



**TOGETHER**  
*for a sustainable future*

## OCCASION

This publication has been made available to the public on the occasion of the 50<sup>th</sup> anniversary of the United Nations Industrial Development Organisation.



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

## FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)



04939



United Nations Industrial Development Organization

Doc. No.  
IND/ST/50  
E.D./W.P. 1157  
30 September 1972  
DE VINA: ENGLISH

Meeting on Industrial Development Strategies  
and Policies in Small Countries

Vienna, 26 - 30 November 1971

INDUSTRIAL DEVELOPMENT STRATEGY AND POLICIES:  
THE EXPERIENCE OF CYPRUS, 1950-72 ✓

by  
S. Phylaktis\*

\* Mr. Phylaktis is Senior Officer, Research and Industrial Development, Ministry of Commerce and Industry, Government of Cyprus.

✓ The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has been reproduced without formal editing.

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

## CONTENTS

<u>Chapter</u>	<u>Page</u>
<b>I. PRE-CONDITIONS OF INDUSTRIALIZATION .....</b>	<b>1</b>
A. The Market .....	1
B. Transport .....	2
C. Power and Water .....	2
D. Industrial Sites .....	3
E. Local Raw Materials .....	4
F. Human Skills .....	5
G. Available Financing .....	5
H. Entrepreneurial Initiative .....	6
<b>II. INDUSTRIALIZATION ACHIEVEMENTS</b>	
<b>IN THE PERIOD 1950 - 1972 .....</b>	<b>7</b>
A. A Brief History .....	7
B. Statistical Indicators of Industrial Development Progress .....	9
<b>III. THE STRATEGY OF INDUSTRIALIZATION 1950 - 1972 .....</b>	<b>12</b>
A. Selection of priority Industries .....	12
B. Implementation of Industrial Projects .....	15
C. Promoting Exports of Manufactured Goods .....	15
D. Promoting Employment .....	16
E. Location of Industries in New Centres and Rural Areas .....	17
F. Development of Manufacturing Technology .....	17
G. Training of Local Labour and Management .....	18
<b>IV. INDUSTRIAL POLICIES AND     MEASURES 1950 - 1972 .....</b>	<b>19</b>
<b>V. INSTITUTIONS AND     INDUSTRIALIZATION, 1950 - 1972 .....</b>	<b>24</b>

### ANNEX A

- 1 - List of 25 major industries established since 1950
- 2 - Composition of Gross Domestic Product
- 3 - Balance of International Trade
- 4 - Number of persons actively employed in the economy
- 5 - Number of persons employed in the manufacturing sector

## I. PRE-CONDITIONS FOR INDUSTRIALIZATION

### 1. The Market

1. Cyprus is a large island but a small country, with an area of 3,572 square miles (9,251 sq. km) it is the third largest island in the Mediterranean after Sicily and Sardinia.
2. Industrial development in Cyprus is of recent origin. Manufacturing in Cyprus during the 1950s was essentially a very small-scale operation. Value added in manufacturing increased very little during this period from £5.9 m. in 1950 to £6.9 m. in 1959, at constant prices of 1950 or by an average growth of 1.8 per cent per annum.
3. The population of Cyprus in October 1956 was estimated at 549,000. The average per capita income for the whole of Cyprus in 1958 was £145, which was low.
4. It is apparent from the above that the domestic market for manufactured goods in the 1950s was not large enough to support the establishment of many new industries.
5. The period since 1960 has seen the expansion and establishment of the majority of industries operating in Cyprus. As a result, value added in manufacturing manufacturing increased from £9.5 m. in 1960 to £22.2 m. in 1970 at constant prices of 1958 thus attaining an average rate of growth of about 8.5 per cent per annum. The majority of industries established during this period were of small and medium type. However, some large industries were established as well such as a cement plant, a steel-pipes plant and an oil refinery.
6. The population of Cyprus in 1971 was estimated at 645,000 and the average per capita income rose from £185.6 in 1961 to £406.3 in 1971. With such a per capita income in 1971 the Cyprus market is equivalent to that of many of the newly developing countries with much larger populations.
7. Although, therefore, the size of the population in Cyprus during the 1960s and early 1970s was still small, the effective demand, however, was large enough to stimulate and encourage the establishment of many new industries. Nevertheless, the size of the domestic market acted as a con-

straint on the establishment of large industries, heavy industries and capital goods industries.

8. Overcapacity is a phenomenon prevailing in certain branches of Cyprus industry. This situation arises mainly owing to the smallness of the local market. Overcapacity leads to a waste of resources of the economy and higher prices to the consumer. Furthermore, because of the small size of the local market, a great number of industries established in Cyprus are small employing inefficient production processes and methods with the result that their products are often uneven, if not of poor quality, and the costs are high.

#### B. Transport

9. In Cyprus, internal transport is carried out exclusively by road. Railway communications, coastal shipping and internal air services are non-existent. Hence the tremendous importance of roads in the Island's economic and social life.

10. In the 1950s, Cyprus possessed an extensive network of roads and there were road connections to every village by motor-car. In 1960, Cyprus had 3,461 miles of road of which 1,103 were asphalted. This represents a road length per 1,000 square miles of 900 miles which is considered satisfactory.

11. From the point of view of industrial development the most important road requirement had been met in Cyprus - that of access to all communities. The next stage was that of improvement of trunk roads along which most of the goods move in order to increase speed, safety of goods carried and lower transportation costs. In fact the efforts of the Government since 1960 have been directed along these lines, that is, initiating new links between large towns, and widening, straightening, surfacing and by-passing narrow village streets along main roads. At the end of 1971 there were 4,369 miles of road, of which 1,845 were asphalted (42 per cent).

#### C. Power and Water

12. Electric power is one of the prerequisites for economic and social development and this is particularly so in the case of Cyprus where electricity is practically the only kind of energy available.

13. In Cyprus electricity generation and distribution is in the hands of the Electricity Authority of Cyprus, a public corporation established in 1952 under the Electricity Development Law. The Authority operates two generating stations, at Dhekelia and Moni; and a power grid brings power to the central regions and

and coastal towns. In addition there are a number of local power stations, which are maintained as stand-by, as well as some private independent small power plants.

14. Since 1962 the Electricity Authority of Cyprus has embarked on an ambitious programme for the expansion in the generating capacity, transmission and distribution systems in order to meet anticipated demand. The implementation of this programme has been highly successful. Overall capacity has expanded from 74.7 M.W. in 1961 to 148.4 M.W. in 1966 and to 177.0 M.W. in 1971. During the period 1967-71 generating capacity expanded by 19.3 per cent, whereas electricity consumption has expanded during the same period by an average annual rate of growth of about 16 per cent.

15. There is no doubt that electricity capacity in Cyprus during the last 20 years has been expanding at a fast rate in order to meet the continuously rising demand due mainly to the increasing number of industrial units being established and the upward trend in tourist traffic.

16. In many areas of the world, water is the key natural resource. The productivity of land, labour and even capital investment depends upon the adequacy of water supply.

17. In Cyprus one is continually reminded of the need of water. The difficulty is that water is not available evenly throughout the year nor over all areas. With the exception of Limassol and Kyrenia, all other towns have for the last twenty years or so been facing serious problems of water shortage with the result that in most cases restrictions on water supply have to be applied during the periods of peak demand in summer. The need, therefore, to economise water mainly at Nicosia, Famagusta and Larnaca towns implies that in much of Cyprus high-water consuming industries could not be established.

#### D. Industrial Sites

18. In the 1950s many factories were operating in crowded surroundings and unsuitable buildings, often separate from each other. This was blocking expansion and the raising of productivity. In Nicosia and the other towns the Town Planning Authorities had designated industrial zones as the only areas where a factory could be established. The industrial zoning, however, has not been particularly effective either at promoting industrial growth in the industrial zones or discouraging it in other areas. This was mainly because the Government could not exercise control on the price of land within the industrial

zones or to force suitable land use of such land.

19. In view of this state of affairs and the fact that land values were constantly rising and speculation was very active, the Government introduced during the second half of the 1960s the institution of Industrial Estates. The first Industrial Estate was established in Nicosia in 1967, where sites suitable for industrial use, with essential services and facilities - electricity, water, telephone, sewerage, access roads, public lighting, public parks, etc. - are offered for lease at very low rentals for periods upto 99 years. Since 1967 two more Industrial Estates have been established, one at Limassol town and another at Larnaca town. Another Industrial Estate is under construction at Famagusta town. The policy of the Government is to establish Industrial Estates in various areas as and when the need arises. All sites at the Nicosia Industrial Estate have already been leased and as a result the Government has acquired adjacent land for the extension of this Estate.

20. It may be said that upto 1967 new industries experienced great difficulties in finding suitable industrial sites because of the scarcity of suitable industrial sites. With the establishment, however, of Industrial Estates since 1967, the problem of the availability of suitable industrial sites for new industries has been solved.

#### B. Local Raw Materials

21. During the 1950s the Cypriot manufacturer had great difficulties in finding suitable local raw materials at reasonable prices. Many products could not be made in Cyprus because of lack of local raw materials.

22. It is true that the situation during the 1960s changed substantially, particularly, as a result of the various measures taken by Government to increase agricultural and livestock production. Production of many existing local raw materials such as citrus, vegetables, etc., increased at a fast pace to warrant the expansion of existing industries and the establishment of new ones, utilizing these materials. Furthermore, new sources of local raw materials were developed such as meat, milk, hides and skins, various types of earth, timber, etc., which enabled the establishment of many new industries such as meat canning and meat preparations, dairy products, tanning, cement, wood products, etc.

23. Industries which could not find suitable raw materials locally were allowed to import them. However, during the 1950s most of the imported raw materials were charged with import duty which in a number of cases was quite high and raised costs of production. During the 1960s and as a result of the change in



Government policy towards importation, the rate at which all imported raw materials was either eliminated or reduced to very low levels. Imported supplies of raw materials since 1960 were very reliable and were allowed to be imported freely from almost all countries of the world without interruption, except in cases where local substitutes were developed and could be offered at competitive prices.

F. Human Skills

24. It is rather difficult to evaluate the efficiency of Cyprus industry during the 1950s. There were a number of large establishments in which management appeared to be fully capable of meeting its needs in the productivity field. Some business men had used private consultants from time to time; others had ties with parent organizations abroad which had their own systems of management training and specialized technical services.

25. At the other extreme there were a large number of very small business men, many of whom had some technical skill but no knowledge of the rudiments of business management, particularly with respect of keeping proper accounts, cost records, budgeting and the like. The situation in this respect has improved during the 1960s with the establishment of the Cyprus Productivity Centre in 1963, the Higher Technical Institute in 1968 and the award by the Government of many scholarships to Cypriots to study in universities and higher educational institutions abroad.

26. During the 1950s because industrial development was low there was no problem for industry in securing skilled workers. However, with the rapid industrial development during the 1960s as well as with the rapid development of the other sectors of the economy during the same period, there has been a shortage of skilled workers. In spite of the establishment of the Cyprus Productivity Centre, of a number of technical schools and of apprenticeship training schemes the problem of shortage of skilled workers still remains.

G. Available Financing

27. Although in the 1950s Cyprus had a broad network of commercial banks, it had no specialised financing institution, such as an Industrial Bank, to mobilise both local and foreign capital for investment in productive enterprises on a medium- and long-term basis.

28. The absence of such an institution resulted in placing the commercial banks under unhealthy pressure to extend loans in short-term guise that were in fact intended for purposes that had a long-term and medium-term payout. To the extent that such financing was granted, it was unsatisfactory both to the

industrial borrower who had no security of tenure and paid high interest rates, and also to banks which had no assurance that borrowers who put loan proceeds into fixed assets could repay on short notice.

29. It is evident that in 1950, the Government's financing was clearly deficient during the 1950s. To fill this gap the Cyprus Development Bank Ltd was established in 1952 to provide among other things medium- and long-term loans for economically and technically sound industrial projects. It is a "mixed" Government and private institution and is organised on the lines of "Development Banks".

30. Since 1950 Cyprus has had a surplus in its balance of payments. Foreign exchange reserves increased from £24.7 m. in 1961 to \$114.9 m. in 1971. The country's favourable balance of payments during the last 20 years has enabled the Government to follow a liberal import policy as far as industrial plant and machinery are concerned.

#### H. Entrepreneurial Initiative.

31. In the 1950s and to a large extent in the 1960s the family ownership of industrial enterprises constituted the predominant form of business organisation in Cyprus. The Cypriot investor feels that he must completely own his business.

32. In Cyprus there has developed over the years a class of manufacturing entrepreneurs with risk capital derived from merchandising and real estate. Capital, therefore, for starting new enterprises was obtained either from individuals or families which had private resources to invest or from commercial banks by short-term advances which were so regularly renewed as to become long-term in fact.

33. Despite the fact that the size structure of industry has improved during the last ten years, nevertheless the family concern is still the predominant form of business organisation in Cyprus. Publicly held companies are few. The absence of a capital market in Cyprus through which voluntary savings could be channelled into industrial enterprises has been the main reason why ownership of industry is concentrated in the hands of a few groups.

## 11. INDUSTRIALIZATION: AGRICULTURE IN THE 1960s-1970s

### A. A Brief Review

34. The 25 major new industrial projects established in the 1960s and 1970s are shown in Table 1. These consist of two wine and spirits factories, two cement plants, two canning factories, two cigarette factories, one clothing factory, one brewery, one Lithobex factory, one corrugated cartons factory, one milk bottling plant, one knitted underwear factory, two animal fodder factories, one steel tubes plant, one plastic household goods factory, one salted nuts and crisps factory, one ice-cream factory, one soft drinks and juices factory, one shoe factory, one Terry towels and lights factory, one multi-paper sacks factory, and one tannery.

35. These big establishments may be classified into three broad categories: (a) those utilizing mainly local raw materials such as grapes, various other fruits and vegetables, meat, milk, potatoes, tobacco, hides and skins; (b) those producing consumer goods mainly for the local market such as clothing and footwear; (c) those supplying industry with its packaging requirements.

36. The industrial structure of Cyprus is typical of a developing country. The major industries from the point of view of employment and value added are those producing foodstuffs, beverages, clothing and footwear. Other industries of some size are printing, furniture, brick-making and cement manufacture. The industry is geared to the production of consumer goods mainly for local consumption. There is relatively little interdependence within the industrial sector, except in the field of packaging where a number of firms supply industry with its packaging and labelling requirements. Close interrelationship exists between agriculture and food industry. There is no capital goods industry in Cyprus and this is mainly due to the smallness of the local market and technological shortcomings.

37. In the 1950s manufacturing was largely confined to activities using Cyprus raw materials. During the 1960s the first (1962-66) and second (1967-71) five-year plans laid great emphasis on the development of industries utilizing local raw materials. In fact most of the really sizeable units organized on modern factory lines are to be found among industries processing local raw materials (i.e. wineries, fruit and vegetable canning, canned meat and meat preparations, milk and dairy products, cement, bricks and tiles, leather tanning, wood products, etc.) Value added at current prices of the food industry which utilizes mostly local raw materials rose from £0.3 m. in 1960 to £8.2 m. in 1970, or by about 149 per cent.

38. The construction industry, which has been a dynamic factor particularly during the last ten years or so, and its expansion followed closely the construction boom. This industry engages in the production of a wide range of products of which the most important are cement, bricks and tiles, blocks and bricks of cement, asbestos-cement sheets, structural steel, iron pipes, galvanized and unhydrated lime, etc.

39. The importance of the non-metallic mineral products industry in the manufacturing sector is well demonstrated by the fact that this industry was ranking number 2 during the 1960s in terms of value added. The value added of this industry increased from £351,815 in 1958 to £962,100 in 1961 and to £3 m. in 1971 (at current prices). This industry experienced an annual growth of 16.8 per cent from 1965 to 1971.

40. An important development of the non-metallic mineral industry during the 1960s has been the establishment of a second cement plant as well as the modernization of production processes of mosaic tiles and clay bricks.

41. Thus far industry has been geared mainly for the production of consumption goods for the local market, the main exceptions being wines and spirits, canned fruits, fruit juices and vegetables of which by far the highest production is exported. In recent years rapid development has also occurred in the export of footwear and clothing.

42. Although imports as a whole have been increasing faster than exports, nevertheless, the percentage of consumption of locally manufactured goods to total consumption has remained more or less the same during the 1960s at about 62 per cent, a trend indicating the ability of local industry to satisfy rising demand and meet international competition.

43. Exports of manufactured goods went up from £2.4 m. in 1960 to £8.1 m. in 1970. In 1970 exports of manufactured goods amounted to about 18 per cent of total domestic exports in comparison with about 12 per cent in 1960.

44. The United Kingdom is by far the biggest single customer for Cyprus exports of wines, canned fruits, fruit juices and vegetables, and footwear. In fact the Cyprus wine and canning industries have developed primarily in supplying the British market. This is mainly to be attributed to the Commonwealth preferential treatment which these exports enjoy in the British market. Other important markets for Cyprus exports of clothing, footwear, canned products and wines are the East European Countries with which Cyprus has concluded trade and payments agreements of a clearing type. The Arab countries are also good customers of Cyprus exports of clothing and footwear. This is primarily because of the proximity of Cyprus to these markets and of the very good relations that exist between Cyprus and its neighbouring countries.

### 3. Statistical Indicators of High Level Development Program

43. The contribution of the manufacturing sector to the Gross Domestic Product at constant prices of 1960 was 15.1 per cent in 1950, 15.1 per cent. In 1960 the contribution of the manufacturing sector to the Gross Domestic Product at constant prices of 1960 was 19.8 per cent and in 1970 22.2 or about 18.9 per cent. The higher contribution of the manufacturing sector to the Gross Domestic Product in 1960 was due to the relative underdevelopment of the other sectors of the economy. The lower contribution of the manufacturing sector to the Gross Domestic Product in 1950 and 1970 was due to the higher rate of growth attained by other sectors of the economy. Table 1 shows the relative contribution of various sectors of the economy, including the manufacturing sector, to the Gross Domestic Product, as well as the population and GDP per capita for the years 1950, 1959, 1960, and 1970 and 1971.

46. Although the manufacturing sector has demonstrated a remarkable growth during the 1960s (i.e. value added in manufacturing now has doubled) its contribution to the Gross Domestic Product was low. According to Professor H.B. Chenery the contribution of manufacturing to Gross Domestic Product depends mainly on the level and size of income of a country. Based on this assumption manufacturing for a country of the size and income level of Cyprus in 1970 should have contributed 15 per cent to the Gross Domestic Product in that year.

47. As shown in Table 2 the progress achieved in the manufacturing sector during the 1950s was very low, whereas during the 1960s it was very substantial. Value added in manufacturing increased from £9.5 m. in 1950 to only £6.3 m. in 1960 at constant prices of 1960, or by an average annual rate of growth of 1.8 per cent during this period. During the 1960s value added in manufacturing increased from £9.8 m. in 1960 to £21.2 m. in 1970 at constant prices of 1960, thus attaining an average rate of growth of 8.5 per cent per annum during the period 1960-70. The estimates given above are quite reliable as they are based on yearly industrial surveys and periodic censuses of industrial production and form the official figures quoted in Government publications in particular The Economic Report published annually by the Statistics and Research Department of the Ministry of Finance.

48. During the 1960s the size structure of industry improved with larger establishments contributing more to the production effort. Thus in 1954, 30 per cent of manufacturing output, excluding cottage industries, was produced by about 63 per cent of the manufacturing labour force, engaged by 10,535 establishments employing less than five persons each. In 1960, 25 per cent of manufacturing output was produced by about 56 per cent of the manufacturing labour force engaged by 8,721 establishments employing less than

five persons or less, which produced about 10 per cent of the output produced by about 13 per cent of the establishments. The number of persons engaged by 5,000 small establishments fell to 18 per cent.

	Value Added at constant prices			Number of establishments			Number of Persons Employed %		
	1954	1960	1970	1954	1960	1970	1954	1960	1970
1. Establishments employing less than 5 persons	30	27	19	90	91	83	63	54	33
2. Establishments employing 5 persons and over	70	73	82	7	9	17	37	46	67
3. Total Manufacturing	100	100	100	100	100	100	100	100	100

49. Value added by cottage industries increased from £150,000 in 1954 to £200,000 in 1960 and to £300,000 in 1970. It should be noted that all cottage industries employ less than 5 persons. In 1970 it was estimated that 3,000 persons, mostly female, were engaged by cottage industries, mostly on a part-time or seasonal basis.

50. The progress achieved in the manufacturing sector during the period 1950 to 1970 is due solely to private initiative. No industries were established by the public sector either with sole Government ownership or with mixed ownership. An oil-refinery, however, was constructed during the late 1960s with Government participation but this did not go on stream until early 1972. Furthermore, a wood-processing complex with 51 per cent Government participation is presently under construction.

51. As shown in Table 4, the manufacturing sector engaged 31,400 persons in 1960 or about 13.3 per cent of the total employment in the economy. The number of persons engaged by the manufacturing sector in 1970 rose to 33,166. However, the percentage contribution of employment in the manufacturing sector to total employment in the economy fell to about 12.3 per cent in 1970. The slower expansion of industrial employment was due to a slower output growth in relation to the other sectors of the economy.

52. During the last 20 years there has also been an increase in the number of big establishments and in the number of persons engaged by big establishments. As shown in Table 5 the number of establishments employing over 100 persons increased from 9 in 1954 to 19 in 1962 and to 25 in 1970. The corresponding increase in employment by these establishments during this period was 4,921

persons in 1972 in comparison to 2,796 persons in 1962 and 1,512 persons in 1954. Similarly, the number of establishments employing 10-99 persons increased from 205 in 1954 to 320 in 1962 and to 523 in 1972. The number of persons engaged by these establishments increased from 1,638 in 1954 to 7,156 in 1962 and to 12,986 in 1972.

53. On the contrary the number of establishments employing less than 10 persons decreased from 11,114 in 1954 to 6,137 in 1972. Parallel to this there has also been a fall in the number of persons engaged by these establishments from 20,143 in 1954 to 13,561 in 1972.

### III. THE STRATEGY OF INDUSTRIALIZATION 1950-1972

#### A. Selection of priorities Industries

54. Prior to Independence in 1900 the Government had not resorted to development planning to promote the attainment of economic and social goals. On the morrow of Independence a planning machinery was established as a permanent feature of the Government set-up. In August 1961 the First Five-Year Plan was enunciated covering the period 1962-66.

55. The First Five-Year Plan contained mainly a set of broad objectives. It aimed mainly at creating infrastructures as far as the Government was concerned, whereas the development in other areas including manufacturing, was left to the private sector. The main objectives of the First Plan were to diminish the dependence of the economy on external economic factors, to improve the balance of payments, to increase incomes, to create and maintain full employment, to diminish income differences between rural and urban occupations and to maintain monetary stability.

56. The First Plan envisaged an annual compound growth of the Gross Domestic Product by 5.5 per cent during the period 1962-1966. The actually realized compound growth was 5.0 per cent per annum at constant factor cost. No broad quantitative targets were formulated by the Government for the development of the manufacturing sector or any other sector during the First Plan.

57. During the period of the First Plan, value added of the manufacturing sector increased by an average annual rate of growth of 4.9 per cent and, although it was below the overall growth of the economy, it is a creditable performance if one takes into account the barriers which had to be overcome in the development of this sector, such as the limited size of the domestic market, lack of the necessary infrastructure, lack of adequate encouragement and incentives, the shortage of long-term finance and the absence of appropriate financing institutions to provide long-term finance, and the existence of opportunities for other more remunerative forms of investment. Although the First Five-Year Plan indicated priorities in broad terms, for the development of new industries as indicated above, these priorities were not described in terms of a list of specific projects.

58. The Second Five-Year Plan covered the period 1967-71. Manufacturing had been assigned a key role in the Second Five-Year Plan. In the Second Plan the objectives of the development policies for the manufacturing sector were stated as follows:



"During the next five years, the production of the most important commodities of the country will be developed on a self-sufficient basis. The country's economic development will be dependent on external factors will necessitate the expansion of the rate of domestic production; one of the problems in dealing here is due to the restriction of a large scale and similar expenditure. The main factor will be the need, through which a new equilibrium stability will be injected into the Cyprus economy. More specifically, with industrial development it is expected to: (a) improve the balance of payments through import substitution and exports of manufactured goods; (b) create employment opportunities; and (c) make possible the utilization of local raw materials which at present are either not utilized sufficiently or are being exported in a raw material state."

59. During the Second Five-Year Plan manufacturing value added achieved a rate of growth of 9.2 per cent. This rate of growth was above the average growth of the economy as a whole which was 8.2 per cent but it fell short of the target set in the Second Five-Year Plan when a rate of growth of at least 10 per cent per annum was envisaged. It had been estimated that during the Second Plan the fixed investment requirements in the manufacturing sector would be about £27 million. In actual fact the realized investment was £32 million. The difference is mainly attributed to the capital intensive nature of the new factories established during the Second Plan period as well as to higher costs of capital equipment.

60. In addition to the clear-cut priorities indicated above in the Second Plan for the development of new industries, the Second Plan also indicated some of the major industrial projects, the implementation of which had either been decided upon or which preliminary studies had indicated that they were likely to materialize during the Second Plan period. These projects were: meat canning, fertilizer production, sawmilling, cement-ash bricks, textiles and oil refining. The Second Plan also indicated projects which were still regarded as marginal, but which warranted further careful study. These were: a margarine plant, a tannery, a tin container factory, a steel rolling mill, a handline hardware factory, a glass factory. From the above projects only the following ones were established: meat canning, textiles, oil refining, margarine plant, tannery and tin container factory. However, plans for the establishment of

a forest industries complex - chipboard and sawmilling - reached an advanced stage and this project is presently under implementation. Furthermore, specific feasibility studies for the establishment of a fertilizer plant and a cement-asbestos plant, were carried out.

61. Private initiative identified and established a list of new industries which were not included in the Government's plan. Some of these industries were a cement factory, a steel pipes plant, a paper sacks factory, a parquet flooring factory, a biscuit factory, several canning factories, a brewery, an edible oil refining plant, two pharmaceutical factories, a corrugated cartons plant, a carpets factory, etc.

62. No elaborate procedures are followed by the Government for evaluating the national benefits and costs of major new industrial projects. Generally, these are based on the kind of economy that now exists in Cyprus. The salient characteristics of the Cyprus economy are its natural scarcity of productive resources, its under-employment of the rural population where the social cost is very much lower than that of the urban areas, its heavy dependence on minerals and invisible earnings from unstable sources such as foreign military spendings, and its adverse balance of trade.

63. Investment therefore from the Government point of view aims towards restructuring the economy with a view to maximising production, i.e. optimum utilization of local resources, raising the level of employment in rural areas, creating more remunerative employment opportunities, and strengthening the balance of payments.

64. Before a major new industrial project is approved the applicants are requested to submit a complete feasibility study for appraisal. In evaluating the commercial viability of a new project, the C.I.F. price is compared with the proposed selling price of the new project which should at least be equal to the former. There may be cases where the proposed selling price is higher than the C.I.F. price of imported goods, until the project reaches its full capacity and attains its lowest production cost. Certain projects may be approved, although their proposed selling prices are above C.I.F. prices, provided they contribute substantially to the national benefit.

65. It is the policy of the Government that protection should be granted to new industries which after a period of protected adolescence they can stand on their own feet. However, care is taken so that such protection is not to the detriment of the consumer. Sometimes protection is given to a new industry which because of the small size of the market its break-even point is very

high and therefore requires protection so that it can capture the whole or a substantial part of the local market.

#### B. Implementation of Industrial Project

65. The basic policy of the Government in the industrial field as elaborated in the first, second and third five-year development plans, is a liberal one of non-interference in the sphere of the private sector. The role of the Government is confined to the creation of conditions conducive to the development of private enterprise. In other words, the Government follows an active policy of encouragement and promotion. In this respect, the investor has been assured of a consistent unchanging policy towards private enterprise.

67. However, for the purpose of promoting a project, the Government may intervene when private initiative fails to take up investment opportunities the exploitation of which will have a significant contribution to the industrial development of the economy.

68. The Government is well aware of the fact that it is difficult for a developing country to accelerate its industrial development by relying solely on its own resources. Hence the Government's policy is designed to attract foreign participation, particularly joint ventures, in order to attract not only capital but particularly superior know-how in production and management. Foreign capital is welcomed particularly when it offers prospects of expanding exports and, directly or indirectly of stimulating the development of local resources, human and natural. However, in considering applications for foreign investment, consideration is given to possible competition with existing enterprises.

69. The main thrust of industrialization during the 1950s and 1960s came from the local initiative of the private sector and to a lesser extent from the initiative of foreign investors particularly in the form of joint ventures. The only industrial projects established by Government are an oil-refinery which went on stream in early 1972, and a wood-processing complex presently under construction. No industries were established so far through the initiative of bilateral aid donors.

#### C. Promoting Exports of Manufactured Goods

70. Ever since 1960 the Government has paid particular attention to the encouragement and promotion of exports of manufactured goods. The progress achieved in exports may be attributed to a great extent to the various measures taken by the Government such as extensive advertising campaigns in important overseas markets, operation of a trade centre in London, participation in trade fairs and exhibitions in major trade centres, visits of Cyprus Trade

Delegations to study or to inspect various aspects of industry of Cyprus exports, and invitations to foreign importers and buyers to afford them the opportunity of seeing for themselves the existing possibilities and advantages of trading with Cyprus.

71. Furthermore, in order to assist the establishment of export-oriented industries as well as to encourage exports of existing industries, the duty on imported raw materials and machinery and equipment was eliminated or reduced. In addition, drawback on import duty on certain raw materials and components used in manufacture, on which outright exemption could not be granted, was allowed on the exportation of the products incorporating the imported materials.

72. However, the absence of (a) a Standards and Quality Control Institute to assist manufacturers to improve the standard and quality of their products and of (b) an Export Credit and Export Credit Insurance Scheme to finance exports and insure exports against risks, have acted as constraints in the overall export development effort. Another handicap, particularly in the establishment of new export-oriented industries has been the absence of any special tax incentives such as exemption from taxes on profits emanating from exports.

#### D. Promoting Employment

73. The costs of labour during the last 20 years have been relatively low particularly when compared with those of the industrialized countries of Western Europe and U.S.A. This is because Cyprus was in the initial stages of its industrialization process and because there was high unemployment and under-employment in the rural areas particularly during the late 1950s and early 1960s.

74. Under the Customs Tariff practically all industrial machinery and equipment are duty free. The country's favourable balance of payments has enabled the Government to follow a liberal import policy as far as industrial machinery and equipment are concerned.

75. For the above reasons the problem in Cyprus during the 1950s and the first half of the 1960s has been to create more employment opportunities rather than capital-intensive industries. As a result the efforts of the Government have been directed towards encouraging and promoting the establishment of labour-intensive industries. Thus the Customs Tariff was amended from time to time in order to afford protection to labour-intensive industries. Furthermore, the Cyprus Development Bank in granting government long-term loans gave priority as far as possible to industries that created employment opportunities. These measures have been successful in promoting employment. In fact since 1960 conditions of full employment have prevailed in Cyprus. As a

result during the period 1950-1960. The Government had to a certain extent to share the responsibility of providing for the intensive industries to the extent of the available resources and capabilities. Emphasis was therefore, given on increasing productivity and on the establishment of industries utilizing modern and latest methods of production as well as on the establishment of some high capital-intensive projects. Hence technical training was expanded and international and foreign technical advances were introduced.

#### D. Location of Industries in New Centres and Rural Areas

76. In an effort to decentralize the location of new industrial projects the Government has during the last twenty years designated zones in the main towns as "residential", "iron" and "industrial". This zoning has not been particularly effective either in promoting industrial growth in industrial zones or in discouraging growth in residential areas. Mainly because the Government had no control on the price of land within the industrial zones. In order to rectify the situation the Government has established since the late 1960s industrial estates which are situated about three miles from the main towns, where developed industrial sites are offered for long lease at reasonable rentals. This policy has been very successful in concentrating industry in new industrial poles.

77. Because of the small size of Cyprus, the Government has not thought it necessary to promote industrialization in rural areas. Most of the rural areas are within a small distance (maximum 15 miles) from the industrial centres. As the road network and road transport are quite good there is no problem for workers in rural areas to commute daily to their work.

#### E. Development of Manufacturing Technology

78. The Government has during the 1960s encouraged Cyprus enterprises to become associated with foreign businesses through licensing arrangements. In this respect the Ministry of Commerce and Industry has taken advantage of UNIDO services, Cyprus Embassies abroad, and various overseas organisations and firms in order to put in touch Cyprus firms with foreign firms. This policy has been very successful in enabling Cyprus industries to acquire foreign technical collaboration. All licensing agreements require prior Government approval in the form of a permission issued under the Exchange Control Law by the Central Bank of Cyprus in close consultation with the Ministry of Commerce and Industry. In this way, the Government has been able to regulate the type of technology chosen and the fees paid.

79. In spite of the good intentions of the Government little was done to promote a growing national capability to adapt or improve manufacturing

processes and product design and to help prospective investors shape up their projects, choose the most suitable equipment independently of machinery sellers, etc. The erection and commissioning of plants is usually done by the machinery suppliers from abroad or by foreign engineering firms. In order to meet this problem the Government has recently set up within the Ministry of Commerce and Industry and with UNIDO assistance an Industrial Extension Service which will provide practical guidance and encouragement with the planning, setting-up, equipping and commissioning of plants as well as with the continuing production problems including product adaptation and design, as they arise.

#### 6. Training of Local Labour and Management

80. In order to encourage industrial enterprises to train indigenous labour, technicians and managers, the Government established in 1963 the Cyprus Productivity Centre and an Apprenticeship Training Scheme. The Cyprus Productivity Centre provides subsidized vocational and in-plant training to workers in industry, and training in the techniques of modern management to supervisors, foremen and managers.

81. The Apprenticeship Training Scheme has two objectives: (a) to up-grade the skills of young workers in industry and (b) to increase the number of skilled workers in industry. The apprentices are industry-based employees who have at least graduated elementary school and have two years experience in industry. The apprentices attend the technical school of their district twice a week and the remaining 4 days of the week they are given practical training at the place of employment. The training period lasts for 3 years and is also subsidized by the Government.

## II. INDUSTRIAL POLICIES AND MEASURES 1960-72.

82. In cases where the Government has decided to promote a major industrial project, first a pre-investment study is carried out by the Ministry of Commerce and Industry in close co-operation with the Planning Bureau and the Cyprus Development Bank to establish whether there is a prima-facie case for the establishment of the proposed projects. In the event that there is a prima-facie case then the Ministry of Commerce and Industry asks a number of foreign firms of consultants to submit outline proposals for the carrying out of a complete feasibility study with the assistance of Ministry officials. The choice of the successful foreign firm of consultants, however, is to a great extent influenced by the fee quotes. In quite a number of cases the feasibility study may be carried out by UNIDO experts with Ministry officials acting as local counterparts. If the feasibility study proves that the proposed project is commercially and technically sound then the Government forms a company to undertake the project. International tenders are requested for the supply of plant, machinery and equipment. The appraisal of the tenders is again carried out either by UNIDO experts or by outside consultants. The company which undertakes the management of the project operates like a private enterprise - a factor which ensures that Government interference is reduced to a minimum.

83. During the 1950s the customs tariff was amended only once in 1958 in order to afford protection to newly established local industries. However, after Independence in 1960 the customs tariff was amended several times, that is, in 1960, in 1961, in 1963 and in every year since then in order to promote industrial development.

84. The policy of the Government is to afford protection to new industries which have prospects of developing into viable concerns both from the point of view of price and quality, but require a period of protected adolescence before they can undertake to meet foreign competition. It is also the policy of the Government not to grant tariff protection before the establishment of a new industry. Sound as this policy may seem, nevertheless, it has acted as a constraint in the establishment of some big projects particularly by foreign investors who cannot be assured in advance that tariff protection will be granted.

85. During the early 1960s Cyprus was faced with an acute problem of unemployment. As a result the tariff protection granted to new industries, particularly labour-intensive industries, was rather high in order to speed up

Industrial development in India. In 1960s the tariff protection granted to the cloth and industry was 77 per cent preferential and 48 per cent general,<sup>1</sup> to the footwear industry 42 per cent preferential and 48 per cent general, to the furniture industry 58 per cent preferential and 46 per cent general, to the machine industry 47 per cent preferential and 41 per cent general, and to the oil seeds industry 46 per cent preferential and 48 per cent general.

86. During the mid-1960s the policy of the Government changed slightly and the tariff protection granted to new industries was rather moderate. Thus the tariff protection granted to the biscuits industry was 30 per cent preferential and 28 per cent general, to the meat preparation industry 26 per cent preferential and 24 per cent general, to the batteries industry 32 per cent preferential and 40 per cent general, and to the parquet flooring industry 26 per cent preferential and 34 per cent general.

87. Since the end of the 1960s and in anticipation of an association agreement with the European Economic Community the policy of the Government has changed even further and tariff protection granted to new industries was rather low in comparison with previous years. Thus the tariff protection granted to the margarine industry was 20 per cent preferential and general, to the edible oils industry 8 per cent preferential and general, to the metal containers industry 20 per cent preferential and general, to the steel tubes industry 20 per cent preferential and general, and to the paper sacks industry again 20 per cent preferential and general.

88. An Association Agreement with the European Economic Community (which was finally signed in December 1972 and became effective as from 1st July 1973) means that protective tariffs for new industries on imports from the European Economic Community should gradually be reduced to nil within a period of ten years. This means that tariff protection granted to new industries should not be very high so as to force local industries to become competitive as soon as possible and thus be in a position to meet the eventual keen competition from imports from the E.E.C. Countries.

89. Although the policy of the Government has been so far to afford tariff protection to new industries only for a limited period of time, nevertheless, such tariff protection has remained permanent and tariffs have never been reduced. This has tended to result in locally manufactured goods being high in price and low in quality and non-competitive in terms of exports, thus

<sup>1</sup> The preferential tariff is imposed on imports from the Commonwealth Countries and the general tariff on imports from non-Commonwealth countries.



of trade with the United Kingdom. It is suggested that the Government should consider the possibility of introducing a system of import duties on raw materials and components which would be levied on the basis of the value added in the United Kingdom. This would be a system of import duties which would be levied on the basis of the value added in the United Kingdom.

80. It is a fact, however, that the Government has recently raised the import duties on raw materials and components. It was proved that imported raw materials and components are

81. Under the Income Tax laws 1961-1969, the rates of tax payable are duty free. It cases where an import duty is levied, under the Customs Tariff provisions, a drawback or exemption from import duty on raw materials, component parts and materials used in manufacture. In addition, drawback on import duty on raw materials and components used in manufacture, on which drawback exemption cannot be granted, is allowed on the exportation of the product incorporating the imported materials. It would be emphasized, however, that the above concessions do not apply to materials and component parts which are available locally at competitive prices.

82. There is no special incentive legislation on the taxation of business incomes, because the Government considers that the existing legislation contains a number of features which provide a sufficient incentive. The taxation of business income arising in Cyprus is administratively simple and the incidence of such taxation is comparable with that in countries which offer specific "tax holidays" or other tax incentives. There is no capital gains tax in Cyprus.

83. Under the Income Tax laws 1961-1969, the rate of tax payable by companies or other bodies corporate or unincorporate is 42.5 per cent. Allowances are given for capital expenditure incurred on the acquisition of plant and machinery owned by a person and used by him in his trade or business or in scientific research. Allowances are also given on existing buildings or on the construction, reconstruction, extension or adaptation of buildings owned by a person and used by him in his trade or business or in scientific research or let out by him for any purpose. The Capital Allowances granted are as follows:-

(a) Investment Allowances:

Granted at the following rates in respect of new plant and machinery or new buildings in the "basis year" in which the asset is first used and employed in the trade or business or in scientific research -

- (1) Plant and machinery ... 30 per cent on the capital expenditure incurred in acquiring the asset. Prior to 1968 the rate was 20 per cent.

(11) Industrial buildings ... 25 per cent on the capital expenditure incurred on their construction. Prior to 1969 the rate was 10 per cent.

(b) Annual Allowances (wear and tear)

These are granted annually beginning with the "basis year" in which the property is first used. They are calculated on the straight line basis of the estimated useful life incurred on the acquisition or construction, etc., of the property. The rates are as follows:

- (i) Plant and machinery ... varying rates depending on the life of the particular asset.
- (ii) Industrial buildings ... fixed 25 years.

(c) Expenditure on Scientific Research: Spread equally over the "basis year" in which it was incurred and the five subsequent years.

(d) Expenditure on Patent and Patent Rights: Spread over the life of the patent or patent rights.

(e) Balancing Additions or Reductions: The trader is given tax allowances equal to the cost of an asset plus the investment allowance.

(f) Losses can be carried forward: Losses incurred in the "basis year" in any trade or business carried on are in the first instance to be set off against the income from other sources in the "basis year", and any balance left is carried forward and set off against the income of subsequent years.

84. The above incentives have been successful in encouraging industrial development. However, it is considered that the rate of 42.5 per cent taxation on business profits is rather high and serious consideration needs to be given to the possibility of reducing this rate of taxation for manufacturing concerns at least for that part of the profits which is put into reserves.

85. Because of the liberal policy of the Government and the legislative framework applicable to foreign participation in the country's economy and the Government's policy of non-intervention toward business operations generally, whether domestic or foreign, Cyprus has not considered it necessary to define its policies and procedures toward foreign investment in a special piece of legislation such as a "Foreign Investment Law". All available incentives and concessions are enjoyed by both local and foreign investors on the basis of non-discrimination.

86. Apart from the requirement of approval by the Government in the form of a permission issued under the Exchange Control Law by the Central Bank of Cyprus in close consultation with the Ministry of Commerce and Industry, of each proposed foreign investment, there are no particular rules or criteria other than evidence of the prospect of a significant contribution to the country's development. Approved investments are guaranteed full freedom of unrestricted transfer of profits, interest and dividends and repatriation of capital and appreciation under existing exchange control regulations.

87. However, the Government has taken some additional measures in order to encourage foreign investment. For instance, it has signed and ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States administered by the World Bank. An Investment Guarantee Agreement has been concluded between the United States Government and the Cyprus Government whereby the former offers to ensure new United States private investments in Cyprus against the risk of inability to convert foreign currency receipts into dollars and against the loss through expropriation.

88. Agreements for relief from double taxation have been concluded between Cyprus and the United Kingdom, Denmark, Sweden, Eire, Norway and Greece. In addition, negotiations for the conclusion of similar agreements between Cyprus and the U.S.A., Italy and the Federal Republic of Germany have recently been concluded and the relevant Agreements are expected to be ratified soon by the respective Governments.

89. Furthermore, bank interest earned in Cyprus from the import into the country of foreign capital is exempted from income tax during the first three years. Interest on foreign capital which is invested in a business in Cyprus, may also be exempted from tax if the Minister of Finance is satisfied that the interests of the country are best served by such exemption.

90. The above measures, incentives and concessions, have been successful in encouraging foreign investment in the manufacturing sector of Cyprus, and quite a number of foreign companies of international repute have established branches or joint ventures in Cyprus.

91. The overall impact of tariff protection, investment incentives, etc., has been sufficient to stimulate the level of private investment foreseen in the Government's development plans. As already stated in paragraph 59, it had been estimated that during the Second Five-Year Development Plan (1967-71) that fixed investment requirements in the manufacturing sector would be about £27 million. In actual fact the realized investment was £32 million.

V. INSTITUTIONS AND INDUSTRIALIZATION, 1960-71

92. Prior to 1960 there was a Department of Commerce and Industry which was responsible with matters relating to industrial development. However, the Department was very small and its powers and responsibility was limited because major decisions on industrial policy were subject to the approval of the Governor of the Island who in turn was answerable to the British Authorities in London. Furthermore, the Department's yearly budget was so small to have any impact on industrial development. No planning agency existed with overall responsibility for planning.

93. As already stated on the morrow of Independence in 1960, a planning machinery called the Planning Commission was set up as a permanent feature of Government set up. A Ministry of Commerce and Industry was created with overall responsibility for the promotion of industry and for the implementation of the industrial development plan.

94. The Planning Commission has overall responsibility for the preparation of the five-year plans and the issue of relevant policy directives. The Planning Bureau is the Secretariat of the Planning Commission and comes directly under the Minister of Finance. The function of the Bureau is to carry out economic research, surveys, etc., to assist in the drafting of the development plans and to supervise the implementation of plans.

95. The Planning Commission is headed by the President of Cyprus and is composed of the Ministers of the main Ministries including the Minister of Commerce and Industry. Hence the persons ultimately responsible for the implementation of the development plan for each sector of the economy also take part in its formulation.

96. The procedure for the formulation of the broad strategy of industrialization since 1960, is that the Ministry of Commerce and Industry submits to the Planning Bureau proposals for the development plan for the manufacturing sector. On the basis of these proposals the Planning Bureau prepares a draft which is discussed by a Consultative Committee. This Committee consists of Senior Officials of the various Ministries which in one way or another are concerned with industrial development, of representatives of various organisations such as the Cyprus Chamber of Commerce and Industry, the Cyprus Employers' Federation, etc., and of various businessmen. The Chairman of the Consultative Committee is the Director-General of the Ministry of Commerce and Industry. The Committee's views and recommendations on the draft industrial development plan are submitted to the Planning Bureau which then prepares a final draft of the industrial development plan which is then referred to the Planning Commission for final approval.

97. It is the responsibility of the Ministry of Commerce and Industry to coordinate the overall economic activities of the country and to be involved in the formulation of the industrial development plan. It is also responsible for the preparation and formulation of the industrial development plan, and for the implementation of the industrial development plan. The Ministry of Commerce and Industry is also responsible for the conditions to the planning authority.

98. The Ministry of Commerce and Industry is also responsible for the appraisal of the economic viability of an investor who proposes to establish an industry in the country. The Ministry of Commerce and Industry, in the first instance, sends to the Ministry of Commerce and Industry a copy of all details of the proposed project. It may also be required to submit a feasibility study particularly where the proposed industry involves the investment of substantial capital. The Ministry will then evaluate the project and decide whether it is technically and commercial sound and consequently advise whether it should be established or not.

99. The Planning Commission is responsible for appraising in close consultation with the Ministry of Commerce and Industry, the progress achieved during the period of the industrial development plan, to determine the factors which may retard industrial development and devise measures in order to remove such obstacles including the issuing of instructions to the Ministry.

100. The institution responsible for industrial projects implemented in the public sector is again the Ministry of Commerce and Industry which acts in close co-operation with the Planning Bureau. Once the Government decides to establish an industry then it forms a public company to promote and implement the project. Government officials from the Ministry of Commerce and Industry, the Planning Bureau and the Ministry of Finance are appointed as members of the board of the company and in this way the Government is able to have control on the overall performance of the project.

101. The responsibility for implementing investment incentives and other measures used to promote private and foreign investment normally rests with the Ministry of Commerce and Industry. Thus applications for protection, for the issue of an import licence for industrial plant, machinery and equipment, for exemption from import duty on raw materials and components, for industrial sites in the industrial estates, for the establishment of an industry, for the evaluation of applications for the establishment of an industry, etc., are made to the Ministry of Commerce and Industry. However, the administration of taxation is under the Ministry of Finance, and the provision of medium and long-term loans to industry is undertaken by the Cyprus Development Bank Ltd. - a semi-government financing institution. In these cases, the Ministry of Finance consults very closely the Ministry of Commerce and Industry on matters affecting tax incentives, and an official from the Ministry of Commerce and Industry sits on

on the Board of the Cyprus Development Bank Ltd. His views carry a lot of weight in the decisions of the Bank whether to grant a loan or not. In this way coordination is achieved and the Ministry of Commerce and Industry acts as the focal point with which potential investors can negotiate.

102. During the 1950s there was no specialized institution to finance industry. The absence of such an institution resulted in placing the commercial banks under unhealthy pressure to extend loans in short-term guise that were in fact intended for purposes which had a long-term payout. To the extent that such financing was granted, it was unsatisfactory because the industrial borrower had no security of tenure and paid high interest rates. To rectify the situation the Government established the Cyprus Development Bank Ltd., in mid-1963. The Bank is a "mixed" Government and private institution deriving financial support from both the Government and the private sector of the economy. It is organized on the lines of "Industrial Banks".

103. The Bank provides medium and long-term loans for economically and technically sound industrial projects. It also identifies with the help of the Ministry of Commerce and Industry industrial projects, promotes industrial projects, prepares feasibility studies and is authorized to act as underwriter or broker. The main criticisms of the Bank are: (i) its loan fund limitations forcing it to be highly selective; (ii) its relatively high interest charged on loans; and (iii) that it is too "security" minded.

104. The Government has recently set up a Committee consisting of Senior Officials from appropriate Ministries (including the Ministry of Commerce and Industry) to review the operations of the Bank and submit proposals regarding the role which the Bank should play in the future in the financing of industrial and other projects.

105. During the 1950s there were no specialized training institutions to improve the supply and quality of skilled labour for industry. To meet the growing needs of industry of managers and skilled personnel, the Government has established since 1960 technical schools, the Cyprus Productivity Centre, the Higher Technical Institute, and an Apprenticeship Training Scheme.

106. There are two types of technical schools. One type provides a four year vocational training programme and aims at supplying local industry with skilled workers and craftsmen and the other type provides a six year education and technical training supplying industry with technicians. The Cyprus Productivity Centre aims at promoting a rapid and significant increase in productivity by providing vocational and in-plant training to workers in industry and training in the techniques of modern management to supervisors, foremen and managers.

The Director of the Department of Technical Education is responsible for the technical education of the country. He is also responsible for the training of teachers and for the development of the technical education system. The Institute of Technical Education is established to provide technical education through a system of open learning. It is also responsible for the development of a reserve industrial programme for the country by providing organized short courses available to the public and for the development of a training scheme for the country. The Institute is also responsible for the following: (a) to increase the number of technical graduates in the country and (b) to increase the number of technical graduates in the country to meet the acute demand for them.

107. The Research and Industrial Development Section of the Ministry of Commerce and Industry is responsible for promoting private investment in industry both domestic and foreign. In this connection it carries out surveys with a view to identifying investment opportunities and disseminate the findings of such surveys so as to bring a potential opportunity to the notice of local and foreign potential investors. It also assists in the preparation and appraisal of industrial feasibility studies or pre-investment studies; it assists in the promotion of industrial projects; it carries out research on general problems of industry; it promotes the sale of locally manufactured goods in the domestic market by undertaking extensive publicity campaigns, etc. In order to be able to carry out the above functions more effectively and efficiently, the Section is now being strengthened with the assistance of UNIDO under the UNDP Country Programme. In this respect UNIDO will provide experts to train local staff.

108. The Exports Section of the Ministry of Commerce and Industry in close co-operation with the Research and Industrial Development Section is responsible for promoting exports of manufactured goods. In this connection, it carries out extensive advertising campaigns in important overseas markets, operates a trade centre in London, participate in international fairs and exhibitions, subsidizes the participation of Cyprus manufacturers and exporters in international fairs and exhibitions, organizes trade missions in important overseas markets, invites foreign buyers to visit Cyprus and discuss business with Cyprus manufacturers and exporters, carries out market research in important overseas markets for various products in order to identify export possibilities, etc. The Ministry of Commerce and Industry is presently proceeding to set up an export credit and export credit guarantee scheme to finance exports of manufactured goods and to insure such exports against risks. The scheme will be administered by the Exports Section of the Ministry.

109. In furtherance of the above objectives, the Ministry of Commerce and Industry has received UNIDO assistance to establish a national information service, to provide technical information and to provide technical assistance in the design, machinery and equipment, materials, etc. The Government has been lacking in industrial development due to the absence of a national information service. In order to rectify this situation the Ministry of Commerce and Industry has recently established, with UNIDO assistance under the UNDP Country Programme, a Standard and Quality Control Institute which will be administered by the Research and Industrial Development Section of the Ministry. The Institute will contribute to the raising of the quality of locally manufactured goods, the simplification of production and distribution methods, the development of waste and the consequential reduction of costs. The Institute will draft standard specifications and will promote their implementation by industrialists. In addition, it will run a quality control service which will award certificates of quality and will provide technical advice on the implementation and operation of quality control systems within each enterprise.

110. As already stated, the Ministry of Commerce and Industry has recently established within its Research and Industrial Development Section and with UNIDO assistance under the UNDP Country Programme, an Industrial Extension Service. The Industrial Extension Service in close cooperation and consultation with other Government agencies such as the Cyprus Productivity Centre, the High Technical Institute, etc., will provide consultative services for the manufacturing of new products, the use of new production methods, the overcoming of technical problems, the improvement of quality, a national information and reference service, product design and adaptation, selection of most appropriate machinery and equipment, etc.

111. In the light of the above it can be concluded that the Ministry of Commerce and Industry through its Research and Industrial Development Section and its Export Section has overall responsibility to effectively promote and manage the process of industrialization in Cyprus. These Sections are presently being strengthened with UNIDO assistance so that they can have the power and influence that corresponds to the growing importance of industrialization to the country's economy. As the Third Five-Year Plan (1972-76) states: "The most significant measure to be taken during the Third Plan in the field of promoting industrial development (including export promotion) will be the reorganization and strengthening of the industrial development services of the Ministry of Commerce and Industry under a new UNDP assisted project in order to render them more effective. The project will cover the provision of expert and other assistance by the UNDP to the Ministry of Commerce and Industry in various fields aimed at establishing/<sup>new</sup> and strengthening existing industrial



services and institutions related to industrial development", in this way the activities of almost all institutions concerned with industrial development will in one way or another come under the umbrella of the Ministry of Commerce and Industry thus achieving better coordination of effort.

TABLES OF STATISTICS

ANNEX A

Table 1. List of 25 major industries established since 1950

<u>Products produced by the enterprise</u>	<u>Date established</u>	<u>Capital invested (1970)</u> £m.	<u>Annual sales (1970)</u> £m.	<u>Cost of imported supplies (1970)</u> £m.	<u>Tariff Protection</u> per cent
1. Wines	1950	2.86	3.22	0.08	Preferential (General) £2,980 mills per gallon
2. Wines	1950	1.51	1.66	0.05	As above
3. Milk bottling	1950	0.45	0.51	0.07	N.I.I
4. Ice cream	1950	0.21	0.15	0.03	30
5. Soft drinks	1950	0.18	0.69	0.20	16
6. Animal fodders	1950	0.15	1.00	0.76	N.I.I
7. Tanned skins	1950	0.10	1.32	0.03	16
8. Canned fruits	1954	1.00	0.67	0.21	40
9. Knitted underwear	1955	0.43	0.48	0.23	37
10. Cement	1956	1.40	0.72	0.04	£0.28 mills per ton
11. Cigarettes	1959	0.44	0.95	0.53	£11,500 mills per ckg./1
12. Footwear	1960	0.12	0.26	0.11	43
13. Animal Fodders	1961	0.50	1.37	1.14	N.I.I
14. Litheworks	1962	0.61	0.33	0.14	26
15. Shirts, Coats and Trousers	1965	0.35	0.78	0.35	37
16. Cigarettes	1967	0.86	0.66	0.23	£11,500 mills per ckg.
17. Beer	1967	0.70	0.45	0.09	£0.920 mills per gallon
18. Cement	1967	2.70	2.09	0.11	£0.280 mills per ton

19. Steel tubes	1967	0.33	0.65	0.61	20	20
20. Canned fruits	1968	0.45	0.48	0.13	40	44
21. Plastic household goods	1968	0.26	0.62	0.35	28	36
22. Multi-paper sacks	1969	0.10	0.26	0.19	50	50
23. Corrugated cartons	1970	0.50	0.45	0.34	16	21
24. Salted nuts and crisps	1970	0.22	0.21	0.09	20	25
25. Terry towels	1970	0.18	0.17	0.08	20	28

1 The oke is a local unit of weight and is equal to 1.27 kg.

**Table 2. Composition of Gross Domestic Product**  
Local currency, constant prices 1958

	1950 £m	1959 <sup>2/</sup> £m	1960 £m	1970 £m	1971 £m	Growth rates		
						1950-59 <sup>3/</sup>	1960-70	1970-71
Agriculture	10.6	13.4	10.1	32.9	41.6	2.6	7.3	26.4
Mining and Quarrying	4.8	6.5	6.9	8.6	9.0	3.4	2.2	4.7
Electr., Gas, Water	0.2	2.0	1.8	5.0	5.2	29.1	10.8	4.0
Manufacturing <sup>1/</sup>	5.9	6.9	9.8	22.2	24.6	1.8	8.5	10.
Other Sectors	17.2	26.3	30.2	103.7	112.8	4.8	7.5	5.8
<b>Total GDP</b>	<b>38.7</b>	<b>55.1</b>	<b>84.8</b>	<b>172.4</b>	<b>193.2</b>	<b>4.0</b>	<b>7.3</b>	<b>12.1</b>
<b>GDP (U.S. \$'000)</b>	<b>110,295</b>	<b>157,035</b>	<b>241,680</b>	<b>491,340</b>	<b>550,620</b>			
Population (thousands)	494	567	573	633	645			
GDP per capita (\$)	223.27	276.96	421.78	776.20	852.67			

**Table 3. Balance of International Trade**

	Local currency £m	
	1960	1972
Exports	10.5	19.8
Imports	12.0	33.5
Trade Balance	-1.5	-13.7
Exports of manufactured goods	-	2.4
Imports of manufactured goods	-	13.3

Local Currency

2.65 U.S. \$ to the £

- 1/ Including Cottage Industry  
 2/ Figures for the years 1960 - 1969 are based on constant prices of 1960  
 3/ Growth rate based on 1960 constant prices

**Table 4. Number of persons actively employed in the economy**

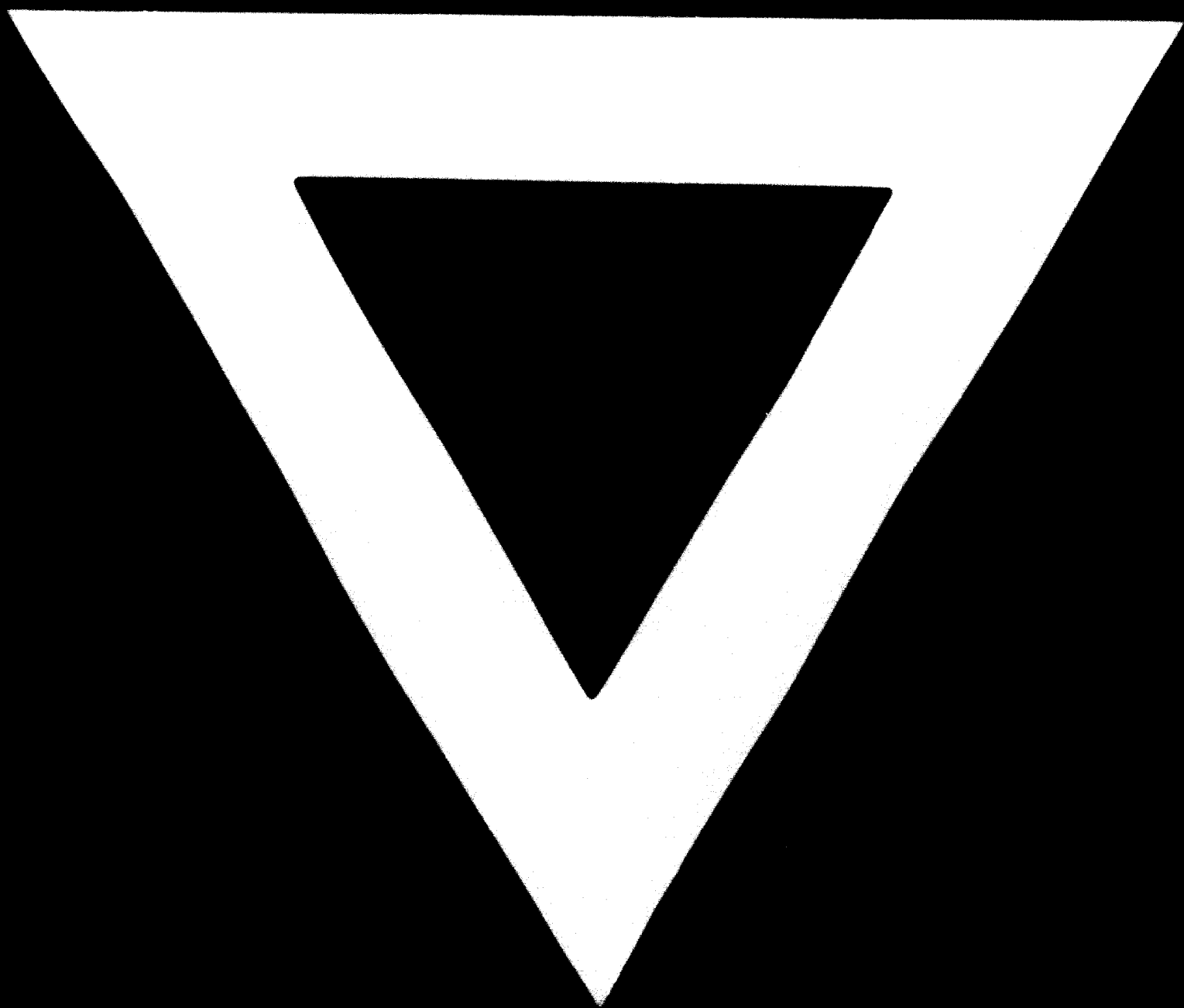
	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u> <sup>2/</sup>
Agriculture	n.a.	96,200	96,200	n.a.
Mining & Quarrying	n.a.	4,800	4,200	3,887
Electr., Gas, Water	n.a.	1,000	1,300	1,965
Manufacturing	n.a.	31,600	34,235	34,976
Other sectors	n.a.	102,700	137,065	n.a.
<b>Total economy</b>	<b>n.a.</b>	<b>235,300</b>	<b>269,000</b>	<b>n.a.</b>

**Table 5. Number of persons employed in manufacturing sector**

	<u>Census Year 1954</u>	<u>Census Year 1962</u>	<u>Census Year 1967</u>	<u>Census Year 1972</u>
<u>Enterprises employing over 100 persons</u>	9	19	24	28
Number of enterprises	1,512	2,786	3,924	4,921
Total employed				
<u>Enterprises employing 10-99 persons</u>	209	320	431	523
Number of enterprises	4,038	7,488	10,206	12,988
Total employed				
<u>Enterprises employing 1-9 persons</u>	11,114	11,080	5,349	6,137
Number of enterprises	20,143	20,008	12,151	13,561
Total employed				

<sup>1/</sup> Excluding Cottage Industry

<sup>2/</sup> Provisional figures



**9 . 8 . 74**