

SBA Fact Sheet 2010/11

CYPRUS

Cyprus' Fact Sheet in a nutshell:

- ✓ *Its SMEs are surprisingly large (4.6 employees per firm), given the small domestic market*
- ✓ *In employment and value-added terms, SMEs will recover to pre-crisis levels by 2012. The number of SMEs is, however, expected to stagnate*
- ✓ *Cyprus' SBA profile is particularly strong in 'Entrepreneurship', Public procurement & State aid' and 'Skills & innovation'*
- ✓ *Action has been taken in all SBA areas except 'Second Chance', 'Public Procurement and State Aid' and 'Environment'.*

The SBA Fact Sheets¹:

The Small Business Act (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs).

The aim of the annually updated Fact Sheets is to improve understanding of recent trends and national policies affecting SMEs.

1. SMEs in Cyprus – basic figures

	Number of Enterprises			Employment			Value added		
	Cyprus		EU27	Cyprus		EU27	Cyprus		EU27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	39.205	91,8%	92,1%	92.190	38,9%	29,8%	3	30,0%	21,6%
Small	2.921	6,8%	6,6%	56.666	23,9%	20,4%	2	24,3%	18,9%
Medium-sized	483	1,1%	1,1%	48.049	20,3%	16,8%	2	20,7%	17,9%
SMEs	42.609	99,8%	99,8%	196.904	83,2%	66,9%	7	75,0%	58,4%
Large	79	0,2%	0,2%	39.868	16,8%	33,1%	2	25,0%	41,6%
Total	42.688	100,0%	100,0%	236.772	100,0%	100,0%	9	100,0%	100,0%

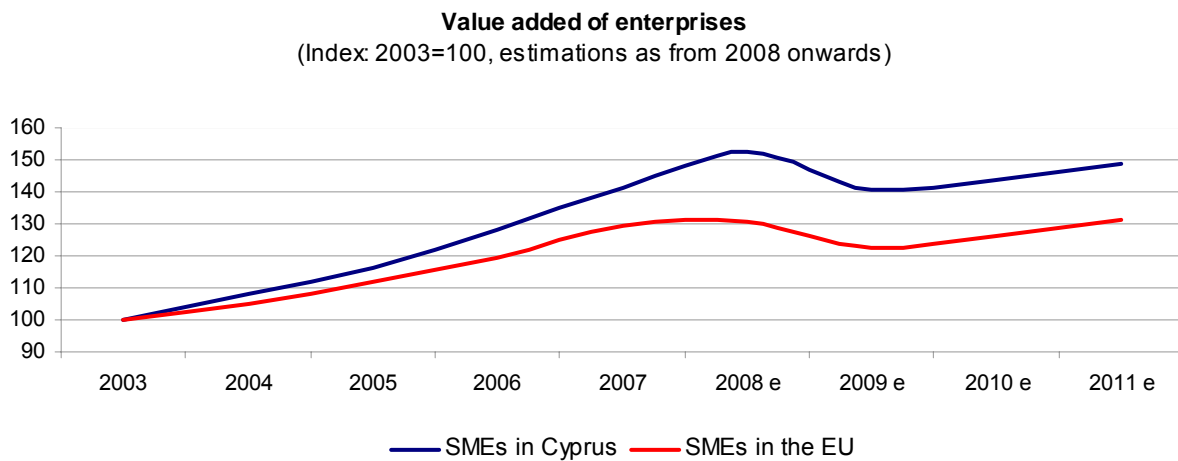
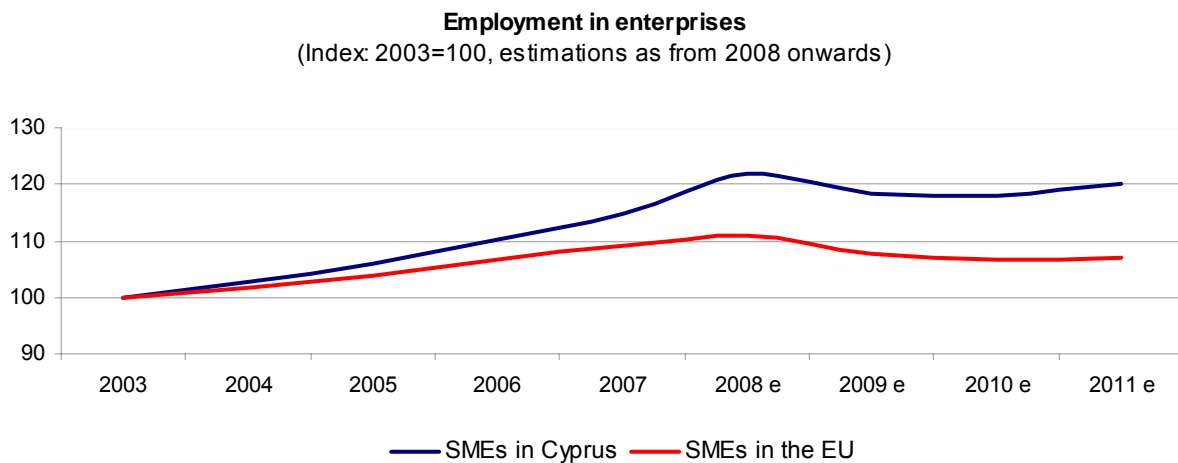
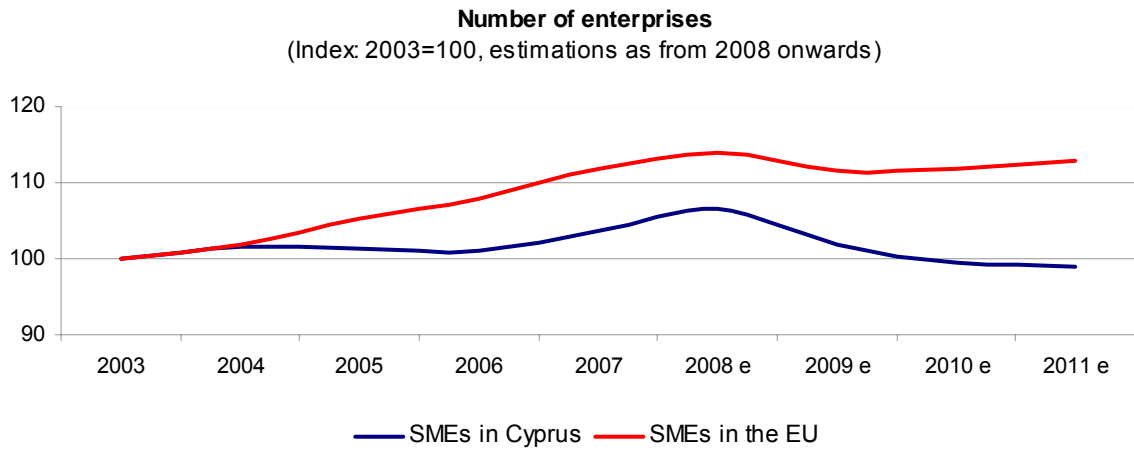
Estimates for 2010, based on 2002-2007 figures from the Structural Business Statistics Database_revised (Eurostat). The estimates have been produced by Cambridge Econometrics. The data cover the 'business economy' which includes industry, construction, trade, and services (NACE Rev. 1.1 Sections C to I, K). The data does not cover the enterprises in agriculture, forestry, fishing or the largely non-market services such as education and health. The advantage of using Eurostat data is that the statistics from different countries have been harmonised and are comparable across countries. The disadvantage is that for some countries these data may be different from data published by national authorities.

In many ways, Cyprus' SME sector closely mirrors the situation in most other EU Member States. SMEs are the backbone of the economy representing more than 99% of all business in the economy and accounting for the bulk of the jobs. If anything, the role of SMEs as the main provider of jobs and of value-added is even more pronounced in Cyprus than in the EU overall. The figure of 83% of jobs provided by SMEs is one of the highest of all EU-27 countries (the EU average is 67%). The phenomenon of a small country with SMEs having a high impact on the economy can also be observed in other relatively small countries. What is interesting, though, is that unlike other smaller economies, the actual size of SMEs is in line with the overall EU average. The average SME firm size in Cyprus in number of employees is, at 4.6, even slightly higher than the corresponding EU average (4.3). This runs counter to the established pattern of smaller markets needing a smaller size of firms. So, Cyprus' SMEs are actually relatively big given the size of the domestic market. As the above table demonstrates, the role that large firms play in Cyprus is not just compensated by a proportionally inflated segment of micro firms. The country

also hosts a relatively high share of small and medium-sized firms. In terms of industrial activity, Cyprus' profile is in line with the EU average. 40% of SMEs are active in trading (31% in the EU), which is the only significant difference. This is explained by the fact that it is an island economy located in the centre of the Mediterranean.

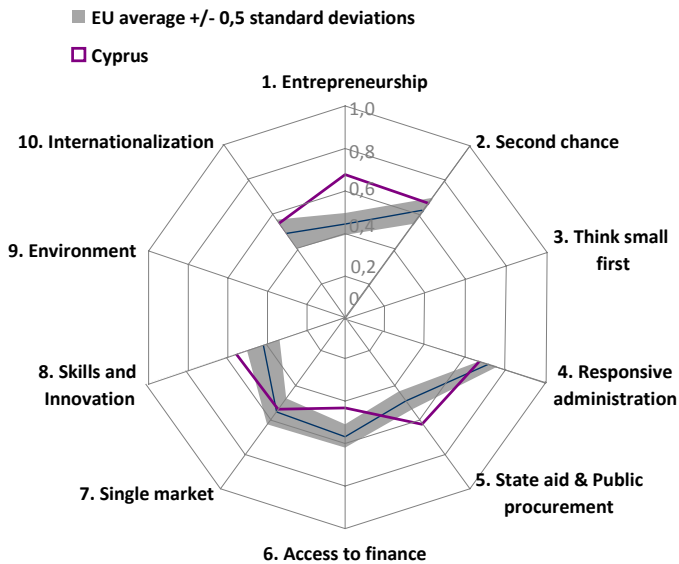
Since it joined the EU, the SME sector has grown steadily in employment and value-added, even outpacing the EU average. The growth in the number of firms has been stagnant, mainly due to a lagging performance of micro firms. This in turn may be explained, at least partially, by post-accession consolidation processes. In any event, this also contributed to the surprisingly large average size of Cypriot SMEs. The post-crisis outlook for Cypriot SMEs is mixed. According to forecasts, the crisis in 2008 and its aftermath will accelerate the consolidation process as regards the number of firms. On the other hand, in terms of employment and value-added, Cyprus is expected to have caught up again with pre-crisis levels by the end of 2011.

SME trends in Cyprus²



2. Cyprus' SBA profile

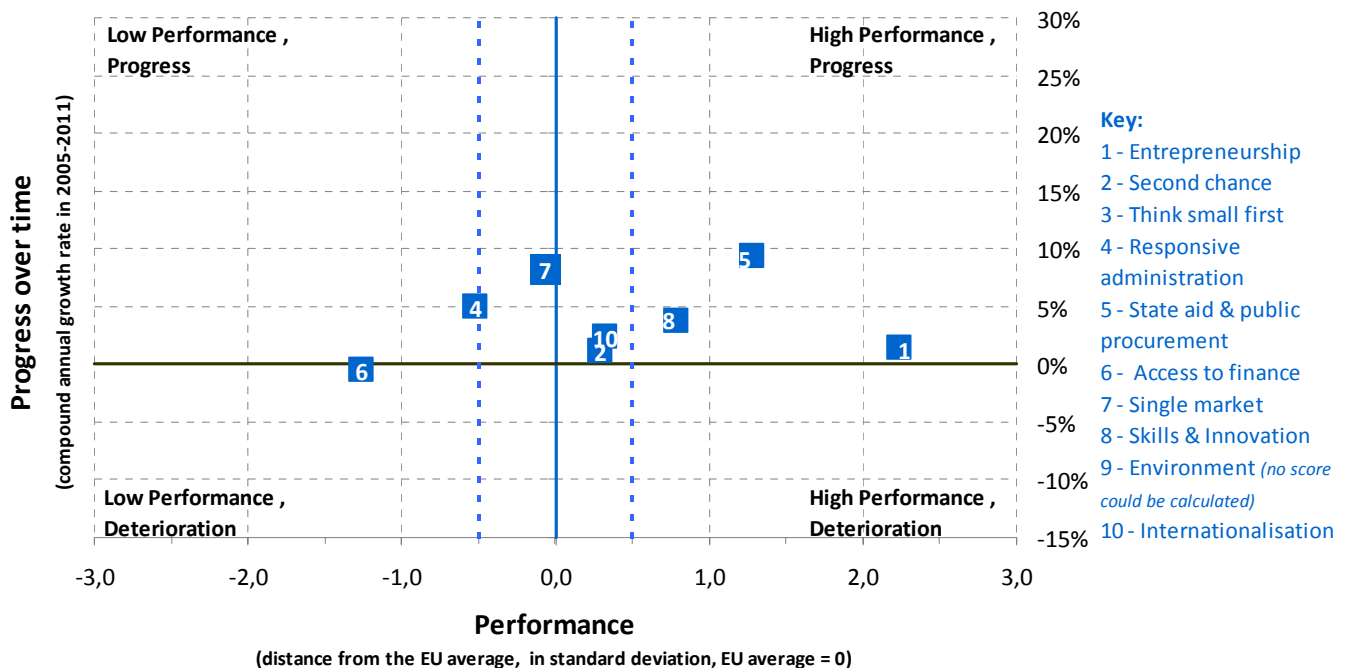
Cyprus's performance against the EU average by SBA area³



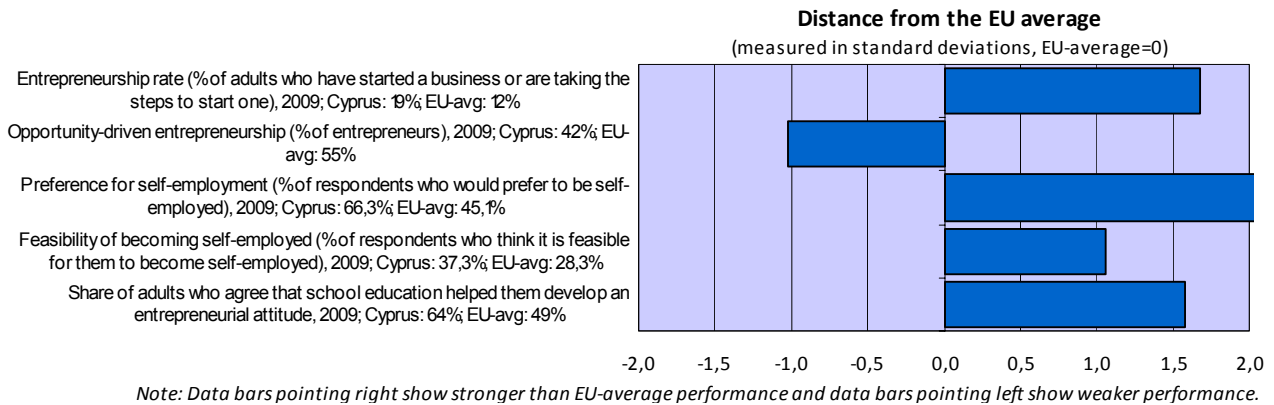
Overall, Cyprus' SBA profile is rather mixed. In three areas it performs in line with the EU average, in three it outperforms the average and in two ('Access to finance and 'Responsive administration') it lags behind. (Note: as with all other EU-27 Member States, there is no average

area score available for area 9 – 'Environment' – due to a lack of data. Cyprus also lacks data on the average for 'Think Small First'). The pattern is again mixed regarding performance over time as depicted in the quadrant chart below. A number of areas — especially 'State Aid & Public procurement', 'Single market', 'Responsive administration' and 'Skills & innovation' show considerable improvements, as expressed in the average annual growth rates for the sector averages between 2005–2011. In one area, however, the situation has deteriorated: 'Access to finance'. On 'Entrepreneurship', 'Second chance' and 'Internationalisation', progress has been very modest. All in all, 'Entrepreneurship', 'State Aid & Public procurement' and 'Skills & innovation stand out as highlights of Cyprus' SBA profile, while 'Access to finance' and 'Responsive administration' are the areas that need to be most closely monitored. However, there are other challenges beyond those that are immediately apparent from the aggregate picture. They are related to specific sub-areas, as detailed in the following sections. In policy terms, in 2010–2011, Cyprus took action in all SBA areas except 'Second Chance', 'Public Procurement and State Aid' and 'Environment'.⁴

Cyprus' SBA performance: Status quo and trend between 2005-2011⁵



I. Entrepreneurship

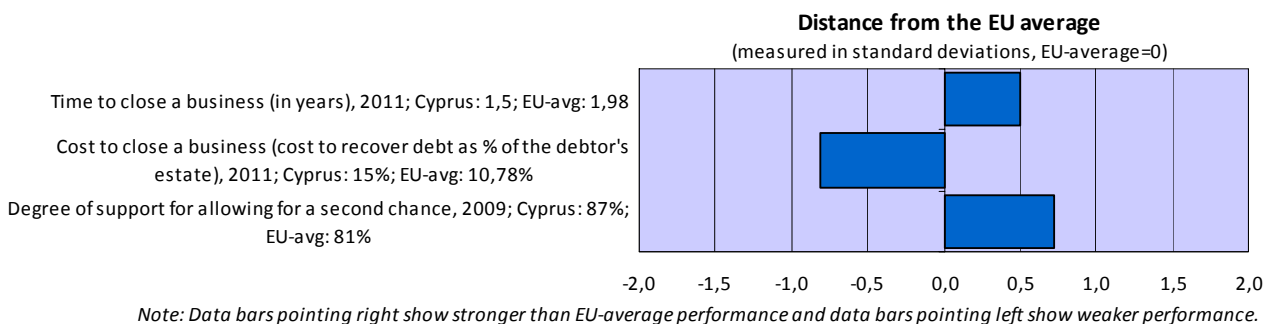


Cyprus' performance is above the EU average in this area, which is one of the strong points of Cyprus' SBA profile. The core indicator measuring entrepreneurial activity — the entrepreneurship rate — is clearly above the EU average (19% of the adult population versus 12% for the EU). The positive attitude towards entrepreneurship is also reflected in almost all other indicators for which data are available: the preference for self-employment is the highest in the EU-27 (66% of the adult population versus 45% for the EU). The perception of whether it would be feasible to become an entrepreneur under current circumstances and the role of school education in developing an entrepreneurial mindset also reflect a much more positive attitude than elsewhere in the EU. There are only two counter-balancing factors: firstly, the share of opportunity-driven (as opposed to necessity-driven) entrepreneurs is much lower in Cyprus than in the EU on average (64% versus 49%). This is important as opportunity-driven enterprises are found to be more

profitable and sustainable than those started out of necessity. Secondly, not all indicators available for other EU countries are available for Cyprus. Therefore, the profile in this area is incomplete. It is possible that some of the missing indicators could have compromised the otherwise positive outlook.

On the policy front, in March 2010, the extraordinary support scheme to boost employment in enterprises was introduced by the Cyprus Productivity Centre (CPC) with a total budget of €8 million. The aim of the scheme is to maintain and boost employment by improving the competitive advantage of enterprises. The scheme offers grants to draft and implement business plans that will improve the competitiveness of the enterprise and, as a result, improve the quality and duration of employment. It is expected that at least 90 business units will be supported and about 900 jobs affected (to maintain about 600 jobs and create 300 new jobs).

II. Second chance

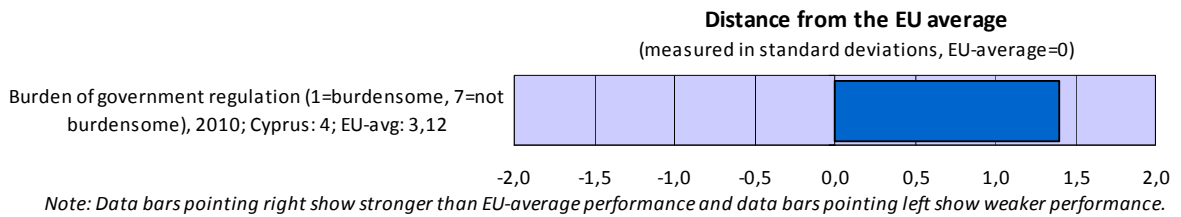


Cyprus' performance in this area is average. Individual indicators produce an inconclusive picture, showing rather patchy performance. On the costs of closing down a business, Cyprus trails the EU average by a considerable

margin (15% to less than 11% for the EU). Then again, on the public's overall degree of support to give a second chance, Cyprus outperforms the average. On the policy

front, no significant measures were taken in 2010 and the first quarter of 2011.

III. Think Small First

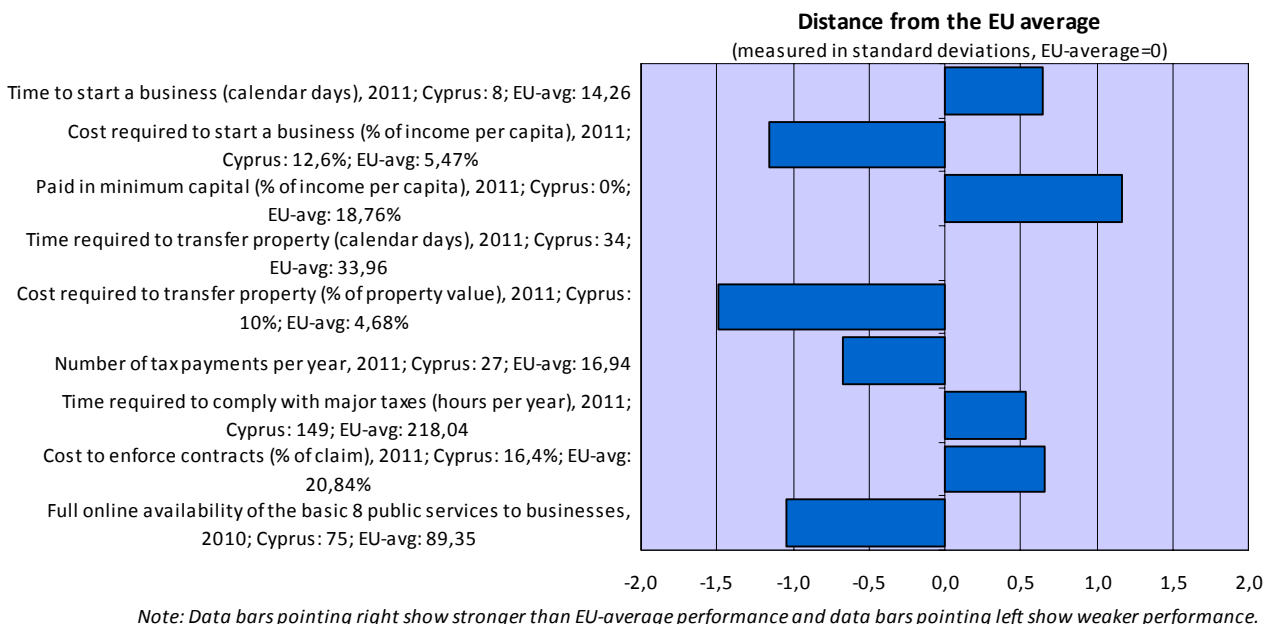


Only one indicator tracking performance on 'Think Small First', is available, namely assessment of the 'Burden of government regulation' by entrepreneurs. All other indicators available for most other EU Member States are missing for Cyprus. It is therefore insufficient to draw any general conclusions.

On the policy front, for 'Think Small First', the completion of a rudimentary questionnaire for every new legislative

act was introduced in 2010. The Ministry of Commerce, Industry and Tourism (MCIT) plans to improve this questionnaire (probably in two stages) to develop it into a fully fledged Impact Assessment exercise to be used for legislation and any other administrative procedure.

IV. Responsive Administration



Overall performance in this area slightly trails the EU average. The reasons stem from rather patchy performance on individual indicators. Cyprus boasts four categories that outperform the EU average. The time to set up a business⁶, for instance, is almost a full week shorter in Cyprus (8 days) than the EU average (14 days). It also takes substantially less time to process the payments of the three major taxes in Cyprus (149 hours

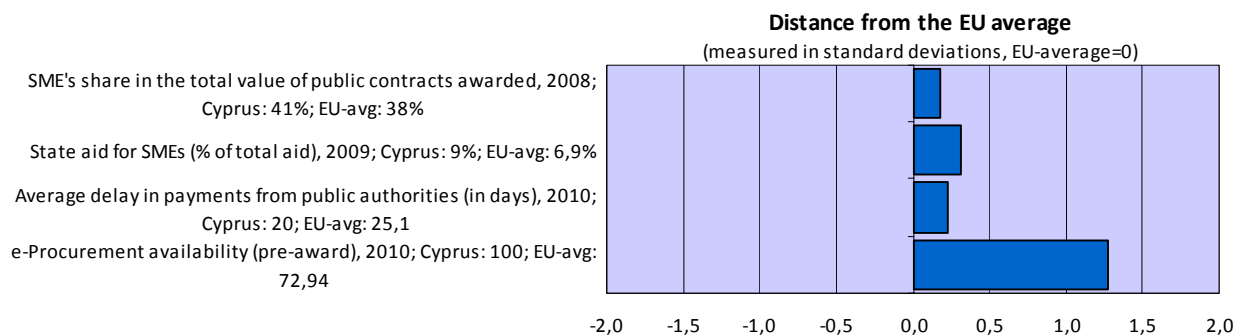
per year against the EU average of 218h). However, these are offset by just as many negative results. While it may be fast to start a business in Cyprus, it is expensive (the costs of starting a business in Cyprus are almost 13% of income per capita versus less than 6% in the EU). Likewise, transferring property costs more than twice as much in Cyprus as the EU average (10% of the property value in Cyprus versus less than 5% in the EU). In

addition, not all of the most important public services for businesses are available online, which is a problem. So, there is still some work to be done to ensure that the positive performance in some areas is achieved in other areas to reflect a more broad-based progress on the administrative environment.

In 2010 and the beginning of 2011, the government took a number of policy initiatives to meet some of the challenges. The Point of Single Contact (PSC) in Cyprus was set up under Directive 2006/123/EK, based on the decision of the Council of Ministers to upgrade the one-stop-shop operating under the MCIT, as determined by the Services Directive. The PSC Cyprus aims to act as a single intermediary body between service providers and the public administration. The web-portal of the PSC to

support entrepreneurs established in Cyprus or in another Member State came online in 2009. It allows them to quickly access a range of information on business and service provision. All the information provided is organised by business sector. More electronic application forms were included in the system in 2010-2011 and full operation is scheduled for 2012. Two pilot initiatives to reduce administrative burdens have been launched. Lastly, the Companies Registration System (e-filing) was presented in December 2010 by the Minister of Commerce, Industry and Tourism and is expected to go online in 2011. The system will enable new companies to be registered online, provide online information on companies and allow companies to submit documents.

V. State aid and Public procurement

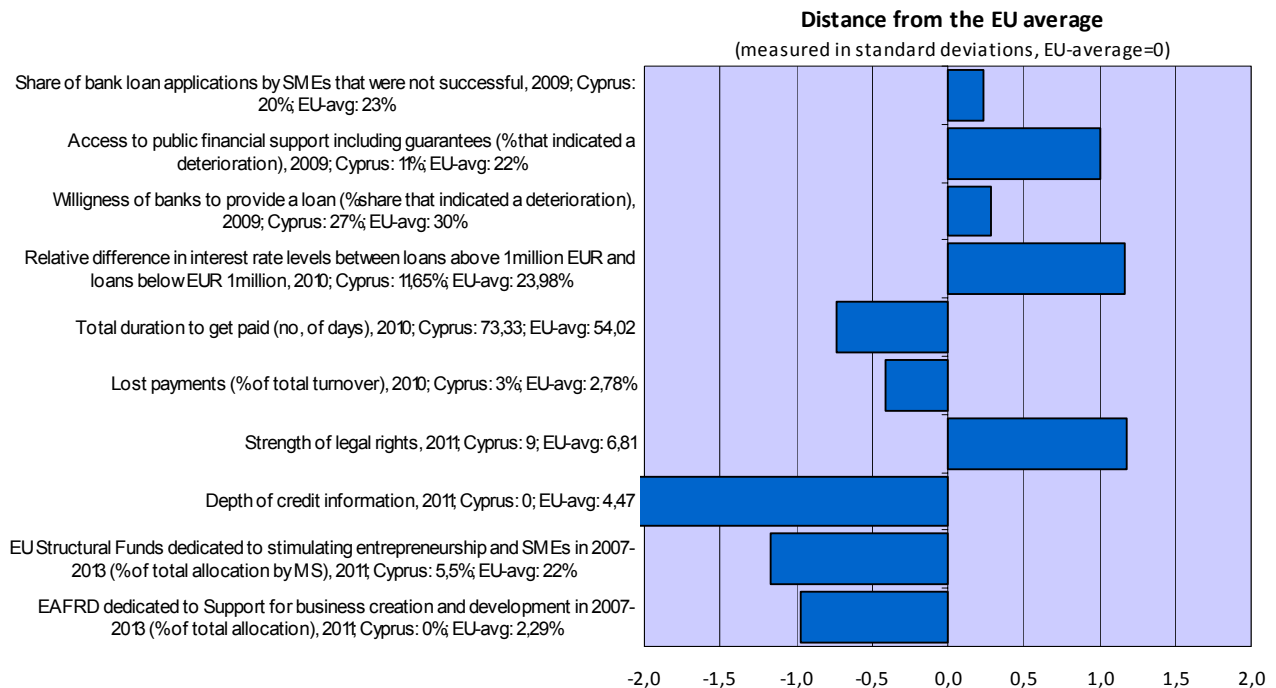


The overall above average performance vis-à-vis the EU is mainly driven by one indicator, the e-availability of procurement services, where Cyprus ranks among the top performers in the EU. The other indicators, including the shares SMEs have in the total value of public

contracts and in total State aid are all in line with the EU average or slightly above it.

No significant measures were reported in 2010 and the first quarter of 2011.

VI. Access to finance



Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

Cyprus trails the EU average by some margin in this area. This is mainly due to two factors: firstly, the indicators describing the cash flow situation of enterprises — total payment delay and the share of lost payments in all due payments — are on the negative side. For instance, it takes more than three weeks longer (73 versus 54 days) for a Cypriot firm to get paid than the EU average. The second factor concerns a set of indicators that is actually directly under the control of the Government. Public financial support from EU funds — regional as well as structural ones — are focused much less on SMEs in Cyprus than in the EU on average. The Government evidently uses these instruments to focus on other policy priorities. This is compounded by a relatively low level of transparency on credit information. This, however, seems to be less important. After all, the one aspect of finance that provides a clearly positive picture is access to credit. On this, all available indicators (essentially, the first four on the graph above) give good results. The best results are the low added costs for small credit (of less than €1 million) compared to large amounts. The mark-up on the interest rate for such loans, most relevant for SMEs, is the third smallest, (after Poland and the UK). Information on venture capital is, unlike in other Member States, missing. Therefore, it is not possible to assess this important aspect of finance for Cyprus.

On the policy front, the following measures were taken in 2010 and in the beginning of 2011.

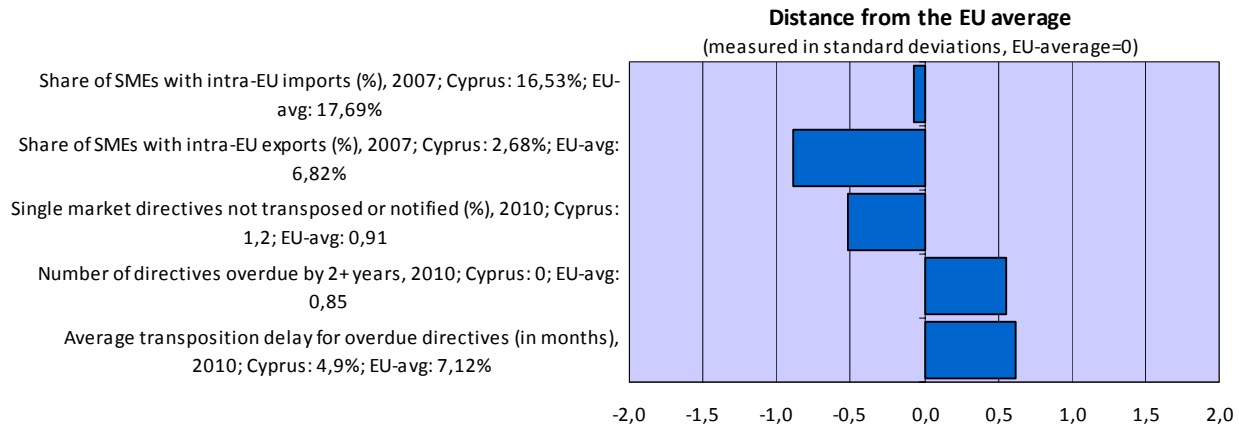
On 30 September 2010, the contract between the Bank of Cyprus (Financial Intermediary) and the European Investment Bank (EIB) was signed to implement the first funding instrument promoted under the JEREMIE initiative in Cyprus, namely, the Funded Risk Sharing Financial Instrument (FRSF) with a total budget of €10 million. It provides loans (up to €100 000) co-financed by the EIB and gives more favourable reimbursement conditions than traditional loans. Moreover, the longer repayment and grace periods and, most importantly, lower interest rates make the financing terms even more attractive. For this reason, the Instrument is expected to improve access for the business sector to financial resources.

The second financial instrument, the First Loss Portfolio Guarantee Financial Instrument, with a total budget of €8 million is being set up. The Instrument aims to support loans to SMEs by providing credit risk protection in the form of a first loss portfolio capped financial guarantee to reduce the barriers to accessing finance that SMEs often face as a result of a lack of collateral needed in combination with the relatively high risk they constitute.

Calls for proposals under regular financial schemes (Female Entrepreneurship, Technological upgrade, Youth Entrepreneurship, Agricultural and Manufacturing

Investments) were launched in 2010. New contracts are being signed and proposals evaluated.

VII. Single market



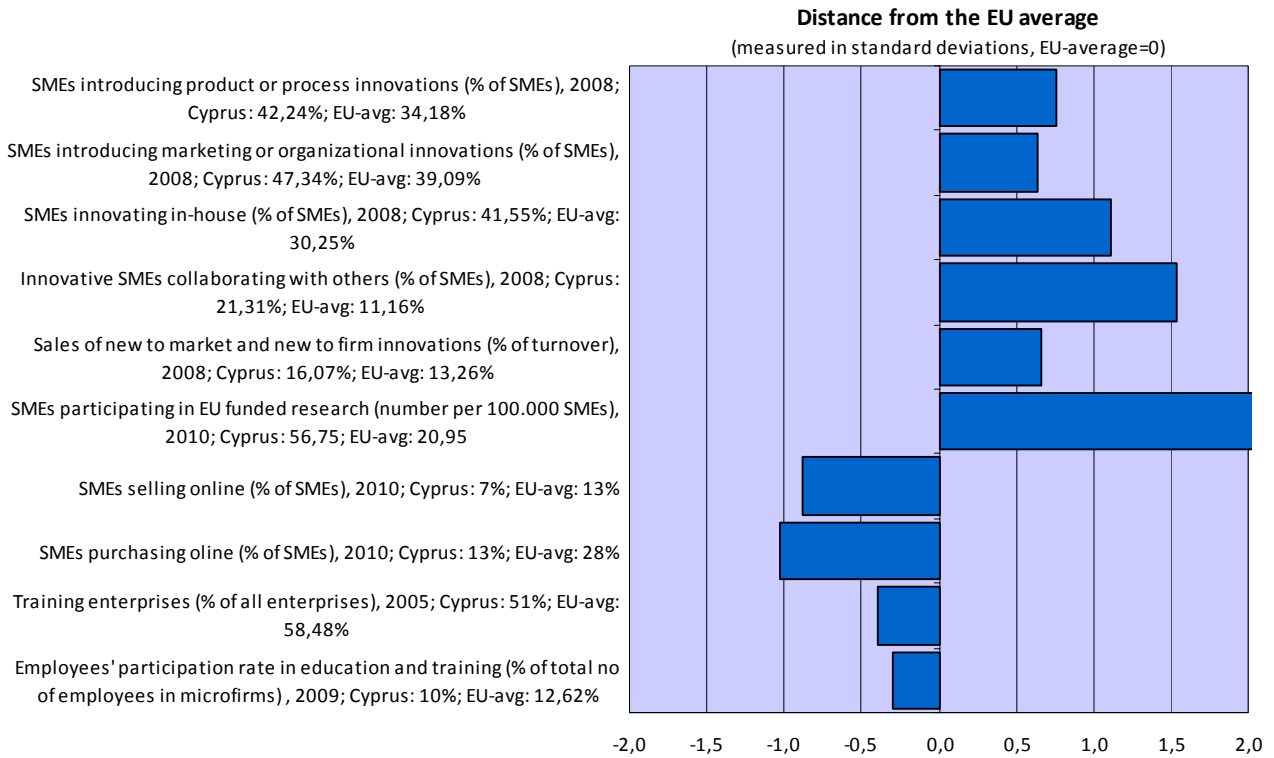
Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

Cyprus' overall performance on 'Single market' is average. However, individual indicators give very patchy results. The trading performance of Cypriot SMEs with other EU partners is rather modest. In fact, the share of SMEs exporting to other EU countries is much lower, less than half (2.7% to 6.8%) the EU average. The more policy-determined indicators give better results as Cyprus is a bit faster than the EU average in implementing single market directives. However, it also has slightly more directives that yet have to be transposed than other EU countries.

In terms of major policy initiatives, the project 'Utilisation of the Investors in People Standard in the Cypriot enterprises and organisations' with a total budget of €1 million, co-financed by the European Social Fund, is being implemented by the Cyprus Employers & Industrialists Federation (CEIF). It concerns implementation of the

Investors in People (IIP) international standard in Cypriot enterprises and organisations. The project organises cooperation of selected enterprises with specialised consultants who provide advisory services. The services and processes are selected by the organisation 'Investors in People — UK' (a British outfit that sets the applicable standards). 80% of the cost of advisory support (maximum €20 000) is paid by the CEIF to the consultants). The main objective of the Investors in People standard is to improve the competitiveness and the business performance of businesses and organisations through effective human resources management and development.

VIII. Skills and innovation

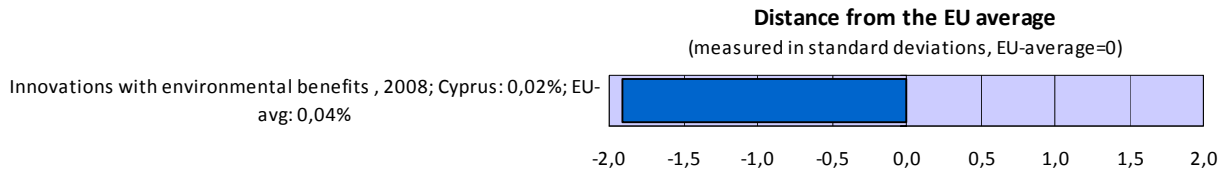


Cyprus scores above average in this category. 'Skills and innovation' is certainly the other strong point in Cyprus' SBA profile. The five indicators that directly measure SME's innovative capacity (essentially the first five of the graphs above) are unequivocally positive and above the EU average. Particularly strong performance is recorded by the indicator measuring the share of SMEs innovating in-house, where Cyprus' score (almost 42% of all enterprises) exceeded the EU average (30%) by a quarter. The weak area is linked to the use of electronic methods of doing business. A smaller share of Cyprus' SMEs sell and purchase online. The sub-segment of training does not exceed the average either. The share of enterprises offering training to their employees and

employee participation in micro-enterprises are average to low compared to the EU average .

On the policy front, calls for proposals were launched under the regular schemes supported by the Research Promotion Foundation in 2010 and are in the process of being evaluated. A new organisation was created at the end of 2010 under the auspices of the Cyprus Chamber of Commerce and Industry, grouping R&D managers from 15 companies (consultants and manufacturing). Its aim is to lobby for the promotion of innovation support in the country. A new 'Technology Unit' was created in the MCIT.

IX. Environment

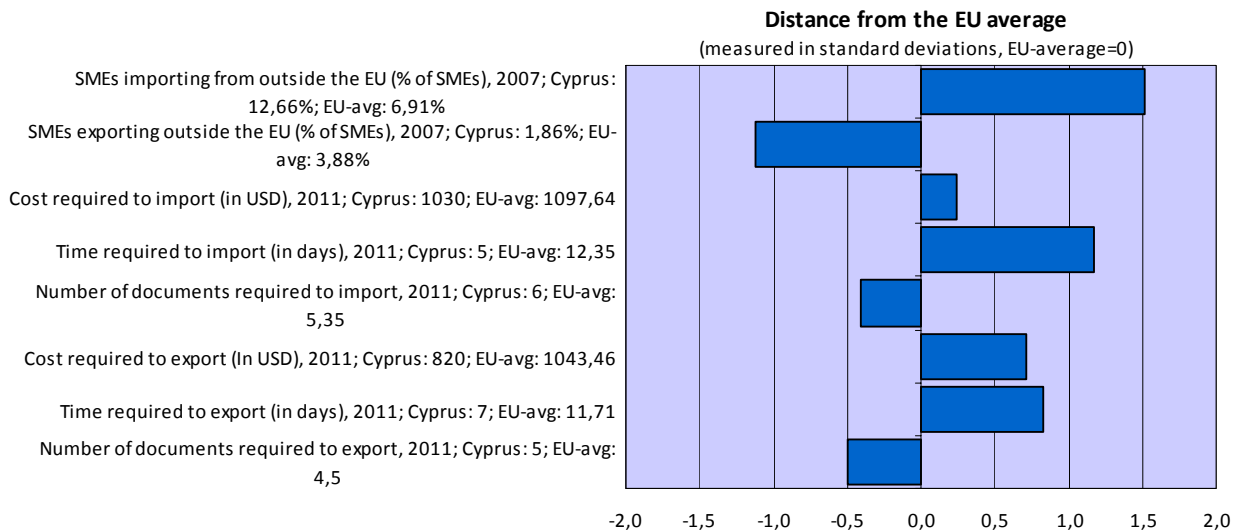


Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

Only one indicator tracking performance on environmental benefits for the enterprise and/or end-user. It is therefore insufficient to draw any general conclusions.

No significant measures were reported in 2010 and the first quarter of 2011.

X. Internationalisation



Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

The final area of this profile also ends up with an average score. The indicators measuring time, cost and the bureaucracy involved in trade-related administrative processes (measured by the number of requisite documents) tend to produce a positive picture that is better than the EU average. Although slightly more documents are needed to export and import from and to non-EU markets, this higher bureaucratic burden is not reflected in higher financial costs or more time to process the trade-related task. On the contrary, the costs related to exporting and importing to non-EU countries are higher than the EU average. This may partially explain why Cypriot SMEs tend to trade slightly less with overseas

partners than their average EU peers. But the fact that they trade less and have higher costs may also be, at least partially, explained by the country's island location. This implies, of course, that many goods and services from overseas enter Cyprus (or are exported from there) through another partner country. This has to be seen against the backdrop of the results on the 'Single market', where the trading performance with EU partners far exceeds the EU average.

On the policy front, grants to participate in sectoral exhibitions are regularly offered to promote exports.

3. Good practice

To show what the government actually does to promote SMEs, we include an example of good practice.

No best practices were identified from 2010 to the first quarter of 2011.

About the SBA Fact Sheets

The Small Business Act (SBA) Fact Sheets are produced by DG ENTR as part of the SME Performance Review (SPR), which is its main vehicle providing an economic analysis of SME issues. They combine the latest available statistical and policy information for the 27 EU Member States and another 10 non-Member States which also contribute to the EU's [Competitiveness and Innovation Framework Programme](#) (CIP). The Fact Sheets — produced annually — help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They document the status quo and progress. They are not an assessment of Member State policies but should be regarded as an additional source of information designed to improve evidence-based policy making. For example, the Fact Sheets cite only those policy measures deemed relevant by local SME policy experts. They do not, and cannot, reflect all measures taken by the government over the reference period. More policy information can be found on a database accessible from the SPR website. Please see the end notes overleaf.

For more information

SME Performance Review:

http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

Small Business Act:

http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm

The European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

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¹ The SBA Fact Sheets 2010-2011 benefited substantially from input by 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.

² The three graphs below describe the trend over time for the variables. They consist of index values for the years since 2003, with the base year 2003 set at a value of 100. As from 2008, the graphs show estimates of the development over time, based on 2003-2007 figures from the Structural Business Statistics Database (Eurostat). The estimates were produced by Cambridge Econometrics. The data cover the 'business economy', which includes industry, construction, trade, and services (NACE Rev. 1.1 Sections C to I, K). The data do not cover enterprises in agriculture, forestry, fishing or largely non-market services, such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm.

³ The SBA radar chart plots for the different SBA areas the relative position of an individual country vis-à-vis the EU average. The individual values represent averages across all available indicators for this area. The scale is from '0' (minimum or 'worst in the EU-27 class') to '1' (maximum or 'best in class'). The EU average is located between those extremes and plotted as a grey band in the chart. Due to lack of data, there is no area average for principle 9 ('environment') for any country .

⁴ The policy measures presented in this SBS Fact Sheet may only be a selection of the measures taken by the Government in 2010 and the first three months of 2011. The selection was made by the SME policy country expert contracted by Ecorys (DG ENTR's lead contractor for the 2010-2011 Fact Sheets). The experts were asked only to select those measures that, in their view, were the most important, i.e. were expected to have the highest impact in the specific SBA area. The complete range of measures that the experts compiled in the framework of producing this years' Fact Sheets will be published in the form of a policy database on the DG ENTR website alongside the Fact Sheets.

⁵ The quadrant chart combines two sets of information: firstly it shows the status quo 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 EU-27. The vertical corridor marked by the dotted lines defines the EU average. Secondly, it reveals progress over time, i.e. the average annual growth rates for the period 2005-2011. The growth rates are those of the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the 4 quadrants provides not only status quo information about where the country is located in this SBA area relative to the rest of the EU at a given point in time, but also the extent of progress made in the period 2005-2011.

⁶ The start-up indicators are based on World Bank data. For methodological details, please consult the Doing Business 2011 report at <http://www.doingbusiness.org/>. It should be noted that these findings differ from corresponding figures obtained directly from Member States, through a self reporting exercise according to which, in 2010, it took 5 days and a cost of 265 Euros to start a business in Cyprus. For more details please see: http://ec.europa.eu/enterprise/policies/sme/business-environment/start-up-procedures/index_en.htm.