

2018 SBA Fact Sheet

Cyprus

Key points

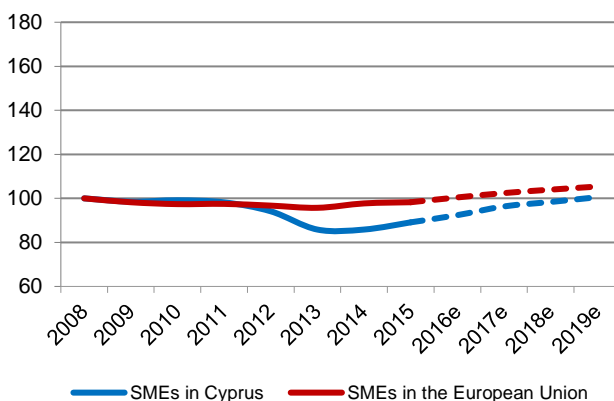
Past & future SME performance¹: SMEs are essential to Cyprus's non-financial business economy. They generate 77.7 % of value added, well above the EU average of 56.8 %. Employment by SMEs is also striking, accounting for 84.1 % of total employment, significantly above the EU average of 66.4 %. SMEs started to recover in 2013: SME value added rose by 16.4 % in 2013-2017, with micro firms growing particularly strongly, by 46.1 %. SME employment rose by 12.2 % within the same period. SME value added is expected to rise by 11.0 % in 2017-2019. SME employment is projected to rise by 4.4 % within the same period and to generate nearly 8 500 new jobs by 2019.

Implementing the Small Business Act for Europe (SBA): Cyprus' general SBA profile score is slightly below the EU average in the reference period (2017 to the first quarter of 2018). The Action Plan for Growth and the Policy Statement for the Enhancement of Entrepreneurship give a good policy framework for improving the entrepreneurial ecosystem and, overall, the country has made a good progress since 2008. Cyprus performs above the EU average in the SBA area 'internationalisation'. In the remaining three SBA areas — 'responsive administration', 'single market' and 'skills & innovation' — Cyprus performs in line with the EU average. Its main area of progress is 'responsive administration', partly thanks to the launch of the government e-services platform Ariadne. With more effective implementation of the measures launched, Cyprus could tackle its relative weaknesses in entrepreneurship, 'second chance', environment and above all access to finance.

SME policy priorities: Despite a notable policy emphasis on access to finance in recent years, this SBA area remains the Achilles' heel of Cyprus' entrepreneurial ecosystem. This major challenge for Cypriot SMEs is closely related to the slowness of progress in tackling the high level of non-performing loans and the need for effective implementation of the new insolvency and foreclosure frameworks. Effective policy efforts to help develop alternative financing sources are still lacking. Upgrading the current one-stop-shop for SMEs — so it also offers advice on how to obtain available financing — could improve the situation, as could offering much-needed support services and technical advice, especially for start-ups and scale-ups. The Advice for Small Businesses facility is an important first step in this direction. Cyprus has a lower proportion of high-growth enterprises than all other EU Member States, and the growing fear of failure in the SME community requires action.

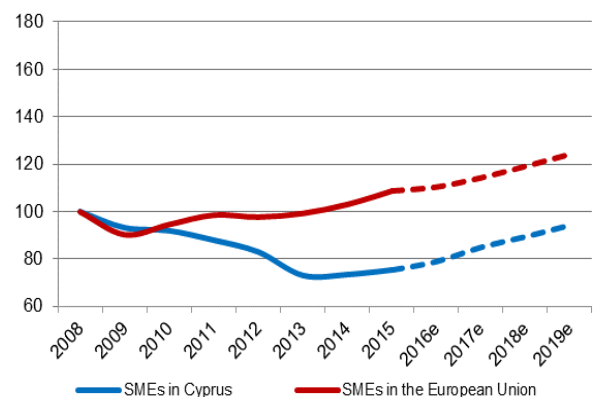
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2016 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2016 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	47 840	93.6 %	93.1 %	94 126	40.6 %	29.4 %	2.6	31.9 %	20.7 %
Small	2 802	5.5 %	5.8 %	55 584	24.0 %	20.0 %	1.9	23.7 %	17.8 %
Medium-sized	427	0.8 %	0.9 %	45 482	19.6 %	17.0 %	1.8	22.1 %	18.3 %
SMEs	51 069	99.9 %	99.8 %	195 192	84.1 %	66.4 %	6.3	77.7 %	56.8 %
Large	66	0.1 %	0.2 %	36 858	15.9 %	33.6 %	1.8	22.3 %	43.2 %
Total	51 135	100.0 %	100.0 %	232 050	100.0 %	100.0 %	8.1	100.0 %	100.0 %

These are estimates for 2017 produced by DIW Econ, based on 2008-2015 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 essential to the Cypriot non-financial business economy. They generate 77.7 % of value added, which is well above the EU average of 56.8 %. Employment by SMEs is also striking, accounting for 84.1 % of all employment, significantly higher than the EU average of 66.4 %. SMEs in Cyprus employ on average 3.8 people, roughly consistent with the EU average. The *accommodation and food services* sector plays a bigger role in Cyprus than in most EU countries. SMEs in this sector account for 14.6 % of total value added in the non-financial business economy. This is three times higher than the EU average, emphasising tourism's particular importance to Cyprus.

In 2017, SME value added and employment (which were both hit hard by the financial crisis) remained below their pre-crisis levels

of 2008, at 15.1 % and 3.7 %, respectively. However, SMEs started to recover in 2013: SME value added rose by 16.4 % in 2013-2017, with micro firms growing particularly strongly, by 46.1 %. SME employment increased by 12.2 % over the same period. Most recently, in 2016-2017, SMEs generated particularly strong annual growth, with a 7.6 % increase in value added and 4.3 % in employment.

In the *accommodation and food services* sector, SME value added rose by 10.2 % and SME employment by 13.9 % in 2013-2017. This growth mainly stemmed from an increase in tourism, as there were more than 3.6 million tourist arrivals in 2017.² This was 51.8 % more than in 2013.³ It is likely that safety and security issues associated with some of the alternative

Mediterranean holiday destinations contributed to this increase.⁴ Hermes Airports, which manages both international airports in Cyprus, offers financial incentives to airlines to increase passenger numbers.⁵ Additionally, the urban planning incentives offered by the Cypriot government⁶ in the aftermath of the financial crisis seem to have boosted investment in hotels, apartments and restaurants.⁷ However, investment is still not high enough to fully realise the potential for SME growth in this major sector. The government's national tourism strategy 2030 addresses this challenge by outlining a range of measures to increase international competitiveness.⁸

SMEs in the information and communication sector in Cyprus (a sector that was more resilient than other sectors throughout the crisis), have contributed strongly to growth in recent years. In 2013-2017, SME value added rose by 33.0 % and SME employment increased by 27.0 %. This growth can mainly be attributed to greater use of ICT, most notably by the private sector, which has started to invest in IT infrastructure again.⁹ ICT is also a high priority on the political agenda.¹⁰ For example, the government's Broadband Plan 2016-2020¹¹, and the awarding of a number of public contracts to SMEs¹², have both contributed to SME growth in this sector.

Just as SME value added and employment have risen, substantial progress has been made in the number of

businesses. Since 2013, company registrations have risen steadily, to 13 677 in 2017. This is 26.1 % higher than in 2013-2017.¹³ Moreover, deregistration fell by 33.9 % in 2013-2017, with a total of 4 043 deregistrations in 2017.¹⁴ Nonetheless, within this period, the trend in deregistration was mixed, with a major increase in 2015 and 2016. In both cases, this was a result of adopting the directive to remove inactive companies from the Business Registry kept by the Department of Registrar of Companies and Official Receiver, following the signing of the Economic Adjustment Programme for Cyprus in March 2013.^{15,16}

High-growth firms are not widely represented in the Cypriot business economy¹⁷. In 2015, there were only 48 high-growth firms with at least 10 employees.¹⁸ In this respect, Cyprus lags behind most other EU countries, even when taking into account its small size.

The outlook for SMEs in the non-financial business economy continues to be positive. SME value added is predicted to increase by 11.0 % in 2017-2019. SME employment is projected to rise by 4.4 % in the same period and to generate nearly 8 500 new jobs by 2019.

2. SBA profile¹⁹



Cyprus performs below the EU average in the SBA areas entrepreneurship, 'second chance', state aid & public procurement, access to finance and environment. The gap with regard to access to finance is the largest. On internationalisation, it scores above the EU average. In the remaining three SBA areas — 'responsive administration', single market and skills & innovation — Cyprus is on a par with the EU average.

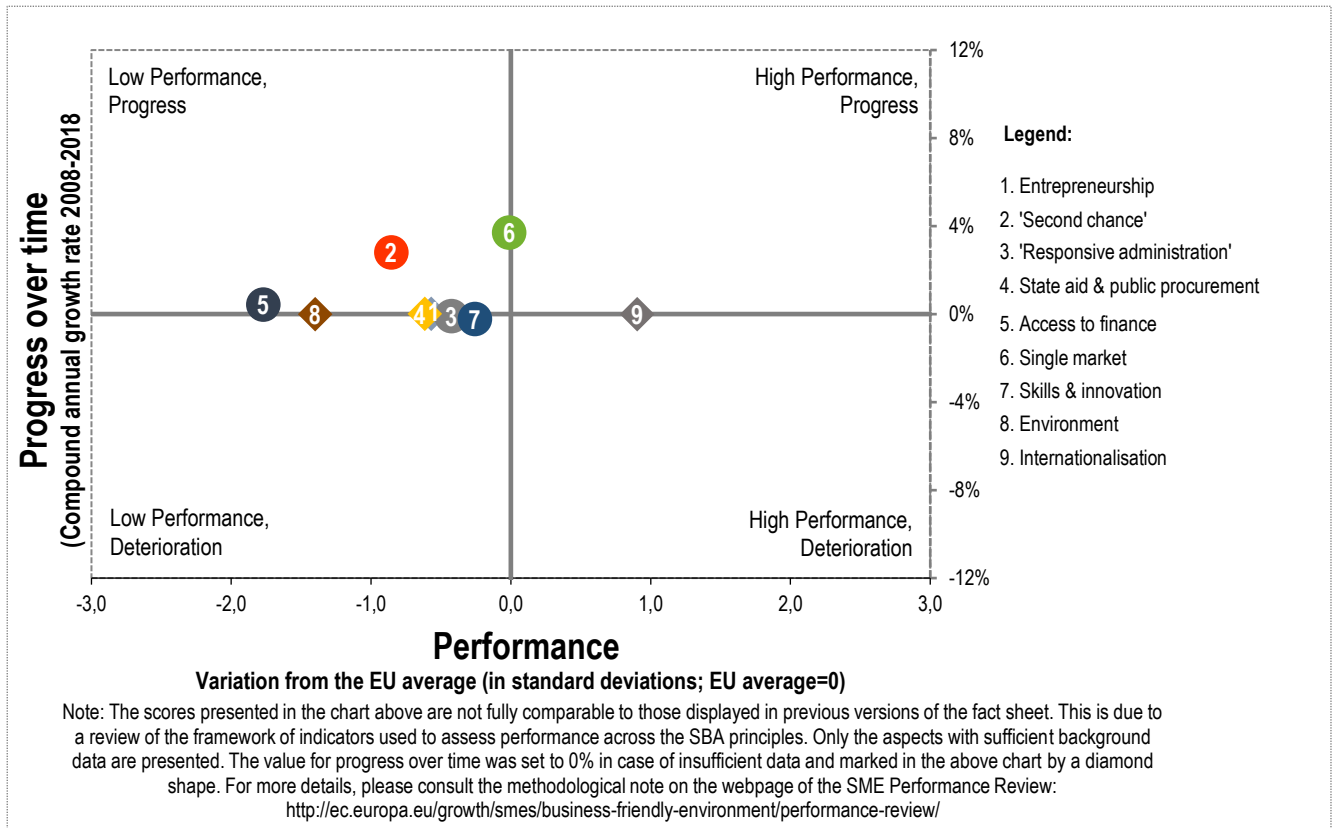
During the reference period, Cyprus adopted and/or implemented 25 policy measures, addressing 6 out of 10 policy areas covered by the Small Business Act. This number of measures represents significant policy progress, even if the majority of them mainly targeted two SBA policy areas — entrepreneurship and skills & innovation. In spite of these measures, however, Cyprus lags behind other EU countries in other SBA areas, most notably in access to finance and environment.

The government has undertaken a wide range of policy measures since 2008 to improve business support for SMEs and

to support the growth of the entrepreneurial ecosystem. Access to finance continues to be the most significant challenge for SMEs in Cyprus, despite government emphasis on this policy area in recent years. More effective implementation is needed to address the difficulties that SMEs still face in trying to obtain the funds they need to compete and grow. Particular needs include the provision of an upgraded one-stop-shop to advise SMEs on and help them get available financing, and a wider range of alternative financing options. The government has strengthened the insolvency framework in recent years, but further policy efforts are again needed to improve opportunities for restarters, as the fear of failure rate has increased by 5 percentage points in the last 12 months and Cyprus has fallen below the EU average with regard to 'second chance'. In entrepreneurship, there is a need to develop tailored support schemes to help businesses to scale up. In public procurement, the government's e-procurement system is helping to increase the SME participation rate by making the process cheaper and less burdensome for SMEs.

SME-related policymaking, over recent years and looking forward, is very much in line with the Small Business Act and the SME action programme.²⁰ The national policy statement on the entrepreneurial ecosystem is the main policy instrument for implementing and complying with the SBA, as it addresses all relevant components and includes several SBA measures to support the entrepreneurial ecosystem. From the perspective of the SME action programme, the main area for improvement in government policymaking is digitisation. Policy measures are needed to ensure that all SMEs have access to broadband, digitisation support services and best practices, to help them to compete and grow. The Digital Strategy for Cyprus set out in 2012 provides the policy framework for achieving this goal.

SBA performance of Cyprus: state of play and development from 2008 to 2018²¹



3. SBA principles²²

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 policymakers 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.

In terms of the implementation of SBA recommendations, although regulatory impact assessment is in place in Cyprus, impact assessment results are not used effectively to change or cancel proposed legislation. Cyprus has also not yet introduced common commencement dates for all new legislation and amendments that affect SMEs.

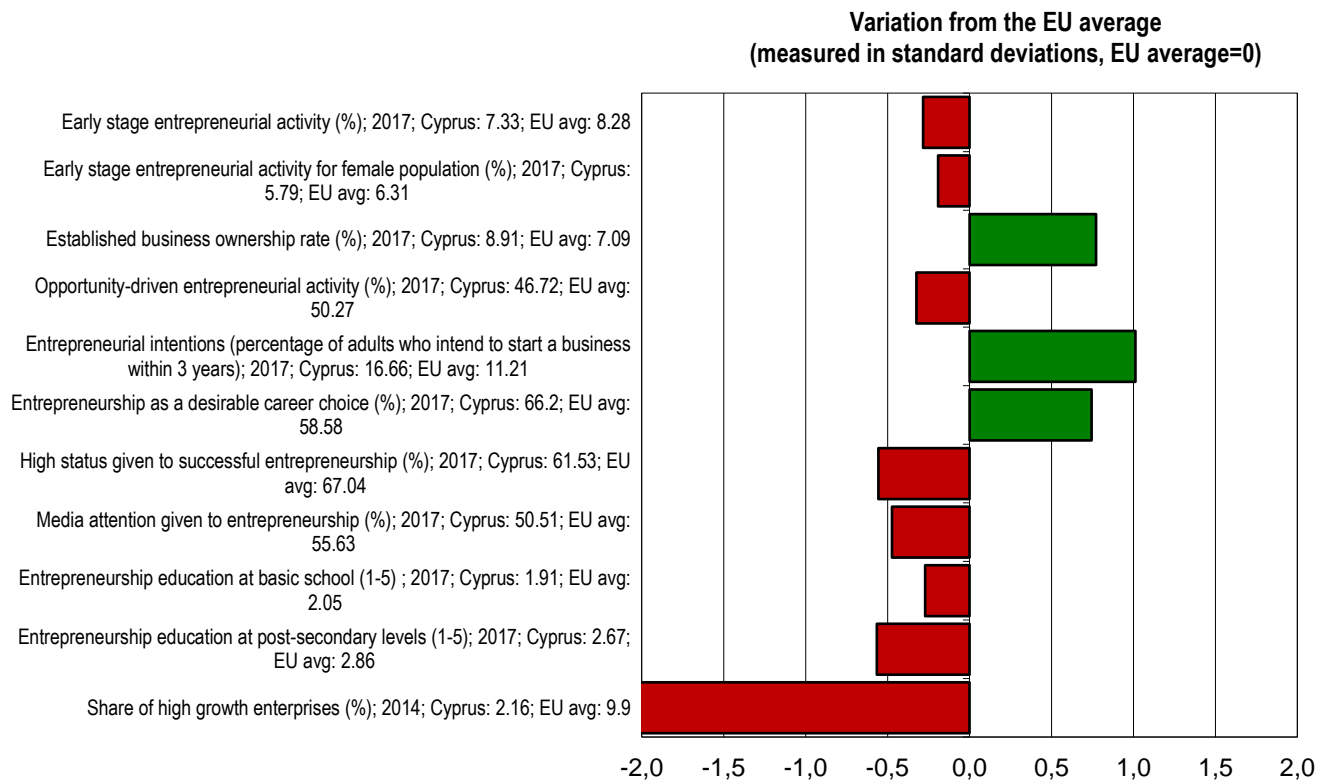
In January 2017, a new policy, the New Impact Analysis Framework for Legislative Proposals — Introduction of an SME Test Mechanism (*Νέο πλαίσιο Ανάλυσης Αντίκτυπου για Νομοθετικές Προτάσεις — Εισαγωγή Μηχανισμού SME Test*), was adopted with the aim of making new legislation more SME-friendly. An impact assessment should be made when new law is being drafted. If new legislation is not accompanied by an

impact assessment, it is returned to the competent authority for proper submission. The government also held a series of training seminars for government officials, on conducting both impact assessments and an 'SME Test' (including conditions for conducting the SME test).

The SME Envoy Unit responsible for assessing the quality of the SME test has not rejected any legislative proposal since January 2017. Instead, the Unit advises competent authorities on how to properly implement the SME test and helps them with it. The main purpose of the test is to inform Parliament well in advance, and before voting, of the likely impact of new legislation on SMEs and so enable any adverse impact to be mitigated.

It is too early to gather evidence of the impact of the SME test in Cyprus. Nevertheless, national ministries have made important progress in conducting appropriate consultations with small business stakeholders.

3.1 Entrepreneurship



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

Cyprus performed below the EU average in entrepreneurship in the reference period, having previously matched the EU average. Cyprus has a lower proportion of high-growth enterprises than any other EU Member State. It scores below the EU average in three entrepreneurship indicators. In addition, its scores in the two indicators ‘early stage entrepreneurial activity’ and ‘early stage entrepreneurial activity for the female population’ have fallen significantly, from above average to around the average. On a more positive note, Cyprus is above the EU average in three indicators — the ‘established business ownership rate’, ‘entrepreneurial intentions’ and ‘entrepreneurship as a desirable career choice’.

The recent decline in overall performance in this SBA area occurred in spite of major policy developments to improve entrepreneurship. While the National Policy Statement for Enhancing the Entrepreneurial Ecosystem in Cyprus has started to increase the number of measures under way in this field, the country still lacks a marketplace or specific support and matching schemes to ensure successful business transfers, for example.

Besides the Cyprus Visa Start-up Scheme, which enables non-EU entrepreneurs to establish and/or operate companies with high-growth potential by granting them residence permits, several grant and development schemes were adopted in the reference period specifically targeting young and female entrepreneurs:

- the Youth and Female Entrepreneurship Grant Scheme — Second Call (Σχέδιο Ενίσχυσης της Νεανικής Επιχειρηματικότητας 2η Προκήρυξη; Σχέδιο Ενίσχυσης της Γυναικείας Επιχειρηματικότητας — 2η Προκήρυξη), to encourage women and young people to set up businesses in manufacturing, services, tourism or e-commerce sectors;
- the Youth Entrepreneurship Development Scheme (Πρόγραμμα Επιχειρηματικής Ανάπτυξης των Νέων), to help young people to acquire the skills they need to start and run a successful business;
- the Youth Makerspace, which supports young people who want to develop prototypes and put their business ideas into practice (see Chapter 4);

A set of measures to promote entrepreneurship and develop specific entrepreneurial skills in the higher education system has also been introduced.

Other support measures target sector-specific competitiveness, e.g. in the wine sector, in the hotel trade and in tourism.

In the reference period, significant measures supporting social entrepreneurship were formally announced. One is the Law for Social Enterprises (Νομοσχέδιο με τίτλο ‘ο Περί Κοινωνικών Επιχειρήσεων Νόμος’), which provides a legal framework for social enterprises. Another is an action plan to strengthen the social enterprise ecosystem (Σχέδιο Δράσης για την ενίσχυση του οικοσυστήματος των Κοινωνικών Επιχειρήσεων), which aims to

create a social entrepreneurship culture, support access to finance (e.g. incentives and funding for social enterprises) and foster a favourable business environment.

The delayed impact of recent measures may help to explain the disparity between current indicator performance and policy progress.

The predominant sector in Cyprus in terms of scaling-up businesses is the internet and mobile applications. Currently, there are no government policies, initiatives or measures specifically targeting scale-ups. There are, however, measures

that distinguish between start-ups and existing companies (e.g. the Entrepreneurship and Innovation scheme run by the Ministry of Energy, Commerce, Industry and Tourism and the Research in Business scheme run by the Research Promotion Foundation). The lack of policies specifically tailored to scale-ups does not prevent them from making use of the general measures and policies for existing companies, including access to public and private finance. The scale-up ecosystem is gradually starting to change as academic institutions begin to support entrepreneurship and innovation by creating specialised centres such as the Centre for Entrepreneurship of the University of Cyprus.

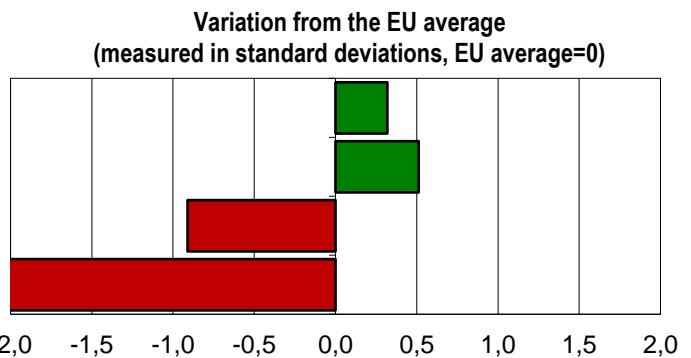
3.2 ‘Second chance’

Strength of insolvency framework index (0-16); 2018; Cyprus: 12.5; EU avg: 11.8

Time to resolve insolvency (in years); 2018; Cyprus: 1.5; EU avg: 2.01

Cost of resolving insolvency (cost of recovering debt as percentage of the debtor's estate); 2018; Cyprus: 14.5; EU avg: 10.25

Fear of failure rate (%); 2017; Cyprus: 55.88; EU avg: 38.01



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 performed below the EU average in ‘second chance’ in the reference period, after previously matching the EU average. ‘Second chance’ is important for Cyprus in the light of the challenges small businesses are facing, particularly in access to finance. Fear of failure, which may be holding back the growth of entrepreneurial activities, is currently the highest in the EU, having increased by over 5 percentage points since the previous reference period.

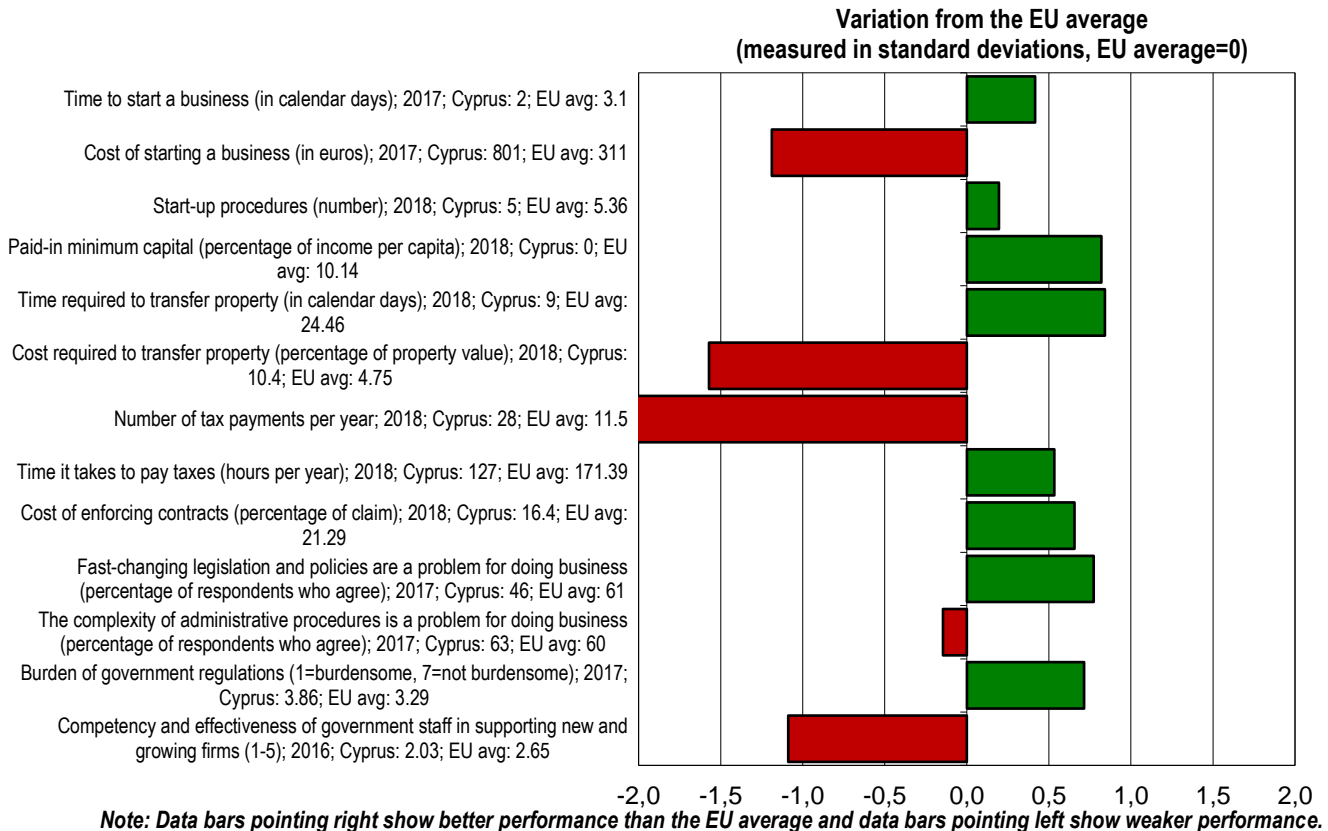
Cyprus continues to score above the EU average in terms of the time needed to resolve insolvency and around the EU average for the strength of the insolvency framework. The new insolvency framework introduced in 2015 has improved the situation but inefficient procedures and weak enforcement of

court decisions still lessen banks’ incentives to use the insolvency and foreclosure system. Cyprus continues to score below the EU average in terms of the cost of resolving insolvency.

In terms of SBA compliance, measures to ensure that restarters are treated on an equal footing with new start-ups are still lacking and there is scope to shorten the procedures for legal bankruptcy and the automatic discharge period for non-fraudulent bankruptcies. Further efforts to reduce the fear of failure, e.g. through awareness raising campaigns, are needed to tackle the cultural stigma of failure.

In the reference period, no significant measures were implemented or announced.

3.3 ‘Responsive administration’



‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. Cyprus continues to perform in line with the EU average in this SBA area. However, overall progress has been fairly limited since 2008. Companies in Cyprus need less time to complete tax payments than the EU average, and the number of days needed to start a business fell in the last 12 months from 3 to 2, clearly better than the EU average.

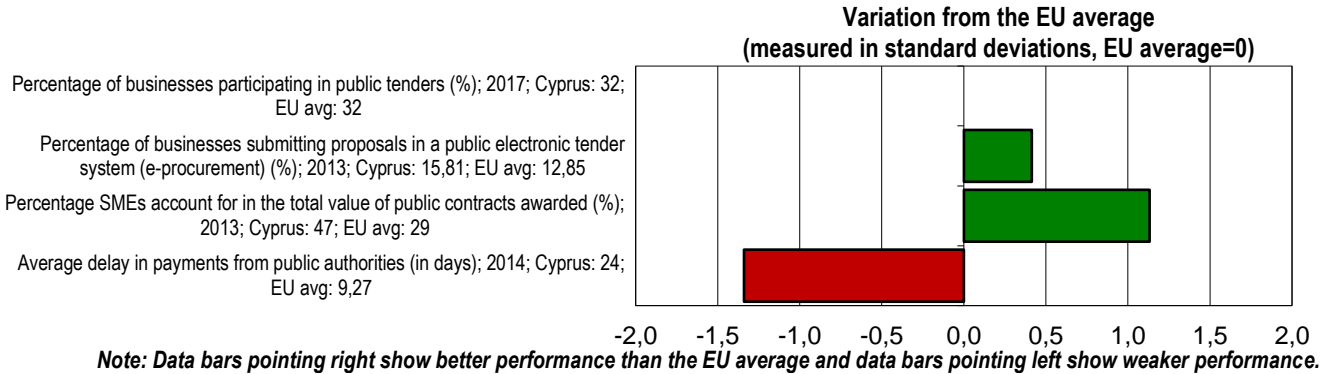
Cyprus has introduced a number of measures, particularly since 2013, to help simplify administrative procedures and reduce the burden of government regulations. The most significant was the launch of the government’s e-services platform (Ariadne) in 2014, which now provides a wide range of government services online, including business registration and access to services, information and advice on procedures. However, the percentage of respondents who see complex administrative procedures as a problem for doing business in Cyprus has risen markedly in the current period. This suggests that measures such as Ariadne are not achieving the desired impact. It is also striking that the high number of tax payments per year continues to be significant problem for businesses in Cyprus, together with the high cost of transferring property.

In terms of SBA compliance, although Cyprus has introduced an e-government platform, it has yet to provide online services that enable SMEs to handle all procedures online effectively and efficiently. Public administration databases are also not connected enough to allow companies to provide information ‘only once’. The ‘only once’ principle in the SME action plan is not yet supported.

In the reference period, a reform project was introduced to modernise the judicial system and the management of courts. The initiative includes setting-up a Court Reform Committee tasked with revising the civil procedure rules, with technical assistance from the European Commission’s Structural Reform Support Service (SRSS).

Simplification of the Regulatory Framework for Tourism (*Απλοποίηση Κανονιστικού Πλαισίου για τον Τουρισμό*) was also announced, to make it easier to license and operate tourist accommodation establishments. The aim is to improve the quality of tourism product offerings, reduce bureaucracy and step up checks and inspections on businesses active in the tourism industry. The Facilitation of Investments Draft Bill 2017 (*Νομοσχέδιο του 2017 για Διευκόλυνση των Επενδύσεων*) could also have a positive effect by streamlining the licensing process and reducing bureaucracy.

3.4 State aid & public procurement

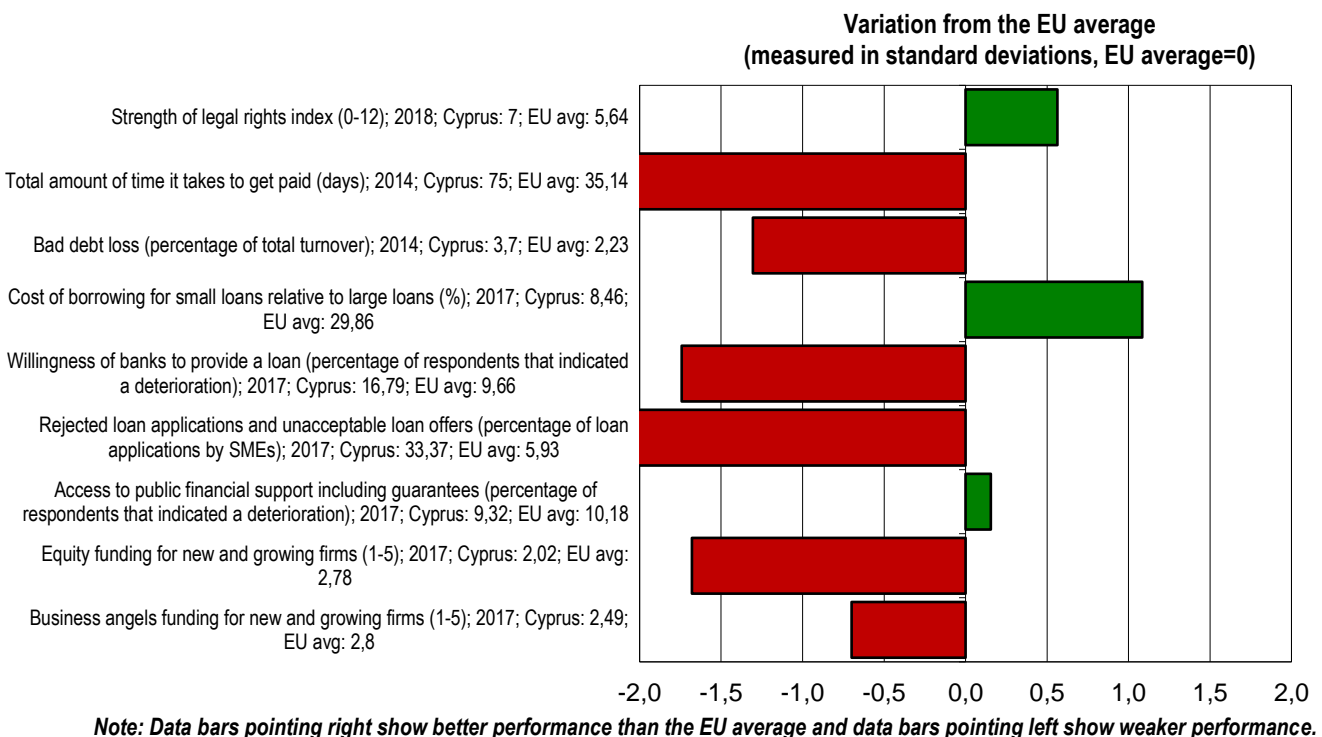


Cyprus performed below the EU average in state aid & public procurement in the reference period. The percentage of businesses participating in public tenders reached the EU average in 2017. This is a remarkable improvement considering that in 2013 the level of participation was 12 % (even if the EU average fell in the last two years). The total value of public contracts awarded to SMEs also remains considerably higher than the EU average. The average delay in payment by public authorities is still a challenge for SMEs in Cyprus, with the country now ranked as having the third longest average delay in the EU.

The introduction of some key measures in recent years has sought to make public procurement more attractive to SMEs. The e-procurement system is helping to reduce participation costs for SMEs and more transparent and proportional procurement requirements are making it easier for SMEs to compete. These kinds of measures appear to be having a positive impact on SME participation. However, the lengthy procurement procedures and very high number of direct awards remain an issue for SMEs too.

In terms of SBA compliance, Cyprus has introduced most of the key principles of state aid & public procurement. In the reference period, no significant new measures were implemented or announced.

3.5 Access to finance



Cyprus continues to perform below the EU average in access to finance. Despite many policy initiatives in the recent past, its score in this SBA area is the second lowest in the EU. Five years after the banking crisis in Cyprus, access to credit and loans or alternatives such as equity funding, venture capital, crowdfunding, etc. continues to be a major challenge for Cypriot SMEs, especially start-ups and high-risk SMEs. Most small businesses provide rather a modest income, and the high degree of private indebtedness, the high proportion of non-performing loans and the financial sector's continuing lack of stability all make it difficult for SMEs to access finance.

This fact is reflected in Cyprus' rather poor performance in a number of specific indicators. The total amount of time it takes to get paid in Cyprus is more than twice the EU average and longer than any other EU country. The percentage of respondents that perceive a decline in banks' willingness to lend to SMEs fell sharply from 59.8 % in 2013 to 16.8 % in 2017, but it is still the second worst score in the EU. There has also been a significant rise in the number of rejected loan applications and unacceptable offers as a percentage of loan applications by SMEs, from 4.7 % in 2014 to 33.4 % in 2017. That score is more than 5 times the EU average. The increase in loan rejections may, however, partly be explained by an upsurge in loan applications in the light of a more favourable lending environment. According to the survey on the access to finance of enterprises (SAFE), 10 % of companies applied successfully but received a smaller loan than they applied for. In total, almost half (43 %) of the Cypriot SMEs did not manage to get the full bank loan they had planned for in 2017 (EU average 17 %). Also, loan application procedures are often too long. Capacity building support for banks could improve the situation.

Start-ups, in particular, suffer not only from the lack of seed capital but from the lack of support in terms of technical advice and entrepreneurial knowledge. Matchmaking platforms could bring together early stage businesses with equity and venture capital investors and business angels.

In this context, the government has taken a first step by signing a cooperation agreement with the European Bank for Reconstruction and Development (EBRD) to introduce an Advice for Small Businesses facility, funded by European Structural and Investment Funds. The EBRD will provide SMEs with technical assistance and training so as to increase the success rate of credit applications.

On a positive note, the cost of borrowing for small loans relative to large loans in Cyprus (8.5 %) is the second lowest in the EU, well below the EU average of 29.9 %. Access to public financial support including guarantees has also improved substantially year by year since 2014, with an overall fall in respondents reporting problems from 40.2 % in 2014 to 9.3 % in 2017. This

is essential in light of the weak availability of alternative sources of finance.

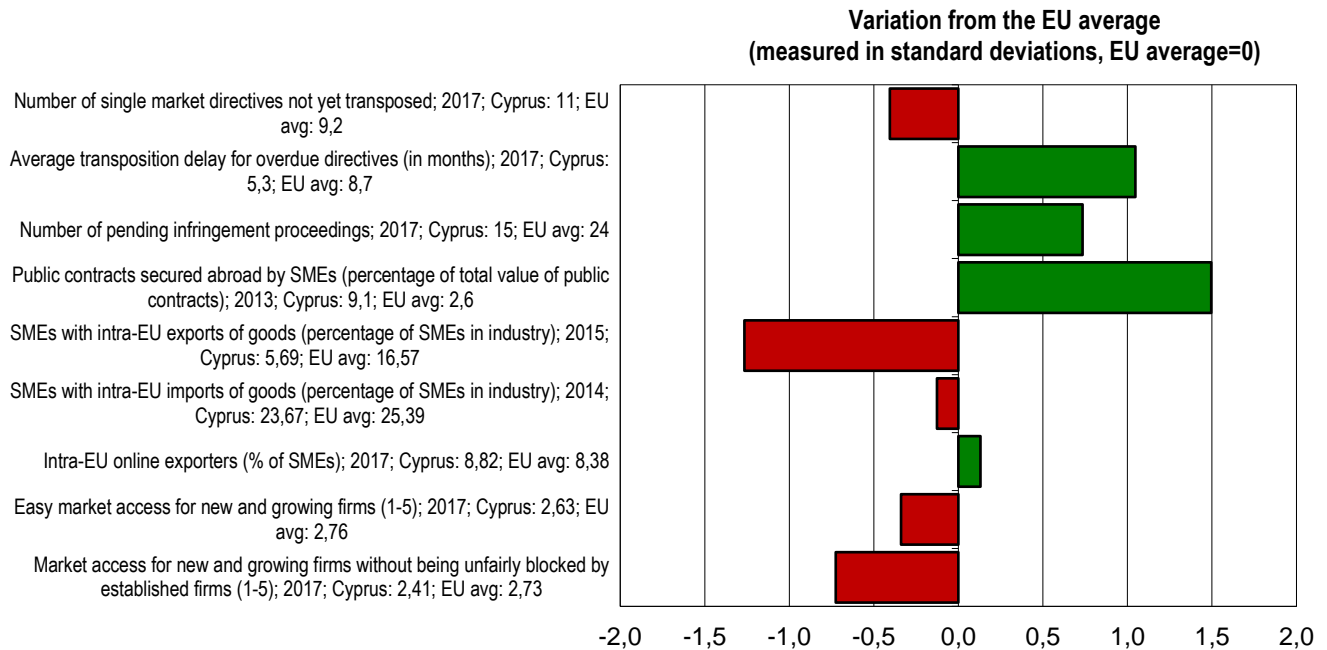
There is a broad range of financial support schemes such as EU co-financed ones, national grants for start-ups, guarantees and environmental grants or funding schemes for innovation. But start-ups and SMEs often struggle with the heavy administrative and bureaucratic burden they face when applying. Cyprus has not yet set up a one-stop-shop (e.g. in form of a national promotional institute) to support SME access to funding. From an SME Action Plan perspective, Cyprus has also not yet established a 'fund of funds' for alternative equity and debt financing and neither has an expert group been set up to explore alternative finance options and to provide inspiration and guidance.

It would also be helpful to focus more on innovative start-ups or scale-ups and foster them, with special attention to their greater funding needs. In the reference period, there have already been two measures that point into this direction:

- The Restart programme 2016-2020 — Call for proposals for the programme 'Horizon 2020 - Second Chance' (*Προγράμματα RESTART 2016-2020 — Πρόσκληση Υποβολής Προτάσεων του Προγράμματος 'Ορίζοντας 2020 - 2η Ευκαιρία'*) is a grant scheme that is open to natural persons (researchers) and legal persons (organisations) that have applied for funding under the EU's Horizon 2020 programme and whose proposals, although of high quality, have not received funding due to budgetary constraints. The scheme gives applicants a second chance to receive funding for their projects.
- The Ministry of Finance has introduced tax incentives to encourage individuals to invest in innovative businesses and start-ups (*Φορολογικά κίνητρα — ελαφρύνσεις με έμφαση στις νεοφυείς επιχειρήσεις*). The incentives provide tax relief on investments of up to 50 % of an investor's taxable income, and a deduction of up to EUR 150 000 per year which an investor can spread over a 5-year period. The incentives apply to investments in innovative companies in the form of shares, loans or grant guarantees.

A third significant measure was initiated in October 2016 by the Ministry of Energy, Commerce, Industry and Trade (MECIT) to support small businesses selected under the Ministry's programmes by helping them to gain easier access to bank loans (*Μηχανισμός διευκόλυνσης χρηματοδότησης των ΜΜΕ που εγκρίνονται στο πλαίσιο των σχεδίων του YEEBT*). The agreement with the banks has not yet been implemented to the extent anticipated.

3.6 Single market



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

Cyprus is currently in line with the EU average in the SBA chapter single market. This is a remarkable development, as it has been below the EU average in this SBA area in recent years.

The number of outstanding single market directives in Cyprus is now in line with the EU average, having fallen from 28 in 2016 to 11 in 2017 (-61 %). In addition, Cyprus performed better than the EU average on both the average transposition delay for overdue directives (down from 7.3 months in 2016 to 5.3 months in 2017) and the number of pending infringement proceedings.

Cyprus' scores in the single market indicators of SME involvement in intra-EU trade are broadly in line with the

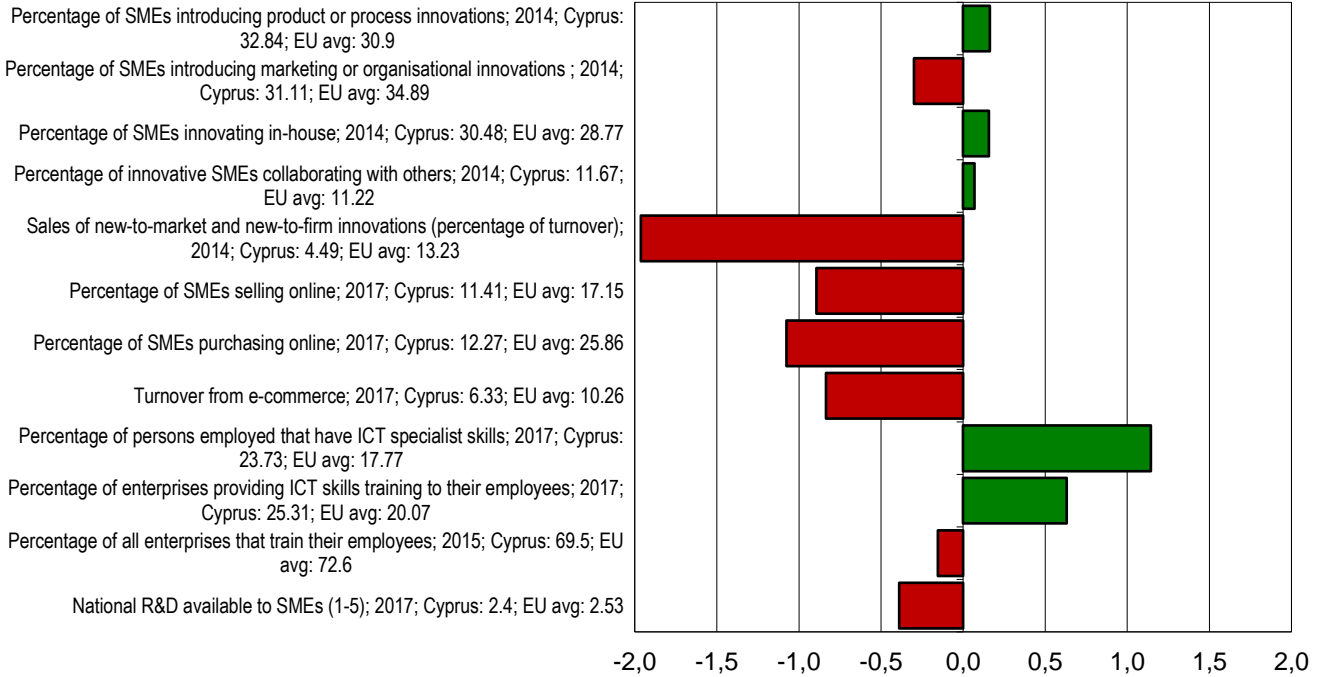
previous reference period. One issue which requires further work is SMEs' share of industry with intra-EU exports of goods. It is still only a third of the EU average and has barely improved since 2008. In this context, the use of available support services such as the Enterprise Europe Network and SOLVIT is essential especially for small businesses, which can receive free technical and legal advice when doing business abroad.

In terms of SBA compliance, Cyprus has successfully implemented most of the key recommendations under the single market principle.

In the reference period, no significant measures were implemented.

3.7 Skills & innovation

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.

With regard to skills & innovation, Cyprus performed in line with the EU average in the reference period. Further efforts to support SMEs so they can make better use of their innovation potential are desirable, because in terms of sales of new-to-market and new-to-firm innovations as a percentage of turnover, Cyprus’ score is only just over a third of the EU average. Cyprus is also below the EU average in terms of the percentage of SMEs selling and purchasing online and in terms of turnover from e-commerce.

On the positive side, SMEs’ share of purchases online has almost doubled in recent years, from 6.5 % in 2014 to 12.3 % in 2017. But e-commerce tools for selling products could still be much better used to reach consumers, both domestic and EU-wide. The percentage of businesses providing ICT skills training for their employees increased from 20.7 % in 2016 to 25.3 % in 2017, moving Cyprus above the EU average in this indicator. These findings are in line with the European Innovation Scoreboard, which classes Cyprus as a ‘moderate innovator’ with relative strength in ‘attractive research systems’ and ‘intellectual assets’. The Scoreboard states that over time, Cyprus’ performance has declined relative to that of the EU in 2010.

SMEs would benefit from help with marketing and product innovation. Many small companies also need support to be able to put in place proper managerial and corporate governance

structures as they grow.²³ Linking private and public funding, support for joint initiatives and better access to (venture capital) funding could also improve SMEs’ ability to innovate.

A broad range of support measures were introduced in the reference period. The Advice for Small Businesses facility was launched by the EBRD and the Ministry of Energy, Commerce, Industry and Tourism (MECIT). It aims to provide over 160 local businesses with access to professional expertise to help them grow, through advisory projects with local consultants and international advisers, together with mentoring, coaching and training courses. The Ministry of Finance has introduced tax incentives to encourage individuals to invest in innovative businesses and start-ups (Φορολογικά κίνητρα — ελαφρύνσεις με έμφαση στις νεοφυείς επιχειρήσεις). The incentives provide tax relief on investments of up to 50 % of an investor’s taxable income, and a deduction of up to EUR 150 000 per year which an investor can spread over a 5-year period. The incentives apply to investments in innovative companies in the form of shares, loans or grant guarantees.

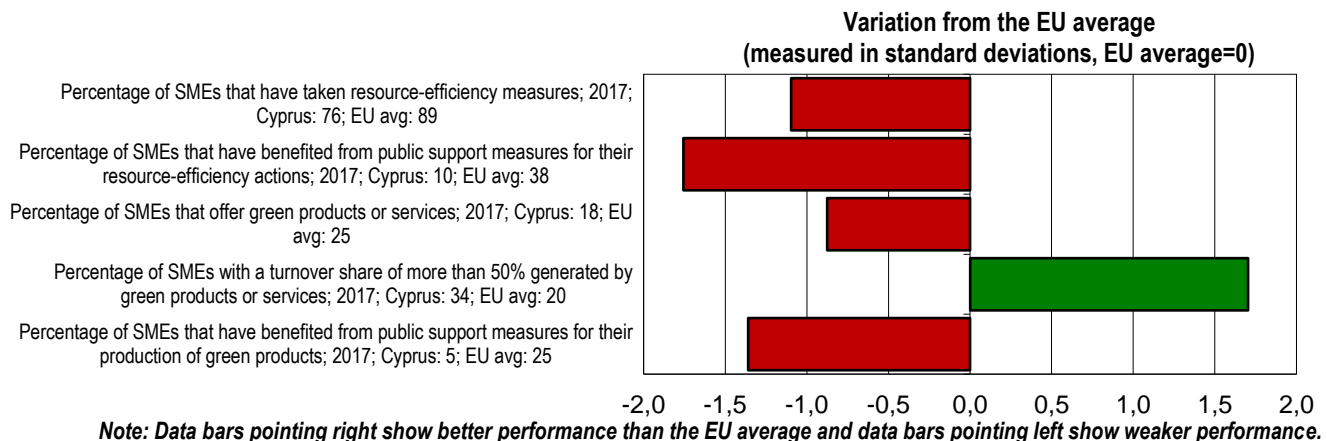
Additionally, 10 separate calls for proposals have been launched under the Restart 2016-2020 Programme for Technology Development and Innovation (Προγράμματα RESTART 2016-2020). The programme is co-financed by national and European sources and, among other projects, supports: the creation of new

or significantly improved products, services and value added production methods by businesses and start-ups; proof of concept projects for assessing technological feasibility; and research, development and innovation projects that bring together SMEs, academia and research entities. It also helps Cypriot operators take advantage of significant research and innovation results arising from research projects (*Πρόσκληση Υποβολής Προτάσεων του Προγράμματος «Βιομηχανική Ιδιοκτησία» – 1η Πρόσκληση*).

Centres of Excellence (*Νησίδες Αριστείας*) projects that bring together industry and academia to engage and invest in excellent research are also supported.

In terms of SBA compliance, Cyprus has successfully implemented most of the key recommendations under the skills & innovation principle, although from an SME action plan perspective, Cyprus has yet to make use of the European Social Fund to finance digital skills training for SMEs.

3.8 Environment



Cyprus performed below the EU average in environment in the reference period. The indicators show a significant decline in performance against the previous reference period. The percentage of SMEs that benefit from public support measures for their resource efficiency projects fell sharply, from 64 % in 2015 to just 10 % in 2017. This could be explained by the fact that the first call for a support scheme offering grants to SMEs for investment in upgrading the energy performance of buildings closed at the end of 2016. A new call is planned for 2018.

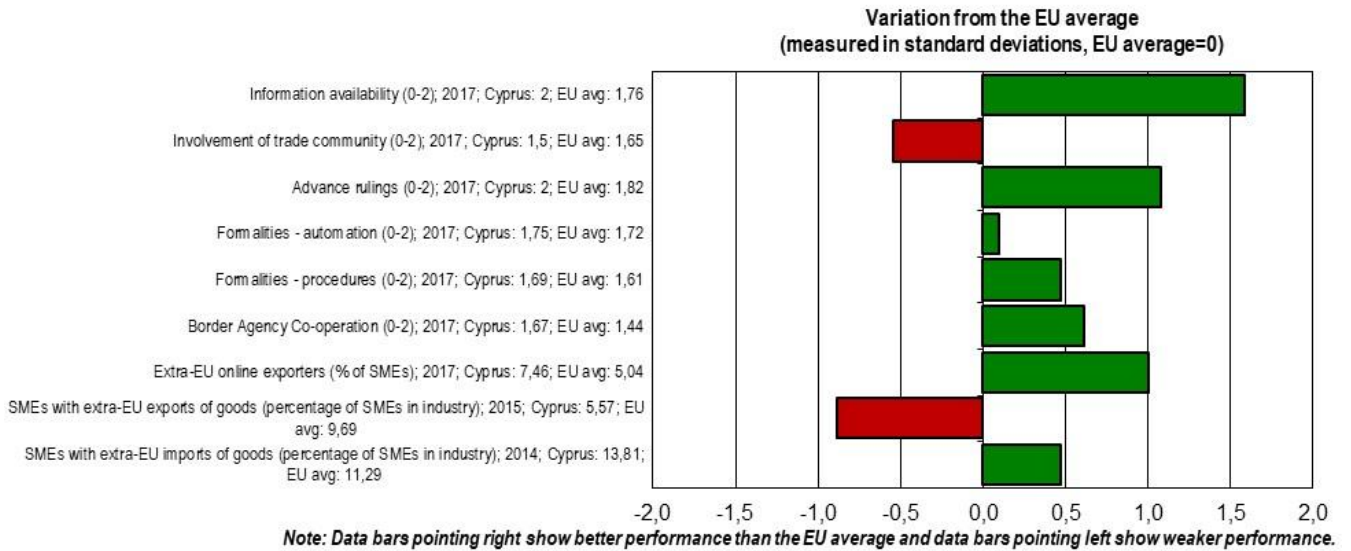
The percentage of SMEs that offer green products or services fell from 32 % in 2015 to 18 % in 2017. In addition, the percentage of SMEs that benefited from public support measures for their production of green products fell from 34 % in 2015 to 5 % in 2017. These changes seem to be based on the

low representativeness of the data rather than on real policy changes.

On a more positive note, Cyprus has the second highest percentage of SMEs which have more than 50 % of turnover generated by green products or services.

Policywise, Cyprus has successfully implemented most of the key recommendations under the environment principle. In the reference period no significant measures were implemented or formerly announced in the environment area.

3.9 Internationalisation



Cyprus continued to perform above the EU average in internationalisation in the reference period. Overall, Cyprus ranks sixth out of 28 Member States in this SBA area. The framework conditions are conducive to international trade, especially in information availability and advance rulings, where Cyprus achieved its best scores. Cypriot SMEs' share of extra-EU online exports is considerably higher than the EU average.

In terms of SBA compliance, most of the recent policy measures have focused on covering small businesses' costs of participation in international trade fairs. However, SMEs would benefit from a more strategic approach to support. It is still recommended that Cyprus set up an umbrella organisation to oversee the provision of strategic, operational, legal, financial, linguistic etc. support to SMEs for internationalisation and to encourage exports. A number of key issues affect Cypriot SMEs' ability to internationalise their businesses. SMEs would benefit from greater access to long-term funding and working capital, as well as support with marketing and product innovation. The lack of clustering and accelerator initiatives, and the lack of a trade organisation, is a missed opportunity: those factors could boost not only internationalisation but SMEs intra-EU exports. There is also a lack of support available to help SMEs compete in the digital world, from broadband infrastructure to digitisation support and best practices.

In the reference period, two significant measures were adopted:

- The Participation in International Brokerage Events Scheme (Συμμετοχή σε Εκδηλώσεις Διεθνούς Δικτύωσης) provides fixed sum grant funding of EUR 900 to Cypriot SMEs and to research and academic institutions to encourage them to participate in international research and networking events.
- The Call for Proposals for agricultural promotion measures according to the 'State Aid Status for Promotion of Agricultural Products in the Internal Market and Third Countries' (Πρόσκληση Υποβολής Αιτήσεων για Δράσεις Προώθησης Γεωργικών Προϊόντων Σύμφωνα με το «Καθεστώς Κρατικών Ενισχύσεων για Ενέργειες Προώθησης Γεωργικών Προϊόντων στην Εσωτερική Αγορά και Τρίτες Χώρες») supports SMEs in the agriculture sector that wish to participate in trade fairs, competitions and events and to engage in other activities such as the dissemination of scientific knowledge, publications and promotional campaigns in the internal market and non-EU countries.

4. Interesting initiative

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

'Youth Makerspace in Larnaca'

The Youth Makerspace in Larnaca was set up by the Youth Board of Cyprus in collaboration with the Municipality of Larnaca and is the first of its kind in Cyprus.

A 'makerspace' is a physical location where people gather to co-create, share resources and knowledge, work on projects, network, and build. They help participants to develop their skills and creativity and are particularly focused on inspiring younger generations to engage with STEM subjects — science, technology, engineering and mathematics (or STEAM as it is now sometimes becoming referred to, by also including the arts). Makerspaces promote the development of the high-end technology skills needed for entrepreneurship, prosperity and social mobility.

The Youth Makerspace in Larnaca is designed to inspire collaboration between professionals, experts and young people that are willing to learn and create but have little or no experience. It provides a space to help young people aged between 6 and 35 to develop horizontal and transferable skills, get hands-on experience with new technologies, advance their creativity, mature their business ideas and develop or transform their business. The Youth Makerspace in Larnaca gives young people access to free and specialised know-how, information and advice in their fields of interest to enable them to develop new business ideas and opportunities. It also provides them with access to high-quality and state-of-the-art equipment and technologies that they can use to develop prototypes and implement their business ideas. The Youth Makerspace in Larnaca is based on the Makerspace standards developed by international university institutions and communities.

References:

<https://www.cyprusinteractionlab.com/projects/youth-makerspace-larnaka/>

<http://onek.org.cy/en/home-page/programs-and-service/creative-activeness/makerspace/>

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

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

Entrepreneurship and SMEs:

<https://ec.europa.eu/growth/smes>

Endnotes

¹ 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 2016, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2015 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/>

² Arrivals of Tourists by Country of usual Residence 1980-2017, Republic of Cyprus, Statistical Service, available at: http://www.mof.gov.cy/mof/cystat/statistics.nsf/services_71_main_en/services_71_main_en?OpenForm&sub=1&sel=2, last accessed 12.05.2018.

³ Ibid.

⁴ Cyprus Tourism Strategy 2030, Executive Summary (2017), available at: https://issuu.com/presidency-reform-cyprus/docs/doc26.executive_summary98pages_vmar, last accessed 15.05.2018.

⁵ Hermes airports, available at: <http://hermes.enasite.com/en/air-service-development/incentive-schemes>, last accessed 12.05.2018.

⁶ Ministry of Interior, available at: <http://www.moi.gov.cy/moi/moi.nsf/All/0D1F37FE03955268C2257B7F0056BA50?OpenDocument&print>, last accessed 12.05.2018.

⁷ Hotels and Restaurants Statistics 2014, Republic of Cyprus, Statistical Service, available at: http://www.mof.gov.cy/mof/cystat/statistics.nsf/services_74_main_en/services_74_main_en?OpenForm&sub=4&sel=4, accessed 12.05.2018.

⁸ Cyprus Tourism Strategy 2030, Executive Summary (2017), available at: https://issuu.com/presidency-reform-cyprus/docs/doc26.executive_summary98pages_vmar, last accessed 15.05.2018.

⁹ IDC 2017, Cyprus ICT Market 2017 Forecast and 2016 Analysis, available at: <https://ccs.org.cy/assets/uploads/ICT%20CYPRUS%20REPORT.pdf>, last accessed 12.05.2018.

¹⁰ Ministry of Communications and Works Department of Electronic Communications, Digital Strategy for Cyprus, available at: [http://www.mcw.gov.cy/mcw/dec/digital_cyprus/ict.nsf/3700071379D1C658C2257A6F00376A80/\\$file/Digital%20Strategy%20for%20Cyprus-Executive%20summary.pdf](http://www.mcw.gov.cy/mcw/dec/digital_cyprus/ict.nsf/3700071379D1C658C2257A6F00376A80/$file/Digital%20Strategy%20for%20Cyprus-Executive%20summary.pdf), last accessed 12.05.2018.

¹¹ Ministry of Transport, Communications and Works, Cyprus Broadband Plan 2016-2020, available at: [http://www.mcw.gov.cy/mcw/dec/dec.nsf/All/10849A48077172ADC2257FBE00248B9D/\\$file/Cyprus_Broadband_Plan.pdf?OpenElement](http://www.mcw.gov.cy/mcw/dec/dec.nsf/All/10849A48077172ADC2257FBE00248B9D/$file/Cyprus_Broadband_Plan.pdf?OpenElement), last accessed 12.05.2018.

¹² IDC 2017, Cyprus ICT Market 2017 Forecast and 2016 Analysis, available at: <https://ccs.org.cy/assets/uploads/ICT%20CYPRUS%20REPORT.pdf>, last accessed 12.05.2018.

¹³ Department of the Registrar of Companies and Official Receiver (DRCOR) of the Republic of Cyprus, available at: http://www.mcit.gov.cy/mcit/drcor/drcor.nsf/company_statistics_en/company_statistics_en?OpenDocument&print, last accessed 15.05.2018.

¹⁴ Data provided by the Department of Registrar of Companies and Official Receiver. Last update: 10/05/2018.

¹⁵ CyLaw, Article 152(A), available at: http://www.cylaw.org/nomoi/enop/non-ind/O_113/full.html, last accessed 15.05.2018.

¹⁶ Department of the Registrar of Companies and Official Receiver (DRCOR) of the Republic of Cyprus, available at: <http://www.mcit.gov.cy/mcit/drcor/drcor.nsf/All/12341F3CC14B9FF3C2257EF500449030?OpenDocument> and <http://www.mcit.gov.cy/mcit/drcor/drcor.nsf/All/9AF719AC59AAAB33C22582280039EA33?OpenDocument>, last accessed 15.05.2018.

¹⁷ Due to data availability, the data on high-growth firms refers to the 'business economy' only, which covers sections B-N including section K (financial activities, except activities of holding companies). The 'non-financial business economy' excludes section K.

¹⁸ In line with the Commission implementing regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees in the beginning of their growth and average annualised growth in number of employees greater than 10 % per annum, over a 3-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. Source of the data on high-growth enterprises is Eurostat (http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2, last accessed 10.04.2017).

¹⁹ The 2018 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.

²⁰ <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetailDoc&id=32186&no=2>

²¹ 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 2018. 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 2018. 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/>.

²² The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2017 and the first quarter of 2018. The national SME policy expert that PwC (DG GROW's lead contractor for the 2018 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.

²³ European Bank for Reconstruction and Development (EBRD) and the Cypriot Ministry of Energy, Commerce, Industry and Tourism (MECIT), EBRD and the Cypriot government launch programme to boost competitiveness of small firms in Cyprus, Official launch event of the Advice for Small Businesses facility in Cyprus. The press release can be consulted at: <http://www.ebrd.com/cs/Satellite?c=Content&cid=1395266780410&d=Mobile&pagename=EBRD%2FContent%2FContentLayout>.