



Restart Cyprus: Now

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Foreword

By Sir Christopher Pissarides*

Cyprus is a small economy that has the good fortune to be part of the biggest single market in the world. We benefit from the large consumption spending of our European partners and our access to top-level financial and technical support; but we also face competition from some of the world's best companies. To flourish, it is essential that we reform and adapt to European standards. Staying put is regress - however good the level at which we are stationed. Open exchange of ideas and decisions that go to the heart of our economic system have to be made all the time.

Unfortunately, we are not very good at this game. There has been very little progress since our entry to the European Union and our relative position within the single market is sliding. We are close to the bottom on most indicators that are used internationally to rank the economic performance of nations. This paper by PwC Cyprus brings to the forefront ideas and reform suggestions that would make a difference to our future, for the benefit of everyone. It needs to be read, its suggestions debated and digested, and government needs

to formulate policies to move us on. Reform in Cyprus is not easy to achieve because it needs to address several layers simultaneously. It is not a question of attacking one or two issues only, within a whole that is working well. We need to attack the whole, in the hope that the Cypriot entrepreneurial spirit is unleashed for good causes, and not diverted to unproductive rent-seeking activities. We have a beautiful island, unrivalled cultural heritage and a socially liberal and sophisticated population, at least when we set our minds to it. When Cypriots go abroad to work, they excel. Why can't we create the conditions to help them excel at home? I believe that we can do it.

Perhaps the most worrisome aspect of Cyprus society currently is the idea that "we are different". The expression "this is Cyprus, my friend" is heard too often. It has to be banned from the language. We are not different. We are just like any other small European country, with a good quality of life, which needs to fight to compete and progress. The reforms outlined here begin with one that



will probably surprise readers, but it is right at the heart of modern ideas about economic progress: cultural development. We need to change our way of thinking and realise that we are a modern nation with high educational standards, that know how to enjoy our European cultural heritage and think positively about the future and our capabilities. Government needs to take the lead to guide us in that direction.

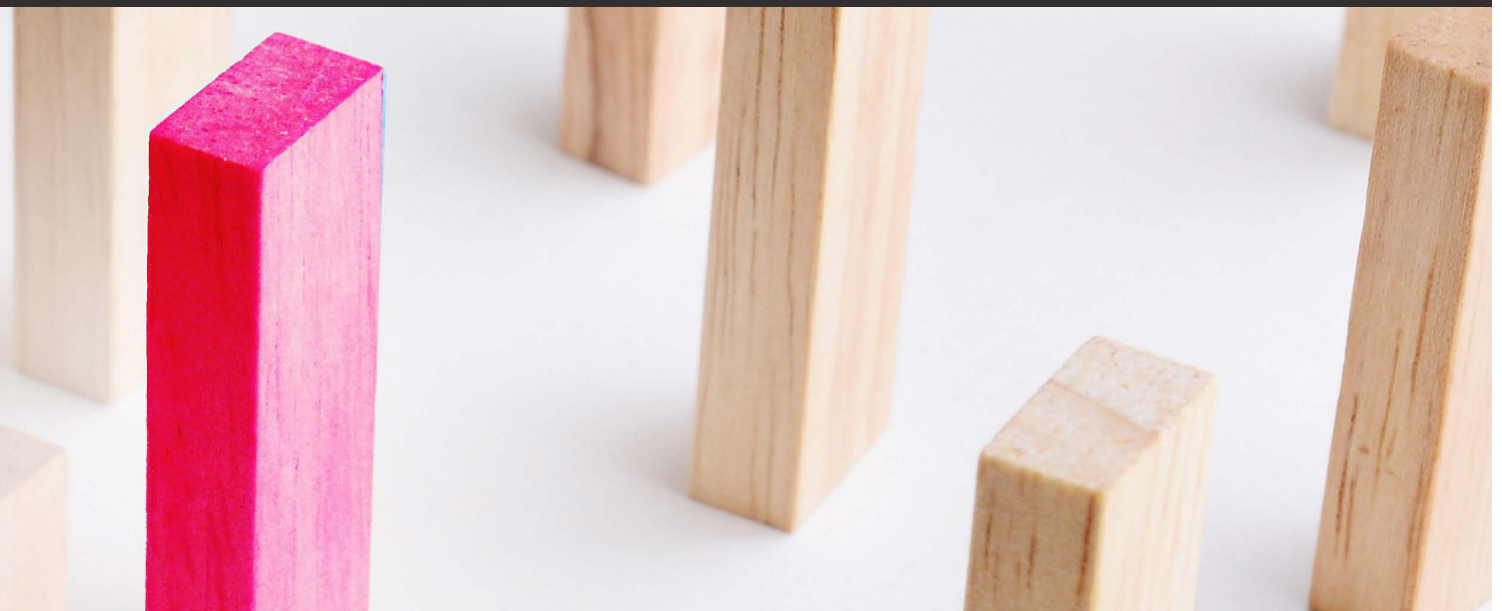
More conventional governance and economic reforms include a modernisation of the public sector, from the courts and the administration of justice to ministries and local municipalities. The public sector needs to provide a good example to follow and facilitate the development and smooth functioning of the private sector and the population at large. It is responsible for law

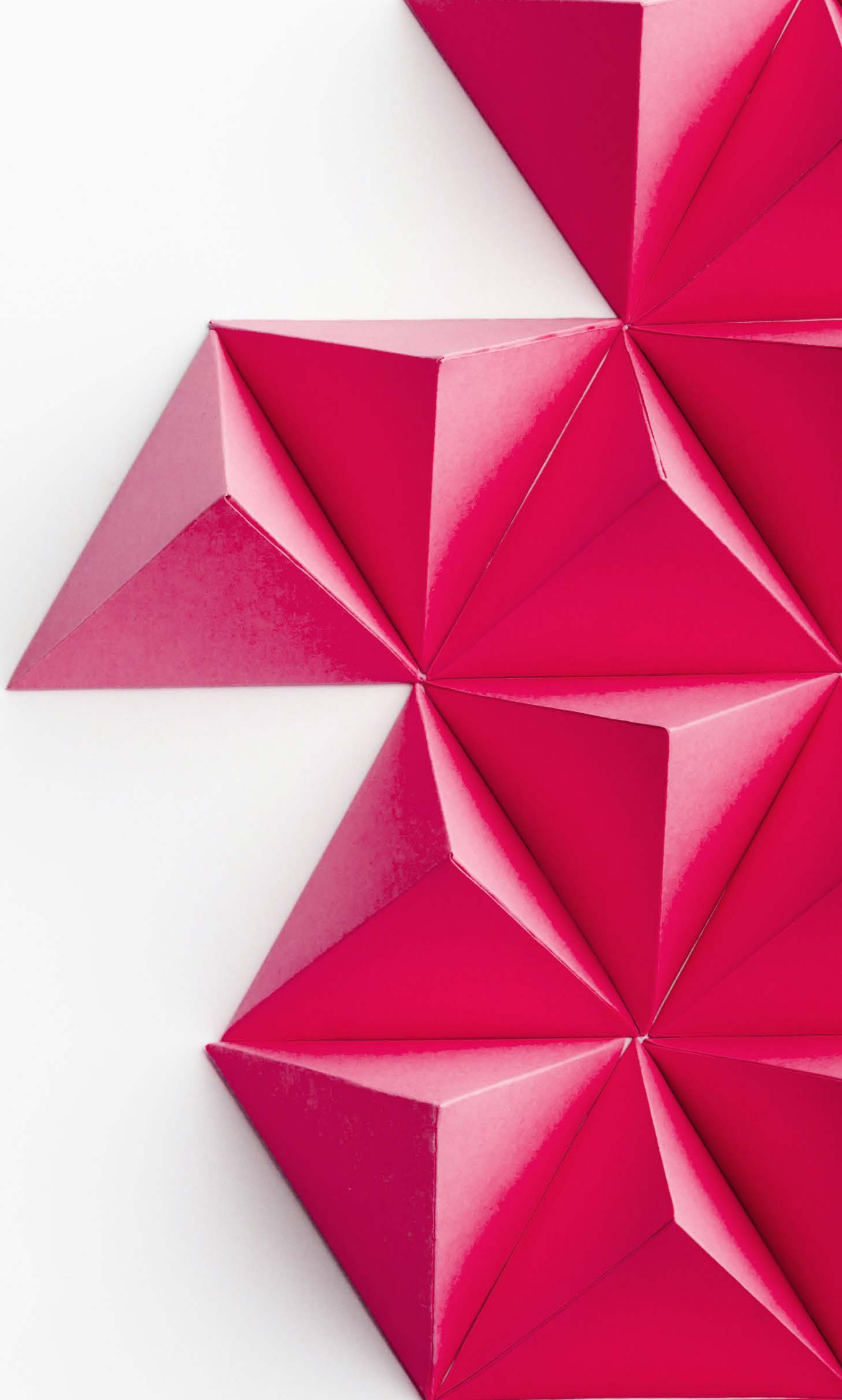
and order, looking after the environment and our cultural heritage and promoting the island's comparative advantages both at home and abroad. There are many lessons to be learned from successes in other small countries in the European Union. Unfortunately, we have not been very good learners, at least so far.

Education, health, the business environment and support for struggling sections of the population are all in need of urgent reform to raise our living standards. Technology, the nature of the corporation and its role in society and the social contract are in a constant state of flux. We need to be alert and never stop the modernisation of our country through reform. It is a process, not a one-off shot, which needs constant stimulation with ideas and action.

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Introduction

The global pandemic has caused a health, a social and an economic crisis rolled into one. Humanity continues to feel the effects of the pandemic, still uncertain of the depth and intensity of the economic and social consequences, all while a second wave of the pandemic is taking many countries by storm.

Markets are cheered by the good news of the development of a COVID-19 vaccine which gives hope that at some point in 2021 the pandemic will be behind us, lifting spirits over economic recovery. The vaccine announcement has moved the conversation about a return to a “new normal” from “if” to “when”. The day after will be different, as pre existing trends have accelerated, leading to social and economic changes.

In Cyprus as we repair the damage caused by this crisis we also need to rethink and reconfigure our economy and business models so as to be fit for the future. This is not the time for quick and easy solutions. This is the time to transform the Cyprus economy to be fit for the 21st century, in line with the EU priorities of a Digital and Green economy. The key to achieving this is a clear vision and an action plan embraced by all the stakeholders and implemented on the basis of effective cooperation between the public and private sectors.

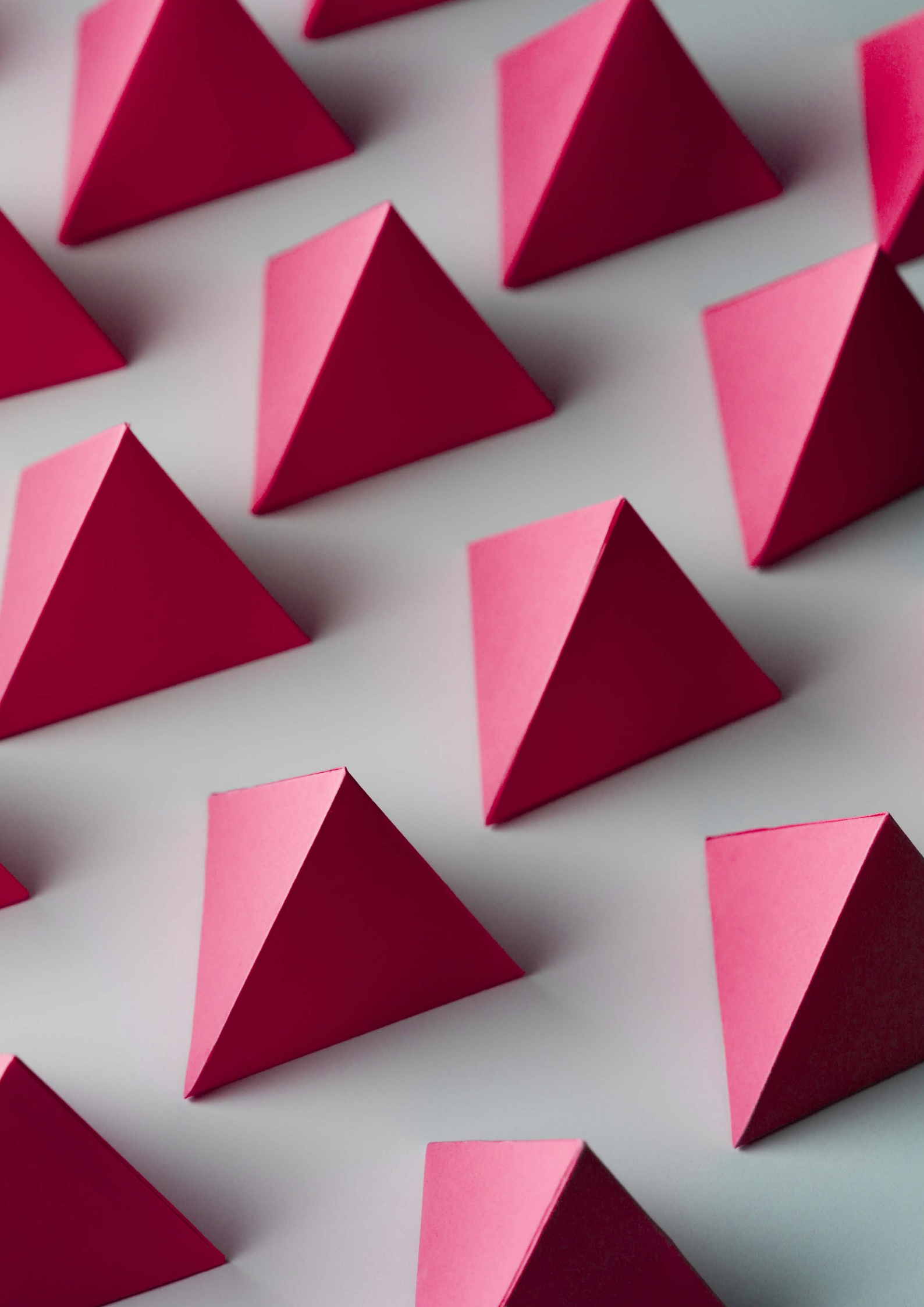
We believe that Cyprus can transform into a competitive, innovative and more diversified economy with sustainable growth and job creation. An economy that is attractive to productive investments. A country providing quality living conditions and opportunities for all to realise their aspirations. In the context of this transformation traditional economic sectors will adopt more sustainable business models and new sectors will develop and flourish.

PwC’s study aims to contribute to the public debate in terms of the measures and policies that need to be promoted to achieve this transformation. Recommendations that focus on enhancing the competitiveness of our economy and gaining economic and social resilience as a country, all in line with the priorities set by the EU.

Concluding, I would like to personally thank the Nobel prize Laureate in economics Sir Christopher A. Pissarides for his valuable contribution and comments as well as for his thoughtful forward to this publication.



Evgenios C Evgeniou
CEO PwC Cyprus



Preamble

In May 2020, we issued our first set of transformative proposals, addressed to the government, the business community and the society at large, toward creating a stronger and more competitive economy.

Since then, the government has introduced several support measures aimed to alleviate the impact of the pandemic on the economy. Nevertheless, the persistence of the COVID-19 pandemic, as well as other recent developments, have challenged the status quo in many respects and have elevated the need for Cyprus to refocus its economy and alter its long-term direction even further.

To that end, we present below a renewed set of propositions, calling for immediate actions to **Restart Cyprus: Now**.

Upfront, we would also like to point out the important role of cultural resilience in such efforts. Traditionally, economic growth has been perceived as being primarily linked to production and employment. More recently, there is an emerging appreciation of the impact of culture in the development and success of countries' economic initiatives. One such example is the Kingdom of Saudi Arabia, which has commissioned various studies and planning aimed to promote cultural development. Their motivation is the recognition that cultural development plays an important role in bringing about effective changes in society, which in turn have a positive impact on economic development.

Cultural development is also encouraged by the European Union with explicit recommendations (see <https://cor.europa.eu/en/engage/studies/Documents/cultural-development-strategies/cultural-development-strategies.pdf>) which include the following, as quoted in the report:

- Plan territorial development with culture as a resource
- Locally exploit national or European opportunities for boosting cultural development
- Create an institutional reference structure for cultural management
- Set spaces for culture
- Merge and combine interests for culture
- Catch one-off opportunities to address specific issues
- Provide opportunities to cultural assets' owners and to creativity carriers
- Get to know and make a sustainable use of cultural assets
- Gain and maintain visibility for the cultural image of the city/territory

Possessing cultural resilience is of great importance as it provides the ability to absorb adversity, adapt to new circumstances and continue to develop. We believe that the time is ripe for Cyprus to embark on such an initiative, by commissioning studies addressed to culture and accelerate actions to address its findings.



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A. Social developments and reforms

1. Address housing market challenges via affordable housing and other incentives

a. Affordable housing

Housing affordability has been an evolving issue over the years, and it is expected that it will deteriorate if it is not tackled effectively. The need for greater investment in social infrastructure, such as affordable housing, across Europe, was highlighted in the latest PwC Survey (Emerging Trends in Real Estate Europe 2021), with the COVID-19 pandemic exacerbating this issue further.

Based on Cyprus published statistics, c.70% of the Cypriot housing stock is owner-occupied, a large proportion of which is subject to a mortgage or loan. The debt burden of such households reaches almost €3,5bn. Even though the ESTIA scheme could limit part of the problem, the number of households defaulting against their housing loans is not declining.

The introduction of an effective housing policy is considered critical. Policy measures in this framework

should induce developments and housing projects for lower income tiers of the society. Such policies should be tailored to demographic needs and could leverage examples of alternative housing policies that exist in different parts of the world, such as housing subsidies to families that cannot afford to pay market rents, combination of stricter regulations and incentives that achieve a downward shift in the size of new-built residential properties, rent-to-buy schemes and repurposing of vacant properties into affordable housing.

For example, looking at the UK case study, any new residential development is required, under Section 106, to dedicate a minimum number of units of the overall development as affordable housing units in different forms, such as affordable rented and shared ownership (i.e. co-ownership with local authorities).



b. Address anticipated impact of changing demographic trends through Incentives for the development of Elderly Housing and Assisted Living communities

According to the latest Eurostat data, Cyprus demonstrates one of the lowest fertility rates across the EU and a relatively high life expectancy (82,9 years on average). As a consequence, based on the latest EU forecasts, by 2070, one in three Cypriot residents is expected to be 65+ years old, while at the same time by 2070, 10% of the country's population is expected to be >80 years old.

Demographic shifts are expected to shape the housing market and pose enormous challenges to the country's healthcare system in the years to come. A significant portion of the elderly population ends up living alone or in couples in their three/four-bedroom family homes where they have raised their families. These houses tend to be large in size (47% larger compared to the

EU average), difficult to maintain and do not have the amenities to support their daily needs.

The ageing demographics of Cyprus pose the need to develop housing products which are tailored to the needs of the elderly. The adoption of planning incentives to encourage the development of specialised Elderly Housing and Assisted Living communities and the introduction of Tax incentives to attract specialised operators are expected to induce private sector initiatives in this direction. At the same time, such investments could lead to potential savings in the public healthcare system and could even create opportunities for cross-service investments such as rehabilitation centres and medical tourism projects.



2. Healthcare - additional measures to help our health system become more efficient, impactful and in line with best practices from leading health systems across the world

It has been over eight months now since COVID-19 first appeared in Cyprus, shaping a new reality and transforming the way we conduct our lives and businesses. In the first 'Restart' publication we described a series of practical measures for our health system to be able to manage health crises and future COVID-19 waves in a more decisive, planned and controlled manner. These measures were aimed towards four main directions:

- Building surge capacity and ensuring better use of available hospital capacity
- Re-designing the role of the retail pharmacy
- Using proven health technologies and analytics to identify and support COVID-19 patients and population at risk
- Enabling and reinforcing the role of the Ministry of Health's public health team

COVID-19 is a major challenge to our health system, but also presents a unique opportunity for our policy makers to address structural or entrenched challenges and create the healthcare sector of tomorrow. Therefore, in this publication, we focus on additional measures, more strategic in outlook, which can help our health system become even more efficient, impactful and in line with best practices from leading health systems across the world.



a. Looking beyond the hospital to the social determinants of health

The accelerated rise of chronic conditions and their heavy socio-economic burden have been shifting the sector's emphasis from treatment in the short term to prevention and management. It is imperative to recognise that disease prevention, management and well-being extend beyond the hospital: Social determinants such as education, mental health, income, nutrition, lifestyle and housing all have a major impact on health outcomes. Accordingly, health should be defined in a broader term by including these social determinants in the care continuum and hence - in line with the first point above - the emphasis should be on increasing collaboration across all health stakeholders.

Various health systems have already moved into this direction and could serve as inspiration to newly formed systems such as the General Health System. For example, in the US many health organisations are adding nutritionists, behavioural health specialists, social workers and community workers to their care teams alongside doctors. According to a recent PwC HRI study, extended care teams that include nutritionists and social and community health workers could save the system \$1.2 million for every 10,000 patients served (PwC HRI, ROI for primary care: Building the dream

team, Oct 2016). There are much more examples of similar initiatives and best practices across the globe. The important thing is for the GHS to share data and collaborate with other health systems abroad and other sectors within Cyprus in order to develop appropriate interventions for Cyprus e.g. CVD, diabetes & smoking cessation.

A good example of considering social determinants for disease prevention and management is provided by the Western Sydney Diabetes association. The association launched an initiative which targets at-risk populations through diet and activity interventions. The initiative also offers pre-diabetes screening, lifestyle coaching, enhanced diabetes management and specialised consultations, while a mobile app that provides education and information will become available to help people manage the problem themselves. PwC estimates that 10,000 of the 270,500 people targeted through primary care interventions will avoid developing diabetes over a 14-year period saving approximately AU\$600 million (PwC HRI, Global top health industry issues: Defining the healthcare of the future, 2018).

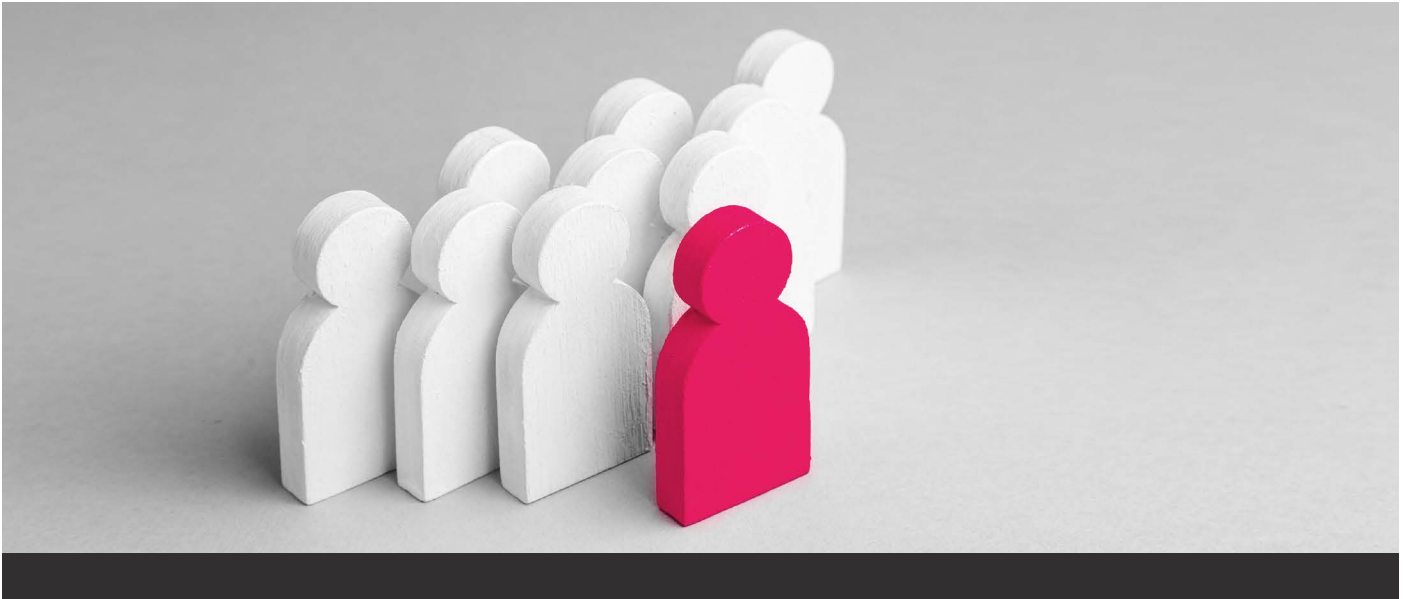


b. Safeguarding the viability of GHS, protecting against system abuse and preserving clinical quality

One of the biggest challenges of the still-infant GHS is to continue to evolve its control mechanisms to: (a) detect & prevent abuse of the system and (b) preserve the quality of services provision so that to ensure viability of the system.

To minimise abuse and errors, the HIO could invest in data analytics to be able to detect suspicious activity patterns including doctor referral patterns. Also, the organisation could carry out clinical audits and 'mystery patient' exercises aimed at GHS providers and implement harsh penalties for any doctors abusing the system. Acting now while the GHS is still in its infancy is important in order to encourage the right behaviours and develop the appropriate culture of respect to the system by all participants.

In order to preserve the quality of services provision, in line with international best practices, an independent organisation would need to set up quality standards, clinical protocols, KPIs and follow an ongoing process of monitoring and measuring all GHS providers against these indicators. Measuring quality in the context of health is not an easy thing to do. Following the Donabedian model (also used by NICE UK) the measures used to assess and compare the quality of healthcare providers are classified as either: (1) a structure measure (the environment or setting e.g. ratio of patients to doctors); (2) a process measure (the activity carried out e.g. % of people with diabetes who had their blood sugar tested and controlled), or (3) an outcome measure (the end result or impact e.g. surgical mortality rates, re-admissions, infections etc). For a comprehensive and detailed assessment of the quality of health services, all dimensions of care need to be evaluated.



c. Continue to invest in skills and infrastructure to strengthen and differentiate our health product and promote it in the global market

To be able to make our health product more competitive in an international stage and also serve the patients in the best possible way, our policy makers need to provide the right incentives to secure a steady supply of high-calibre skills and staff. For instance, in Cyprus we have a shortage of nurses - 5.2 per 1,000 people in CY vs 8.4 in the EU, while the ratio of 1.5 nurses for every doctor was among the lowest in the EU (State of Health report on Cyprus, OECD, 2017). Enhancing the role of nurses, introducing specialisation and reimbursement levels which will be based on experience and academic qualifications, creating more nursing courses at local universities, offering access to quality training to nurses and linking it to the renewal of their nursing licence, introducing a consistent evaluation framework are all means of securing a steady supply of knowledge nurses.

Creating a strong brand for clinical quality (point C above) and ensuring that Cyprus has a ready supply of high-calibre staff, alone are not enough to make our health product competitive. For Cyprus to become a competitive destination for medical tourism in relation to certain suitable specialties (e.g. rehabilitation, general surgery, bariatric, plastic surgery etc), the state should also take a leading role in putting in place the right enabling infrastructure. For instance, offering certain financial/tax incentives to foreign doctors, actively promoting the Cyprus health sector internationally, forming strategic partnerships with international medical concierge and tour-operator companies, investing in business relationships with targeted leading university hospitals and subsidising flights to create better connectivity would all help strengthen our competitive position abroad.

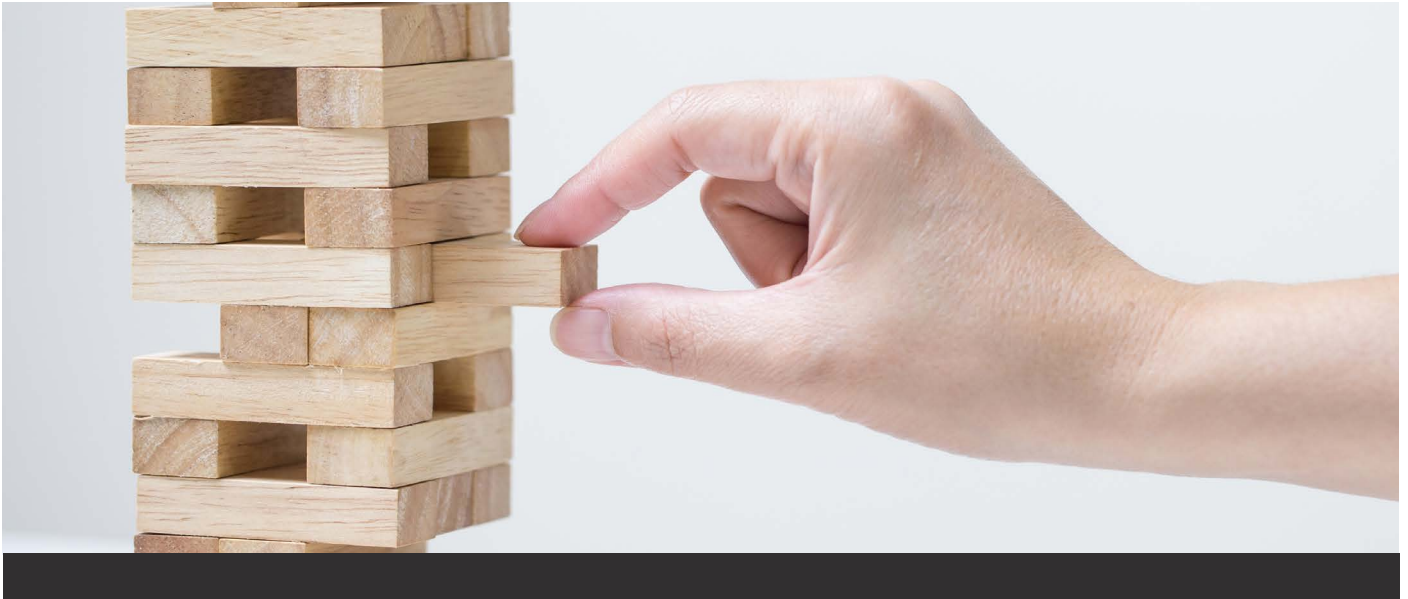


d. Using technology to achieve financial efficiencies and provide better care

Virtual care solutions can help improve outcomes and reduce costs, expand access to services especially for remote populations, improve utilisation management and radically promote preventive and chronic disease management. Globally, consumers are starting to adopt virtual health – with 16% of global consumers surveyed already owning a wearable device that monitors their health continuously in real-time, and 31% planning to own one (PwC Global: Total Retail Survey, 2017). Wi-Fi enabled scales, mobile apps for chronic disease monitoring and wireless biometric sensors mean that care has become more proactive and is no longer tied to the hospital or to the physician's office.

It would be easy for the GHS, being a single-payer system, to work-out reimbursement rates for specific approved virtual health solutions based on the current

fee-for-service catalogue. Alternatively, the MoH could fund and provide - through partnerships with established global tech providers- virtual health initiatives for targeted chronic conditions. For instance, Netherlands-based Royal Philips partnered with Changi General Hospital in Singapore to help patients manage their heart conditions at home. Patients were given a weight scale and blood pressure monitor to check their weight, pulse and blood pressure readings daily. A personal tablet wirelessly captured the readings and uploaded them to a central monitoring system. Nurses remotely monitored patients and intervened when care was needed. After one year of the pilot programme, the length of stay for heart failure-related admissions was reduced by 67% and the total cost of related care dropped by 42% (PwC HRI, Global top health industry issues: Defining the healthcare of the future, 2018).



B. Environmental/sustainability reforms

1. Incentivise adaptive reuse and repurposing of buildings

Our city centres are crowded with buildings which are commercially and occupationally obsolete. At the same time, there is increasing demand for space, resulting in an urban sprawl. Developing our cities inwards is a strategy that would allow town centres to remain vibrant without the need of additional infrastructure and further significant investments.

This can be achieved by repurposing existing buildings away from uses now seen as increasingly obsolete and therefore less profitable, towards real estate that fits the way people use buildings today.

The trend towards repurposing existing buildings has been a key topic of the latest PwC Surveys (Emerging Trends in Real Estate Europe) with major institutional

investors citing that repurposing of assets has become not only viable but a highly sought-after option for many investors. In particular, on the basis of the PwC Survey findings, over the coming 5 years, repurposing assets from one sector to another is on the agenda for nearly 75% of institutional investors across Europe.

It is also expected that in the prevailing volatile market, it will be critical for investors going forward, to ensure that the assets they invest in, can be repositioned and repurposed.

Government schemes could be considered that would incentivise the repurposing of existing buildings, to address the ever-changing needs of occupiers and rejuvenate city centres.



2. Sustainability in the built environment

According to the European Commission, c.75% of the EU building stock is energy inefficient and in order to meet the EU climate and energy objectives, the current rates of renovations should at least double. In dealing with this issue, the EU is investing heavily in grants or loans that help push technology and best practice in the sector and supports and finances energy efficiency projects through the European Investment Bank (EIB). In addition, to boost building renovation, the European Commission has announced its intention to launch the new 'renovation wave' initiative, as part of the European Green Deal with the aim to increase the rate of renovation of existing buildings by developing financing possibilities, promoting investments in buildings and pooling renovation efforts. Like all Member States, Cyprus will receive an allocation of Green Deal funding through regional development mechanisms and existing EU programmes.

At the same time, increasingly more investors realise that social and environmental factors have an impact on the value of a real estate property and there is growing interest in energy efficient and sustainable buildings. In fact, the trend towards energy efficiency and the

sustainability of buildings is a key topic in the latest PwC Survey (Emerging Trends in Real Estate Europe 2021), whereby nearly 8 out of 10 survey respondents think that energy efficiency, carbon emissions and climate adaption will increase in importance in their portfolios in 2021, and the number is higher still over a five-year horizon. When it comes to impact investing, cutting the carbon footprint of real estate is regarded as by far the most effective measure for the industry to make a difference.

In order to tackle the issue of energy-inefficient buildings and enhance impact-investments in Cyprus, economic and other forms of incentives could be provided to property owners, developers, individuals and other organisations. These incentives and mandates could relate to the use of land for energy production, tax incentives on capital expenditure involving energy efficiency in building construction and renovation, solar energy generation from government building roofs or along motorways, or even a green building density incentive programme and an expedited planning permission scheme.



3. Create a supportive business environment for Environmental, Social and Governance (ESG) funds

Given the increasing concern about climate change, engaging the society's focus to environmental issues should be considered a top priority. It is vital to promote the socially responsible investment concept in order to support the economic growth and a sustainable economy. As we experience an increasing interest in green investments, we anticipate that capital will be shifted from other traditional sectors to the benefit of the energy sector.

Studies have already shown that the majority of millennials have ESG considerations as a top priority when assessing investment opportunities. Moreover, this seems to be confirmed by empirical market data; an analysis conducted by S&P Global Market showed that 14 out of 17 exchange-traded and mutual funds, which have more than USD 250 million in assets under management and which select stocks for investment partly based on ESG criteria, outperformed the S&P 500

in 2020 through July 31. Specifically, the outperformers rose between 1.8% and 20.1%, while the S&P 500 was up by only 1.2%.

Our government needs to develop an investment-grade national policy context in order to create a supportive business environment that enables attractive returns for investors in green investments. Renewable energy and green efficiency are very high in the EU's agenda, which led to the development of a policy context that will inevitably apply to all member states. The Cyprus investment regulated community must elevate itself and be ready to adapt and comply with the EU laws and legislations. The Cyprus authorized investment entities will have to be harmonized with the European Regulation which introduces a unified classification system (taxonomy) that will assist with the determination of what can be considered an environmentally sustainable economic activity.



4. Promote circular economy

A circular economy requires the efficient use of resources and prioritises renewable inputs, maximising a product's usage and lifetime. It also recovers and reuses by-products and waste to make new materials and products. By converting the take-make-waste approach into value loops, creating more from less, the circular economy decouples resource use from value creation.

a. Encourage circular production models

Therefore, the government should seek to incentivize circular production models and activities that create positive externalities. For instance, innovative ideas that reduce the negative impact on the environment could be subsidized. Also, develop rewarding schemes or provide green loans to producers to design sustainable products, selecting raw materials such that they can be effectively disassembled, reused, repaired and up-cycled.

b. Invest in waste collection infrastructure

Provide financial incentives for industries and recyclers to invest more in new and innovative technologies for converting waste or recycling material to raw material. Supportive funds for circular design and subsidies for bio-based fuels and inputs are examples of regulatory tools that give an initial push to circular investments. Peer pressure will subsequently provide a channel for citizens and companies to adopt circular models as the 'new normal'.

c. Upgrade industrial zones to create ecosystems

Develop relevant schemes for upgrading industrial zones in order to create ecosystems and industrial symbiosis based on the principles of circular economy. This could be done by facilitating more studies to identify opportunities and synergies to implement circular

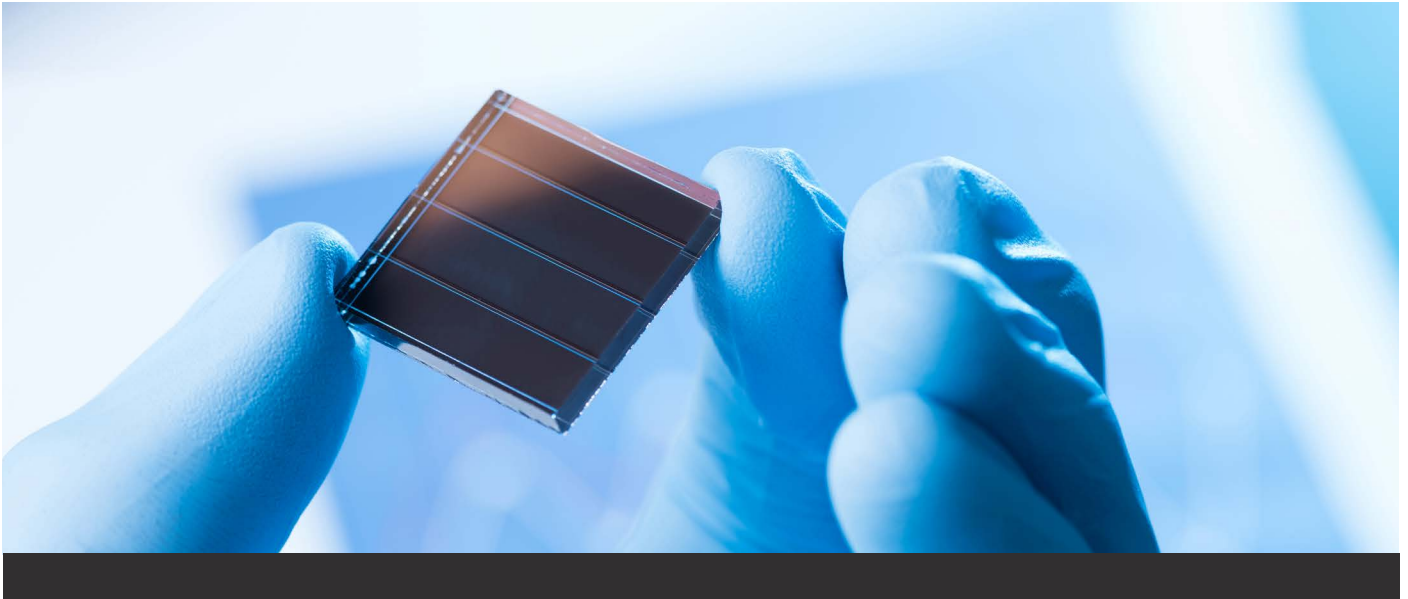
economy models, where waste or by-products from one manufacturing process become the inputs for another product in different manufacturing processes.

d. Raise awareness of EU funding schemes and circular economy

More initiatives should be taken to inform people and businesses on the available financial funding schemes from the EU (i.e. LIFE) and provide support on how to explore them. Moreover, we should invest more in educating young people from primary to higher education about the societal benefits of a circular economy. Today's young generation will be tomorrow's consumers and entrepreneurs.

e. Minimize waste production and recycle more

We should also continue the implementation of the Strategic Plan 2019-2021 of Cyprus Environment Service and the alignment with the EU Strategic Directions and Priorities towards the more effective use of resources. Waste production should be minimised and whatever is produced should be recycled, using waste as a resource. In order to reduce waste, the government should introduce stricter penalties and stronger incentives, such as the Pilot study "Pay as you Throw" implemented in Aglantzia Municipality. Existing structures, such as the waste collective systems (e.g. Green Dot), should be upgraded to minimise waste. Attention should be paid in waste collection infrastructure, ensuring that different types of plastic are properly separated and introducing policies involving incentives and penalties to promote the recycling of plastic waste, in line with the EU strategy on circular economy. Financial incentives should be provided to recyclers to invest in new technologies to manage waste streams not currently managed and, if necessary, seek technical expertise from abroad.



5. Promote solar energy

Focus on solar energy and become an innovation hub for solar technology. Specifically, the solar photovoltaic sector offers significant potential for Cyprus. Invest in education and training in the sector and increase R&D activity.

Address current issues around unnecessary costs and inefficiencies to attract investment in the solar energy sector to support the restart of the economy. The main changes that need to take place are as follows:

- Currently, issued solar plant licenses are being constantly extended. Set license construction deadlines that will not have the option to be extended, unless it is demonstrated that construction has begun and has progressed significantly.
- Provide licenses solely to applicants who have the expertise, financial means and who intend to construct the solar plants, in order to avoid creating a black market for licenses and having substations loaded with 'capacity commitments'.
- Create a program under which installations can be connected to the grid and be paid for the energy they produce.
- Create a map of the Electricity Authority of Cyprus' (EAC) network of substations so that investors could seek sites nearest to substations and take advantage of the lower cost. To this end, create a support scheme to utilise land nearest to substations - e.g. exchange of government land with prime farming land (for the duration of the solar project only).

- Ensure EAC employees are conducting routine maintenance work or grid expansion work not only at peak solar production hours, by introducing flexible working hours, with no extra cost to the EAC. Also, ensure the timely approval of solar installations for connection to the grid, without burdening the investor with overtime costs.
- Cease the separate department that was set up by EAC for the issuance of Guarantees of Origin (GoOs) as it creates unnecessary administration work for producers and increased costs which prohibit the ownership and sale of GoOs. In many EU countries (Austria, Czech Republic, Italy, Spain), the process of issuing GoOs is free of charge.

Government should proceed with the gradual installation of solar PV power in schools, hospitals, Ministry buildings etc. to promote green energy and also create jobs post-COVID-19.

Mandate that all new and renovated buildings of all types must be installed with solar PV panels. The government can enhance financial incentives to households directly in order to ensure a minimum percentage of their energy use is produced via solar energy. To accelerate the progress, the government should set a specific timeframe for this. Incentives could be in the form of buydown programmes, loan programmes and tax credits. A good example to study is California, the first US state to make solar panels mandatory for newly built houses.



C. Public sector reform

1. Modernise the public administration to achieve efficiency and effectiveness

Proceed with horizontal reforms in human resource management of the public sector. The civil service needs to shift away from traditional people management practices to attract needed talent and make better use of employee capabilities. The government has already submitted relevant proposals to the House of Representatives, which need to be brought to the forefront of discussions and be forwarded for voting. Meanwhile, the digital transformation of public administration is also crucial as it allows the government to redefine its role and become more citizen-focused. As the current situation stands, ongoing collective negotiations with public-employee unions have taken away some of the State's decision making power, leading to a distortion of the labour market, weakening public finances, and lessening the government's responsiveness as well as the quality of public services.

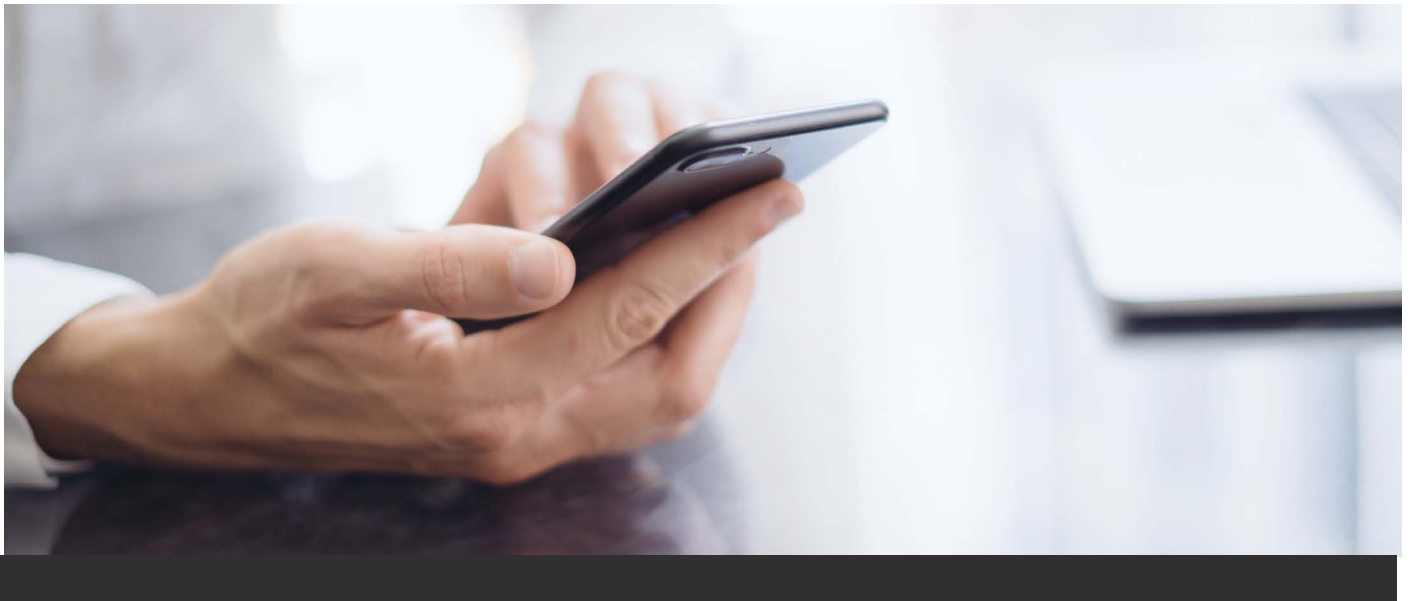
a. Encourage mobility in the public sector

Civil servants' mobility should be encouraged in order for staff to be redeployed to cover changing business needs. By developing a policy for mobility between offices, departments, teams, etc. the public sector will promote transparency and eliminate corruption. Mobility

in senior management positions would also create a wider internal labour market in the public sector with more career opportunities for capable civil servants. This would also improve coordination between public services, as senior staff would have experience in more than one service.

b. Civil servants to be appointed and promoted on merit

Redesign the appraisal system for civil servants, creating new procedures and criteria for the evaluation and selection of candidates for promotions. Merit and performance need to act as key determinants of promotions and salary increases. In this way, individual goals can align with organisational goals, while achieving the delivery of high-quality public services. To this end, it is critical to improve training and encourage upskilling across the entire civil service for individuals to be able to meet their objectives. On this front, evaluation should be done on an annual basis by the head of each department, on the basis of specific quality and quantitative targets, to have tangible results for the people appraised.



2. Create an e-government

The government should utilise digital technology and leverage Cyprus' assets to achieve economic growth transcending the national borders, and social development, raising Cyprus's position to an above average position in the Digital Economy and Society Index (DESI). In order to bring its vision to fruition, in an efficient and effective manner, the Government needs to formulate an e-government strategy that would reflect the necessary interventions and promote effective and efficient coordination between the ministries and the other public entities. An e-government concerns the whole society and relates to all aspects of the social and financial activity of Cyprus. It is a very important factor to attract foreign investors and in general, to develop Cyprus as a peripheral service provider centre.

Time-consuming bureaucratic procedures with manual checks should be quickly replaced digitally so that organisations and, in some cases, employees themselves can easily deal with repetitive administrative

tasks while working on reduced hour schedules. Moreover, the government should develop a remote working policy to ensure continuity of business and the provision of government services at all times. Estonia is a good example to follow. It has been building up its e-government since the mid-90s, while today and 99% of public services are available online 24/7. Cyprus and Estonia have a Memorandum of Understanding in place in e-governance and it should be vigorously pursued.

Key enablers should be evaluated, as well as success factors, prioritisation of activities, detailed analysis of the interdependencies, complementarities, and the requirements in resources for proper implementation of the e-government. The e-government will act as an enabler to open doors, create new opportunities for Cyprus, allowing for growth, economic completeness, social prosperity and sustainable development. In other words, build a new world for our future generations and the Cyprus government itself.



3. Achieve better coordination between public and private sectors

For the effective execution of a national economic strategy it is necessary to achieve a coordinated response on behalf of the public and private sectors.

a. Internally

The State should use various tools at its disposal to direct private sector activity in the targeted growth areas - these span fiscal and non-fiscal measures and should include amongst others, tax incentives, appropriate utilisation of the Next Generation EU funds towards structural reforms and digitalisation of the public sector, leading to a more business friendly environment and a “greener,” more sustainable economy. There is also a need to reconsider if measures are required in order to re-establish an equity market which is currently absent, which is depriving the private sector of non-credit

funding. At the same time, the broader education system should also be used to accelerate the upskilling of our current and future workforce with the skills required by the new world.

b. Externally

It is vital that as a country we develop further our economic diplomacy and project a single and clear voice in promoting Cyprus internationally in order to promote Cyprus' key export product (i.e. tourism) as well as encourage foreign investment. There are many areas where this is necessary, including addressing decisively negative perceptions for money-laundering and financial corruption, effectiveness of the judicial system, quality of service and social inclusiveness.



4. Key policy/system reforms

The European Commission has stressed numerous times the need to reform the local tax policy to complement EU legislation, as well as the necessity to accelerate the progress in implementing reforms to the justice system, despite some early steps already taken to address both matters. At this stage we stress the importance of moving ahead with these reforms immediately.

a. Promote a tax reform

Promote a tax reform to proceed with the gradual introduction of environmental taxes and cater for incentives favouring investment in the productive sectors of the economy. The wider implications of the corporate tax harmonisation, convergence of the corporate tax base and rates, and expected revenues from the introduction of other types of taxes, such as digital tax at EU level, should also be taken into account.

b. Accelerate judicial reform

The legal system plays a significant role in building and sustaining the attractiveness and reputation of a jurisdiction which aspires to be an attractive business environment. It is broadly recognised that action is needed to further improve the Cyprus legal system. The reform of the judicial system and the civil procedures rules, the digitalisation of court processes, the consolidation of major legal/ regulatory frameworks, are some of the much needed reforms, which are partly underway but which should be accelerated following through the various studies undertaken. The underlying objective of such reforms should be to enable the justice system to reach decisions swiftly and efficiently.



D. Horizontal reforms

1. Develop an ecosystem for innovation

Cyprus has established a number of centres of excellence benefiting from EU initiatives and at the level of research Cyprus ranks favourably against its peers. To complete the innovation ecosystem, a coordinated effort is required between the public and private sectors so as to offer more opportunities to commercialise viable ideas. To achieve this, we propose that the Deputy Ministry of Research, Innovation and Digital Policy should take the initiative for the formulation and deployment of a national strategy to promote innovation by coordinating the various centres of excellence together with contributions from the state-owned universities, the privately owned universities as well as incentivising the involvement of the private sector.

At the same time, a more strategic focus on this area could also create opportunities for Cyprus to be established as a regional centre for technological innovation. This could be achieved by leveraging the extensive research base, combined with the country's status as an EU member state, an investment-friendly tax system (which can be improved further through the tax reform agenda) as well as by promoting other fundamentals (e.g., developing funds industry, a transparent legal system, safe and pleasant place of work, etc.).



2. Accelerate the transformation of the private sector through digitalisation

Together with the array of initiatives to transform the public sector through digitalisation, there is a need to drive the transformation of the private sector to become more competitive. This is now more important than ever as the private sector faces increased challenges to its viability, such as significantly high operating costs, increased regulatory burden for some of the larger organisations such as the banks, and mounting competition from internationally based e-commerce organisations that enjoy comparative advantages in terms of a lower cost base, utilisation of technology and better customer service.

To that-end, the State should offer financial incentives aiming to accelerate digitalisation in the private sector, ensuring that this also includes the SMEs. For example, there can be subsidies to the companies that have a restructuring plan for upgrading operations to more “competitive” technologies and processes as well as to establish digital skills training for upskilling of the workforce. At PwC, we have established our New World.

New Skills. initiative which focuses on such upskilling for our employees and which also includes a contribution of such skills to the social environment in which we operate, e.g. through ONEK. While our reach is extensive it is necessary for the public sector and other private sector organisations to join in this effort.

We would also like to point out that Cypriot banks need to accelerate their efforts towards digitalisation in order to be able to face the increasing challenges, such as significantly high operating costs and increased regulatory burden. They need to do that to compete successfully with “digital banks” and other similar organisations that enjoy comparative advantages in terms of a lower cost base, utilisation of technology and customer service. Nevertheless, we acknowledge that for banks to achieve lower costs and boost bottom line, they need to redesign their human capital management practices and collectively address the significant pressure coming from trade unions.



3. Revisit education

Education reform is key in order to narrow the gap between what our education system provides and actual needs of our society. To this end, the State needs to invest in the country's entire education system and especially at a digital level, in order to modernise and revamp teaching methods and improve quality. The new standards will need to be designed with the help of a wide range of stakeholders. Even though this will be a demanding and lengthy process, it is a necessary step to achieve substantial change and high-quality education.

a. Upgrade curriculum content

A necessary reform that concerns all levels of education is the upgrade of the digital skills of educators and students, in combination with the improvement of the respective infrastructure of the educational units. This could be achieved through better training for educators, the introduction of new courses and the modification of the way existing courses are taught. This should be part of an overall effort to drive our youth towards STEM (science, technology, engineering and mathematics) education, as we live in an era of constant scientific discovery and technological change. As our economy increasingly depends on these revolutionary new advances, many new jobs will be created in STEM fields. Moreover, we need to introduce environmental education into the school curriculum to incentivise more young people to pursue careers in renewable energy, but also help create environmentally conscious consumers. In order for this overall effort to be successful, educators

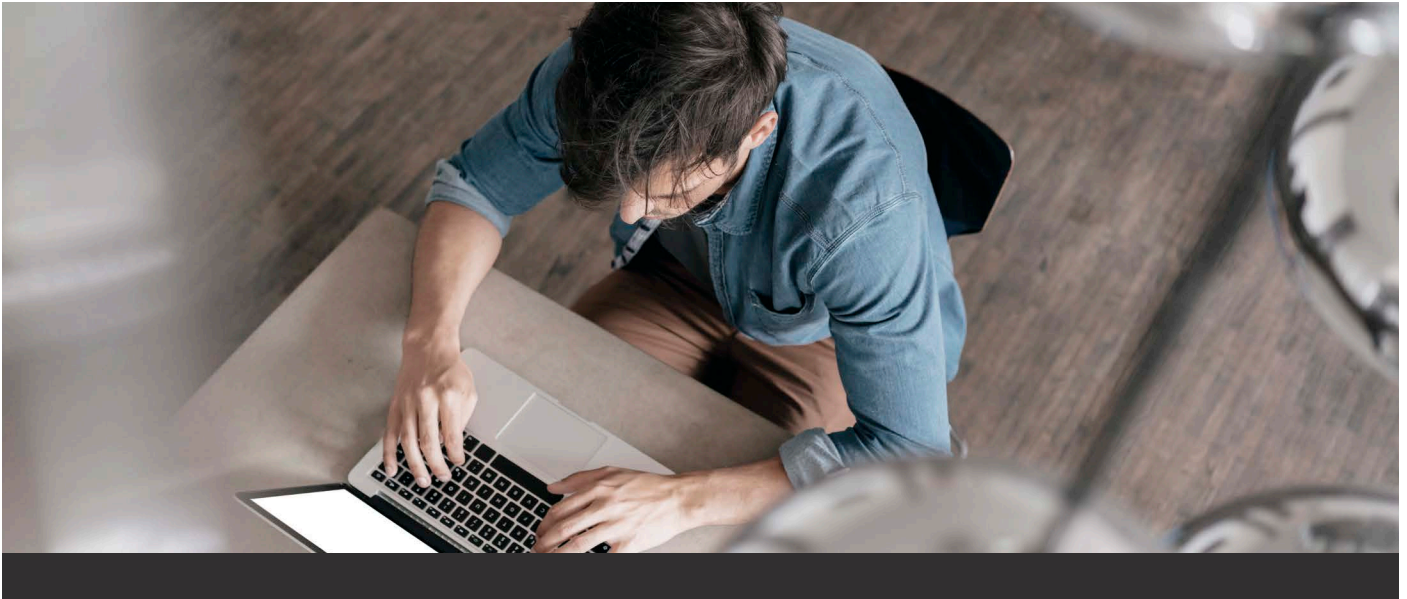
should be receiving continuous and substantial training, while the curricula should be evaluated and adjusted accordingly at regular intervals.

b. Support children of immigrant families

Adjusting to a new learning environment is especially challenging for children of immigrant families. We need to design supporting teaching policies for immigrant students to help them successfully integrate into our education system. This will prevent underachievement among immigrants and will help in their integration, with a positive impact on the economy and social cohesion.

c. All-day schools to be introduced in both primary and secondary education

The possibility of an all-day school should be offered to both primary and secondary education. Supportive teaching can be provided for students to fill in gaps, improve the students' understanding of the subject matter and reduce the risk of students lagging in understanding the material. Moreover, the creation of groups of students with special interests can be promoted, enabling them to participate in extracurricular activities. This will result in integrated learning for the students, while it will also benefit their parents/guardians as it will match the class schedule to their work schedule, enabling smooth participation in the labour market.



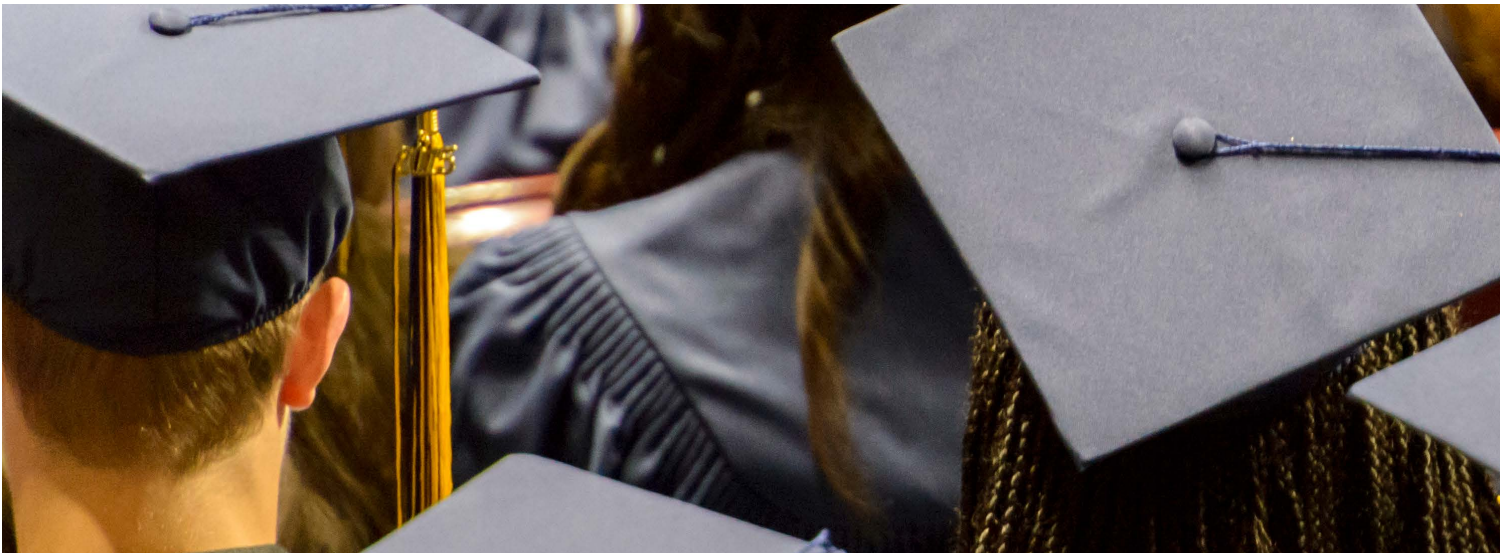
d. Support young people in school-to-work transition

Invest in the creation of programmes that support school-to-work transition and outreach to young people and recent graduates. Encourage people to gain skills that will be needed the most in order to provide meaningful employment as well as facilitate employee mobility between companies and industries. If we are to stay competitive as a nation, we need to build a scientifically literate citizenry and a bank of highly skilled, STEM-literate employees. Provide incentives to young people to study a STEM subject by investing in their education and ultimately reverse the outflow of human capital abroad. Moreover, incentives should also be granted to stimulate skills in agrotech and renewable energy.

e. Create a culture of lifelong learning

Participation in lifelong learning in Cyprus is still at very early stages. The business world today is in constant flux and requires continuous upskilling and reskilling to keep pace with the ever-evolving nature of the labour market.

Lifelong learning should be part of the government policy, to help both individuals and businesses respond to change, and to remain competitive in a connected, globalized, and technological world. Workers should have the flexibility to thrive in an array of shifting environments and continue to learn at every stage of life. To this end, local universities and learning centres should be encouraged to work closely with industry experts, in order to develop education and training programmes that are matched to market needs. Create programmes based on short courses and targeted certifications that correspond to people of all ages, including seniors. Such programmes should include digital skills courses to fill the current skills gap for both young people and the long-term employed. Provide the resources and financial support to encourage reskilling, upskilling and lifelong learning to ensure that older workers have the necessary skills to fit within a modern workforce and to adapt to changing workplaces. A good example is Singapore that has established the Workforce Development Agency to improve the skill set of the workforce through lifelong education and training.



4. Develop Cyprus as an international tertiary education destination

Tertiary education is expected to be a fast-growing area globally due to increased need and capacity of individuals to seek higher and further education. The Ministry of Education should collaborate with local universities and other education stakeholders and develop a national strategy for tertiary education to identify the most appropriate kind of university sector to develop in, the target market, and the means to develop and promote this.

a. Address the skills gap and identify areas that Cyprus wants to specialise in

The aforementioned parties, together with representatives from Cypriot businesses across sectors, should establish an advisory team in order to identify skills gaps and high-value areas that Cyprus wants to move towards, such as STEM. The group should also be exchanging ideas on how to fill in the gap with the creation of new courses or new teaching methods.

An increasing number of Cypriots are now choosing to enrol in local universities as a result of Brexit. Specifically, Brexit will lead to the increase in tuition fees for European students, which would potentially increase demand for European universities that have lower tuition fees. Almost 9k Cypriot students enrolled in UK universities in 2019. Moreover, an increasing number of students from Greece choose to attend private universities in Cyprus in recent years.

This could be a great opportunity for Cyprus to underpin economic activity in key sectors by specialising in certain areas of study. For example, medical schools are a relatively new and growing aspect of the Cyprus educational sphere, that is popular with both local and international students. To this end, investment in additional infrastructure is needed to support increasing popularity. Opportunities for Cyprus could also lie with potentially newer trading partners and countries that are geographically close to Cyprus.



b. Improve the tertiary education product offered to foreign students

In 2018, around 47 thousand students enrolled in the Cypriot tertiary education institutions. Almost half of these students were Cypriot citizens, while 34% were European students and 17% were foreign students from non-EU countries. We need to encourage universities to adopt a more liberal approach to teaching courses in English, in addition to the existing local language courses. Moreover, the government should encourage investment in technology that will enable more courses to be delivered online, in order to attract more students to enrol in local universities.

Cyprus should also accelerate digitalisation in its visa application process to enable students to apply online, and also expand its post-graduation work rights for

students completing their degree in Cyprus. Upon identification of any specific target countries outside of the EU, Cyprus could also introduce 'fast-tracking' for visas from students from these countries as an additional incentive.

Create a "one stop shop" portal for information on studying in Cyprus that includes information and courses across all of the country's universities. The portal should also include details and profiles of the universities, their key strengths, and updated statistics on foreign student data.

By overcoming the barriers of poor air connectivity, and establishing courses in English, Cyprus could capture a share of the growing global market. This will also contribute to tourism, as family members and friends will visit them during their stay.



5. Ensure sustainable transport and mobility

Our country needs to ensure the entire island's gradual transition to reliable, safe and sustainable transport means. Cyprus should encourage the use of environmentally friendly vehicles that use cleaner or zero-carbon technologies and develop the necessary infrastructure such as charging stations. To this end, provision of incentives for the use of e-bikes and e-vehicles should also be promoted.

We should also look into the possibility of entering into partnerships on that front. For example, the Volkswagen Group and Greece recently signed a memorandum of understanding to establish a mobility system on the Mediterranean island of Astypalea, aiming at the full transition of the current transport system to electric vehicles and renewable power generation. In the future, Astypalea will act as a model island for climate-neutral mobility. Cyprus should consider similar opportunities adapted to local realities.

Another example is the pilot project at Munich Airport, under which a passenger bus originally powered with diesel from the airport's vehicle fleet was converted to a climate-friendly drive system using liquid methane and thus made fit for the future. On that front, Cyprus could also identify similar energy-efficient and even climate-neutral solutions to start the gradual conversion into environmentally friendly transportation and take the opportunity to test new technologies.

The Ministry of Transport also needs to affirm the extensive studies carried out for the introduction of trams and intercity railway connections that will connect the main cities of the island and international ports and airports of Cyprus in a bid to address the increasing traffic congestion on the roads.



E. Vertical reforms

1. Promote sustainable tourism

Continue with the implementation of the National Tourism Strategy 2030. Cyprus should aim to combat seasonality and concentration of tourist activity in specific parts of the island by attracting visitors to more parts of the country and for more months in the year. Cyprus should rebrand itself as a destination which offers more than just sun and sea by shifting towards sustainable-oriented segments.

a. Levelling up our villages and boosting agrotourism

Promote strategies for increasing the capacity of local businesses and the range and quality of goods and services to meet tourism needs, improve the attractiveness of the destination and the quality of tourist experience outside hotels. Identify villages or natural and cultural heritage areas and assets to be developed in a holistic manner. Invite villages to develop and submit proposals in collaboration with their community under which they will identify which projects they suggest being delivered, funding required and how these projects will fit into the long term. The government will have to approve the final projects which will unleash the full economic potential of a number of villages throughout the country. Infrastructure investments and other incentives (e.g. tax, or subsidies for renovations) should be made available, promoting sustainable development, authentic Cyprus architecture, traditional products, local culture and Cyprus cuisine. Focusing on a holistic and sustainable development of these villages and areas will create a domino effect and create opportunities, driving young professionals to move into rural areas. This in turn could increase customers' discretionary spending, make more areas economically viable and ensure local community well-being.

b. Take advantage of the upcoming growth in health tourism

Health tourism is a relatively small segment of the global tourism market, but it is likely to grow in the coming years. This presents an economic potential for Cyprus as it is well placed to offer a high quality and holistic medical tourism experience. It is also an opportunity to increase the number of visitors in the 'off season' time of year, while it could also mean that Cyprus will attract higher spending visits from tourists and reverse the trend observed over recent years (i.e. higher numbers of tourists but lower spending per trip).

On this note, the implementation of the National Health System is of great importance as it will free up resources in the private sector to accept an increasing demand from international patients. To this end, Cyprus needs to accelerate efforts to improve airline connectivity for medical tourists, to avoid multiple connecting flights and long connection times when travelling.

The skills gap in healthcare also needs to be addressed. Cyprus has signed a number of Memoranda of Understanding with various countries to facilitate more cooperation in the medical field; for example, Cyprus and Canada have a MoU in place to drive cooperation with the University of Cyprus and the Health Ministry to develop a world-class university teaching hospital and an advanced learning institute. Developing areas of specialisms in concert with academic institutions could help to make Cyprus a key destination for certain health activities.



c. Encourage investments in sustainable tourism

Another initiative could be the implementation of measures to ensure tourist satisfaction at the local destination level by offering a quality experience and providing innovative products and services. Incentives for eco-certification can be used to promote sustainable tourism and encourage businesses to become certified. The private sector can be encouraged to invest in sustainable tourism projects through subsidies, or green loans. Also invest in the local community by offering incentives (e.g. tax) for businesses that buy local goods and services from sustainable sources.

d. Invest in eco-friendly technologies

Provision of incentives (such as subsidy schemes or tax) for Cypriot businesses, particularly hotels and other accommodation units, to stimulate investment in energy and water efficient new technology during renovation/construction.

e. Monitor tourist satisfaction

It is important that the Deputy Ministry of Tourism continually monitors tourist satisfaction through proper indicators and analytics at both business and destination level, to support a continual improvement cycle. It could also create a rating system of hotels in Cyprus, allocating ratings based on the extent to which hotels use renewable energy, or are energy efficient, or incorporate additional green policies, such as good waste management, water use or eliminate single-use plastic.



2. Encourage investments in agriculture, especially in agrotech, and promote Cypriot speciality foods

The agricultural sector in Cyprus has the potential to grow faster than GDP provided it is modernised via suitable investments. Agricultural technology (agrotech) is expected to play a large role in the agricultural sector moving forward, as the sector needs to shield from climate change and reduce excessive water and resource use.

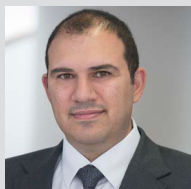
Attracting appropriate investments could not only revive growth and productivity in the sector, but also identify areas for differentiation and competitive advantages in Cypriot speciality foods, in line with shifting consumer preferences and priorities towards quality and sustainability. Cypriot traditional, authentic, ethical and organic products can also enhance our tourism offering, as part of embracing a lifestyle, and provide a memento of Cyprus to take away. Due to its small size, Cyprus cannot produce huge volumes at low cost, but it can excel at its quality linked to a green and sustainable agenda. This can also develop the brand of Cyprus globally, increasing the country's cultural capital which can positively affect other industries as well.

Cyprus needs to develop and promote technically grounded agriculture degrees in a collaboration between universities and industry, in order to enhance the skills and training required to meet business needs. The degrees should ensure that they equip young people with the skills necessary for innovation by providing them with both technical and business skills. In addition, students should have the opportunity to gain work experience relevant to their degree, by having a placement year into the industry (e.g. placements at farms or companies implementing agrotech solutions) in order to develop their skills and understand better the realities of the sector. The State should also provide financial subsidies for young people to study in the field of agriculture either locally or abroad.

Finally, it is important to invest in R&D and encourage new technologies to attract international investment.



Contact us



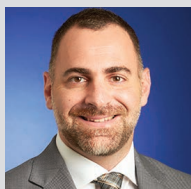
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