha\beta)^2\ Q_g^{2\alpha-2}Q_k^{2\beta-2}$$

$\Rightarrow |H| = \alpha\beta\ Q_g^{2\alpha-2}Q_k^{2\beta-2}\,[\,(\alpha-1)(\beta-1)-\alpha\beta\,] \geq 0$ διότι $\alpha\beta\ Q_g^{2\alpha-2}Q_k^{2\beta-2} > 0$ και $(\alpha-1)(\beta-1)-\alpha\beta = 1-(\alpha+\beta) \geq 0$, άρα $|H| \geq 0$

Further it is $|H_1| = \alpha(\alpha-1)Q_g^{\alpha-2}Q_k^{\beta} < 0$, where $\alpha-1 \prec 0$, $\alpha>0$, and $Q_g^{\alpha-2}Q_k^{\beta} > 0$, so $|H_1| < 0$ and as a result local government maximizes its utility.

Appendix 2. The Problem of Firms

Firm's j, problem is the following max $q_g^j[\frac{\alpha R_{LG}^i}{(\beta+\alpha)\sigma^i(q_g^i+q_g^j)}-(c_g^j+\tau_g^{ji})]$(16) and then,

$$\pi_j(q_g^i,q_g^j)=q_g^j(\beta+\alpha)\sigma^i(q_g^i+q_g^j)[\frac{\alpha R_{LG}^i}{(\beta+\alpha)\sigma^i(q_g^i+q_g^j)}-(c_g^j+\tau_g^{ji})]\Rightarrow$$

$$\pi_j(q_g^i,q_g^j)=q_g^j\{\alpha R_{LG}^i-(\beta+\alpha)\sigma^i(q_g^i+q_g^j)(c_g^j+\tau_g^{ji})\}\Rightarrow$$

$$\pi_j(q_g^i,q_g^j)=q_g^j\,\alpha R_{LG}^i-q_g^j(\beta+\alpha)\sigma^i(q_g^i+q_g^j)(c_g^j+\tau_g^{ji})\}\Rightarrow$$

$$\pi_j(q_g^i,q_g^j)=q_g^j\,\alpha R_{LG}^i-(q_g^{j\,2}-q_g^j\,q_g^i)(\beta+\alpha)\sigma^i(c_g^j+\tau_g^{ji})\}\Rightarrow$$

$$\pi_j(q_g^i,q_g^j)=q_g^j\,\alpha R_{LG}^i-q_g^{j\,2}(\beta+\alpha)\sigma^i(c_g^j+\tau_g^{ji})+q_g^j\,q_g^i(\beta+\alpha)\sigma^i(c_g^j+\tau_g^{ji})\Rightarrow$$

and taking the first differential to q_g^j ,it becomes $q_g^j=\left[\frac{\alpha R_{LG}^i}{2\sigma^i(\alpha+\beta)(c_g^j+\tau_g^{ji})}-\frac{q_g^i}{2}\right]$ (17).

From (17), it is obvious that $q_g^i>\frac{\beta R_{LG}^i}{\sigma^i(\alpha+\beta)(c_g^j+\tau_g^{ji})}$.

Respectively, the maximization problem for firm i, is the following:

max $\pi_i(q_g^i, R_g^j(q_g^j)=$ max $q_g^i[\frac{\alpha R_{LG}^i}{(\beta+\alpha)\sigma^i(q_g^i+q_g^j)}-c_k^i+\tau_k^{ii}]$ (18). Equation (18), is written as

$$\max\pi_i(q_g^i, R_g^j(q_g^j)=q_g^i[\frac{\alpha R_{LG}^i}{(\beta+\alpha)\sigma^i(q_g^i+\frac{\alpha R_{LG}^i}{2\sigma^i(\alpha+\beta)(c_g^j+\tau_g^{ji})}-\frac{q_g^i}{2})}-c_g^i-\tau_g^{ii}]\Rightarrow$$

$$\max\pi_i(q_g^i, R_g^j(q_g^j)=q_g^i[\frac{\alpha R_{LG}^i}{(\beta+\alpha)\sigma^i q_g^i+\frac{\alpha R_{LG}^i}{2(c_g^j+\tau_g^{ji})}-\frac{\sigma^i(\alpha+\beta)q_g^i}{2})}-c_g^i-\tau_g^{ii}]\Rightarrow$$

max $\pi_i(q_g^i, R_g^j(q_g^j)=$

$q_g^i(\frac{1}{2(c_g^i+\tau_g^{ii})}[\frac{\alpha R_{LG}^i}{(\beta+\alpha)\sigma^i q_g^i+\frac{\alpha R_{LG}^i}{2(c_g^j+\tau_g^{ji})}-\frac{\sigma^i(\alpha+\beta)q_g^i}{2})}-c_g^i-\tau_g^{ii}]$and working on the right hand side it becomes,

$$\Rightarrow q_g^i[\frac{\alpha R_{LG}^i}{2(c_g^i+\tau_g^{ii})(\beta+\alpha)\sigma^i q_g^i+\alpha R_{LG}^i-q_g^i\sigma^i(\alpha+\beta)(c_g^i+\tau_g^{ii})}-\frac{1}{2}]$$

$$\Rightarrow q_g^i [\frac{\alpha R_{LG}^i}{(c_g^i + \tau_g^{ii})(\beta + \alpha)\sigma^i q_g^i + \alpha R_{LG}^i} - \frac{1}{2}]$$

$$\Rightarrow q_g^i (c_g^i + \tau_g^{ii})(\beta + \alpha)\sigma^i q_g^i + \alpha R_{LG}^I)[\frac{\alpha R_{LG}^i}{(c_g^i + \tau_g^{ii})(\beta + \alpha)\sigma^i q_g^i + \alpha R_{LG}^i} - \frac{1}{2}]$$

$\Rightarrow q_g^i \ \alpha R_{LG}^i - \frac{q_g^i}{2}(c_g^i + \tau_g^{ii})(\beta + \alpha)\sigma^i q_g^i + \alpha R_{LG}^I)$, therefore,

max π_i $(q_g^i, R_g^j (q_g^j) = q_g^i \ \alpha R_{LG}^i - \frac{{q_g^i}^2}{2}(c_g^i + \tau_g^{ii})(\beta + \alpha)\sigma^i) - \frac{q_g^i}{2} \alpha R_{LG}^i$ .Taking the first differential to q_g^i we have $q_g^i = \frac{3\alpha R_{LG}^i}{2\sigma^i(\alpha + \beta)(c_g^i + \tau_g^{ii})}$ (19).

European Cohesion Policy and the Particularity of the Island Regions

Abstract:

The framework within which development in the EU will occur until year 2020 is set forth in the 'Europe 2020' development strategy, also resting upon the principles of intelligent, sustainable and inclusive development. The spatial dimension of the Europe 2020 strategy is funded primarily via the Cohesion policy—whose priorities include Territorial Cohesion. In turn the Treaty of Lisbon presently in effect sets forth the advancement of Territorial Cohesion as a fundamental objective of the European Union. The particular goals of Territorial Cohesion are: to utilize the advantages of all European territories; to improve the interconnections of all European regions; and to accomplish better management of matters concerning urban concentration and the development of collaborations.

If territorial cohesion is not easy to achieve between contiguous or neighboring regions situated in one or more countries, and if for that reason it is considered necessary to implement special policy measures, territorial cohesion is even less likely to occur in conditions of geographical discontinuity, as is the case of the island regions. The geographical discontinuity of island regions exerts a negative influence on cohesiveness; social and economic life remains fragmented; the capacity to develop activities is determined by their geography rather than by their real potential.

The Cohesion Policy is the principal EU-level policy that endeavors to support the regions that are encountering disadvantages or inadequacies, yet it does not include any provisions aimed specifically at the particularities of island regions. In view of the geographic component which makes discontinuity a permanent feature of island regions, and also in view of the aspiration to fully utilize the potential of all the territorial units of Europe, we consider that it will be necessary to adopt a permanent policy for island development under the EU Cohesion Policy.

This article examines the features and inadequacies of island regions, the announced Cohesion Policy of the next program period (2014–2020) and that policy's alignment with the Europe 2020 strategy; and also endeavors to identify the extraordinary needs of the island regions, needs that will not be covered in the implementation of the said Cohesion Policy.

Keywords: Insularity, island regions, Europe 2020, Cohesion Policy.

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1. The Particularities of the Island Space

The island space presents a diversity of form and particularities that are manifest both among the different geographical units and in the different social and economic features that develop within the boundaries of the island space. The associated geographical entities include the *Island*, the *Island Region*, the *Island Complex* and the *Archipelago*.

Regardless of the breadth of the definitions (Regional Development Institute 2012) of the particular concepts that represent the geographical features of the island space, its social and economic features display an equally diversified overall picture of their demographic, physical, economic and social features, in comparison with terrestrial regions.

The development potential of islands is influenced by a series of facts paramount among which, in terms of their role, are:

- Size,
- Distance from the mainland,
- Existing transport networks,
- Existence of raw materials, and
- The overall level of development of the national economy where they belong.

The influence of these parameters upon the development potential of the islands is greater when the island is small and its distance from other shores is great. Furthermore, the intensity of the said influence upon development, and in preserving the communities of the islands, is determined by the degree of their isolation not only from the mainland but also from other islands of the same island complex.

Despite the fact that the observed differences between islands may be significant, there remain several common features such as isolation, regionality, insufficient reservoirs of raw materials and human resources, inadequate mobility of the labor force, insufficient access to product and service markets, and the high cost of human and freight transport. While the spatial dispersion inhibits the development of human activities—from the choice of settlement location, to the disposition of the prices of goods and services, transport cost, production cost, the obstacles to large scale production; with the additional disadvantage that the small size of the local markets induces negative trade balances whose consequences need to be overcome. All these limitations arise from the very nature of the island territories as the resultant of physical isolation and limited size. The small physical size results in limited human and natural resources, which will then need to be imported; it also determines the size of the

market, which remains small along with the yield of investments; altogether eliminating the possibility of economies of scale.

A significant common feature of islands is the influence of natural phenomena such as weather on the reliability of transport networks and on the capacity to maintain uninterrupted communication with the mainland (Karvelis, Papadaki 2007). Even though the choice of appropriate policies could alleviate the consequences of these typical island features, nevertheless the latter are inherent to geographical discontinuity and couldn't possibly be eliminated entirely; it is these features that compel us to adopt the view that insularity is an unchangeable state of isolation and detachment. And so we can argue that even though initially the term 'insularity' was employed to describe geographical discontinuity as a physical feature, it ends up signifying a lack of cohesiveness [2] and inadequate integration of the island's economic and social features with those of the mainland.

Although the problems arising from insularity are significant for all islands, they are even more so for small islands in particular. The small size is only able to sustain small communities, in which we can often observe a distinctly local identity and cultural background. These small communities are faced with difficulties that threaten their survival, such as inadequate access to opportunities, a situation that often compels the island residents to abandon their homes and settlements. Unless the policies implemented in such areas have been designed with due consideration for these special features, they will not succeed in keeping the population on the islands and might actually produce negative effects. Because of all these considerations, island regions require well developed infrastructures for a small population, which increases their cost compared to similar infrastructure investments on the mainland.

2. European Island Regions

The simplest definition of an island is a piece of land that has no land borders. The definition of island offered by Eurostat approaches the same concept taking into account several other features, natural as well as social. [3] Most EU member states include islands in their geographical territory. The exceptions are Luxembourg, Belgium and Austria. Slovenia

[2] insularity: ' the state of being isolated or detached', http://www.thefreedictionary.com/insularity

[3] European Commission 1994, Eurisles 2000: An island is a land part no less than 1 km^2 in area, no less than 1 km from mainland, without a fixed connection with the mainland (tunnel or bridge), that was formed naturally, is smaller than a continent, has a statistically significant population (50 or more, indicatively). The initial approach provided that an island can not include the capital of a country. Later that clause was removed (Declaration No33 on article 174 of the Treaty on the Function of the European Union, 'The Conference considers that the reference in Article 174 to island regions can include island States in their entirety, subject to the necessary criteria being met'.)

has one island situated in a lake. These European islands are inhabited by about 15 million persons, or 3 percent of the total population of Europe. During the period from year 2000 to 2006 the island population increased by 0.85% compared with only 0.37% average population increased over the entire EU during the same period (Monfort 2009). If in the population of islands we were to include that of member states situated entirely on islands, their overall population would reach 80 million persons (Parliamentary Assembly 2005) . Denmark has the greatest percentage of territory that is island in the EU (37% of its total territory is island) followed by Greece with 18.7% (Avgerinou-Kolonia 2002).

The islands of the EU member states may be classified in three large geographical entities: the Atlantic islands, the North Sea islands and the Mediterranean islands (the outermost regions of the EU constitute an additional category).[4] The largest part of the island population is settled on the Mediterranean islands (about 95 percent), and of that population about 85 percent live on the 5 largest islands—Sicily, Sardinia, the Baleares (Balearic Islands), Corsica and Crete. In addition to these large islands, the EU also includes a great number of smaller islands. The definition of the term '*small island*' is different among the EU member states. The European Small Islands Federation maintains that a small island is one without its own administrative authority.[5] Applying that criterion, the Federation lists about 1'200 islands in Denmark, Estonia, Finland, France, Greece, Ireland, Italy, Scotland (the UK) and Sweden. Island size, and even more so population size, seem to be of special importance, and the distinguishing population limit should be about 4 to 5 thousand population. Statistical evidence suggests that islands with population over that limit tend to experience a positive population variation trend, their infrastructure and facility level is relatively high, and the population tends to be younger (Planistat 2003).

Island regions have generally lower per capita GDP than other EU areas (in year 2006 it was about 79% the EU average) and unemployment was higher (11.6% in year 2007 compared with 7.5% EU average). The distribution of employment in the different sectors of the economy indicates lower employment in the primary sector and higher in the tertiary. The tertiary sector is often dominant in the island economies, where equally frequent is the monoculture of one activity alone—which in the Mediterranean islands is invariably tourism.

The island regions' development potential is smaller than that of mainland regions due to the small size of the local market—a feature that is even more pronounced in small islands. Additional problems may include the scarcity of basic resources such as potable water, raw

[4] Consisting of the French overseas departments Guadeloupe, Martinique, French Guiana and Reunion, Azores and Madeira (Portugal); and the Canary Islands (Spain).
[5] European Small Islands Federation http://www.europeansmallislands.net/

materials and energy resources; the scarcity of irrigable land; a fragile environment caused by exclusive exploitation of one resource; problems that place the island economies at elevated risk. Many islands face accessibility problems and high costs in procuring basic public services and energy resources (COM(2008) 616 final). Their access to health and education services, and even to air transport, is more difficult. Islands with a population under the aforementioned critical limit of 4'000 are faced with the most severe disadvantages. Their population is declining and their access to infrastructures tends to deteriorate (Interim Territorial Cohesion report 2004). In addition to problems arising from physical size and population, many islands are faced with other disadvantages such as mountainous terrain and their position within archipelagos.[6] The islands of an archipelagos develop functional relationships with one another, but the overall system of flows among the islands remains inadequate, and so does the system of flows with the mainland, resulting in a phenomenon described as '*Double Insularity*', a term used to describe the isolation of minor or outlying islands from other islands in the archipelago, all of which in turn are isolated from the mainland. Double Insularity is characterized by complex transportation systems and by a higher need for investments. These features tend to affect the rate of variation of island populations and that of the GDP, which tends to be negative compared to that of other islands.

These disadvantages are impossible to remove, and therefore require constant efforts to alleviate their effects. Any measures to that end ought to be of long duration and the corresponding high cost. Nevertheless the islands present greater development potential in specific activities such as the fisheries and aquaculture, tourism, renewable energy sources, and activities that highlight their cultural identity and heritage. Where the cultural identity of an island or group of islands is very particular, highlighting that identity can function as counterbalance to the homogenization trends that derive from the globalization process, and thus become a force of attraction to the particular islands. One example in that direction is the case of the Åland archipelago, a group of islands that enjoys political autonomy thanks to which it maintains the Swedish language and cultural identity even though territorially it belongs to Finland. The inhabitants' own view concerning their life in the Åland archipelago appears positive; on Kökar Island, one of the small islands of the archipelago, out-migration seems to be counterbalanced by an influx of new residents at a rate about equal with the outflow (G. Baldacchino & C. Pleijel 2010). Investments in renewable energy sources can also produce good results on the islands, especially wind power and also other sources. The

[6] An archipelago is an extensive sea area that includes a group of islands relatively isolated from the continental space, where the number of the islands is usually large.

creation of lower cost energy resources will in turn facilitate investments in other activities such as desalination. Although the latter is considered essential in view of the insufficiency of water resources on the islands, especially the smaller ones, its operating cost is high and so it is not utilized as long as its dependence on imported energy resources continues.

The diversity of European islands makes it difficult to draw generalizations about their features; they differ enormously in size—from 1 km^2 to the 25'000 km^2 area of Sicily; their population and its density; their distance from the mainland; their GDP per capita; and GDP fluctuations reflecting the diversity of economic structure among the islands. In year 2006 the poorest island region in the EU was the Medio Campidano of Sardinia, whose GDP was a mere 54% of the average in EU-27. The wealthiest island region was the aforementioned Åland archipelago of Finland, with a GDP reaching 147% of the average in EU-27 (Monfort 2009). The GDP of all island regions together is lower than that of EU-27; in year 2006 it was 79.2% of the overall EU average. (EUROISLANDS) Analysis

3. The Institutional Framework that Justifies a Special EU Policy for its Island Regions

At the EU level, the Maastricht Treaty (article 154) makes reference to the need to connect the islands, the encircled regions and the peripheral regions with the central regions of Europe. The express recognition of the importance of island territory, and of the concomitant need to implement specially adapted development policy to the benefit of island regions was included in 1997 in the Amsterdam Treaty (Article 158). The Declaration accompanying the Treaty (No 30) states that "island regions are faced with structural problems due to their island character, problems that are permanent and inhibit the islands' economic and social development". It is therefore acknowledged that European legislation ought to take into account these problems and to adopt special measures in favor of the island regions. In the years following Maastricht, the Treaty of Lisbon in effect today (TFEU article 174) acknowledged that islands and island regions are subject to natural disadvantages that are both serious and permanent, and therefore merit special attention. The Treaty of Lisbon also introduced the concept of territorial cohesion (TEU title I article 3), elevated it to the status of a fundamental goal of the EU, and specified that competency for territorial cohesion is to be shared between the EU and the member states(TFEU Title I article 4(2)c). The content of the territorial cohesion principle was initially clarified in 2007 in the Territorial Cohesion Agenda which was later modified in the Territorial Cohesion Agenda 2020

(TA2020).[7] The new version is adapted to the 'Europe 2020' strategy which has in the meantime been adopted as the basic European Union development strategy until year 2020.

One of the goals adopted under the 'Europe 2020' strategy is the goal of Inclusive Growth, which aims to promote social and territorial cohesion. That goal could be said to necessitate the adoption of stronger policies to support the regions with special geographical characteristics such as the island regions. Another compelling reason for supporting the islands of Europe is their geostrategic importance. The European islands allow Europe to extend to the Baltic Sea, the North Sea, the Mediterranean, the Atlantic Ocean and even the Indian Ocean.

The new institutional framework combined with the fact that the islands, in spite of their problems, are also endowed with development potential that makes them vitally important to the national entity where they belong, are compelling reasons to draft special policies aiming to utilize their potential for growth.

The policy that is called forth to realize the requirements of Territorial Cohesion in particular, and more generally of Social and Economic Cohesion, is the formally adopted EU Cohesion Policy, currently absorbing over one-third of the European budget. A large share of the burden associated with accomplishing the objectives of the 'Europe 2020' strategy will also depend on the Cohesion Policy. During the forthcoming program period 2014-2020, the Cohesion Policy is expected to be fully aligned with the 'Europe 2020' strategy. The European Commission has already made public its proposal (COM 2011/615 final) for a joint regulation that will govern funding under the Cohesion Policy, and also some sectoral policies such as the funding of the European Agricultural Fund for Rural Development and the European Fisheries Fund that is currently being established.

The geographical coverage of funding under the Cohesion Policy is distributed in three groups of regions: less developed regions, transitional regions, and more developed regions. The first group includes regions whose per capita GDP is significantly lower than the EU average; the second group includes regions with a GDP about% 75 to 90% of the European average; and the third group includes regions with per capita GDP over 90% of the EU average.

Until present there was no differentiation of the Cohesion Policy in favor of the EU islands, or more generally of other regions faced with special geographical disadvantages. Given the fact that the Cohesion Policy is the main policy by means of which the EU

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[7] Territorial Agenda of the European Union 2020 (TA2020) agreed at the Informal Ministerial Meeting of Ministers responsible for Spatial Planning and Territorial Development on 19th May 2011 Gödöllő, Hungary

endeavors to accelerate the development of disadvantaged regions, the absence of insularity as a distinguishing feature that requires special treatment is an omission; not a temporary but a permanent omission, considering that no such provision for the island regions had been included during previous program periods. An additional disadvantage relating to the forthcoming program period derives from the fact that the Cohesion Policy is now absolutely aligned with the 'Europe 2020' strategy. That alignment has produced substantial changes to the conditions that had been established and prevailed during the earlier program periods: the new strategy concerns all the regions of the EU and not only the poorer ones. Therefore fewer funds will be available to the poorer regions, although they will still be entitled to 50% of the total (Gioti-Papadaki 2012). Yet another modification is that in order for the actions to be eligible for funding, they must be adapted to the priorities of the Europe 2020 strategy. This requirement will be somewhat more flexible in the less developed regions where a broader range of actions will be acceptable. However, in the other two groups of regions 80% of the funding must be invested in actions involving renewable energy sources and energy efficiency. This clause might limit some actions in the islands of the second and third groups of regions, which will continue to be in need of investments in more fields and activities.

4. The need for a special approach in dealing with problems deriving from insularity

The Treaty stipulates that the principle of territorial cohesion should be implemented in full and be taken into account during the elaboration and implementation of all EU policies. It follows that all European policies that happen to impact the island regions of Europe ought to fully consider the islands' special requirements and to adapt their actions respectively. And still we would like to reiterate that the Cohesion Policy proposals for the next program period are not specifically differentiated in that direction. The policies applied in the past were not significantly different. The development policy for islands is part of the broader regional policy for less developed regions (Papadaskalopoulos, Mergos, Christofakis 2005). The fact that until present there has been no specialized policy for the islands does not mean that there has been no disbursement of major funding, part of which has been funneled to the islands. During the program period 2000-2006, out of the total outlays of the ERDF and the ESF, 5.8% were allocated to the island populations, which represent 3% of the total population of the EU (ADE 2012). And so it is necessary to consider how to enhance the effectiveness of the current policy by achieving better coordination of particular actions and not necessarily by

increasing the overall outlays—although we could not possibly ignore the fact that greater needs justify greater expenditures, according to the principle of proportionality.

The problems arising from insularity are persistent and their effects can not be alleviated with fragmentary policy measures. It is of crucial importance to create an integrated policy framework specially designed to address the island regions. Such a policy, drawn with strict regard for the islands alone, is dictated by the Treaty of Lisbon and by the compulsory character of the principle of territorial cohesion, and also necessary if the current Cohesion Policy is to maintain its effectiveness.

Any measures and policies that have been adopted for all EU regions indiscriminately, on the sole criterion of the GDP per capita, without considering the effects of geographical particularities, could not be expected to produce anything but minimal results. The GDP per capita is not a sufficient criterion for interpreting the real conditions prevailing in the island space, nor their differences from mainland regions. Conversely, the application of more specialized criteria could prove to be of vital significance for comprehending the inequalities and developmental requirements of island regions. The EUROISLANDS study performed under ESPON employed the following measures to achieve a better evaluation of conditions on the islands of Europe: the GDP per capita; the percentage of active population over the entire population; the percentage of unemployment; the population over 65 years as percentage of the overall population; the area modified by human activities as percentage of the island's overall area. That approach could serve as basis for further research.

By definition an island region is a level NUTS3 region where over half the population lives on one or more islands without a permanent connection with the mainland, such as a tunnel or bridge (Hache 2011). However, Regio (the Directorate General for Regional Policy), in order to be able to carry more detailed analyses of the challenges encountered by islands, proposed a provisional classification of the regions based on the size of their insular population.[8] That classification differs from the usual criterion (the population limit for accession of mainland regions to the level NUTS 3 has been set at 150 thousand to 800 thousand people)[9] .That classification scheme proposes five different groupings as follows: under 50'000, 50'000 to100'000, 100'000 to 250'000, 250'000 to 1'000'000, over 1'000'000 (Dijkstra, Poelman). There is also the classification of EU regions based on the number of islands they encompass:

- a NUTS 3 region consisting of one island only (such as Bornholm in Denmark)

[8] letter addressed by the DG REGIO Director General to the Chair of the CPMR Islands Commission (27/05/10 N°004336)
[9] http://epp.eurostat.ec.europa.eu/portal/page/portal/nuts_nomenclature/principles_characteristics

- a NUTS 3 region that is part of a larger island, which could in turn be a NUTS 2 region (Sicily, or Sardinia)
- a NUTS 3 region consisting of an archipelago (such as the Greek islands)

The proposal that these regions could be classified in the NUTS 3 group on the basis of their island population received a positive response from the island Federation (Hache 2011) because it seems that this system can offer a satisfactory framework for implementing the Cohesion policy in the said regions. Even though the best approach to the island economies would be to perform studies focused on each and every island, an impossible undertaking, the proposal of the Directorate General for Regional Policy to include these regions in the level NUTS 3 with a modified population criterion, may be able to create a suitable framework for implementing the Cohesion Policy in those regions.

In addition to the necessary institutional measures, dealing with the problems will require sufficient funds, which should increase as a function of each island's geographical disadvantages. In response to the European Commission's proposals regarding the future Cohesion policy, the Federation issued a counter-proposal (Hache 2011) that all islands, except the ones classified in the first group of regions (with GDP per caput under 75% of the EU average), should be entitled to funding equal to that of the second group of regions (with GDP per caput 75% to 90% of the EU average). The additional funding to the islands could come as a contribution of the EU member state where the island belongs. In that context, aid from the member state should not be in violation of generally accepted rules for competition—similar to those applying to the state aid toward the former German Democratic Republic (TFEU article 107c).

However, even though funding is a necessary part of cohesion, the demands of island regions on the European Cohesion Policy can not be based upon a rationale of receiving lasting compensation in order to be able to deal with the problems arising from insularity. Instead, they ought on one hand to endeavor to limit the negative consequences of insularity, and on the other hand to focus on utilizing the development potential of the island region so that in the long term the dependence and the transfer of funds could be curtailed and even eliminated.

5. Identifying Potential and needs in the Island Economies

As regards the content of the interventions in favor of the islands, it ought to include serious consideration of the proposals formulated in the local communities, which have

immediate knowledge of their needs and potential. Consequently the current institutional framework might make the decision making process either more difficult or easier.

The types of administration found on the European islands belong to three distinct types (ADE 2012):

- Local administrative authorities with a high degree of political and economic autonomy. This form is found in a small group of European islands exemplified by the Åland island group of Finland.
- Local administrative authorities whose boundaries coincide with those of one island or a group of islands, such as the Baleares (Balearic Islands), and Corsica. These administrations are usually able to utilize available potential by focusing on the problems arising from insularity, and thus to increase the effectiveness of their actions.
- Local administrative authorities whose jurisdiction extends to islands and to neighboring mainland shores. In those cases the island communities are subject to antagonism from mainland communities, whose problems are not the same.

The presence of an appropriate administration system could facilitate the type of decision making process that would take into account the views of the local agencies, and also provide necessary coordination between different levels of administration (regional, national, supranational), to allow regional agencies to have unhindered access to European funds, even though the principle of Subsidiarity would place upon the lower administration level the major burden of responsibility to exercise policy.

Considering that each separate island economy has its own comparative advantages, the content of the interventions should acknowledge and utilize these comparative advantages. In a major portion of the islands of Europe the survival of the local population is based on few economic activities and sometime even on one only—invariably fishing in the North Sea islands and tourism in the Mediterranean. Dependence on monoculture leaves those economies exposed to international fluctuations, and therefore more vulnerable. An additional disadvantage of such economies based on one resource alone is that overexploitation can exhaust that resource (e.g. fish). Another disadvantage could be negative environmental impact—more tourism may exceed the capacity limit of the island environment. It follows that the fundamental orientation of an island development policy should be to seek to develop additional activities and to make rational use of resources. The EUROISLANDS program defines the framework upon which any European island policy ought to focus:

- Improving the attractiveness of the islands and assuring sustainable development.

- Respect for the principle of Proportionality, which allows proportionally larger resources to be allocated to the benefit of island regions.
- Advancing the development of the islands' inherent potential while respecting the principle of sustainable development in all its aspects—environmental, social and economic development.

A report issued by the European Parliament (Parliamentary Assembly 2005) outlines the priorities around which any island development policy ought to be centered:

- To differentiate and expand the opportunities for employment by developing the service sector, especially in connection with upscale tourism, tele education (e-learning), and telework (e-work).
- To foster the creation and development of small and medium size enterprises by improving their access to funding facilities and counseling services.
- To adopt or sustain integrated territorial design strategies that will advance the principles of environmental protection in all economic activities.
- To develop innovative systems for the management of water resources, energy and the recycling of waste.
- To improve transportation networks and to modernize harbors, with special emphasis on public transport connections (marine, coastal, air) with the islands.
- To utilize subsidiary measures such as special taxation regulations in order to foster investments and the settlement of new population.
- To extend Structural Fund allocations to infrastructure projects.

In its conclusion the same report proposes that the EU ought to adopt an integrated policy for all island regions and to create a special funding facility in order to support investments in the island regions.

The report of the Baleares (Govern des les Iles Balears 2010) concludes with a similar proposal, namely that the EU ought to adopt an integrated political, institutional and financial framework in order to deal with the problems of the European islands. That framework ought to be sufficiently flexible to be able to take into account the diversity of existing conditions on the islands.

The resultant of the positions of the different island groups, concerning the crucial policy objectives that an EU island policy ought to establish and pursue can be set out as follows:

- Pursuing the development of the islands' inherent potential; differentiating-expanding economic activities; curbing seasonal employment; curtailing dependencies on imports by fostering the productive potential of the local communities.
- Improving accessibility in terms of transportation, energy and communication; dealing with the high cost inherent in creating infrastructures and providing services in the island regions.
- Investing in new technologies that may allow better living conditions of the island populations.
- Addressing environmental challenges and achieving rational management of resources.
- Developing specialized productive activities and supporting local processing activities, aiming to increase the volume of high value added exports.

The fundamental advantage of a purely insular policy would be to combine the actions of different European policies, including actions of a spatial, sectoral and social character, and also actions that aim to support research, technological development and innovation.

There already are several EU policies and programs that include significant allocations in support of those particular sectors. Bringing them all together under a single framework could multiply the effectiveness of the allocations and thus contribute to the attractiveness and efficiency of the island region economies, and therefore also to the goal of territorial cohesion.

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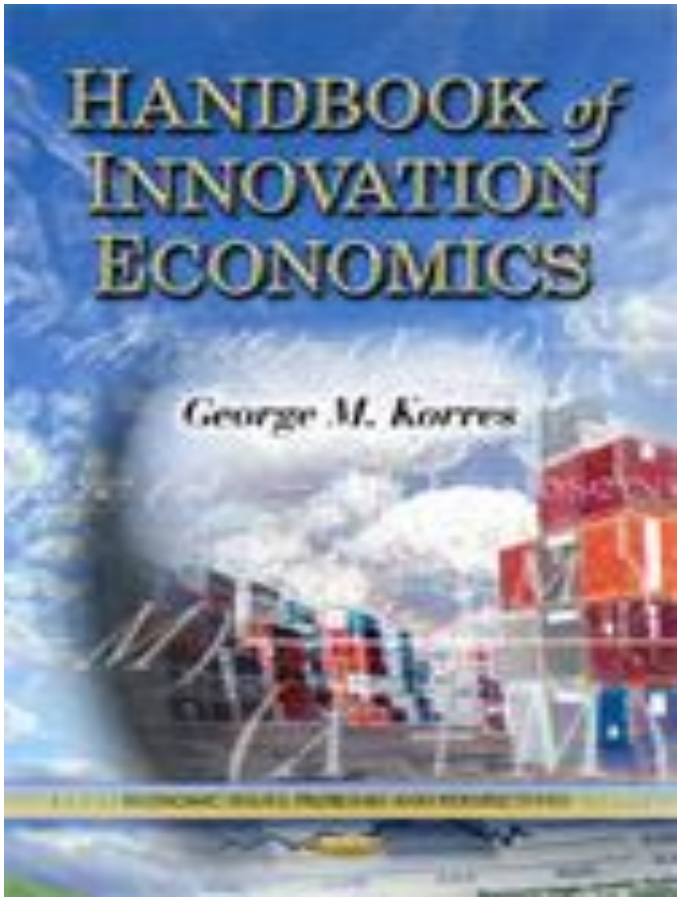

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Summary - Conclusions

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