



ACTION PLAN

“A NEW GROWTH MODEL FOR CYPRUS”

PRESIDENCY – ADMINISTRATIVE REFORM UNIT
FEBRUARY 2015

INTRODUCTION

Background to the crisis

The post-invasion performance of the Cypriot economy can be distinguished into four main periods. The first was the 1974-1988 period, when the economy experienced a V-style recovery led by light manufacturing and tourism, and an average rate of growth of 4.8%. The second period was between 1988-2004 which was the harmonisation period with the EU legislation and standards, the pegging of the Cypriot pound to the European currency, and the eventual accession of Cyprus to the EU. During that period, the Cypriot economy grew with an average annual real rate of 4.4%, double of EU average, as a result of the emerging of professional services, banking, tourism, and towards the second half of the period, significant credit expansion. During the third period, 2004-2008 the Cypriot economy grew at an average rate of 4.2%, led by the financial and professional sector, construction, and it was characterised by excessive credit expansion; Cyprus adopted the Euro by the end of this period. The fourth period started with the EU debt crisis and a decline of the GDP by 1.9% in 2009 and public finances deteriorating significantly. The situation was exacerbated in March 2012 with the banks announcing heavy losses, reflecting problems related to bank supervision and governance, as well as credit policies and heavy exposure to the Greek market. The years 2012 and 2013 were marked with severe economic contraction.

Despite the fact that the average growth rate of the Cypriot economy exceeded for many years the growth of the European economy, this growth path proved unsustainable, as it was mainly attributed to two main factors: a) **government and consumer spending**, fuelled by excessive credit, creating growth led by an artificially high domestic demand, and b) **'Unbalanced growth'** due to the concentration of economic activity to a limited number of sectors of the economy such as the financial and professional services, tourism and construction, whose activity was intensified during the real estate boom.

The structural problems of the Cyprus economy, were intensified as a result of the collapse of the real estate market following the European crisis and particularly the devaluation of the British Pound, and were further accentuated with the economic crisis and the adverse economic

developments in Greece and culminated to the incapability of the Cyprus Government to borrow money at the international free money market. The deterioration of the public finances together with the foreseen problems in the banking sector resulted in a series of downgrades of the Cypriot economy and the exclusion of Cyprus from the international markets in mid-2011. The spill overs of the Greek economic crisis on Cypriot banks were also a factor that affected the whole economy due to the multi-billion losses incurred as a result of the Greek crisis and the Greek government bonds. Unemployment increased from a low of 3.7% in 2008 to 16% in 2013 and 17% in 2014.

The private sector indebtedness in Cyprus proved to be the highest amongst EU member states, at a level exceeding 300% of the GDP, while at the same time, public finances deteriorated mainly due to increases in social outlays and wages, and became unsustainable. 'Unbalanced growth', and the concentration of economic growth to a few tradeable sectors of the economy also left Cyprus **vulnerable to external shocks**, economic downturns, and **wrong corporate strategies of individual businesses**, especially in the banking sector. Chronic over-consumption in the private and the public sector, as well as the over-concentration of the Cypriot economy to a few sectors of the economy, revealed major structural weaknesses in both competitiveness and productivity, which is reflected in the deterioration of all relevant international benchmarks.

Need for a new Growth model and Strategy

Following the debt crisis, the government requested to enter into an economic adjustment programme. The main pillars of this program rested on the urgent need to tackle the **fiscal imbalances**, as well as a financial stabilisation program. The Fiscal and Financial policies conditionality in the MoU constitute an important framework condition on which the new growth model can build. The Government believes that the sustainable growth of the economy will only be achieved if these policies are **complemented with the design and implementation of a robust and sustainable new Growth Strategy for Cyprus**. This, coupled with the rest of the structural reforms included in the program, should be considered as the **third main pillar** of reforming the economy.

The core provisions of the new Growth model aim at accelerating recovery, enhancing competitiveness, delivering sustainable economic growth boosting employment and tackling corruption. The priorities and ambitions set out in the Growth Strategy, which will inform our

policy and spending decisions, are closely aligned with those in EU2020, the EU's growth strategy for smart, sustainable and inclusive growth. Implementation of the growth strategy will be catalytic to ensuring progress towards the achievement of the EU 2020 targets.



The new Growth strategy and the institutional arrangements that accompany it, mark the Government's considerable efforts to create the conditions for growth and increased prosperity. It aims in restructuring the Cypriot economy to create the conditions to invest, grow and create jobs, and put the economy on a sustainable growth path. It is also important **for securing a long-term, market compatible sovereign**

rating for Cyprus since ‘economic strength’ including the Growth dynamics, the scale of the economy, national income and diversification is one of the four pillars taken into consideration by credit rating agencies.

The restoration of the growth dynamic is based on developing a **national comprehensive plan for the development of identified sectors (tradeable) of the economy, showing a high job creation potential** to address the high unemployment rate issue and high Growth potential. The plan should be founded on the principles of competitiveness, boosting productivity, extroversion, investment stimulation, comparative advantage, creation of employment opportunities and diversification of sectors and markets.

The design of the new **Growth Strategy of Cyprus is closely aligned with the Public Administration reform effort**. The government recognises that it is entrepreneurship and economic activity that create jobs and employment. But while the private sector is the engine for economic growth the **government shapes the economy with its decisions and authority** in all areas of economic activity. It also has an important role in addressing market failures, the barriers, and the impediments faced by industry to help unlock economic potential. It is for that reason, that the Government, through the public administration reform has to ensure that the public services are efficient and effective; That they are working towards creating the right environment to support sustainable growth, attracting FDI, and business start-ups and subsequently be supportive to employment creation. Transforming the role of the government is necessary to address the major challenges facing Cyprus today. The success of both the Public Administration Reform and the Growth Strategy are therefore crucial and related to transforming Cyprus. They both depend on **strong governance** and are therefore placed under the same institutional umbrella and political supervision: the Presidency.

The action plan prepared for the development of the growth strategy does not suggest a “big bang” approach. It takes a step-by-step approach to correcting the pathogens of poor policy-making by priority setting. The document produced is a working document that will be further developed and shaped following thorough consultation with stakeholders. The fiscal stimulus aspect of development is treated separately by the Ministry of Finance in the context of Fiscal Sustainability Program. Nevertheless, the ‘Growth Strategy’, through the PFM, aspires to play a significant role and the guiding principle according to which the allocation of the available public funds will be made, with a view to have an increased value added to the economy in line with the sectoral priorities determined.

PILLARS OF REFORM

A Strategic economic direction with sector specific priorities

The Government will set out a clear strategy based on a number of priority sectors for the economy. It will develop key strategies and action plans to deliver sustainable economic growth for the next decade. The new strategy will be built on competitive advantages, and identify the immediate opportunities and challenges needed to be addressed. The actions set in this paper mostly concern those challenges. In this context, a number of sectoral reviews will be put forward to set economy wide priorities and set out detailed strategic growth measures that will stimulate growth in **tradable sectors** of the economy. A number of 'major' or 'rising-star' sectors of the economy are analysed.

The current paper sets out priority areas which according to our preliminary assessment can develop further to contribute significantly to economic growth, as well as to achieve a less concentrated growth model and decrease the vulnerability of the economy to sector-specific shocks;

Tourism

Tourism has been the backbone of the Cypriot economy since the 1980s and has been one of the major pillars for the recovery of the economy following the 2013 crisis. Nevertheless, Tourism suffers from important structural problems. The **eroding competitiveness** of the sector is portrayed by the fact that in the past 15 years the tourist arrivals have remained static, at the time when the tourist arrivals and revenues at most of the competing neighbouring destinations have been recording significant increases. The tourist market is **very**

concentrated and dependent on the UK and Russian markets. The third largest group, Germany, represents only 6% of total arrivals. The current “sea and sun’ market is also becoming increasingly competitive and crowded, and does not offer sustainable promising growth to the prospects of the sector.

Reviewing the **institutional governance of tourism**, and **developing a national comprehensive** plan for the sector is a government priority. There is a need for a strategic shift towards attracting higher-income visitors as well as niche touristic sectors, by encouraging investments in large integrated resorts, nautical tourism, high end vacation homes, cruise embarkation points, and niche sectors (such as agrotourism, cultural, archaeological and religious tourism, winter sports/training tourism , sailing tourism, conference tourism/training tourism and senior citizen/rehabilitation resort/semi-permanent tourism); measures which increase competitiveness and alleviate seasonality of the sector. The strategy on Tourism will also consider the recent shift in tourists’ origin to **expand and diversify tourism’s sector market base** as to spread the Cypriot risk exposure over more countries. More value-added products should also be developed. The development of Medical Tourism, as a rising star sector of the economy should also be explored. The competitive advantages of Cyprus in this field lie in its geographical location and proximity to markets which are characterised by a big demand for medical services by neighbouring countries as well as the domestic know-how.

The current legal and regulatory framework of the accommodation and restaurant sectors should also be reviewed and the burden of regulation should be significantly reduced. Connectivity issues should also be addressed.

The allocation of the State Budget and the EU Structural Funds should take into consideration the Growth Strategy Priorities. In this context, a specific allocation for tourism capital investment and infrastructure projects will be attributed in the following years.

Actions

Action	Authority	Description	Start/Finish Date
Assessment of the institutional framework of the tourism sector.	Presidency/ MECIT	<ul style="list-style-type: none"> - Assessment of the current CTO Laws aiming at simplification of procedures. - The assessment of the institutional framework of the Tourism sector will most probably be undertaken within the framework of the functional review of MECIT. 	S: Q2 2015 Q2 2015 - Q4 2015

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Action	Authority	Description	Start/Finish Date
			<p>Related to MoU Measure 5.4.</p> <p>Q3 2014 – Updated Plan enhancing coordination between both tourism stakeholders and authorities.</p> <p>Q1 2015 – Assessment of the current CTO Law – factors hampering competition.</p>
Develop a Tourism Growth Strategy.	Presidency / MECIT	<p>- Commission a study for the development of a Tourism Growth Strategy, including an action plan with timeframe for the implementation of the strategy</p> <p>.</p>	<p>Q4 2014 - Q1 2016 Assign study Q1 2015.</p> <p>Related to MoU Measure 5.4 Q4 2014 – Roadmap with milestones to reach targets set in the tourism strategy.</p>
Connectivity.	MCW /MECIT / CTO	<ol style="list-style-type: none"> 1. Enhance the ‘open air’ policy (MoU provision, Measure 5.4). 2. Review the current incentive schemes that are available for airlines for operating existing and introducing new routes. 3. Auctioning of available traffic rights. 4. Enhancement of dialogue and encouragement of airlines to provide new routes and direct connections to Cyprus. 5. Review of the airport charges imposed by Hermes. 6. Conduct a special study by experts for a viable interconnection network. 	<ol style="list-style-type: none"> 1. S:Q42014 F:Q1 2015 2. F: end of Jan15 3. S:Q42014 F:end of Jan15 4. Ongoing 5. Ongoing 6. The study was completed and it is being evaluated.

Shipping Industry

The shipping sector is called to play an even more important role in the current juncture, when the country's new growth model is rebalancing towards tradable sectors. It can be further expanded though improving the legal framework and building on the cluster of services that has been created including efficient government services.

At the same time, action will be taken for the continuous improvement of the existing infrastructure, of the incentives available to both residents and non-residents and the enhancement of the international reputation of the Cyprus flag as a flag of progress.

Action	Authority	Description	Start/Finish Date
Enhancement of the competitiveness of the shipping industry.	MCW	Development of a holistic Strategic Development Plan aiming at the improvement of the competitiveness and the international position of the Cyprus Shipping Industry . The study will propose measures to strengthen the sector and will provide a Road Map on how to achieve and implement the suggested measures.	S: Q42014 F: Q1 2015

Agriculture, aquaculture and processing of agricultural products

Agricultural and industrial products of agricultural origin remain an important component of the economy. In 2011, they accounted for 29% of domestic exports, contributed 2,1% to the GDP and 5,8% to employment. The agricultural sector in Cyprus is currently going through a transitional period as there is a need to redefine our production model. The special characteristics of the Mediterranean climate and soil and the fact that most of our products are produced in small scale family farms under strict European standards, provide an opportunity for high quality products. Significant growth potential exists in citrus, potatoes, selected fruits and vegetables and carobs. These industries can be

transformed to 'rising stars' and new technology investments should be encouraged to improve efficiency and productivity Agricultural and industrial products. The main processed agricultural product exported is halloumi cheese, a traditional white sheep and goat cheese for which recently an application to the European Commission for registration as a product of Protected Designation of Origin (PDO) has been submitted. The success in marketing halloumi cheese as a PDO product demonstrates how the primary sector can establish a unique identity for its products. The focus shall be to establish more Cypriot high quality products, to enhance competitiveness and attract premium prices for its produce. The main problems in agricultural sector today is the scarcity of irrigation water, the difficulties to access finance for investments and the low level of organization on the production chain.

Actions

Action	Authority	Description	Start/Finish Date
Reform of the Agricultural Policy.	MERUD	<ul style="list-style-type: none"> - Completion of the study to redefine the production model. - Promotion of agricultural production, based on a contract between the producer and the buyer. - Development of a strategy for the promotion of family farming. 	S:Q2 2015. S:Q3 2015. S:Q3 2015.
Develop a Dairy Sector Strategy following the registration of halloumi as a PDO Product.	MERUD	Develop a strategy, including infrastructure and support measures, for differentiating production towards the goat- sheep milk production, and increasing the overall production of goat-sheep milk.	S:Q1 2015.
National Quality Certification.	MERUD	Investigate the possibility for the introduction of a National Quality Certification for traditional processed agricultural products.	S:Q2 2015.
Introduction of new technologies in the primary sector, reinforcement of R&D in the primary sector and promotion of climate smart aquaculture.	MERUD	Examination of the possibility for the introduction of new technologies in agriculture (hydroponic and airponing agriculture).	S:Q3 2015.
Support productive investment in Aquaculture.	MERUD	Increase the number of aquaculture licence determinations.	S:Q4 2015.

Green Energy

The potential exists for Cyprus to be transformed into a green and energy efficient economy. Green economy activities need to be examined in terms of their potential as a new engine of growth and job creation, with emphasis on fostering the enabling conditions for increased investments that would facilitate the move to the green economy.

Even though Green economic activity is supported through a range of schemes across Governmental departments there is a need to develop an enhanced and integrated policy that may transform Cyprus into one of the leading European Countries in the renewable energy sector.

The determination and optimisation of the energy mix of Cyprus is a priority in order to exploit the potential of renewable sources in a sustainable manner. Enhanced action will also be taken for the more efficient use of energy and the reduction of the price of electricity.

Actions

Action	Authority	Description	Start/Finish Date
Optimisation of Energy mix and introduction of open, transparent, non-discriminative and competitive electricity market in Cyprus, by attracting independent power producers using conventional fuels as well as renewable energy sources (RES) and energy efficiency.	MECIT (L) MCW CERA	<ol style="list-style-type: none"> 1. Adopt a new electricity model. 2. Promote RES. 3. Increase Energy Efficiency. <ul style="list-style-type: none"> - Update of the roll out plan. - Updated draft outline of the comprehensive outline of the regulatory regime and market organisation. - Final outline. 	<p>Related to MoU Measure 5.5. Q4 2014 (Update of the Roll out plan).</p> <p>Q3 2014 – updated draft outline of the comprehensive outline of the regulatory regime and market organization.</p> <p>Q4 2014 – (final outline).</p> <p>Q3 2015 – analysis of the cost price of different sources of renewables compared to conventional primary energy sources.</p> <p>Q3 2016 –The final Trade and Settlement Rules to become fully operational (of the detailed market</p>

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Action	Authority	Description	Start/Finish Date
			design based on the Net Pool Model)
Promotion of renewable energy sources.	MECIT Presidency	<ol style="list-style-type: none"> 1. Cypriot Authorities will revise National Action Plan for the promotion of RES 2030. 2. Conducting a study to help the Government of Cyprus to establish a comprehensive medium to long-term policy regarding the optimum penetration of renewable energy in the electricity system. 3. Support schemes for the promotion of RES – financial support schemes for commercial electricity producing plants will be phased out by 2016. 	<p>Related to MoU Measure 5.5.</p> <p>Q3 2015 – analysis of the cost price of different sources of renewable compared to conventional primary energy sources.</p> <p>Q4 2014 – (final outline).</p> <p>.</p>
Energy Efficiency.	MECIT	<ol style="list-style-type: none"> 1. Implementation of the 3rd national energy efficiency action plan. 2. Support schemes for the promotion of energy efficiency. <p>2014 – 2015: MECIT to allocate funds of 1.6 million Euro from the EU Interregional Programme “Greece – Cyprus 2007 – 2013” for the improvement of the energy efficiency in existing public buildings.</p> <p>2014 – 2020: MECIT to allocate funds of 52.9 million Euro from the EU structural and cohesion funds in order to operate programmes providing financial incentives for the energy renovation of existing buildings in households, industrial and tertiary sectors, which also includes the installation of RES systems and the promotion of nearly zero energy buildings.</p>	
Waste management strategy.	MERUD, MI, Presidency	An action plan will be delivered for the effective implementation of the new strategy for waste management. Particular importance will be given on modern waste recycling technologies with a view to develop new areas of economic opportunity and job creation as well as on the possibility of combining waste management with electricity/heating generation.	F:End May 2015

Generic pharmaceuticals

Since its inception in the 70s, the Cyprus pharmaceutical industry has grown as the major manufacturing industry in Cyprus with significant exports. This major secondary sector of the economy of Cyprus has developed the necessary know-how and credibility and has a significant export potential that should be utilised further. Despite the fact that it is the major manufacturing industry, and uses the highest technological standards, its current contribution to the GDP is very limited.

Action

Action	Authority	Description	Start/Finish Date
Consultation with stakeholders.	MECIT / Presidency	Consultation with the stakeholders to identify key growth drivers for the industry and to start developing an action plan.	S:Q2 2015.

Business and Professional Services

Business and Professional Services constitute a significant part of Cyprus’ exports in services. Professional services have exhibited a dynamic upward trend prior to the crisis but also a strong resilience during the crisis period despite the problems in the banking sector. This has been a result of the credibility and high quality of Cyprus’ professional services. Continuing support for the sustainability and development of these sectors is important, also because they drive change in other sectors of the economy. The actions taken to improve the business environment are all related with the growth prospects of the industry. Proactive measures and actions are also needed to ensure that Cyprus position will not deteriorate and other actions should be taken to diversify the position of Cyprus and open new markets.

Considering that investment funds industry is a rapidly growing international industry, the government considers it important to be at the forefront of developments and transform Cyprus as a jurisdiction of choice among other EU competitive markets, as to utilize the significant potential that this industry offers to the growth prospects of the Cypriot economy.

Actions

Action	Authority	Description	Start/Finish Date
Diversify source and nature of professional services.	MOF / MFA	Review ways to diversify the source and nature of professional services.	Ongoing
More effective point of contact for tax and legal tax issues.	MOF	Investigate the possibility of forming within the Government a more empowered single point of contact for dealing with tax treaties and agreements.	Q2 2015.
Create the right regulatory framework for the investment funds industry.	MOF	Examine the possibility of improving the legal, tax and regulatory framework in consultation with the industry and CIFA.	Q1 2015.
Promote Cyprus as a destination for asset management Firms.	CIFA, CIPA, Presidency	Enhance the awareness globally of Cyprus attractiveness as a jurisdiction in an effort to attract Funds or asset management firms in Cyprus.	Q1 2015.
Review of Cyprus' strategy as a business and financial centre.		Review of the strategy of Cyprus as a business and financial centre and come up with specific recommendations for Cyprus to remain relevant and competitive as a business and financial centre in the context of international developments. The review should cover all aspects of the legal, tax, regulatory framework and the need for horizontal coordination to facilitate the setting up in Cyprus of groups with regional operations. The review should also cover the country's promotion strategy in this area.	Q2 2015.

Education

Education and training has a horizontal policy element, affecting the growth prospects of all economic sectors. Increasing the skills, knowledge, capability and flexibility of the workforce is a critical element in the ability of the sectors to achieve their potential for growth. This is particularly evident currently, when unemployment has risen significantly in certain sectors where employment levels will possibly not return to the levels of the ex-crisis period. Therefore, education should be revamped, aiming at closing the skills gap, i.e. aligning job skills with job requirements and the current needs of the economy. Programs should be introduced in relevant areas such as tourism, agricultural

production, and energy. It is also important to revamp technical education, as there is an education gap after the closing of the Higher Technical Institute a few years ago. The link between academia and business has to strengthen in order to boost innovation and entrepreneurship, and to address the current labour market imbalances by ensuring the provision of graduate and workforce skills necessary to maximise Cyprus's potential in high-value added sectors.

Actions

Action	Authority	Description	Start/Finish Date
Aligning the Education and Training System to the needs of the labour market.	Presidency MOEC/ MLSI	<ol style="list-style-type: none"> 1. Initiate a dialogue to identify institutional shortcomings e.g. fragmentation of responsibilities. 2. Reexamine educational goals with the aim of better matching education outcomes to labour market needs and reducing the skills mismatch. 3. Strengthen the link between enterprises and education institutions/academia e.g. by reforming the curricula, to reduce disparity between tertiary education programmes and the skills required in the labour market. 4. Revamp technical education to match the needs of the economy accompanied with a communication strategy to increase its attractiveness. 5. Strengthen Public Employment Services and career guidance to reduce search costs and further alleviate skills mismatches. 6. Address poor performance shown in the 2012 OECD Programme for International Student Assessment (2012) with respect to basic skills in mathematics, reading and science. 	S: Q1 2015

The international competitiveness of Cyprus has been steadily declining over the past years. The Government recognises that enhancing competitiveness is a broad concept which encompasses a diverse range of factors and a long term challenge that requires the necessary mechanisms and policies. The 'Competitiveness Council' set up by law in 2006 has not been active or effective in producing deliverables. There is a need to re-address the issue of competitiveness into the new Growth Strategy by making the necessary institutional arrangements (see 'Institutional Arrangements'). Incorporating a permanent mechanism under the Presidency for strategy design and

Research and Innovation

Cyprus’s performance in research and innovation lags behind other member states of comparable level of development. One of the main reasons for the poor performance is the fragmentation of competences and lack of coordination among the stakeholders in formulating and implementing policy. Further weaknesses relate to the apparent lack of effective linkages between academia and researchers to businesses.

Cyprus must focus on policies to improve innovation and thus productivity and competitiveness. It is also important to promote the coupling of research activities with the industrial and business world in order to convert new knowledge into real economic growth and create stable and productive links with foreign research and development institutions/centres. In addition, efforts must be exerted to enhance further the ability of Cyprus to absorb funds from Horizon 2020, the EU’s instrument for Innovation and Research.

Actions

Action	Authority	Description	Start/Finish Date
Development of a Strategy for Research and Innovation.	DG EPCD, MCIT, Presidency	Considering the findings of the study by the National Commission on Research, Innovation and Technological Development (NCRI), and taking into account the current fiscal constraints, develop a comprehensive strategy of Cyprus, taking into account the Smart Specialization Strategy for Cyprus.	Q1 2015.
Improvement of the Research & Innovation Governance System.	MCIT, MOF, Presidency	Considering the findings of the study by the NCRI regarding the institutional framework ,make proposals for the restructuring of the current governance system.	Q1 2015.
Utilization and commercialization of Research results.		Measures for strengthening the link between academia and businesses, fostering better utilization of research results by businesses and industry by: Encouraging academic and research staff to engage in research activities that are relevant for innovative entrepreneurship and business start-ups, including the review of the current restrictive framework	Q2 2015.

Action	Authority	Description	Start/Finish Date
		for the utilization of research results by public organizations. Enhancing enterprise access to research infrastructures, universities and research institutes.	
Further utilization of European competitive programmes , in particular Horizon 2020.		Enhancing the support services provided to the Cypriot organizations and businesses by the National Contact Points of the European competitive programs. Strengthening networking activities, including «lobbying» in the Programme Committees of the EU Competitive Programmes and other policy and implementation related groups in the field of Research and Innovation in favour of research activities which could be utilised by Cyprus.	S:Q1 2015.

Achieving balanced growth

The strategies for the above sectors and other potential ‘rising star’ sectors of the economy that will emerge from the studies and reviews and will be prioritised according to criteria such as the availability of indigenous resource inputs, specific know-how availability, existing infrastructure that could be leveraged or scaled up, and geographical proximity to destination markets. For each of those sectors there will be consultation both with the competent Ministries and Governmental Departments, as well as the stakeholders, in order to design strategies and action plans that will align with the Government broad growth priorities. Undoubtedly, the oil and gas sector offers significant growth opportunities which are not addressed in the context of this Growth Strategy as the sector is treated separately.

As a guiding principle, all tradable sectors of the economy should acquire an investment friendly institutional and legal framework, to enable them to attract resources and investments, and thus to built scale, expertise and competitiveness at regional or international level. Impediments to business growth and the cost of doing business should be minimised for all businesses and entrepreneurial activity and Cyprus should become a place where any business should be able to invest with confidence.

Competitiveness and Investment monitoring the implementation and performance in relation to the international benchmarks is a step towards that direction. The incorporation of the monitoring of those indicators into the national policy framework would lead to the design of the necessary actions and policies in order to improve them.

Actions

Action	Authority	Description	Start/Finish Date
Monitoring of International benchmarking reports and indicators.	Presidency	A new competency, the monitoring of international benchmarking indicators (i.e. Doing Business Reports and World Economic Forum Competitiveness Reports) established at the presidency. Undertake a competitiveness benchmarking exercise to determine how Cyprus performs in terms of international competitiveness across a range of indicators and examine the possibility of issuing on regular basis regular competitiveness reports.	Q1 2015
Prioritise competitiveness challenges.	Presidency	Prioritise competitiveness challenges facing the business sector over the medium term.	Q1 2015.
Identify policy actions.	Presidency	Identify relevant potential policy options as to how these priority challenges will be addressed.	S: Q1 2015
Improve Cyprus' rankings in global indices.	Presidency	Examine the possibility of introducing a mechanism, in coordination and collaboration with the private sector, with the aim to identify and propose reforms that will improve the rankings of Cyprus.	Q1 2015.

Transparency

The government recognises that good governance has a positive impact on growth, whilst corruption and lack of transparency is a significant inhibitor of economic growth. According to the Eurobarometer of Corruption Survey 2014, Cyprus ranks first among the EU member states as

regards the proportion of respondents believing that success in business is correlated to having political connections, whilst it ranks 29th among 176 countries in the annual Corruption Perception Index (CPI) prepared by Transparency International (2012).

The government aims to combat corruption phenomena by redesigning policies with the aim to minimize the potential for corruption in public administration as well as in corporate governance, and at the same time reduce perceptions of corruptibility.

The reform of the Public Sector as well as measures envisaged in this growth strategy aiming at simplifying cumbersome bureaucratic procedures and red tape, will contribute towards reducing the susceptibility of the involved agents to corruption. The Government intends to take further measures in its pursuit of good governance. Greater attention needs to be paid to the “corruption proofing” of policies and institutional arrangements, in addition to the vigorous pursuit of wrongdoers. At the same time, transparency needs to be enhanced at all levels of political life and policy making.

Actions

Action	Authority	Description	Start/Finish Date
Assessment of the current anti-corruption institutional set up.	MJPO Law Office Presidency	Evaluation of the current institutional framework for investigating, prosecuting and preventing corruption and identification of required changes.	Q2 2015.
Prioritizing policy areas in terms of incidence of corruption.	MJPO Law Office Presidency	Identification of the risks areas in order to establish priorities.	Q2 2015.
Development of an anti-corruption plan.	MJPO Law Office Presidency	Develop a national strategic anti-corruption action plan aiming at both public and corporate governance.	Q4 2015.
Monitoring System for corruption.	MJPO Law Office Presidency	Establishment of a system for the monitoring, assessing progress and measuring results in terms of corruption.	Q4 2015.
Enforcement of	Presidency/MJP	1. Review of the main obstacles in the current procedures, in	S: Q3 2015

contracts	O/LO/Courts	consultation with the competent authorities 2. Assign study to experts to provide suggestions, based on best practices to accelerate the award of justice in relation to commercial contracts (e.g. increase court efficiency, rationalization of procedures of administrative courts and reinforcement of extrajudicial processes)	
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Facilitating investment

Investment is a key contributor to Growth. Cyprus suffers from low capital formation in relation to other European countries. It attracts insufficient investment capital to build job-creating businesses in the real economy. Cyprus needs to develop a business friendly environment that will enhance competitiveness and attract local and foreign investment, to generate jobs and economic growth. In this respect it is necessary to develop a comprehensive strategy to promote investments and establish the necessary legal framework.

There are substantial barriers in investment planning, while many firms are confronted with high costs and administrative burden with adverse effects on opportunity cost. Cyprus seems to be over-regulated in specific sectors and procedures that influence investment decisions, with significant ‘red-tape’ and a frustrating bureaucracy that affects businesses, including the use and development of land. There is a complex administrative system which creates significant legal, bureaucratic and procedural disincentives to set up and expand businesses. For other, especially newly emerging sectors, there is a lack of the necessary legal and institutional framework.

These practices make it difficult for firms to either compete internationally or even to maintain their local business activity. This offers some explanation as to why Cyprus cannot create or sustain jobs in **production sectors** of the economy and must **rely on imports for most of its needs**, registering the **largest trade deficit** in the EU, which is a source of a continuous macroeconomic instability. It is also an indicator proving the unsustainability of the Cypriot growth model.

Productivity also lags behind the rest of Europe across economic sectors. One of the main reasons for the lagging productivity is the **lack of large-scale investments** and enterprises which maximise employee output through economies of scale and scope, investment and innovation.

Actions

Action	Authority	Description	Start/Finish Date
Introduce a Law for Attracting and Facilitating Investment.	Presidency	A study to be commissioned for establishing a legal framework for accelerating investment procedures and ensure transparency.	S: Q1 2015.
Revise the policy framework for promoting investments.	Presidency	Take action for introducing an integrated investment promotion policy and strategy with clear and measurable goals (focused & prioritized).	Q4 2015.
Simplification of procedures for the employment of highly qualified third country nationals.	MI/Presidency	Introduction of a fast track procedure for the recruitment of highly qualified employees from third countries.	S:Q4 2014

Construction

The construction sector has been hit severely by the recession. The construction sector marked extraordinary levels of growth during the pre-crisis period of the residential construction and real estate boom, depending heavily on credit. Acknowledging the fact that construction and residential development must be related to the real capabilities of the economy and not over-indebtedness, the government also recognises the need to ensure a healthy and vibrant construction sector, which offers employment and value added to the economy. To this end, a number of initiatives aiming at boosting the sector have already been promoted.

Considering the need for reinitiating the public work programme, especially for the actions related to creating the necessary infrastructure for certain industries directly related to the implementation of the growth strategy, the government believes that there is a good prospect for not contracting further the construction sector in Cyprus. The construction sector needs to diversify from the residential construction to large-scale developments and projects (for all the sectoral priority areas) and residential renovation. Actions directly related to the sustainability of the construction sector in this action paper concern the licencing procedure for big investments, improvement of the spatial planning, smart regulation in related areas, and the facilitation of investment. Directly relevant is also the greater use of Public Private

Partnerships. The government will also continue to support the expansion of construction firms to neighbouring markets. The possible revival of the sector will have a significant positive spill over effect in the economy and the banking sector specifically.

Actions

Publishing information on government infrastructure projects	MoF/MCW/ Presidency	The Government will publish quarterly a rolling two year forward programme of public infrastructure and construction projects where public funding has been agreed.	S: Q1 2015
Supporting companies to expand abroad	MoF/MECIT/ Presidency	Support construction and related companies with international ambition to expand presence in key geographic territories and target project opportunities in emerging markets in the Middle East and Africa.	Q1 2015

Entrepreneurship

The government's ambition is for Cyprus to acquire a competitive environment in which to start and grow a business. Given the critical role that the Small and Medium Enterprises play in the domestic economy and considering the unemployment challenge Cyprus is currently facing, especially among university graduates, significantly increasing the number of entrepreneurs and start-ups is hugely important for Cyprus' economic growth.

Actions

Action	Authority	Description	Start/Finish Date
Develop a Strategic Framework for Promoting Entrepreneurship and Enhancing SMEs Competitiveness.	Presidency /MECIT	<ol style="list-style-type: none"> 1. Develop a National Entrepreneurship Policy Statement. 2. Develop strategic programmes/schemes to support indigenous companies, especially SMEs, to engage in innovation and to improve their productivity. 	S:Q4 2014.
Improve regulatory	PresidencyMECI	<ol style="list-style-type: none"> 1. Design of an effective mechanism for the effective monitoring and 	S:Q4 2014

Action	Authority	Description	Start/Finish Date
framework for business set up / operation	T	<p>implementation of the SME Test.</p> <p>2. Implementation of the “SME Test”, in line with the Small Business Act (SBA).</p> <p>a. As part of the review/update of the current (general) Impact Assessment (IA) mechanism.</p> <p>b. Further elaborate on the measurement (quantification) of the impact on SMEs and the setup and use of mitigation measures.</p>	
Establishment of an Entrepreneurs Office.	Presidency/ MECIT	Establish a support center for the promotion of entrepreneurship and innovation in Cyprus, with special emphasis to support for start-ups, through the appointment of project facilitators, mentoring mechanisms, development of funding networks, knowledge sharing etc.	S: Q4 2014.
Examine the possibility of Introducing a “Zero Licensing” program for the establishment of small wholesale or retail businesses.	Presidency/ MECIT	Examine the scope of introducing “Zero Licensing Programme” on the basis of best practices.	S: Q2 2015.
Enhance access to finance.	Presidency/ MOF/ DGEPCD	<p>1. Systematic review of the existing financing mechanisms (grants and financial instruments supported by EU and/or national funds) to identify unutilized opportunities for Cyprus’ businesses and individuals and measures to promote the use of funds from such instruments.</p> <p>2. Better coordination and streamlining of funding schemes to SMEs form national, EU, EIB, EBRD and other sources of financing.</p> <p>3. Increase further awareness of the website “Funding Programmes Portal” which contains information on national and EU Grant schemes.</p>	S: Q4 2014.

Smart Regulation

Despite the attractive to business tax regime, the current regulatory framework suffers from a number of problems which negatively affect economic activity and do not allow Cyprus to exploit its full potential as an attractive place for doing business. In this context there are three major problems:

- a) Some sectors of the economy are over-regulated and procedures are cumbersome
- b) There is lack of, or a weak regulatory framework for the establishment or development of specific industries that could contribute to the growth potential of the economy.
- c) Some of the current legislation and regulatory framework in certain sectors of economic activity is either obsolete or distortive.

Especially in times of crisis and high unemployment, effective regulation is very important for improving the competitiveness of Cyprus, for creating an attractive environment for doing business, or facilitating investments. There is a need for reviewing existing legislation towards the direction of simplifying laws and procedures, or eliminated the obsolete and distortive regulatory framework so as to provide a better environment for conducting business.

Actions

Action	Authority	Description	Start/Finish Date
Establish a mechanism for implementing smart regulation.	Presidency All ministries	Prepare and implement an Action Plan for Smart Regulation.	S: Q4 2014.
Identify sectoral regulatory weaknesses and propose actions	Presidency / all ministries	Identify the sectors where regulation is lacking or produces excessive cost to competitiveness and provide an evidence based input into the effectiveness of economic regulation.	S:Q1 2015.
Improving (Simplifying or Eliminating) Administrative Procedures	Presidency All ministries	<ol style="list-style-type: none"> 1. Compiling a stock of regulations, affecting mainly businesses, identifying burdens, inconsistencies, ineffective ones. 2. Consulting with stakeholders to identify most burdensome obstacles to businesses/ assess the most important ones. 3. Individualized regulation assessment and decision-making regarding to eliminate/ consolidate/ simplify it and thus make it less costly. 4. Awareness campaign for all stakeholders (business, economic and social partners, House of Representatives). 	S:Q4 2014.
Controlling the flow and setting guidelines of	Presidency	Examine the possibility of stemmed flow of new regulations by introducing “one in, one out” system based on best practices. Also	Q4 2015.

Action	Authority	Description	Start/Finish Date
new regulations.		introduce guidelines so that all new legislative acts follow smart regulation principles.	
Simplifying and updating the procedure for issuing investments permits, starting from areas as prioritized below: a) construction. b) environmental permits. c) tourism. d) energy.	Presidency MOI MERUD MECIT	1. Consultation with governmental competent authorities and other relevant stakeholders. Formation of working groups as per case of priority. 2. Examine the possibility of receiving technical assistance.	S:Q4 2014
Review of the existing tax legal framework for businesses.	MoF	Examine the possibility of excluding SMEs (or micro enterprises) from the obligation to undertake audits and reduce financial reporting burdens for these firms.	S: Q2 2015.
Improve the Public Procurement Processes for businesses.	Treasury/ Presidency	Examine the possibility of altering the public procurement law & practices so as to make it less burdensome on enterprises and avoid delays caused by the appeal procedure lodged through the tender review authority.	S: Q1 2015.

Digital Strategy and E-Government

The use of Information and Communication Technologies (ICT) are widely recognised as a key horizontal factor for growth. Despite some progress observed in the past few years, Cyprus still lags behind the EU average in a number of important ICT indicators (Digital Agenda

Scoreboard 2014). The Digital Strategy of Cyprus that was approved by the Council of Ministers in February 2012 is a comprehensive plan for the period 2012-2020 and adopts a holistic approach for the development of the information society in Cyprus. Based on the Digital Agenda for Europe, the stated overall vision of the Digital Strategy is: "information and communication technologies to support the development and the competitiveness of the economy, and citizen participation in the social, cultural and political domains".

E-government is an important component of the Digital Strategy that serves multiple goals: as means to increasing productivity through business re-engineering in the public sector, as an interface that allows citizens to enjoy participation in cultural and political activities, as a financial interface with businesses and public, and as a reference point of contact between the citizens and the government. Cyprus lags behind both in the demand and the supply of e-government services as indicated by the low, compared to the EU average, percentage of government services provided fully online to citizens and enterprises as well as by the low, compared to the EU average, percentage of population and firms that conduct electronic transactions with the Government. Constraining factors to the provision of electronic services constitute the fragmented institutional framework, limitations in existing legislation as well as public sector procedures that need to be reviewed. At the same time, within the context of improving the efficiency of the public sector there is a need to introduce ICT in the internal procedures of public administration.

Consequently, the Government considers that e-Gov should be implemented as a matter of priority in tandem with the Public Service Administration Reform, so that the necessary tools are developed that will significantly improve the government performance as well as the public service delivery, while providing transparency about the operation of government to the general public. Therefore, the e-government Strategy will come under the mandate of the Presidency, in an effort to best use ICT to achieve the goals set by the broader Growth Strategy.

Moreover, there is a need to review and redefine the existing national ICT and e-Government structure and the responsibilities of each of the involved actors in order to achieve a more effective structure that will deliver better results for the Growth Strategy. It has been noted that there are too many actors involved, there is a lack of coordination and the results are not the expected ones. (The Department of Information Technology Systems is responsible for coordinating, monitoring and implementing the computerization of the public sector, the Department of Electronic Communications coordinates and monitors the progress of the Digital Strategy in cooperation with the Advisory Committee for the Information Society, and prepares the Annual Action Plan for the implementation of the Digital Strategy, the Executive Computerization

Board is responsible for coordinating all stakeholders in the effort to develop ICT in the public sector and PAPD is responsible for the promotion of organizational changes and new processes in public sector to enable successful implementation of e-Government and the Information Society Champion resides in MECIT)

Actions

Action	Authority	Description	Start/Finish Date
Review and redefine the existing national ICT/ e-government structure and the responsibilities of each of the involved actors.	Presidency MOF MECIT MCW	Assess the effectiveness of the existing ICT and e-government structure. Consultation with all relevant authorities/ stakeholders. Appoint one single authority for the development and implementation of ICT/ e-government strategy.	S:Q1 2015 F: Q2 2015
Coordinate and monitor the implementation of the actions of the e-government strategy.	Presidency	Coordinate and monitor the e-government strategy. Re- engineer processes for enabling the effective delivery of e-government services.	S:Q1 2015 – continuous
Establishment of a Call Center which will act as a teleservice single point of contact (SPOC)	Presidency PAPD	Define the services to be offered via the Call Center. Decide the way the call center will be operated and accordingly prepare an RFP.	S:Q4 2014 F: Q1 2016
Introduce “e-signature and eID” policy and assess –the “Electronic Certification System of the State”, in order for the state’s system to be able to support electronic signatures and other electronic security services.	Presidency	Assess the state of implementation of the Electronic Certification System in consultation with the relevant governmental departments as well as private sector stakeholders, and decide on the need for future steps.	S:Q1 2015 F: Q2 2015
Launching of the “Less than an hour” online start-up of a company.	Presidency Other Services	Preparation of a proposal based on best practices.	S: Q3 2015.
Digitalization of all schemes granted for the Enhancement of	MECIT	1. Technical assistance/expertise will be requested for this task for the development of an ICT system.	S: Q4 2014-

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Action	Authority	Description	Start/Finish Date
Entrepreneurship.			
Develop a Web-Portal for SME's. (linked to 15.3)	Presidency MECIT	<ol style="list-style-type: none"> Mainstream all the government websites for SMEs in order to provide information on the following: <ul style="list-style-type: none"> Information concerning available financing tools. Information regarding the Regulatory Framework. On line consultation/ dialogue between Government, business community and academia. Information about projects to be funded. Technical Assistance/expertise has been requested from the SG. Launching the platform. 	S:Q4 2014 F: Q4 2015
Introduce "Open Data" Policy. The use of public sector information (PSI) is an important tool that, if used properly, can contribute to economic development. According to recent studies by the European Commission the free availability of public information from the 28 EU Member States could lead to direct and indirect benefits of around €200 billion Euros annually and in doubling the productivity of local authorities and promoting innovation and research.	PAPD/ Presidency/ All Ministries/ OLC	<ol style="list-style-type: none"> Conversion of the OLC webpage from olc.gov.cy to legislation.gov.cy. Uploading of all legislative frameworks, starting with business-related laws. 	S: Q1 2015.
Improve the Public Procurement Processes	GAO/ Presidency	Examine the possibility of altering the public procurement law & practices in regards to ICT systems.	S: Q2 2015.

Action	Authority	Description	Start/Finish Date
for ICT systems.			
Ariadni Gateway.	Presidency / DITS	Explore further the opportunities offered by the Gateway Ariadni.	S: Q4 2014 F: Q1 2016
Publishing information on government infrastructure projects.	MCW/MECIT/ MI/MoF	Examine the possibility of publishing quarterly a rolling two year forward programme of public infrastructure and construction projects where public funding has been agreed.	S: Q3 2015

INSTITUTIONAL ARRANGEMENTS AND STRONG GOVERNANCE

The design of the new Growth strategy of Cyprus is closely related to the Public Administration effort, as the government recognises that it is enterprise and economic activity that creates jobs and employment. Consequently, the Public Administration reform should also aim in creating the right environment to support sustainable growth, attracting FDI, and business start-ups and subsequently be supportive to

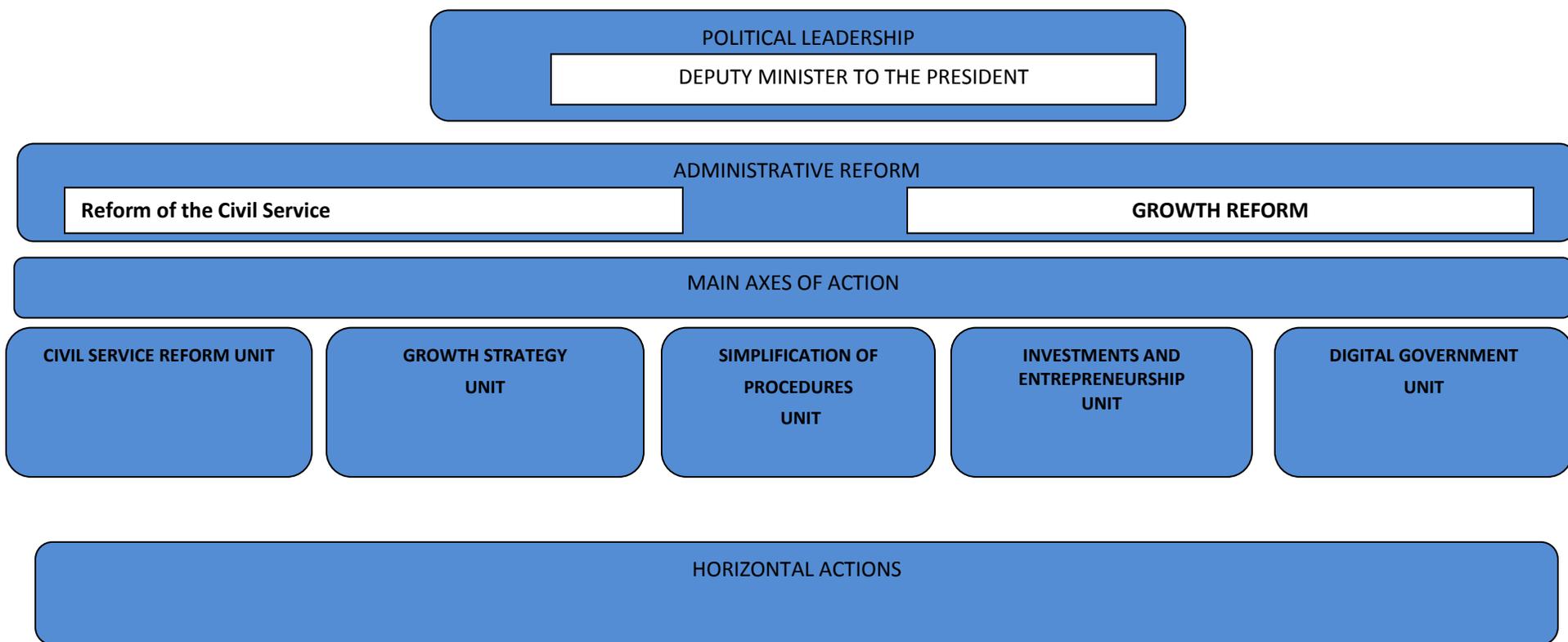
employment creation. The Public Administration Reform and the Growth Strategy are therefore put under the same institutional umbrella and political supervision which is the Presidency.

The Strategy for Growth and the restructuring of the Public Administration, both seek to increase engagement across the government to introduce a focus on 'positive growth' and job creation. Central to these reforms is ensuring that the Key actions are identified and implemented by the competent governmental departments. Experience shows that without the necessary monitoring and oversight mechanism it would be difficult to effectively implement any action plan, especially when it is a horizontal exercise with many governmental departments involved. This institutional need is addressed by establishing a structure under the Presidency. This is the first time that the Government puts in place a structure to ensure that all 'growth' related decisions and actions are aligned with the growth strategy and the civil service modernisation/restructuring.

Moreover, the new growth strategy will be linked to the new public financial management system and a mechanism, under the Presidency will be introduced to ensure that the Ministries' sectoral strategies and actions will be consistent with and contribute to the aims of the new growth strategy, that the required funds will be included in the national budget, and the implementation of the relevant actions will be monitored effectively.

Redundant or obsolete public sector entities that do not contribute to the public interest have to be eliminated, while significant reallocation of competencies especially regarding the microeconomic drivers has to take place in order to solve the problem of the fragmentation and duplication of competences in the public sector for areas regarding the operation of businesses and investments. In this context, the Public Administration reform has to be closely coordinated and aligned with the Growth strategy in order to achieve efficient results.

This Presidency structure, acting as a Single Body, has been put in place, in accordance with the provisions of the MoU, with a mandate to design, develop, coordinate and enforce a new Growth Strategy for Cyprus. The structure consists of five (5) Units as follows:



This single body, will also address the institutional gap created due to the absence of equivalent to the “Ministry of National Economy” or “Ministry of Growth and Competitiveness” existing in other EU developed countries to manage the operation of the micro economy. The model followed, by which the Head of State’s cabinet takes upon itself the mandate of horizontally designing, coordinating, and enforcing priority policies, has also been the model followed in other EU countries.

The Single Body will have a critical role in supporting the State in its efforts to return to a sustainable growth path by coordinating, facilitating, and monitoring the implementation of the reforms. This institutional change is necessary to ascertain the effectiveness of policy making and implementation. Nevertheless, the Government recognises that in the absence of such an institutional culture or experienced personnel, the effectiveness of the newly establish body requires a well-defined mandate, careful planning, and time.

Actions

Action	Authority	Description	Start /Finish Date
Establishment of a single body responsible for the development and monitoring of the implementation of the Growth Strategy.	Presidency	A single body under the Deputy Minister (DM)/Presidency has been established. The organizational structure and competencies have been defined. It will comprise of 5 Units: Public Administration Reform, Strategy, Procedures & Regulations, Investments and Entrepreneurship and E-Government.	MoU Measure 7.1. Q3 2014 – Action Plan for the development and implementation of the growth strategy.
Transferring Public Administration Reform under the Deputy Minister.	Presidency	Responsibility for Public Administration Reform Sector has been transferred by a Council of Ministers’ Decision to the DM.	Related to MoU Measure 3.9.
Revise the role of the National Competitiveness Council.		Examine the possibility of reactivating and strengthening the capacity of the NCC to produce deliverables.	Q1 2015.
Transferring the implementation of Better Regulation under the Single Body.	Presidency	1. Transferring of the competence for Better Regulation from the MoF to the Single Body on Growth.	Q1 2015.

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Action	Authority	Description	Start /Finish Date
Transferring the responsibility for the development of an e-Government strategy under the DM.	Presidency	Examine the possibility of transferring the competence for the development of an E-Government to the Single Body on Growth.	Q1 2015.
Institutionalize the co-operation framework between the public and private sector and the academia.	Presidency	<ol style="list-style-type: none">1. Establish mechanisms for consulting the industry, the private sector on a regular basis and prioritize suggestions for reform.2. Setting up a permanent body with the participation of the public sector policy makers and business organizations representatives and academia.	Q1 2015.