

*Local Governance Actors in Times of Economic Crisis:  
Evidence from Case in the Republic of Cyprus*

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**[Work in progress. Please do not quote. Comments welcome]**

Abstract

Cypriot local actors have always been under the overwhelming control of central government structures. Constitutional constraints, administrative limitations and financial dependence upon the central government make this level of governance of the political system of the Republic of Cyprus rather weak. The accession of the Republic of Cyprus to the European Union in 2004, albeit providing Cypriot local actors with a *new political sphere* and a *new funding source*, seems not to have revolutionized the situation, despite offering numerous new opportunities. The thorough reform process undertaken in the post-accession period, stretching from 2010 to 2021 still remains at an early stage to have yielded a noticeable change. In this respect, the current economic crisis constitutes both an opportunity and a challenge. Against this background, it is interesting to examine how Cypriot local actors have perceived, anticipated and faced the current economic crisis. The basic research question of this paper is to explore the extent to which the current economic crisis has increased self-motivation, the taking up of initiatives and further empowerment of key actors, in search for more administrative and financial autonomy at the local level. What was the impact of the loss of income on their working methods, administrative practices and leadership culture? Did it lead to the establishment of strategic partnerships and to the enhancement of the infrastructure for EU funding sources? Building on the theoretical and analytical framework of Europeanization and path dependency, and based on empirical data derived from questionnaires and interviews of mayors and other local actors of the Republic of Cyprus, this paper offers both a theoretically and empirically informed analysis. This paper argues that while the crisis has seriously affected local actors, the response to the crisis has been path dependant.

## **A. Introduction**

This paper is a part of a wider research work on the Europeanization of the Local Governance in the Republic of Cyprus (ROC). The project aims at examining the impact of the EU on the Cypriot local actors and the response of the latter to the challenges set by the former. In terms of scope, this work covers all the actors included in the local governance system of the ROC, i.e. 39 Municipalities and 488 Communities.<sup>1</sup>

Local governance is defined as the *"emerging new forms of collective decision-making at local level which lead to the development of different relationships, not simply between public agencies but between citizens and public agencies"*(Goss,2001:11).

As it has been indicated by John (2004: 17) the changing environment that the local actors face produces more complex problems that increase the possibilities for reformist attempts to take place. As it will be described in the following parts of this work, a reform process has been developing in the ROC, targeting the local actors. This long due reform process, which is at an early stage of its implementation, has been seriously affected by the current economic crisis, increasing the interest of the Cypriot local actors' response to the crisis.

## **B. Theoretical and Analytical Framework**

### *B.1. Understanding Europeanization in a Path Dependant Approach*

Europeanization has initially been conceptualised as a "top-down" process focussing on the transfer of rules and practices from the EU to its member-states and their institutions. According to Radaelli's (2000:4) inclusive definition change derives from the EU to the domestic level that downloads it and tries to adapt to it.<sup>2</sup> The continuously expanding academic focus on Europeanization resulted in the development of additional research approaches. These include the 'bottom-up' approach, where the EU member-states are seen as capable of affecting the formulation of policy at the EU level by uploading their own preferences to reduce adaptation cost, and the 'horizontal' approach that sees the EU member-states as being capable of cross-loading knowledge and best practices between them (Howel,2004:5). Linkages could occur between different processes of Europeanization because the governments of the member-states tend to: *'influence EU*

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<sup>1</sup>These include 9 Municipalities and 137 Communities have been displaced to the area controlled by the ROC due to the military intervention of Turkey in 1974 and the consequent occupation of 37% of the territory of the island.

<sup>2</sup>Radaelli(2000:4)saw Europeanization as a *"process involving, a) construction, b) diffusion and c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things' and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and sub-national) discourse, political structures and public choices."*

*policies to reduce domestic adjustment costs and to engineer adjustment pressures strategically if they favour domestic change* (Börzel & Sedelmeier, 2006:54).

Different approaches to Europeanization research focussing on the potential offered to them in terms of improving their capacities were applied. Heinelt & Niederhafner(2008:173-174) saw Europeanization offering local actors access to a 'new political sphere' that may increase their autonomy. Marshall (2005:669-674) proposed his model of 'Urban Europeanization' which sees that the local actors can *download* Europeanization (meet the criteria for EU funding or implement EU legislation) *upload* Europeanization (become active policy shapers) and *cross-load* Europeanization (disseminate best practises via transnational networks).

Based on Marshal's analysis this work makes use of all three approaches to Europeanization while attempting to examine the response of the Cypriot local actors to the global economic crisis. The empirical data of this work derived from semi-structured questionnaires sent to all 527 Cypriot local actors during February -April 2013 and from interviews from mayors and chairpersons of communities. During the same period, structured interviews were conducted with a number of Mayors.

Additional analytical theoretical insights are expected to derive from 'path dependency', that indicates that past decisions affect future decisions by limiting available options. The perceived increased returns resulting from staying at the same path in relation to the perceived high costs deriving from changing paths do not facilitate change (Pierson, 2004).

Yet, change is possible during 'Critical junctures' that offer increased opportunities for key institutional reforms to happen that will be followed by prolonged stretches of institutional stability (Prado & Trebicok, 2009:358).As it will be demonstrated further on in this work, both the accession to the EU and the current economic crisis constitute critical junctures and thus, can provide Cypriot local actors with the necessary potential for change.

## **C. Local governance in the Republic of Cyprus**

### *C.1. The Current Condition*

The ROC was established in 1960, after an anti-colonial struggle against the British. The state-building process was difficult, including conflicts between the two communities and foreign interventions (Agapiou-Josephides, 2011:161). The ROC joined the EU on 1 May 2004 and the Eurozone in 2008.<sup>3</sup>

The basic structure of the local governance system dates back to the British colonial era during which the six administrative units -'*Districts*'- were created and modernizing

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<sup>3</sup>The *acquis communautaire* is suspended in the area that is not under the effective control of the ROC.

measures were taken.<sup>4</sup> It was also a key issue at the heart of the Cyprus problem and its bi-communal character (Markides, 2001).

During the post-colonial period the position of the local actors remained problematic due to the re-examination of the article 173 of the Constitution regulating the issue of the separate municipalities.<sup>5</sup> Due to ethnic polarization this issue resulted in the breakout of violence and to the deployment of a UN peace-keeping force on the island in 1963. The fragile peace on the island was further jeopardised as a result of the coup d'état that the Greek military government planned against President Makarios and the Turkish invasion that followed in 1974. Starting from April 25<sup>th</sup> 1963, in the aftermath of the first inter-communal clashes, persons responsible for managing the local actors were appointed by the government restricting thus local democracy (Markides, 2009: 348-9). This practice was eventually stopped in 1986 when the first Municipal elections took place after the adoption of the *Municipalities law of 1985*. This, together with the *Communities law of 1999*, contributed to some extent to the advancement of the status of Cypriot local actors.

Against such historical background, the future of local authorities could not seem bright. Their general situation has always been restricted both politically and financially, making it difficult for them to enjoy financial and thus political autonomy. Local authorities have limited administrative capabilities and operate under the hierarchical control of the central state, embodied by the appointed district officers (Markides, 2008:186-188). Financially, they face vast debt problems, have minimum means of income and are highly dependent on the central state whose grant allocates them about 40% of their overall budget (Auditor General 2011). This massive economic dependence on the central state created a path allowing minimum self-motivation and minimum taking up of initiatives.<sup>6</sup>

Although, the accession to the EU (2004) constituted a critical juncture by causing reforms and institutional adjustment to the wider political, economic and administrative system of the ROC<sup>7</sup>, it did not impact significantly on local actors constituting and hence leading to a missed opportunity.

An incremental reform process was launched in 2010, expected to conclude in 2021, aiming at bringing about significant structural changes consisting in merging tiny, small and medium sized local authorities into bigger entities. (National Centre for Public Administration and Local Government, 2010: 26-44). The overall success of this far-reaching reform process, will depend on the approaches that will be adopted *vis à vis* the crisis, which constitutes the second critical juncture. It can be either accelerated or

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<sup>4</sup> The Municipalities had to publish their annual budgets for the management of whom both the Mayor and the Councilors were held accountable. For more: Tornaritis (1972) p. 16.

<sup>5</sup> The 1960 Constitution organized the government structure on the basis of separating the Greek-Cypriot community from the Turkish-Cypriot community along with protecting their privileges. Thus, according to Tzermias (2004:456) the implementation of the constitutional provisions became an issue of increased political difficulty resulting to the constitutional breakdown of 1963.

<sup>6</sup> The Municipalities' dependence on the central state is less than the one of the Communities, allowing for some room for initiatives.

<sup>7</sup> For more see: Featherstone (2000); Agapiou-Josephides (2004, 2003); Sepos (2005, 2008).

slowed down. Inertia is not excluded either, though unlikely to happen, because it is part of the Memorandum of Understanding with the Troika.<sup>8</sup>

Right after Greece, Ireland, Portugal, and Spain, Cyprus found itself to the unpleasant position of not being able to serve its sovereign debt and requested an IMF-EU bailout package.<sup>9</sup> After long negotiations with the Troika representatives, a final €10 billion agreement was reached on March 25 2013 between Cyprus and Troika imposing austerity measures, the recapitalization of the banking sector and the adoption of a programme for structural reforms.<sup>10</sup> This bailout/bail in agreement is expected to affect the whole reform process, acting both as a challenge and as an opportunity for change.

## **D. Analyzing Evidence from Cyprus**

### *D.1. A Path Dependant Response*

There was considerable evidence of the downloading process of Europeanization regarding implementing EU legislation and meeting the criteria for EU funding. The former has brought new powers to the local actors particularly via the various harmonization laws.<sup>11</sup> The latter inspired local actors, especially the large Municipalities, to attempt to adjust to the operating logic of the European programmes. Based on the sample analysed to date, we noticed that the Municipalities were more active in trying to increase their EU funding. Thus, they adapted their institutional structures by establishing committees of European affairs, employing EU specialized officers and establishing district development agencies.

We observed that the six biggest Municipalities in terms of population have taken more initiatives attempting to attract additional EU funds during the last three years (2010-2012) where an average decrease by 21% of the government grand occurred due to the economic crisis. Yet, as the table here below indicates, only three of the biggest Municipalities in terms of population have managed to secure significant funding allocations from the Structural Funds.<sup>12</sup>

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<sup>8</sup>Mémorandum of Understanding on Specific Economic Policy Conditionality. Available at: <http://www.mof.gov.cy/mof/mof.nsf/final%20MOUf.pdf> (Accessed 14 May 2013).

<sup>9</sup>Serious concerns about the ability of Cyprus to pay its long-term bonds were created by the mass exposure of Cypriot banks to the Greek debt restructure (March 2012), the sluggish progress in fiscal and structural reforms and the demotion of the Cypriot economy into junk status by international rating agencies.

<sup>10</sup>Council of the European Union (2013). Eurogroup Statement on Cyprus. Available at: [http://www.consilium.europa.eu/uedocs/cms\\_Data/docs/pressdata/en/ecofin/136487.pdf](http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/136487.pdf) (Accessed 30 March 2013)

<sup>11</sup>*The coordination of the procurement process law 12(1) of 2006 and the Solid and Hazardous Waste Law 215 (I) of 2002.*

<sup>12</sup>For the remaining Municipalities the funding sources included programmes such as ISLE PACT, EDEN and the LLF programme.

Table 1

2007-2013 Structural Funds Programmes Currently Implemented by the Municipalities

	Nicosia Municipality	Limassol Municipality	Larnaca Municipality
Budget	€7.000.000	€18.600.000	€13.900.000

Source: Planning Bureau 2013

This development is attributed to the minimum interest of the government to improve the capacities of the local actors prior to the accession to the EU.<sup>13</sup> Yet, it should be noted that several pre-accession programmes were funded that gave the chance to the biggest Municipalities and especially Nicosia to enhance their structures. Significant gains were earned by the Municipalities that participated in European programmes including funding for the creation or for the enhancement of facilities. Finally, it was stressed that in the context of these programmes local actors managed to increase the degree of their autonomy *vis-a-vis* the central state.<sup>14</sup>

We did not observe significant evidence of the up-loading process of Europeanization, since the Cypriot local actors lack both the assets and the personnel to develop individual contacts with European institutions and by-pass the central state and this is to some extent understandable.<sup>15</sup> The small size of Cyprus, its island status and the hindrances deriving from its unsolved political problem create further restrictions that limit the chances for the up-loading process of Europeanization to occur at a large scale. Evidence of this process was mainly limited to the establishment of offices in Brussels via the respective unions of the Municipalities and the Communities. The Office will rather serve the downloading than the uploading process. Exceptions included three Municipalities i.e. Nicosia, Famagusta and Pafos who's Mayors were the former president, the current president the current vice-president of the union of Municipalities that assisted them in having a more outgoing profile.

Cross-loading seemed to be the easiest way in which the Cypriot local actors are becoming Europeanized. The reasons for this have to do with the dynamic logic of this process of Europeanization that does not depend on hierarchical structures but on the participation on pan-European networks. While, all the interviewed Mayors expressed the belief that the economic crisis could offer a chance to the local actors to develop own initiatives, we noticed that significant change to their working methods and administrative practises occurred mostly via this process of Europeanization. On the one hand, the Municipalities, especially the biggest ones, increased their efforts to participate

<sup>13</sup>Louroutziatis, A. Mayor of Larnaca. Interview, 9 April (2013).

<sup>14</sup>Yiorkatzis, C. Mayor of Nicosia. Interview, 14 May (2013).

<sup>15</sup>Vergas, S. Mayor of Pafos. Interview, 17 April(2013).

to pan-European organizations such the Council of European Municipalities and Regions (CEMR) and Eurocities. The gains earned from this participation were highly valued by the local actors stressing: *‘the interactive flow of information on European programmes and local issues and the opportunity to establish relations that could lead to partnerships in future programmes’*.<sup>16</sup> However, the Communities did not have the means to participate on these networks on their own. Thus, they concentrated their attention to the dissemination of best practices via local networks such as the respective district development agencies.

Interesting results are revealed when using the explanatory mechanisms of path dependency to analyse the findings. The first critical juncture, the accession to the EU, was a missed opportunity in terms of local governance reform output. The *new political sphere* and *new funding opportunities* have not been utilised or instrumentalized in the financial autonomy reform agenda.

Table 2: Number of staff in the six biggest Municipalities

Nicosia	Limassol	Strovolos	Larnaca	Pafos	AgiosAthanasios
444	421	258	326	236	73

Source: Data emanating from the Municipalities and Communities Questionnaires.

Due to the limited political condition of the local actors and the economic dependence on the central state, only the biggest Municipalities have managed to take advantage of this critical juncture and change paths. For the remaining local actors, especially the Communities, the path and the policy legacies remain restricted by a strict and interfering system of public administration that never fostered the self-motivation of its local actors. In this context, during the analysis of the data we observed cases where the central state structures in charge of the overall implementation of the Cohesion Policy in Cyprus, behaved in a non-conducive way for accessing Structural Funds’ programmes: The government at that point in time acted as a stabling block rather than a facilitator or a gate-keeper.

Table 3: Budgets of the six biggest Municipalities

Budget	Nicosia	Limassol	Strovolos	Larnaca	Pafos	AgiosAthanasios
2012/€	34.639.097	41.818.271	20.481.873	22.682.466	21.107.560	5.095.183

Source: Municipalities and Communities.

<sup>16</sup>Data emanating from the Municipalities and Communities Questionnaires

The second critical juncture, the current economic crisis, has been further challenging the Cypriot system of local governance. Yet it is obvious that the loss of income remain a big obstacle for any reform process and that the reactions to it have been path dependant. While all local actors have taken measures of economic consolidation, it is indicated by tables 2 and 3 that a combination of increased financial means, efficient structures and adequate personnel is necessary to act proactively and react efficiently to the current economic crisis. The actors that met these conditions took initiatives to attract new funding and some of them event went as far as to try to develop individual contacts at EU level. Alternatively, the increased motivation to participate to pan-European and local networks provided the local actors with an easy and dynamic way to study new practises that was distant from the domestic hierarchical relations (Heinelt & Niederhafner, 2009:173).

An opportunity for further change could be offered by the bailout/bail in agreement, since the condition to re-structure local governance has been included in it.<sup>17</sup>Consequently, we could expect strong exogenous pressures to be in effect, potentially accelerating the reform process. However, the role of endogenous factors is of crucial importance. Hence, both powers and tax collecting capacities should be decentralized at the local level as soon as possible in order for the reforms to be successful.

## **E. Conclusions**

The Europeanization of local actors in Cyprus has definitely been path dependant. Down-loading has been, to date, its main feature, though limited in scope. Up-loading has been inexistent and cross-loading a valuable axis. While the economic crisis has seriously affected Cyprus's economy and public sector in general and local actors in particular, the response of the latter has been manifold and path dependant. Domestic dynamics, according to available options and limitations, contributed in shaping differentiated responses to the crisis. Administrative infrastructure, human and financial resources, as well as micro-political considerations illustrate this reality.

Challenges and opportunities, inherent in any economic crisis of such scale, have neither been appropriately nor equally used to bring about much needed and long due reforms at local governance level. The *new political sphere* and the *new funding opportunities* have only partly been exploited. It is too early to judge whether the crisis will act as an accelerator for the on-going reform process so as to provide Cypriot local actors with opportunities to improve their situation in the future. According to our preliminary findings, it seems that the current economic crisis has, at least to some extent, stimulated local actors interest in taking up initiatives aiming at improving their situation in the country's political system. Empirical evidence suggests that, even in this case, they still have to overcome micro-politics gate-keeping, nay, stumbling blocks approaches.

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<sup>17</sup>Memorandum of Understanding on Specific Economic Policy Conditionality. Available at: <http://www.mof.gov.cy/mof/mof.nsf/final%20MOUf.pdf> (Accessed 14 May 2013).



Challenges and opportunities are there. The different choices made by local actors, will determine their further empowerment or their disempowerment.

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**Levels of Human Capital, Gender Education and Foreign Direct Investment in  
Greece and Cyprus: New Empirical Tests**

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**Abstract**

Foreign Direct Investment has been found in the literature that can be beneficial for the growth prospects of a country. This is of particular importance for developing countries. For that reason countries have adopted measures for attracting FDI. The experience of the majority of the empirical work is consistent with the importance of human capital on inward FDI, while giving no clear picture of the minimal level of human capital that is essential nor the level/type of human capital that is most effective.

The analysis covers developed countries belonging to the OECD and the EU27 while giving particularly emphasis in Greece and Cyprus (see in appendix 1.1). We exercise the variables of enrollment, completion and gross entry ratios, average years of schooling, labour force, age/ duration, expenditure in private and public institutions according primary, secondary and tertiary education levels.

The objective of this paper is to explore, and empirically investigate a more accurate and detailed picture of the relationship between FDI and human capital for Greece and Cyprus that can make up a foundation for policy and strategy implications for host country governments and MNCs. The research should document differences in human capital of Greece and Cyprus in affecting FDI, the role of each country's human capital resources as a determinant of FDI and MNC operations.

Keywords: FDI, human capital, gender, labour force