

# 2017 SBA Fact Sheet

## Cyprus

### Key points

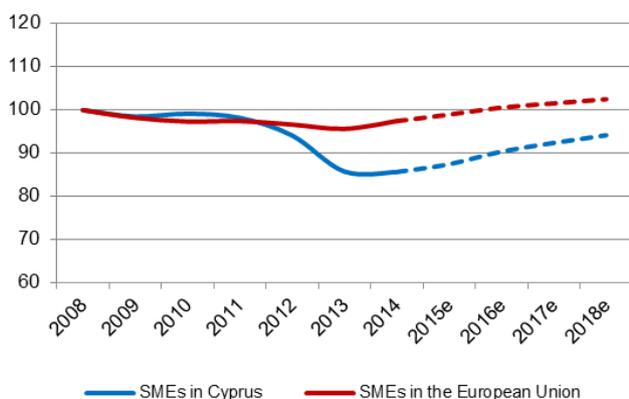
**Past & future SME performance**<sup>1</sup>: Cypriot SMEs and the whole non-financial business economy were hit hard by the financial crisis and are recovering slowly. In 2016, SME value added and employment remained 23.2 % and 9.6 % below their respective pre-crisis levels of 2008. In 2013-2016, SME value added and employment increased by 6.3 % and 5.4 % respectively. Most of this growth occurred in 2015-2016, when SME value added grew by 4.1 % and employment by 3.4 %. The outlook for SMEs in the non-financial business economy is particularly positive. SME value added is forecast to increase by 8.7 % in 2016-2018. In terms of employment in 2016-2018, this pattern is persisting. The net effect is likely to be an increase of 4.2 % in SME employment, generating around 7 700 new jobs by 2018.

**Implementing the Small Business Act for Europe (SBA)**: According to available data, Cyprus's SBA profile is largely in line with the EU average. Cyprus scores below the EU average in access to finance and single market, while in environment and internationalisation the country performs better than the average. The main progress since 2008 was achieved under 'second chance' and single market. Most policy attention has been focused on addressing the severe difficulties SMEs face to access finance, and some progress has been achieved. Cyprus took significant steps to improve the insolvency framework and help SMEs to repay debts. However, SMEs are not reaping the necessary competitive improvements because the growth-enhancing action plan has been only partially implemented. However, implementation of the actions under the 2015 Policy Statement for the Enhancement of Entrepreneurship is progressing well, with 45 % of the actions completed in 2016.

**SME policy priorities**: In Cyprus, there is a lack of effective implementation of measures to stimulate investments, promote entrepreneurship and innovation, reduce administrative costs and support SMEs' export ambitions. Despite recent improvements in bank lending, access to finance is identified as the most pressing issue, with the country still well below the EU average. Effective implementation of the Late Payment Directive and providing alternative sources of finance remain challenging issues. Cyprus has one of the highest percentages in the EU for fear of failure, while a lot of potential improvements remain to be implemented under 'second chance'. At the same time, the share of high-growth enterprises is the lowest in EU Member States. As regards the 'Think Small First' principle, consultations with stakeholders should be further strengthened.

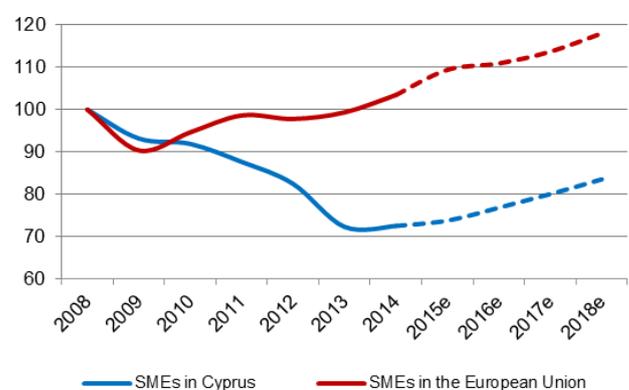
**Number of persons employed in SMEs**

(Index: 2008=100, estimates as from 2015 onwards)



**Value added of SMEs**

(Index: 2008=100, estimates as from 2015 onwards)



### About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.

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## 1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Cyprus		EU-28	Cyprus		EU-28	Cyprus		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	45 706	93.3 %	93.0 %	84 532	38.3 %	29.8 %	2.1	26.3 %	20.9 %
Small	2 762	5.6 %	5.8 %	53 335	24.2 %	20.0 %	1.9	24.1 %	17.8 %
Medium-sized	447	0.9 %	0.9 %	45 288	20.5 %	16.7 %	1.7	22.1 %	18.2 %
<b>SMEs</b>	<b>48 915</b>	<b>99.9 %</b>	<b>99.8 %</b>	<b>183 155</b>	<b>83.0 %</b>	<b>66.6 %</b>	<b>5.7</b>	<b>72.5 %</b>	<b>56.8 %</b>
Large	63	0.1 %	0.2 %	37 566	17.0 %	33.4 %	2.2	27.5 %	43.2 %
Total	<b>48 978</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>220 721</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>7.8</b>	<b>100.0 %</b>	<b>100.0 %</b>

*These are estimates for 2016 produced by DIW Econ, based on 2008-2014 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.*

SMEs are the backbone of the Cypriot non-financial business economy. They account for more than 70 % of total value added and more than 80 % of all jobs. This is well above the EU average (more than 15 percentage points above) for both SME value added and employment. Cypriot SMEs employ on average around 3.7 people, nearly consistent with the EU average. *Wholesale and retail trade* and *accommodation and food services* contribute the highest shares of SME value added and employment. The latter sector is particularly important for Cypriot SMEs, as 15.5 % of all SME value added is concentrated in this sector — more than three times the average in the EU.

Cypriot SMEs, as with the non-financial business economy as a whole, were hit hard by the financial crisis and have still not

recovered. In 2016, SME value added and employment remained 23.2 % and 9.6 % below their respective pre-crisis (2008) levels. However, the recession has ended and in recent years SMEs have started to recover. In 2013-2016, SME value added and employment increased by 6.3 % and 5.4 % respectively. Most of this growth occurred in 2015-2016, when SME value added grew by 4.1 % and employment by 3.4 %.

The *construction* sector has been significantly hit by the crisis. As a result of the recession, in 2016 SME value added was a quarter of its 2008 pre-crisis level, while SME employment was half its 2008 level. The main reasons for Cypriot SMEs' negative performance in the *construction* sector were falling real estate prices and a high concentration of indebtedness in the sector,

including a large share of non-performing loans<sup>2,3</sup>. This contributed to a continuing fall in the number of construction SMEs, which lasted until 2014.

Furthermore, due to the financial uncertainties in the economy, many young couples preferred to enter the rental market rather than take the traditional route of building their own home, which resulted in low numbers of new building permits being issued<sup>4</sup>. However, SME value added growth resumed in 2015-2016, with an increase of 8.8 %.

Employment growth had already recommenced in 2014, growing at 2.9 % per year. This recent upturn was prompted by a rise in construction investments starting in mid-2015, with an increase of 15.9 % in the construction production index in 2015-2016<sup>5</sup>. The investments were stimulated by a naturalisation scheme introduced in 2014<sup>6</sup>, which offers Cypriot citizenship to applicants who invest at least EUR 2 million in the purchase or construction of buildings, or the construction of other land development or other infrastructure projects<sup>7</sup>.

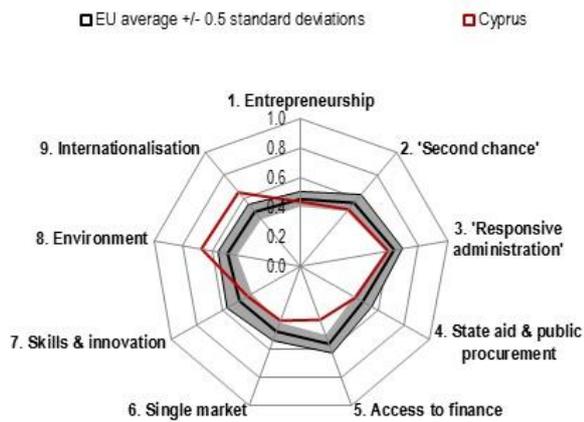
SMEs in *professional activities* demonstrated resilience throughout the crisis, unlike SMEs in most other sectors. In 2013-2016, SME value added increased by 14.1 %, while SME employment rose by 19.6 %. Almost half of the sector's SME value added in 2016 was generated by *legal and accounting activities*. The key strengths of the *professional activities* sector are the favourable tax regime and the highly skilled workforce that attracts foreign investments<sup>8, 9, 10</sup>. The sector also benefited from the movement of skilled individuals — formerly employed by the banks or public sector — into *professional activities*, following the financial crisis. These factors contributed to the formation of new firms, as indicated by the growing number of SMEs in this sector, which posted a rise of 15.9 % in 2013-2016. Both start-ups and existing SMEs in *professional activities* have been the recipients of specific policies targeted at SME support.

Following the radical reduction in the number of new company registrations in the aftermath of the financial crisis, Cyprus has modernised its economy. Since 2013, substantial progress has been made, resulting in a steady increase in the number of company registrations. In 2016, a total of 13 645 new registrations were recorded, an increase of 21.1 % on the previous year<sup>11</sup>. The number of de-registrations also increased significantly in 2015-2016, reaching 58 434 in 2016<sup>12</sup>. Compared to the previous year, this is an increase of 500 % and mainly due to the March 2013 Economic Adjustment Programme, which struck off the trade register all companies that had not submitted audited financial statements (as required by law<sup>13,14</sup>).

In 2016, 12.6 % of total Cypriot employment was self-employment<sup>15</sup>, compared to the EU average of 14.0 %. The highest self-employment rates in the non-financial business economy are found in *administrative activities, construction* and *professional activities*. High-growth firms are hardly represented in the Cypriot business economy — in 2014, only 2.2 % of all firms were high-growth firms<sup>16</sup>. This is much lower than the EU average of 9.2 % high-growth firms. In the same year, the highest share of high-growth firms was in the *administrative activities* sector, which posted a figure of 4.8 %.

The outlook for SMEs in the non-financial business economy is positive. SME value added is forecast to increase by 8.7 % in 2016-2018. Micro firms are predicted to experience the highest growth in value added, with a figure of 11.0 % expected. This pattern will persist in employment in 2016-2018. Employment in micro firms is expected to grow by 5.9 %, which is stronger than the forecasted employment growth in small and medium-sized firms. The net effect is likely to be an increase of 4.2 % in SME employment, generating around 7 700 new jobs by 2018.

## 2. SBA profile<sup>17</sup>



According to the available data, Cyprus's SBA profile is largely in line with the EU average. Cyprus scores below the EU average on access to finance and single market, while for environment and internationalisation the country performs better than the average. The main progress since 2008 was achieved under 'second chance' and single market.

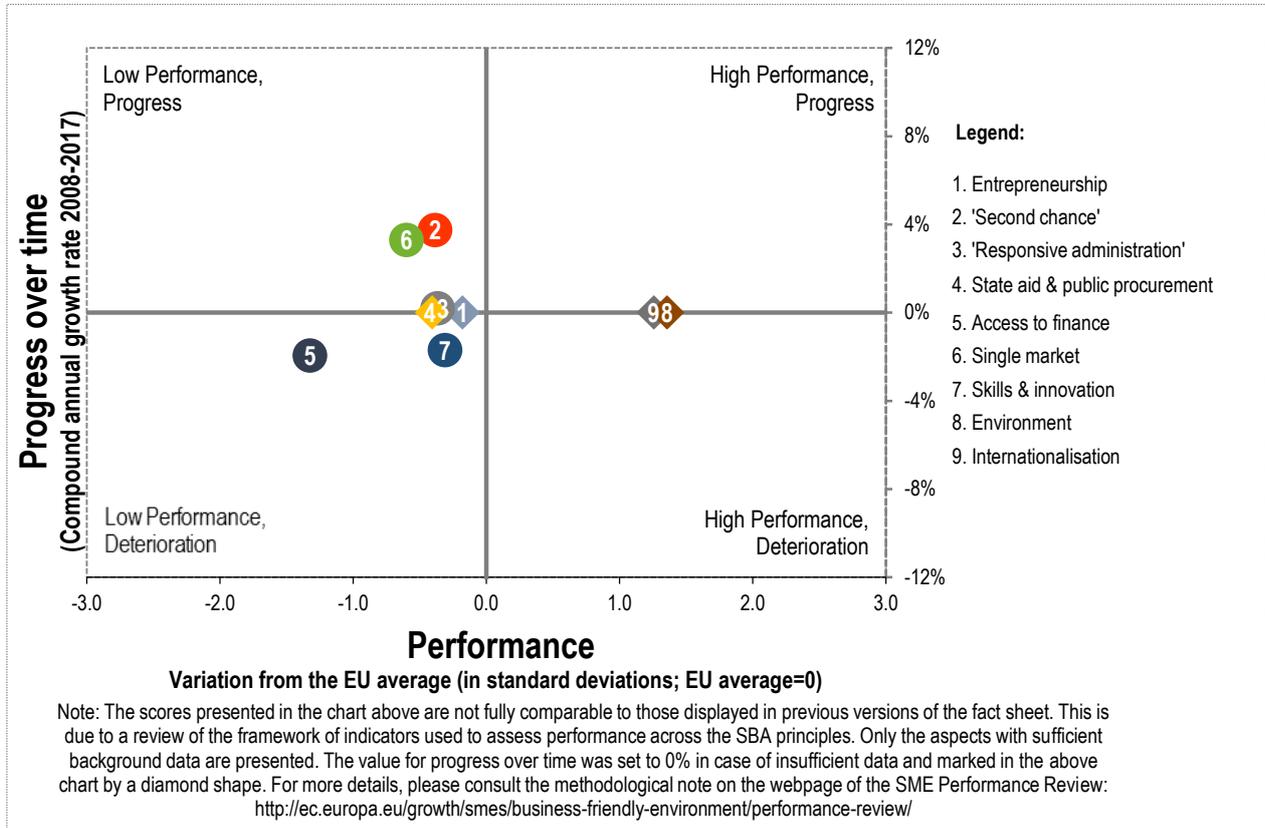
During 2016 and the first quarter of 2017, which is the reference period for policy measures in this year's fact sheet, Cyprus implemented 20 policy measures, addressing 7 out of 10

policy areas under the Small Business Act, and achieving significant policy progress.

Since 2008, the Cypriot Government has implemented a series of policies and measures fully aligned with the SBA, in order to improve the entrepreneurial ecosystem and the development of business support structures. Most policy attention has been on addressing the difficulties SMEs face to access finance. Some progress has been achieved, but problems persist. New tax incentives for investment in innovative SMEs have also been introduced, and organisations such as the Human Resource Development Authority have supported SMEs by providing advisory services and training to enhance their growth potential. In public procurement, a notable achievement was the development and deployment of a well-functioning e-procurement system. Given the financial challenges Cypriot SMEs faced due to the recession, Cyprus took important steps to improve the insolvency framework and help SMEs to repay debts. Substantial progress was achieved under 'second chance'.

Cyprus adopted a policy statement on improving the country's entrepreneurial ecosystem. The policy statement addresses all relevant components of the SBA and includes several SBA actions customised to specifically support an entrepreneurial ecosystem. As a result, the policy statement is considered to be the national strategy for implementing the SBA.

## SBA performance of Cyprus: state of play and development from 2008 to 2017<sup>18</sup>



### 3. SBA principles<sup>19</sup>

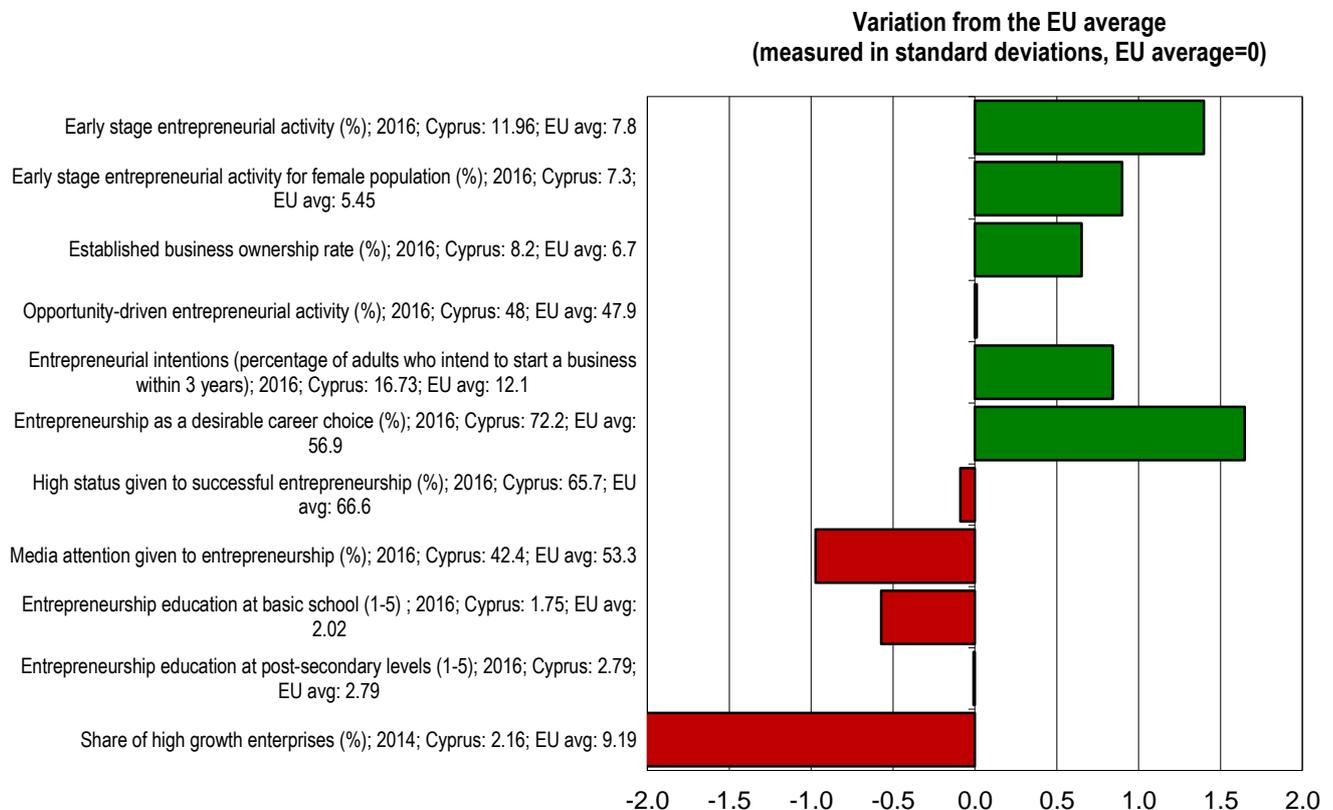
#### 3.0 ‘Think Small First’

The ‘Think Small First’ principle is meant to be a guiding principle for all policy- and law-making activities. It requires policy-makers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

Significant progress was achieved during the reference period. The Unit of Administrative Reform of the Cyprus Presidency adopted the New Impact Assessment Framework for Legislative Proposals (*Νέο πλαίσιο Ανάλυσης Αντίκτυπου για Νομοθετικές Προτάσεις*) which introduces the SME test to assess the effect of new legislation on SMEs. Stakeholders are now consulted throughout procedures to draft new legislation or amend current legislation, but the consultations are not obligatory. The SME test

records all the procedures followed, but the results of consultations are not publicised. To improve consultation practices, a consultation guide was published in early December 2016<sup>20</sup>. Additional efforts could focus on improving communication and cooperation between the government and SME stakeholders. A mechanism has been put in place for monitoring the quality of the SME test. In cases where the SME test is not properly completed (i.e. without extensive consultation with SMEs and stakeholders or without adopting mitigation measures to minimise the additional cost for SMEs), the test is not approved by the SME envoy and the legislation does not proceed to Parliament.

#### 3.1 Entrepreneurship



**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Cyprus performs in line with the EU average in entrepreneurship. For early-stage entrepreneurial activity, Cyprus comes third among EU Member States. In addition, entrepreneurship is

considered to be a desirable career choice in Cyprus and the share of adults that intend to start a business is higher than the EU average. Interestingly, all of this comes in the context of low

media attention and low status given to entrepreneurs in Cyprus, as well as an unsupportive basic education system. It is also worth noting that the share of high-growth companies is the lowest in Cyprus compared to other EU Member States.

Policy efforts have been stepped up in the past couple of years. The first important steps towards the systematic introduction of entrepreneurship education in Cypriot classrooms are:

- the national policy statement for enhancing the entrepreneurial ecosystem in Cyprus;
- the establishment of a working group to promote digital skills, innovation and creativity throughout elementary and secondary education.

However, so far no results are available for these initiatives. Entrepreneurship among women and young people has been a recent focus through grant schemes to support the creation of new start-ups. However, the facilitation of business transfers

has been largely ignored, which is essential for ensuring that successful SMEs survive generational changes.

During the current reference period, the following key measures were adopted:

- Under the Cyprus visa start-up scheme (*Σχέδιο για Νεοφυείς Επιχειρήσεις από Τρίτες Χώρες*), selected entrepreneurs from non-EU countries who aim to reside in Cyprus and establish and/or operate a company with high-growth potential are granted a residence permit for up to 2 years.
- Support for Investments in agricultural holdings — Sub-measure: Investments that improve the overall performance and sustainability of the agricultural and farmer holdings (*Καθεστώς 4.1 — Επενδύσεις που βελτιώνουν τις συνολικές επιδόσεις και τη βιωσιμότητα των γεωργοκτηνοτροφικών εκμεταλλεύσεων*). This action directly aims to improve the competitiveness of agricultural products and improve the production technology used in farms.

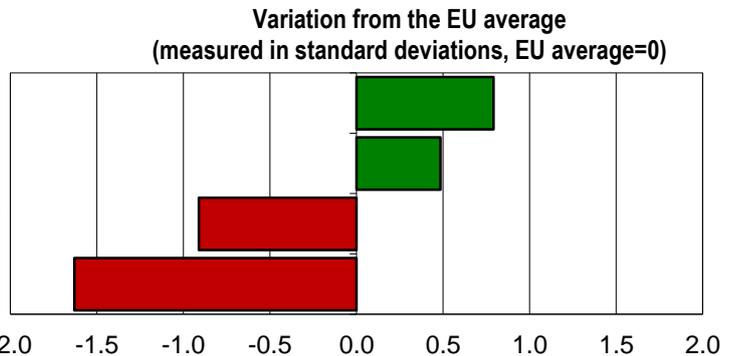
### 3.2 ‘Second chance’

Strength of insolvency framework index (0-16); 2017; Cyprus: 13.5; EU avg: 11.88

Time to resolve insolvency (in years); 2017; Cyprus: 1.5; EU avg: 1.97

Cost of resolving insolvency (cost of recovering debt as percentage of the debtor’s estate); 2017; Cyprus: 14.5; EU avg: 10.25

Fear of failure rate (%); 2016; Cyprus: 50.17; EU avg: 40.7



**Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.**

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Cyprus performs in line with the EU average and the trend since 2008 is positive. The insolvency framework and procedures work better thanks to recent policy efforts, but deficiencies in the insolvency service and the judicial system constrain the effectiveness of the new insolvency tools. ‘Second chance’ remains especially important in Cyprus given the financial challenges Cypriot SMEs faced due to the recession. Cyprus experiences the second highest fear of failure in the EU, which can limit the growth of entrepreneurial activities.

‘Second chance’ was largely ignored for years until 2013, when the Central Bank Directive on Arrears Management (*Η περί της διαχείρισης καθυστερήσεων οδηγία*) and the Code of Conduct on the Handling of Borrowers in Financial Difficulties were adopted and set in motion a series of additional significant measures. The Central Bank Directive, amended in 2014 and 2015, requires authorised credit institutions to implement more efficient procedures and mechanisms towards sustainable restructuring

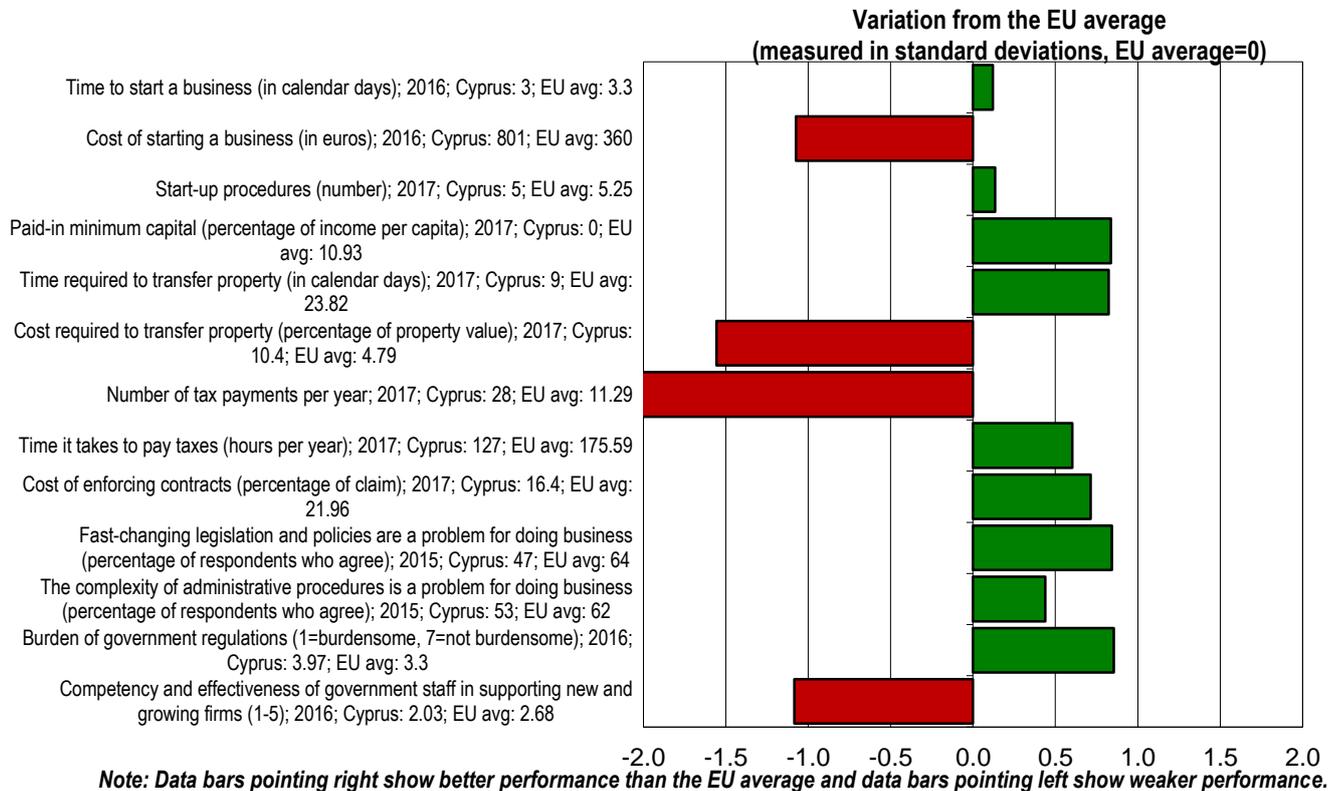
of credit facilities for borrowers in financial difficulties. The Code of Conduct on the Handling of Borrowers in Financial Difficulties is also now applied to both individuals and SMEs.

The insolvency regime (*Πλαίσιο Αφερεγγυότητας*), introduced in 2015, put in place a package of laws laying down rules on insolvency practitioners, mechanisms for restructuring corporate debt, debt relief and repayment schemes, improving bankruptcy and liquidation processes. Since its establishment 2 years ago, the new insolvency framework has produced positive results, having helped to rescue companies and address the concerns facing creditors.

Building on the significant policy progress in the last couple of years, it is time to tackle additional challenges such as the stigma of failure, reducing the fear of failure through awareness campaigns, and ensuring non-fraudulent bankrupt entrepreneurs that have completed insolvency procedures are treated equally.

During the current reference period, no new significant measures were adopted or announced.

### 3.3 'Responsive administration'



'Responsive administration' refers to public administration being responsive to the needs of SMEs. Cyprus' overall profile remains in line with the EU average, but overall performance has been stagnating since 2008. The country was able to further reduce the complexity of administrative procedures for doing business and the burden of government regulations since 2013. It takes less time than in the EU on average to complete tax payments and 3 days to register a new business. The absence of paid-in minimum requirements is also supportive of entrepreneurial activity. However, the main issues continue to be:

- the cost to transfer property (more than twice the EU average);
- the excessive number of tax payments (triple the EU average);
- the high cost of starting a company (more than twice the EU average).

Steps have been taken by the Cypriot Government to reduce administrative burdens to improve the business environment.

The deployment of e-services has played a key role in this. The amended Companies Law (2015 No 4 N89 (I)) (Νόμος που τροποποιεί τον περί Εταιρειών Νόμο (Αρ.4) 89(I)/2015) has streamlined the process of registering a company electronically. In addition, the launch of the Ariadne online portal in 2014 has strengthened the provision and efficiency of public administrative services. The ongoing improvement and expansion of the portal is expected to result in a unified communication network for public services. The online payment of contributions using the 'file upload' method (Πληρωμή εισφορών μέσω διαδικτύου με τη μέθοδο «Φόρτωσης Αρχείου») was recently improved, making it even more efficient and easier to make tax and social insurance payments.

During the reference period, a business support centre (Κέντρο Εξυπηρέτησης Επιχειρηματικής δραστηριότητας) was established to help make licensing procedures easier, to support access to finance and to coordinate counselling and mentoring services. The centre will also provide e-services which are currently under development.

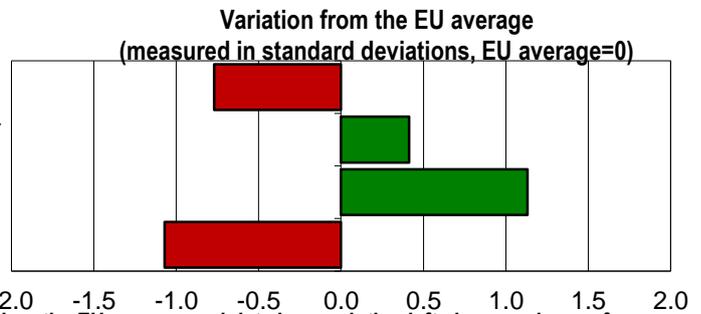
### 3.4 State aid & public procurement

Percentage of businesses participating in public tenders (%); 2015; Cyprus: 29; EU avg: 37

Percentage of businesses submitting proposals in a public electronic tender system (e-procurement) (%); 2013; Cyprus: 15.81; EU avg: 12.85

Percentage SMEs account for in the total value of public contracts awarded (%); 2013; Cyprus: 47; EU avg: 29

Average delay in payments from public authorities (in days); 2014; Cyprus: 24; EU avg: 10.73



**Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.**

Cyprus performs in line with the EU average in this area. Despite the substantial improvement in the percentage of businesses taking part in public procurement, up from 12 % in 2013 to 29 % in 2015, the level of participation is still far from the EU average. The average delay in payments from public authorities remains the biggest problem for SMEs in Cyprus, and the situation has been constantly deteriorating since 2008. On a more positive note, SMEs account for an above-EU-average share of the total value of public contracts in Cyprus.

While equal treatment, transparency and competition are principles embodied in Cypriot law, SMEs are faced with disproportionate requirements for qualifications and financial capacities, which limit their eligibility to participate. However, the effective implementation of the Late Payment Directive encourages SMEs to participate in public tenders. According to Cyprus's Treasury Department, the average payment period for public administration-to-business transactions is 31.9 days<sup>21</sup>.

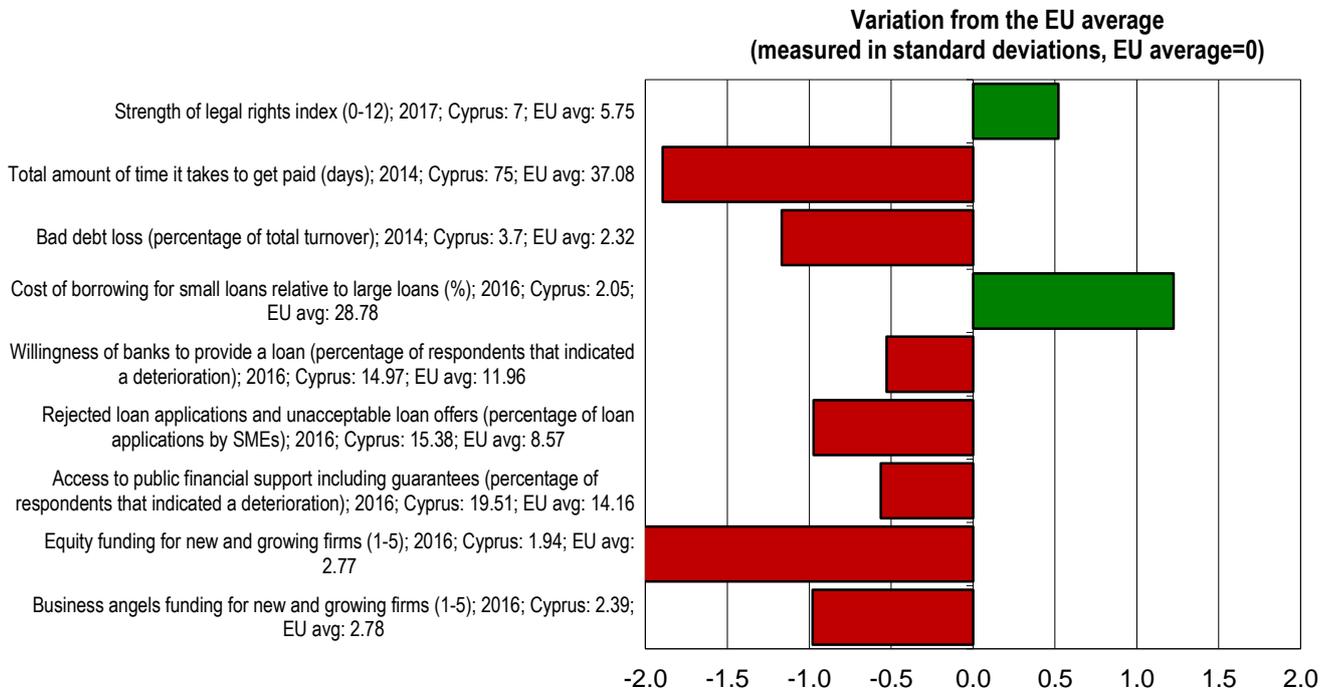
Since September 2015, tenders must now be submitted online or electronically, which lowers the participation costs for SMEs. The obligatory electronic submission of tenders has also led to improvements in the e-procurement system. However, green and

pre-commercial public procurement are still not developed. Furthermore, Cyprus is yet to put in place services closely related to the e-procurement system, like the European Single Procurement Document and e-Certis (one-stop shop for information on certificates and evidence requested in public procurement), which are expected to increase SME participation in public procurement.

During the current reference period, the following two measures were launched:

- The Law on public procurement and relevant matters (2016) (N.73(I)/2016) (Νόμος που προβλέπει τη ρύθμιση διαδικασιών σύναψης Δημοσίων Συμβάσεων και για συναφή θέματα του 2016 (N.73(I)/2016)) facilitates SMEs' access to public procurement by better ensuring proportional requirements for participation.
- The new procedure for creating innovative partnerships as provided for in EU Directive 2014/14/EU (Προώθηση της νέας διαδικασίας για δημιουργία Συμπράξεων καινοτομίας όπως προβλέπεται στην οδηγία 2014/14/ΕΕ) lays down rules for procurement procedures for public contracts and design contests.

### 3.5 Access to finance



**Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.**

Cyprus performs below the EU average in access to finance. The recession and banking crisis has had a major impact on the cash-flow of SMEs and their access to bank loans. Even with the recent improvements in bank lending since 2015, the overall performance of Cyprus is still the third worst among its EU peers. Access to finance is the most problematic SBA area in Cyprus. Essentially, neither traditional bank loans nor alternative sources of financing are performing well, which puts a significant strain on SMEs. However, rejected loan applications and unacceptable loan offers for SMEs have declined since 2015, from 20 % of SME loan applications in 2015 to 15 % in 2016. The willingness of banks to lend has also continued on a positive trend since 2014. In 2014, 46 % of businesses that responded to the survey on the access to finance of enterprises (SAFE) indicated a deterioration in the attitude of lenders, compared to 15 % in 2016. Public financial support has also significantly improved since 2014. This is essential, since the availability of alternative sources of finance such as business angel funding, venture capital, equity funding and crowdfunding is considered to be poor, leaving few options for Cypriot SMEs. Indeed, Cyprus is regarded as having the weakest crowdfunding market in the EU. Moreover, businesses struggle to get paid and suffer from late payments.

Since 2008, many policy efforts have been undertaken to remedy the access-to-finance challenges facing SMEs and start-ups, but these have had limited impact on the country's overall performance in this area. There is a wide range of financial

support schemes for SMEs, including European co-financed grant schemes, grants for start-ups, innovation funding schemes, guarantees and environmental grants.

The Cyprus Entrepreneurship Fund (CYPEF — *Ταμείο Επιχειρηματικότητας Κύπρου*) is a significant co-financed loans programme, rolled out with the support of the Cypriot Government and the European Investment Bank Group. The EUR 100 million of initial capital gathered together under CYPEF by the government is matched by equal contributions from financial intermediaries selected by the European Investment Fund. The programme, started in March 2015, has now ended after 2 years in operation. Results in 2016 were promising due to a higher participation of financing intermediaries<sup>22</sup>.

Another significant programme established in recent years is the Scheme for enhancing SMEs' competitiveness in the manufacturing sector and other specific economic activities (*Σχέδιο Ενίσχυσης της Ανταγωνιστικότητας των Μικρομεσαίων Επιχειρήσεων του μεταποιητικού τομέα και άλλων συναφών δραστηριοτήτων*), co-financed by the European Regional Development Fund, with a total budget of EUR 14 million. The outcome of an *ex ante* assessment study will provide additional information on the required alternative financial instruments to be introduced in Cyprus.

It is essential is to ensure SMEs and start-ups are aware of the available programmes, that the programmes are easy to access and that the money invested is absorbed into the economy. In addition, public financial support programmes should help to

meet both the short-term and medium-long term needs of both SMEs and start-ups in the scale-up phase. Public financial support could be bolstered through enhanced coordination and management of EU funding instruments in Cyprus such as the European Structural and Investment Funds (ESIFs), the European Fund for Strategic Investments (EFSI) and EU competitive programmes.

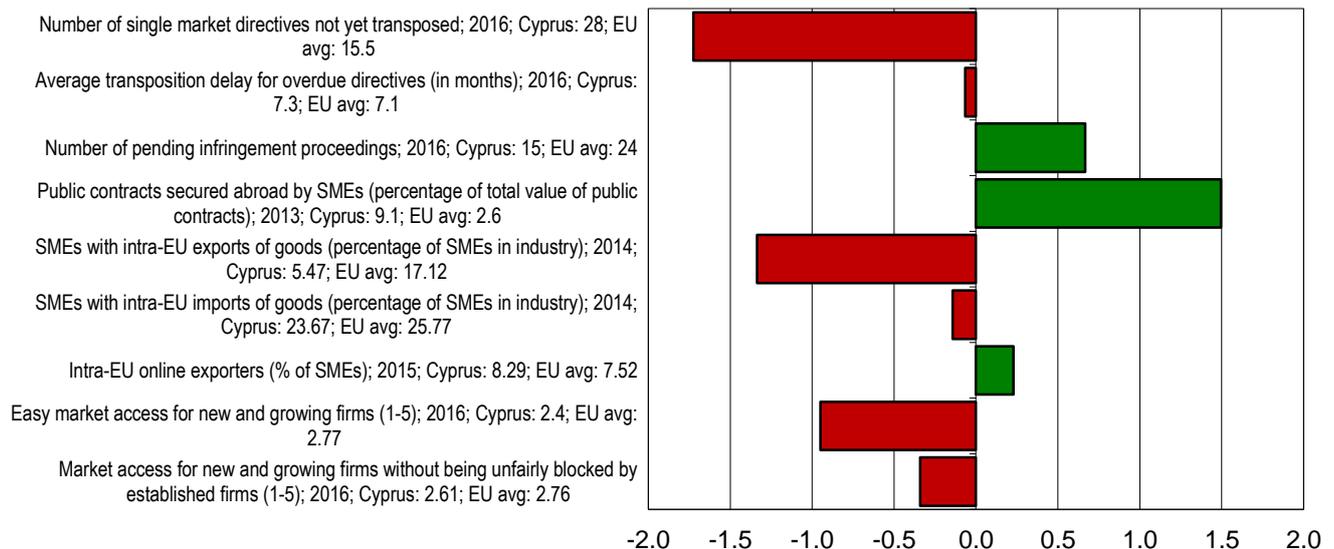
During the current reference period, the following important measures were adopted:

- The European Investment Fund and RCB Bank signed the first EFSI agreement in Cyprus, which will provide EUR 10 million to innovative SMEs. This agreement has support from EFSI.
- The scheme for the creation and upgrading of manufacturing and trading units of agricultural products (*Στήριξη για επενδύσεις στη μεταποίηση εμπορία ή/και ανάπτυξη γεωργικών προϊόντων*), co-financed by the European Agricultural Fund for Rural Development. The scheme was adopted in March 2016.

- Business start-up aid for young farmers (*Ενίσχυση πρώτης εγκατάστασης νέων γεωργών*) was put in place by the Cyprus Agricultural Payments Organisation in May 2016 to boost start-ups in the agricultural sector, which is a key sector in Cyprus.
- The Mechanism to facilitate SMEs' participation in schemes promoted by the Ministry of Energy, Commerce, Industry and Tourism (*Μηχανισμός διευκόλυνσης χρηματοδότησης των ΜΜΕ που εγκρίνονται στο πλαίσιο των σχεδίων του ΥΕΕΒΤ*) was launched to further facilitate the access to finance of SMEs selected for funding under the Ministry's programmes.
- Tax incentives to individuals to invest in innovative enterprises and start-ups (*Φορολογικά κίνητρα — ελαφρύνσεις με έμφαση στις νεοφυείς επιχειρήσεις*). These incentives were expanded and improved, building on the 2014 amendment of the Income Tax Law (115/2014). The tax deductions on investments are unprecedented in Cyprus and the impact on the start-up ecosystem is expected to be substantial.

### 3.6 Single market

Variation from the EU average  
(measured in standard deviations, EU average=0)



**Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.**

Cyprus still performs below the EU average. However, there have been some significant improvements since 2008, albeit with some deterioration last year. The deterioration in performance is due to the increase in the number of directives that have not yet been transposed: the figure now stands at 28 — the third highest among EU Member States<sup>23</sup>. The share of SMEs in

industry with intra-EU exports of goods is also the third lowest in the EU and has barely improved since 2008.

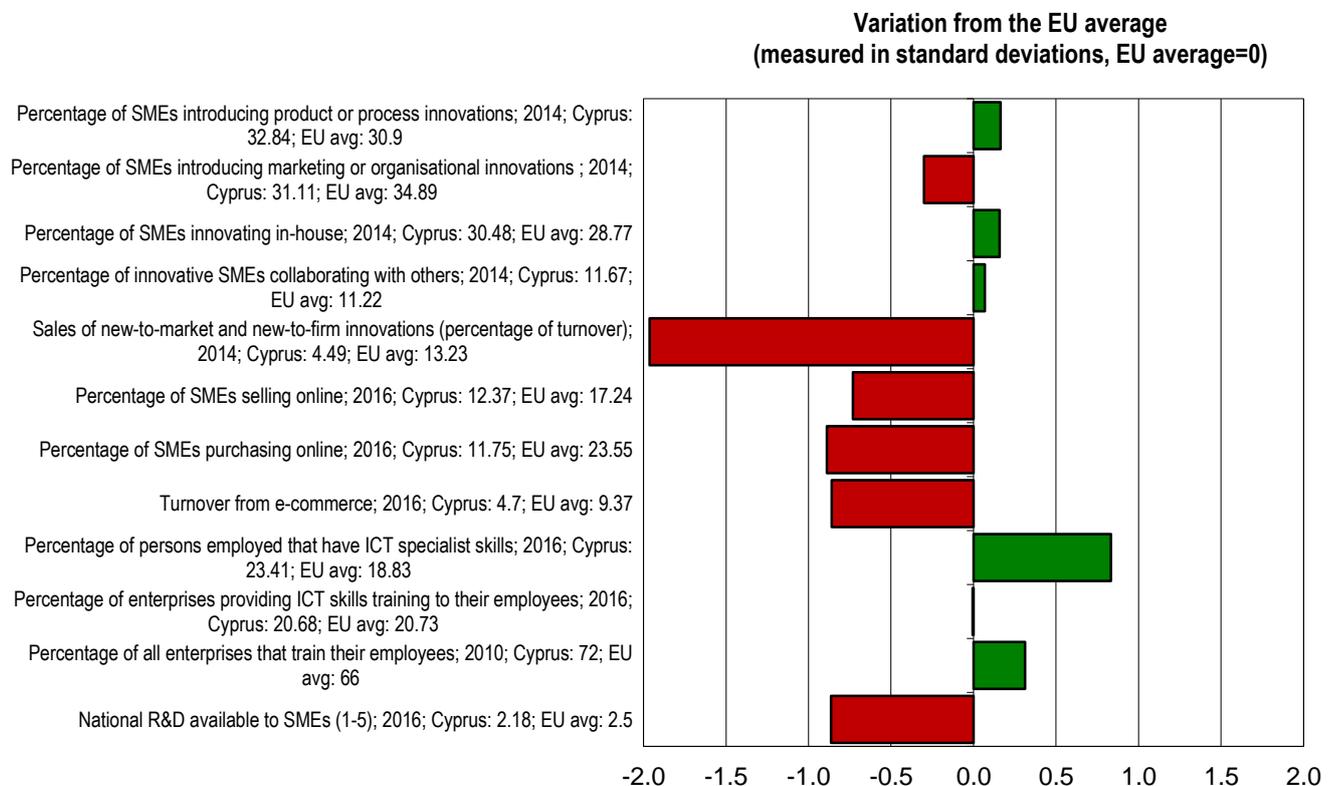
A SOLVIT centre has been established, but services are to be ramped up and expanded to increase the number of SME users. The single point of contact (PSC Cyprus) provides information on the procedures and regulations concerning the cross-border

provision of services within the internal market, and offers guidance to investors interested in establishing a business in Cyprus. However, the lack of an Internal Market Information System only adds to the challenges Cypriot SMEs face to export. Already, a low share of Cypriot SMEs has intra-EU exported goods, and the delayed transposition of single market directives is not helping. Nevertheless, online sales to other EU countries are struggling less and Cypriot SMEs are winning contracts abroad.

Important key issues that need to be addressed in future policies in this SBA area are: electronic commerce, freedom of movement, the digital market and the clarification of EU measures (e.g. grants) for SMEs.

During the current reference period, no new significant measures were adopted or announced.

### 3.7 Skills & innovation



**Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.**

Cyprus is in the group of moderate innovator countries and broadly performs in line with the EU average. Its performance since 2008 is on a downward trend. With the exception of trading online, no progress has been observed over the years. Since 2013, the share of SMEs selling online has increased from 6.9 % to 12.4 %, but still remains below the EU average. Online commerce represents unexploited potential for Cypriot SMEs to reach more customers, both domestically and in the internal market. Cyprus performs above the EU average for the percentage of persons employed with ICT/digital skills, but there is no sign of improvement in this area. Significantly, as of 2014, Cypriot SMEs were the second worst performers of all EU Member States in obtaining profits from new-to-market and new-to-firm innovations.

A variety of support measures have been implemented since 2008, including funding programmes and innovation vouchers, but with limited impact. Only recently, tax deductions were put in place for investments in innovative companies. Other notable measures include the Scheme for strengthening business Innovation: Development of Innovative Products, Services and Processes (*Σχέδιο ενίσχυσης της επιχειρηματικής καινοτομίας: Ανάπτυξη καινοτόμων προϊόντων, υπηρεσιών και διεργασιών*), implemented in 2015 to attract private investments for SMEs to develop innovative products and services.

During the reference period, new calls and initiatives were launched under RESTART 2016-2020, the development framework programme aimed at supporting research, technological development and innovation in Cyprus. The

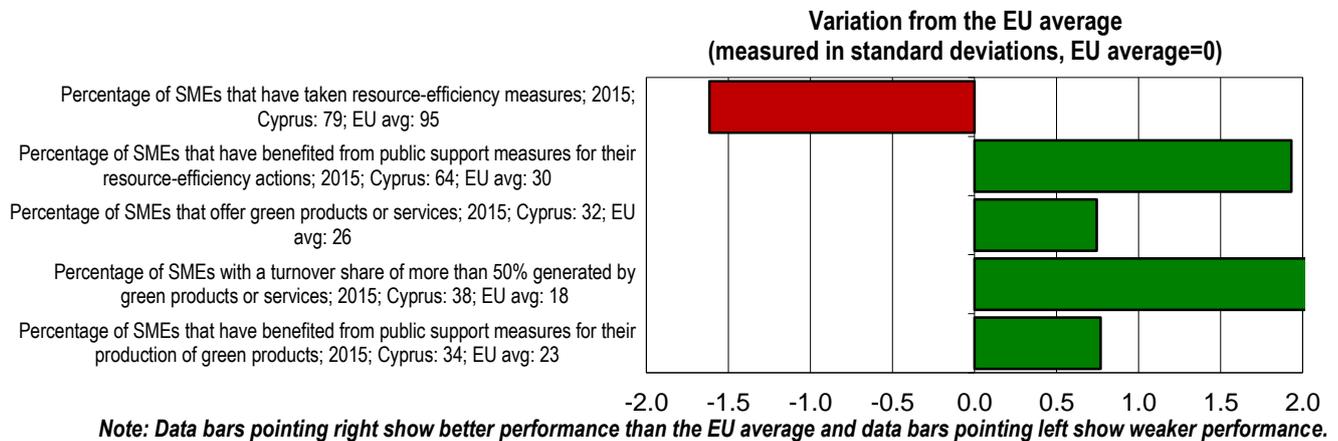
programme is co-financed by national and European resources. The following calls were launched with the goal of boosting research, innovation and technological development in SMEs:

- Research in Enterprises (*Έρευνα στις επιχειρήσεις*), focusing on the creation of new or significantly improved products and services or value-added production methods that will help make Cypriot businesses more competitive.
- Integrated projects (*Ολοκληρωμένα Έργα*) funded to boost SME technological development and innovation by finding value chain synergies.

- Centres of Excellence (*Νηρίδες Αριστείας*) launched to strengthen cooperation between the business sector and universities and contribute to local economic growth.

In addition, the National Coalition for Digital Jobs action plan was set up to promote digital skills in Cyprus by Cyprus's digital champion, the Department of Electronic Communications, together with national public institutions, professional communities, private companies and non-profit organisations .

### 3.8 Environment

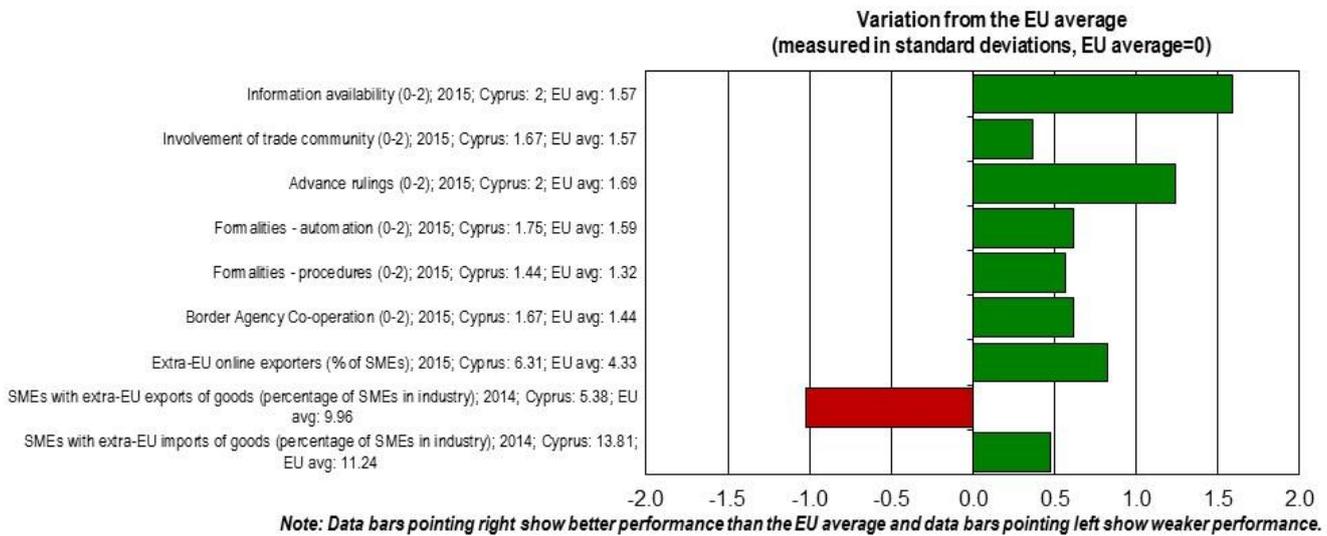


Cyprus performs above the EU average in this area. A high percentage of SMEs, 64 % in 2015, benefitted from public support for resource-efficiency actions — more than twice the EU average. However, just 79 % have taken resource-efficiency measures and just 15 % of SMEs have taken action on their own without public financing. This implies that there is still an untapped potential to improve the qualitative and quantitative incentives for SMEs to take resource-efficient actions. By contrast, SMEs perform well in offering green products or services and excel in generating revenue from doing so. Indeed, over a third of Cypriot SMEs are engaged in green business and 38 %, against an EU average of 18 %, generate at least half of their turnover from these green sales.

Eco-innovation has thrived on business incentives. However, the take-up of resource-efficiency measures by Cypriot businesses will only thrive if both the regulatory and business incentives are present. Currently, serious challenges still remain in water and waste management. These are due to underinvestment (although there has been significant investment in desalination and water recycling in recent years) and to insufficient enforcement of EU legislation.

During the current reference period, no new significant measures were adopted or announced that fall under the environment SBA area.

### 3.9 Internationalisation



Cyprus scores above the EU average in internationalisation. However, its exceptional performance is limited to the framework conditions as opposed to the actual internationalisation performance of Cypriot SMEs. As most of the indicators in this year's version have been replaced,<sup>24</sup> overall performance in this area cannot be compared to last year's, with the exception of extra-EU imports and exports of goods by SMEs.

Similar to the performance of Cypriot SMEs on exports inside the EU, in 2014, just over 5 % in industry have exports outside the EU, a slight improvement from 4.2 % in 2009. In the same period, SME imports of goods fell from 15.1 % to 13.8 %. By contrast, online sales to the rest of the world outside the single market are performing well and nearly doubled from 3.2 % in 2011 to 6.3 % in 2015. The import-export framework and conditions are also functioning well across all indicators, including border agency cooperation, information availability, trade community involvement, advance rulings and the different formalities. However, given Cyprus' remote and isolated location, Cypriot SMEs face different challenges compared to their European neighbours and therefore need more specialised support.

To date, most policy efforts have focused on covering the expenses of Cypriot SMEs' participation in international fairs and on networking activities or the use of trade missions. More targeted, specific and practical support action and information to

help businesses to internationalise is needed. It is recommended that Cyprus set up an organisation to manage these actions, increase funding and put in place a coherent annual national strategy. While the European Enterprise Network and the Cyprus Chamber of Commerce & Industry have partially filled the void, not enough has been done to address the immense challenges SMEs face when trying to boost exports.

An 'Export Help Desk' service was set up only recently (September 2015) to help Cypriot exporters reach potential international customers. In addition, the EBRD trade facilitation programme was established in July 2015 to provide guarantees covering international transaction risks, complementing the guarantees offered by the European Investment Bank. However, it is too early to know what impact these measures have had, if any.

During the current reference period, the Research Promotion Foundation launched a programme of participation in international networking events (συμμετοχή σε εκδηλώσεις διεθνούς δικτύωσης), to cover the costs of SMEs interested in participating in international networking events. However, given the relatively limited number of applications, SMEs may actually need more targeted and practical support, including financial support, to internationalise their business.

## 4. Interesting initiative

Below is an example of an initiative from Cyprus to show what governments can do to support SMEs:

### Tax incentives to individuals to invest in innovative enterprises and start-ups (*Φορολογικά κίνητρα — ελαφρύνσεις με έμφαση στις νεοφυείς επιχειρήσεις*)

In July 2016, Cyprus's Council of Ministers approved additional amendments to the Income Tax Law to improve and expand tax incentives that foster investments in start-up and innovative companies in Cyprus. The aim was to increase entrepreneurial activity in Cyprus and improve the business environment. The business community was consulted in the process. The amendment to the Income Tax Law was approved by Cyprus's House of Representatives in December 2016 and came into effect on 1 January 2017.

The new tax incentives include:

- tax exemptions for investments made from the investor's taxable income (up to a maximum amount of 50 % of the taxable income);
- deductions of up to EUR 150 000 per year.

The lack of venture capital in Cyprus makes the new tax incentives all the more important as they will make it easier to access capital investments. This unprecedented measure for Cyprus is expected to drastically change the start-up ecosystem and strengthen innovation in existing businesses.

For a company to be considered innovative, it must have spent 10 % of its operating expenses on research and development during at least 1 of the last 3 years. This is verified by an external auditor. However, start-ups are assessed based on their business plan. The new interpretation of the term 'innovative enterprise' is fully harmonised with the EU body of law on competition.

References:

The Unit of Administrative Reform, Press Release — Tax incentives to individuals to invest in innovative enterprises and start-ups, December 2016, <http://www.reform.gov.cy/en/growth-reform/better-regulation/better-regulation-in-the-eu/press-release-tax-incentives-to-individuals-to-invest-in-innovative-enterprises-and-startups>

## Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:

<http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

[grow-spr@ec.europa.eu](mailto:grow-spr@ec.europa.eu)

Small Business Act:

[http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm)

European Small Business Portal:

[http://ec.europa.eu/small-business/index\\_en.htm](http://ec.europa.eu/small-business/index_en.htm)

## Endnotes

<sup>1</sup> The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2015, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2014 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>.

<sup>2</sup> Central Bank of Cyprus, Residential Property Price Indices [http://www.centralbank.gov.cy/nqcontent.cfm?a\\_id=15421&lang=en](http://www.centralbank.gov.cy/nqcontent.cfm?a_id=15421&lang=en), last accessed 03.04.2017.

<sup>3</sup> Central Bank of Cyprus, Household and Non-financial Corporations Indebtedness Report, May 2016, [https://www.centralbank.gov.cy/media/pdf/Household\\_and\\_Non-Financial\\_Corporations\\_Indebtedness\\_Report\\_for\\_May\\_2016\\_EN.pdf](https://www.centralbank.gov.cy/media/pdf/Household_and_Non-Financial_Corporations_Indebtedness_Report_for_May_2016_EN.pdf), p. 16, last accessed 03.04.2017.

<sup>4</sup> CYSTAT, Building Permits, [http://www.mof.gov.cy/mof/cystat/statistics.nsf/industry\\_construction\\_62\\_main\\_en/industry\\_construction\\_62\\_main\\_en?OpenForm&sub=2&sel=2](http://www.mof.gov.cy/mof/cystat/statistics.nsf/industry_construction_62_main_en/industry_construction_62_main_en?OpenForm&sub=2&sel=2), last accessed 07.04.2017.

<sup>5</sup> CYSTAT, Production Index in Construction, [http://www.mof.gov.cy/mof/cystat/statistics.nsf/industry\\_construction\\_62\\_main\\_en/industry\\_construction\\_62\\_main\\_en?OpenForm&sub=2&sel=2](http://www.mof.gov.cy/mof/cystat/statistics.nsf/industry_construction_62_main_en/industry_construction_62_main_en?OpenForm&sub=2&sel=2), last accessed 04.04.2017.

<sup>6</sup> Ministry of Interior, <http://www.moi.gov.cy/moi/moi.nsf/All/36DB428D50A58C00C2257C1B00218CAB>, last accessed 04.04.2017.

<sup>7</sup> Ministry of Interior, [http://www.moi.gov.cy/moi/moi.nsf/all/A0CAA99287BD0E9DC225806C002988D0/\\$file/SCHEME%20FOR%20INVESTORS%20NATURALISATION%2013.9.2016.pdf?openelement](http://www.moi.gov.cy/moi/moi.nsf/all/A0CAA99287BD0E9DC225806C002988D0/$file/SCHEME%20FOR%20INVESTORS%20NATURALISATION%2013.9.2016.pdf?openelement), last accessed 04.04.2017.

<sup>8</sup> Central Bank of Cyprus, FDI, [http://www.centralbank.gov.cy/nqcontent.cfm?a\\_id=13911](http://www.centralbank.gov.cy/nqcontent.cfm?a_id=13911), last accessed 04.04.2017.

<sup>9</sup> IFAC, <https://www.ifac.org/about-ifac>, last accessed 04.04.2017.

- <sup>10</sup> Cyprus Bar Association, <http://www.cyprusbarassociation.org/v1/index.php/en/home-2>, last accessed 04.04.2017.
- <sup>11</sup> Department of the Registrar of Companies and Official Receiver (DRCOR) of the Republic of Cyprus, [http://www.mcit.gov.cy/mcit/drcor/drcor.nsf/company\\_statistics\\_en/company\\_statistics\\_en?OpenDocument&print](http://www.mcit.gov.cy/mcit/drcor/drcor.nsf/company_statistics_en/company_statistics_en?OpenDocument&print), last accessed 31.03.2007.
- <sup>12</sup> Data provided by the Department of Registrar of Companies and Official Receiver. Last update: 24/03/2017.
- <sup>13</sup> CyLaw, [http://www.cylaw.org/nomoi/enop/non-ind/O\\_113/full.html](http://www.cylaw.org/nomoi/enop/non-ind/O_113/full.html), Article 152(A), last accessed 31.03.2017.
- <sup>14</sup> Stockwatch, 18. April 2017, [http://www.stockwatch.com.cy/nqcontent.cfm?a\\_name=news\\_view&ann\\_id=273068](http://www.stockwatch.com.cy/nqcontent.cfm?a_name=news_view&ann_id=273068), last accessed 18.04.2017.
- <sup>15</sup> Persons employed and self-employed persons refer to persons aged 15-64. Source of the data is Eurostat. To calculate the 2016 value, quarterly data from the LFS series was averaged over all quarters for which information was available on 20.03.2017.
- <sup>16</sup> In line with Commission implementing regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees at the beginning of their growth and average annualised growth in number of employees greater than 10 % per annum, over a three-year period. The share of high-growth enterprises is the number of high-growth enterprises divided by the number of active enterprises with at least 10 employees. The source of the data on high-growth enterprises is Eurostat ([http://ec.europa.eu/eurostat/web/products-datasets/-/bd\\_9pm\\_r2](http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2), last accessed 10.04.2017). Due to data availability on Eurostat, the data on high-growth firms refer to the 'business economy', which covers sections B-N including section K (financial activities, except activities of holding companies). The 'non-financial business economy' excludes section K.
- <sup>17</sup> The 2017 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.
- <sup>18</sup> The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2017. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2017. All SBA principles, with the exception of the 'Think Small First' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>.
- <sup>19</sup> The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2016 and the first quarter of 2017. The national SME policy expert that CARSA Spain (DG GROW's lead contractor for the 2017 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year's fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.
- <sup>20</sup> The Consultation Guide was published in early December 2016 (<https://issuu.com/presidency-reform-cyprus/docs/17b2179171a184>).
- <sup>21</sup> The national figures given by the Treasury Department of the Republic of Cyprus have not been vetted by any harmonised external sources. More specifically, the figure of 42.9 days is given as the average payment period for the Ministry of Health and 29.7 days is the figure for all the other Ministries. The data are calculated starting from the date of the invoice, plus 2 days up to the payment date.
- <sup>22</sup> Commission Staff Working Document, Country Report Cyprus 2017, Including an In-Depth Review and the prevention and correction of macroeconomic imbalances: <https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-cyprus-en.pdf>, p. 44, last access 29.08.2017.
- <sup>23</sup> The data for 2016 were compiled in December 2016, while the 2015 data were collected in May 2015.
- <sup>24</sup> All World Bank indicators (time and cost to export and import) have been replaced by six OECD trade-facilitation indicators (following a scale where 0 is the worst and 2 is the best score). Please see Moisé, E., T. Orliac and P. Minor (2011), 'Trade Facilitation Indicators: The Impact on Trade Costs', OECD Trade Policy Papers, No 118, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5kq6nk654hmr-en> for more information on the methodology applied to construct the indicators; further information is available at: <http://www.oecd.org/trade/facilitation/indicators.htm>, last accessed 06/07/2017.