



EUROPEAN CLUSTER
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Country factsheet

Cyprus

An initiative of the European Union





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01

Introduction and economic policy context



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1. Introduction and economic policy context



This document presents an overview of the cluster policy in Cyprus. Given the importance to contextualise the cluster policies (and related) analysed in the factsheets, a comprehensive outlook of the country in socioeconomic terms can be consulted in the [European Semester Country Report for Cyprus](#). The European Semester is an instrument introduced to coordinate the EU Member States economic policies and address the economic challenges faced by the EU. Its goals are “to ensure

sound public finances, to prevent excessive macroeconomic imbalances in the EU, to support structural reforms to create more jobs and growth, and to boost investment”. Thus, it focuses on the following areas: business environment; financial and fiscal stability; green economy; public administration; labour market and skills; and, social protection and cohesion. Chapter 4.2 of this factsheet provides an overview on how Cyprus’s clusters and cluster policy can help to tackle the economic policy challenges identified in the European Semester country recommendations.

The COVID-19 pandemic has caused an unprecedented economic shock to the European and global economy. In response, policymakers at EU and national level have acted decisively and at short notice to make available very significant financial resources, notably through the Recovery and Resilience Facility, to tackle the threat of a prolonged downturn. [National recovery and resilience plans](#) have been drafted in each Member State to ensure a recovery that addresses the challenges identified in the European Semester. In Cyprus, clusters are directly mentioned in the National recovery and resilience plan in the priority area aiming to improve access to finance for SMEs. The enhancement of competitiveness will be achieved through the creation and development of clusters.¹ In addition to the COVID-19 pandemic, the ongoing Russian military aggression against Ukraine has also taken its toll on EU companies and industrial ecosystems, highlighting the significance of policy efforts in supporting SMEs and clusters.

Cyprus was the first country to have its Cohesion Policy operational programme approved for the European Regional and Development Fund (ERDF), the Cohesion Fund, the Just Transition Fund (JTF) and the European Social Fund Plus (ESF+).

Cyprus Operational Program (OP) for the Cohesion policy funds 2021-2027 [THALIA 2021-2027](#) mentions the strengthening of SMEs through the creation, development and management of business clusters. In particular, the ERDF will finance by 2024 part of the first national call for proposals specifically targeting the strengthening of cluster networks in Cyprus for an amount of EUR 5 million.

In the following, a succinct overview of the cluster policy in Cyprus will be provided. The structure of this factsheet generally encompasses:

- 1) an overview of the industrial ecosystems and cluster landscape in Cyprus,
- 2) an overview of a broad policy,
- 3) an assessment of the state of play of the national cluster policy and its capacity to tackle wider economic policy challenges mentioned in the European Semester Reports.

¹ Cyprus National Resilience Plan [http://www.cyprus-tomorrow.gov.cy/cypresidency/kyprostoavrio.nsf/all/B37B4D3AC1DB73B6C22586DA00421E05/\\$file/Cyprus%20RRP%20For%20Upload%2020052021.pdf?openelement](http://www.cyprus-tomorrow.gov.cy/cypresidency/kyprostoavrio.nsf/all/B37B4D3AC1DB73B6C22586DA00421E05/$file/Cyprus%20RRP%20For%20Upload%2020052021.pdf?openelement)

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Industrial ecosystems and cluster landscape



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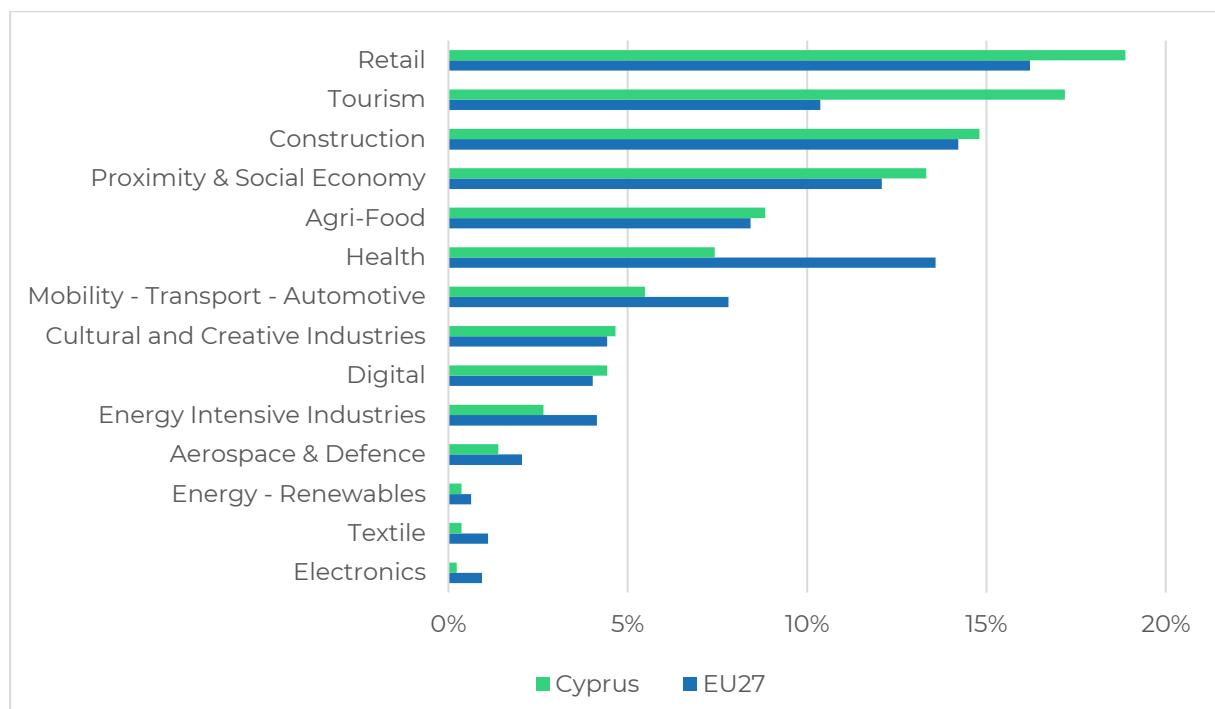
2. Industrial ecosystems and cluster landscape

2.1 Employment in the 14 industrial ecosystems

As part of its Industrial Strategy (March 2020), the European Commission has identified 14 industrial ecosystems that encompass all players operating in a value chain.² The classification of the 14 industrial ecosystems have been calculated by aggregating NACE 2 -digit activities, following the methodology established in the European Commission.³ This means that the data provided below can differ from other publications by the European Commission that do not consider the industrial ecosystem classification.

In Figure 1, the employment share of Cyprus and the EU27 in each industrial ecosystem is shown relative to the number of employed persons in the 14 industrial ecosystems. The ecosystems are ordered, from top to bottom, according to the amount of employment in the country. When the bar for the country is higher than that of the EU27, it indicates that the country is more specialised in that ecosystem. For Cyprus, the three main ecosystems by employment are “Retail”, “Tourism” and “Construction”. Moreover, Cyprus also has an above average employment share in these ecosystems which highlights the relative strength of the country in these ecosystems.

Figure 1: Employment across the ecosystems



Source: ECCP (2023), own elaboration from Eurostat.

² see here for more information <https://clustercollaboration.eu/in-focus/industrial-ecosystems> (last access 09.01.2023).

³ see European Commission (2022): Annual Single Market Report, SWD(2022).



2.2 Regional agglomerations

Economic activity is not equally distributed across regions in the EU but tends to agglomerate in certain places. In this context, an agglomeration is defined as the concentration of a certain industry, sector or ecosystem in a certain geographical area. The following section provides an analysis of, first, the sectoral agglomerations and, second, the ecosystem agglomerations in the regions. Agglomerations are operationalised through the employment-based Location Quotients (LQ), measuring the relative specialisation of one region compared to the EU level, as well as the employment size.

If the LQ for a given activity-region combination is above 1.5, it is considered an agglomeration, and if the activity accounts for at least 1 % of total employment in the region, it is considered a regionally relevant agglomeration.⁴ Table 1 shows the total number of regionally relevant specialisation agglomerations in each region in the country and identifies the top five most specialised of these agglomerations. The first table focuses on the 88 NACE 2-digit activities or sectors, totalling 9 in the country, while the second table is based on the 14 ecosystems, with 1 in the country.

Table 1: Number of regionally relevant sectoral agglomerations and Top 5 agglomerations by region (NACE)

Region	Number of agglomerations	Agglomeration 1	Agglomeration 2	Agglomeration 3	Agglomeration 4	Agglomeration 5
CY: Cyprus	9	I55 - Accommodation	T97 – Activities of households as employers of domestic personnel	K66 – Activities auxiliary to financial services and insurance activities	F41 – Construction of buildings	M69 – Legal and accounting activities

Source: ECCP (2023), own elaboration from Eurostat.

Overall, there are fewer numbers of ecosystem agglomerations compared to the regionally relevant sectoral agglomerations by NACE sectors. This more concentrated agglomeration can at least partially be linked to the methodology of measurement of the 14 industrial ecosystems. Cyprus' NACE agglomerations align with one official ecosystem that shows in Table 2 and one that does not show but is also integral to the Cypriot economy. The first is tourism which is linked to accommodation (I55) and construction (F41). The second, which is not captured by the ecosystem categorisation, is Cyprus status as a place for international financial services. This ecosystem is responsible for the strong agglomerations in auxiliary activities to financial services and insurance activities (K66), legal and accounting activities (M69) and affects also the agglomerations of activities of households as employers of domestic personnel (T97) as well as construction (F41). The agglomeration in Table 2 further underline the relative strength of the Cypriot in the tourism ecosystem (see Figure 1).

Table 2: Regionally relevant ecosystem agglomerations

Region	Number of agglomerations	Agglomeration 1
CY: Cyprus	1	Tourism

Source: ECCP (2023), own elaboration from Eurostat.

⁴ for more information on the methodology please see the methodology note: <https://clustercollaboration.eu/in-focus/policy-acceleration/country-factsheets-on-cluster-policies-and-programmes> (last access 09.01.2023).



2.3 Cluster organisations & interregional cooperation

Cluster organisations in the regions

There are three Cypriot cluster organisations registered on the ECCP.⁵ One of these cluster organisations is operating in the industrial ecosystem “Agri-food”. The other two cluster organisations have not provided this information. SMEs (92%, EU: 83%) followed by research organisations (6%, EU: 7%) and large enterprises (2%, EU: 9%) constitute the majority of member organisations of Cypriot cluster organisations with profiles on the ECCP.

International cooperation

The European Cluster Partnerships and the INNOSUP-1 initiative were launched by the European Commission to encourage clusters from Europe to intensify collaboration across regions and sectors. Cyprus cluster organisations have not been involved in the European Strategic Cluster Partnerships or the INNOSUP-1 initiative as well as the newly launched Eurocluster initiative.

⁵ One of the three cluster organisations registered on the ECCP is located in the self-declared Turkish Republic of Northern Cyprus.

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National cluster policy, programmes and initiatives



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3. National cluster policy, programmes and initiatives


In this section we provide an overview of the existing Cyprus cluster policies on a national level. The breakdown is presented in the form of a table, with the first column showcasing information on the aspects which constitute the policy (beginning with 'Policy Objectives', following with 'Policy Focus', etc.). The second column represents the case of the Cyprus national cluster policy. As no independent regional cluster policy exists in Cyprus, no regional example is showcased.

Within the table the text presented in bold (black) depicts standardised categories across country factsheets (56 in total for 2023), which are applied for comparative purposes. This is followed by a complementary descriptive text to provide more insights about the cluster policy in Cyprus.

Table 3: Overview of Cypriot cluster policy

Policy type:	National Cluster Policy
Policy name:	Funding scheme for Development of Competitiveness Clusters 2024 – 2033 [Action Plan for period 2024 - 2025]
POLICY OBJECTIVES 	Strengthening cooperation between companies or industry and RTDI actors Increasing competitiveness and boosting scale up of SMEs Supporting internationalisation activities Supporting the creation of new cluster organisations Fostering innovation and strengthening innovation ecosystems Fostering R&D activities, technology development and implementation Promoting entrepreneurship, start-ups and spin-offs Promoting resilience and sustainable economy and other solidarity-based initiatives Promoting employment and upgrading skills and competences Enhancing territorial cohesion (through RIS3) Strengthening the network of cluster organisations/cross-clustering



Policy type:	National Cluster Policy
Policy name:	Funding scheme for Development of Competitiveness Clusters 2024 – 2033 [Action Plan for period 2024 - 2025]
	<p>Cluster analysis and support for policymaking</p> <p>Increase supply chain resilience</p> <p>The initiative "The New Industrial Policy of Cyprus 2019 - 2030 [Action Plan for period 2019 - 2022]" was presented in 2019 as a comprehensive framework developed by the Government of Cyprus with the aim of addressing long-term structural challenges in the country's economy. This approach, led by the Ministry of Energy, Commerce and Industry, focuses on the digitisation of industry through shared solutions and collaborative learning. To achieve this, the creation and operation of clusters, together with the strengthening of automation, ICT and artificial intelligence, are key elements of this new industrial policy.</p> <p>As a response to the identified structural problems, the "Funding scheme for Development of Competitiveness Clusters 2024" started to be prepared in 2023. This policy is conceived as a strategic initiative for the development of clusters that foster cooperation between SMEs, large companies, research organisations, centres of excellence, public bodies and consumers. Its main objective is to improve the competitiveness and internationalisation of private companies through capacity building, collaboration in R&D&I projects, the development of innovative products/services and the connection to global supply chains.</p>
<p>POLICY FOCUS</p> 	<p>Cross-sectoral</p> <p>The call is open to all sectors and focuses particularly on SMEs and high prospects of sustainability and success of the clusters.</p> <p>The policy supports a large variety of cluster activities that include:</p> <ol style="list-style-type: none"> 1. Increasing the visibility of clusters through networking events, workshops, seminars and finding partners and members. 2. Coordinating and conducting market activities of cluster through market research, and expert assessments, taking part in exhibitions. 3. Development Activities/Projects: Knowledge transfer, process improvement of products and services, training workforce, joint pre-competitive research and coordinating innovation-related activities. Advertising activities are not covered.



Policy type:	National Cluster Policy
Policy name:	Funding scheme for Development of Competitiveness Clusters 2024 – 2033 [Action Plan for period 2024 - 2025]
	<ul style="list-style-type: none"> 4. Development of common infrastructure, equipment/ machinery and platforms. 5. Supporting cluster excellence and professionalisation of cluster management. 6. Supporting new innovative methods of integrating education and training, and new methods of the transfer of knowledge (e.g. open innovation, open source). 7. Supporting social innovation and other forms of collaboration.
RESPONSIBLE AUTHORITIES 	<p>Both drafting and implementation</p> <p>Oversees the implementation</p> <p>Provides funding</p> <p>The Ministry of Energy, Commerce and Industry is the public authority responsible for the calls for proposals. The project is also co-funded under the ERDF.</p>
BENEFICIARIES 	<p>SMEs</p> <p>Cluster organisations</p> <p>Start-ups</p> <p>Research organisations</p> <p>Academic institutions</p> <p>Large firms</p> <p>Technology centres</p> <p>Others (public and consumer organisations)</p>




Policy type:		National Cluster Policy
Policy name:		Funding scheme for Development of Competitiveness Clusters 2024 – 2033 [Action Plan for period 2024 - 2025]
		The Ministry of Energy, Commerce and Industry defines competitiveness clusters as platforms that aggregate knowledge and skills and play a central role in the industrial policy and economy, contributing to strengthening the country's competitiveness. Such a role includes a strong focus on innovation and technology transfer, digitalisation, identification, and training of providers, strengthening the link between start-ups and industrial enterprises, internationalisation, and circular economy and energy efficiency.
INSTRUMENTS 	Financial	Funding collaboration initiatives
	Technical assistance	No non-financial instruments
	Explanation	<p>Following the path of the "New Industrial Policy of Cyprus 2019 - 2030 [Action Plan for the period 2019 - 2022]" for the support of cluster implementation, funding will be achieved through the implementation of various programmes co-financed by the Cohesion Policy Funds, and the total amount of funding is estimated to exceed 100 million.</p> <p>In particular, the new "Funding scheme for Development of Competitiveness Clusters 2024" will be the first specific tool for clusters in Cyprus. There have been two Innovation funding schemes, from 2013 and then 2015 by the Ministry of Energy, Commerce and Industry that were followed by more Innovation calls by the Research Innovation Foundation that took over the Innovation support schemes, which prepared the environment and the infrastructure. A two-year study that included collaboration with other Member States has finalised the development of a funding scheme for supporting clusters which also serves as the specific cluster policy. The first call of the funding scheme supporting clusters will be in 2024.</p>
	Period	Limited period



Policy type:		National Cluster Policy
Policy name:		Funding scheme for Development of Competitiveness Clusters 2024 – 2033 [Action Plan for period 2024 - 2025]
HISTORY 	Ending year (<i>for policies with limited period</i>)	2033
	Starting year	2024
	Explanation	Development Phases Framework: 2024-2033 <ul style="list-style-type: none"> • Phase 1 (2024 to 2027): establishment • Phase 2 (2028 to 2030): growth • Phase 3 (2031 to 2033): independence, sustainable operation
BUDGET 	Overall	Phase 1: 5 M euros Phase 2: depends on the success of the first phase Phase 3: depends on the success of the second phase
	Annual	5 M euros (2024)
	Source of funding	Cyprus Recovery and Resilience Plan 2021-2026, ERDF and national funds.
POLICY	Availability	Expost
EVALUATION 	Results	The evaluation plan will be performed after the first year of operation in 2025.



Policy type:	National Cluster Policy
Policy name:	Funding scheme for Development of Competitiveness Clusters 2024 – 2033 [Action Plan for period 2024 - 2025]
POLICY ALIGNMENT WITH THE EU PRIORITIES 	Green economy Digitalisation Resilience

04

State of cluster policy and its role in broader economic policy challenges



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4. State of cluster policy and its role in broader economic policy challenges

4.1 The state of cluster policy

This section presents an overview on the state of play of Cyprus cluster policy in the form of a qualitative assessment across four categories of analysis – policy scope, continuity of cluster policies, evidence of performance, and the range of cluster support instruments. Please refer to the **Annex** for the detailed overview of the categories. The table below presents an overview of the **state of play for Cyprus for 2023**.

Table 4: State of play

Cyprus	State of play
POLICY SCOPE	Absence of cluster policy
	Broad policy
CONTINUITY	Sectoral policy
	National and/or regional cluster policy
	No cluster-specific policy available
	Cluster policy established recently
EVIDENCE OF PERFORMANCE	Cluster policy established between over 2 and 10 years
	Cluster policy established over 10 years ago
	No evaluation and / or monitoring available
	Existence of evaluations of past policies
CLUSTER SUPPORT INSTRUMENTS	Existence of monitoring or an ongoing / interim evaluation
	Existence of monitoring and ex-ante or ongoing / interim evaluation
	No instruments for cluster development
	Financial support for cluster development in the broader and / or sectoral policy
	Financial or technical support for cluster development in dedicated cluster policy
	Financial and technical support for cluster development in dedicated cluster policy

Source: ECCP (2023).

The text below provides a **qualitative description** of the state of play of the cluster policy in Cyprus.

Policy scope

Although still in draft form, this is the first national cluster support initiative in the history of Cyprus and is a significant step forward. Until today, there was no national cluster policy in Cyprus. Broader policies were the framework for the design and implementation of a future cluster policy framework.



Most of the clusters up-to-date have been created as outputs of research programs. For example, the Green Cluster, aimed at the identification of opportunities and market needs in the green sector in Cyprus. Another example is linked to large scale international initiatives such as in the case of the Cypriot cluster as part of Smart Cities Mediterranean Cluster. The national scale cluster ambition for a particular sector to be noted is the creation of the Cypriot Maritime Cluster. Lastly, in parallel with the national policy instruments, European funding also contributed to the cluster policy agenda. For example, through the implementation of the Interreg-med project 'Social and Creative', the Ministry of Commerce, Energy, Industry and Tourism organised meetings with key stakeholders of the creative business community aiming to create a national cluster under the proposal "The creative industry as a multiplier of innovation and competitiveness". Creative companies in cooperation with industrial actors and the public sector will be liaised. Other European programmes that are currently open also support cluster formation and operation such as relevant calls of interest for the creation and operation of European Digital Innovation Hubs (EDIHs) Initiative of the EU Digital Europe Program (DEP).

Continuity

There is indirect supporting framework for clustering policy in Cyprus coming from "The New Industrial Policy of Cyprus 2019 – 2030 [Action Plan for period 2019 - 2022]". Before the initiative, there have been published two significant policy documents that present the official approach on the importance of clustering in Cyprus ("National Policy Statement for the Entrepreneurial Ecosystem" (NPSEE) and the "Smart Specialization Strategy for Cyprus" (S3CY), both of which were adopted in 2015). In that context, strengthening industry clusters is a constant key priority along with innovation-friendly business environments for SMEs, research infrastructures, centres of competence, university–enterprise collaboration and financial instruments.

Evidence of performance

As the new "Funding Scheme for Development of Competitiveness Clusters 2024" will be the first specific tool for clusters in Cyprus, the evaluation plan will be performed after the first year of operation in 2025. Before this, there was no specific policy framework in Cyprus on the operation of clusters or the concept of cluster-based economic development. However, there were important policy documents of the Cypriot government concerning industrial renewal, entrepreneurial ecosystem and business innovation focusing on the SME's collaboration with different stakeholders in various sectors. Concerning the broad industrial policy of "The New Industrial Policy of Cyprus 2019 – 2030 [Action Plan for the period 2019 - 2022]" which supports cluster agenda, it was mentioned that audit processes will be constant, and the evaluation will take place on an annual basis through a monitoring mechanism that will be set up.

Cluster support instruments


The new "Funding Scheme for Development of Competitiveness Clusters 2024" will be the first financial support for cluster development in the broader and/or sectoral policy. Implementation is planned for 2024 and further phases will depend on the results of the first phase.



4.2 Cluster policy's potential impact on challenges identified in the European Semester Report

Cluster policy can provide important support to broader economic policy efforts. This section shows how Cypriot cluster policy can play a role in addressing the challenges identified in the European Semester Report for the country. To this end, the European Semester 2023 country report for Cyprus⁶ has been analysed across policy areas relevant to cluster policy. The results point to a series of issues where cluster policy can play an important role in tackling the country's economic challenges.

Table 3: Contribution of Cypriot cluster policy to the challenges identified in the European Semester Report

Policy area	Challenges	Cluster policy
GREEN  TRANSITION	<ul style="list-style-type: none"> • Promotion of green skills • Develop renewable energy and energy infrastructure • Improve water management 	<p>Since the Funding scheme for Development of Competitiveness Clusters 2024 – 2033 is still in the phase of establishment (Phase I; 2024-2027), it has not yet formulated its objectives. Another relevant programme from the Ministry of Energy, Commerce and Industry is the Grant Scheme for the Encouragement of Energy Upgrading by Local Authorities and Wider Public Sector Organisations. It focuses on the improvement of energy efficiency and renewable energy systems and supports local cluster organizations. In their important role as intermediaries in the innovation ecosystem, cluster organisations facilitate and accelerate innovation processes and can hence be understood as catalysts of transformation processes.⁷ As an example for cluster activities, the Green Cluster is promoting green best practices across sectors.⁸</p> <p>In addition, cluster organisations have a positive influence on the green transition, not least because they facilitate exchange between different actors, disseminate relevant knowledge and practices and deepen environmental awareness among stakeholders.⁹ Studies show further that clusters can play a vital role in the green transition of the economy through a large set of activities ranging from integrative measures like standard-setting, local value-chain building or the cooperation with other clusters; to organising the access to resources, infrastructure, finance and information; to education and awareness building through workshops, knowledge sharing, campaigns and the promotion of green products and services.¹⁰</p>

ECCP (2023)

⁶ European Commission (2023): Country report Cyprus. European Semester country reports 2023. Available at: https://economy-finance.ec.europa.eu/system/files/2023-05/CY_SWD_2023_613_en.pdf

⁷ ECCP (2021).

⁸ <https://www.greenclustercy.org/best-practices.html> (last access 23.05.2024).

⁹ Hatch et al. (2017).

¹⁰ Lis and Mackiewicz (2023); ECCP (2021).

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Annex

Table 5: Analytical framework for the state of cluster policy

Criterion	Description	Categorical variables
Policy scope	assessment whether the country has a dedicated cluster policy, or cluster creation and/or development is targeted through broader policies, e.g. foreign trade policies, labour and social policies or specific sectoral policies, e.g. industrial policy tourism policies, agriculture policies	absence of cluster policy existence of broader policies existence of specific sectoral policies existence of targeted cluster policies
Continuity of cluster policies	assessment of the duration and experience of the country in carrying out cluster policies. This criterion assesses only existence of targeted cluster policies and not broader policies or sectoral policies	absence of policies supporting cluster development cluster policy established recently (within the last 2 years) cluster policy established between over 2 and 10 years cluster policy established over 10 years ago
Evidence of performance	assessment whether there are evaluations of past and ongoing policies and a monitoring system in place. The existence of monitoring and evaluation mechanisms determines the degree of policy development in the country	no evaluation and / or monitoring available existence of evaluations of past policies, e.g. ex-ante existence of monitoring or an ongoing / interim evaluation existence of monitoring and ex-ante or ongoing / interim evaluation
Cluster Support Instruments	assessment whether the policies provide any instruments to support the policy implementation, being these financial and/or technical support	no instruments for cluster development financial support for cluster development in the broader and / or sectoral policy financial or technical support for cluster development in dedicated cluster policy financial and technical support for cluster development in dedicated cluster policy

Source: ECCP (2023).