

# CYPRUS

## 1. Introduction


Cyprus has a good entrepreneurship ecosystem and business environment, and a strong *tourism* sector from which SMEs benefit, albeit now affected by the COVID-19 pandemic. However, Cypriot SMEs face challenges such as access to alternative sources of finance and the introduction of new products and processes.

The pandemic and ensuing policy measures have had a major impact on SMEs in Cyprus. In 2020, SME value added dropped by 9.5% and employment by 0.7%<sup>1</sup>. The economic slowdown was particularly severe in the *accommodation and food services* sector, with SME value added falling by 40.8% and SME employment declining by 10.5%. The *transportation and storage* sector was also hit hard, dropping by 16.8% in value added and by 3.9% in employment.

However, in 2021, SME value added and employment are forecasted to grow by 6.8% and 2.5%, respectively. Consequently, in 2021, SME value added is expected to remain 3.4% below its 2019 level, whereas SME employment is predicted to exceed its 2019 level by 1.9%.

The Cypriot 'non-financial business economy' strongly relies on SMEs – in 2020, they accounted for 76.5% of total value added and 83.1% of total employment. This is significantly higher than the average shares of 53.0% and 65.2%, respectively, in the EU. Cypriot SMEs employed an average of 4.0 people, slightly more than the EU average of 3.7. Their annual productivity, calculated as value added per person employed, was EUR 30 200, around three quarters of the EU average of EUR 40 000.

Figure 1: Number of enterprises, persons employed and value added in 2020



	Number of enterprises			Number of persons employed			Value added		
	Cyprus		EU-27	Cyprus		EU-27	Cyprus		EU-27
	Number	Share	Share	Number	Share	Share	€ Billion	Share	Share
<b>Micro</b>	52 734	92.4%	93.3%	104 940	38.0%	29.6%	2.4	26.2%	18.7%
<b>Small</b>	3 728	6.5%	5.7%	69 368	25.1%	19.7%	2.5	27.7%	17.0%
<b>Medium-sized</b>	553	1.0%	0.9%	55 214	20.0%	15.8%	2.1	22.7%	17.3%
<b>SMEs</b>	<b>57 015</b>	<b>99.9%</b>	<b>99.8%</b>	<b>229 522</b>	<b>83.1%</b>	<b>65.2%</b>	<b>6.9</b>	<b>76.5%</b>	<b>53.0%</b>
<b>Large</b>	78	0.1%	0.2%	46 759	16.9%	34.8%	2.1	23.5%	47.0%
<b>Total</b>	<b>57 093</b>	<b>100.0%</b>	<b>100.0%</b>	<b>276 281</b>	<b>100.0%</b>	<b>100.0%</b>	<b>9.1</b>	<b>100.0%</b>	<b>100.0%</b>

Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

## 2. Key strengths

### Prior to COVID-19, tourism was experiencing strong growth

According to CYSTAT, international tourist arrivals reached an all-time high in 2019, having increased by more than 60% since 2015<sup>2</sup>. SMEs benefited immensely from growth in the *tourism* sector. However, the pandemic had a significant impact on the tourism industry, which declined by an estimated 78%<sup>3</sup>.

Despite its strong pre-COVID-19 performance, the Cypriot *tourism* sector also has some weaknesses, mainly its reliance on the 'sun and sea' product, which leads to a high seasonality, and the high concentration of demand from a few countries, especially the UK and Russia.

To address these issues, the Ministry of Tourism has launched its Tourism Strategic Plan 2030 (*Εθνική Στρατηγική Τουρισμού 2030*) – which aims to transform Cyprus into a competitive, all-year-round and digitally smart tourism destination – as well as different incentives for local SMEs operating in tourism<sup>4</sup>.

### It is relatively easy to start a business in Cyprus

Some 2 out of 5 Cypriots (41.4%) consider it relatively easy to start a business in Cyprus. This value is higher than the EU average (38.2%)<sup>5</sup>.

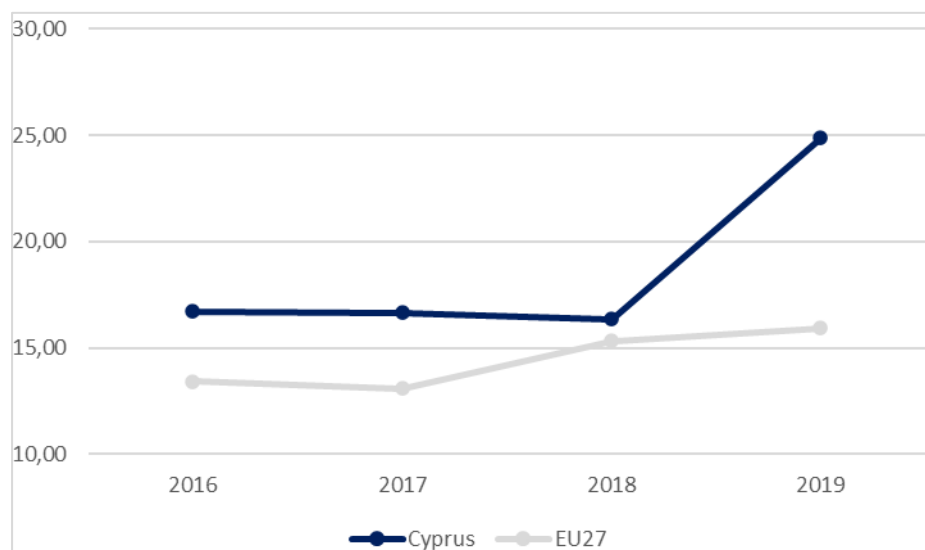
It only takes 6 days to start a business in Cyprus, half the EU average of 12<sup>6</sup>. In addition, no paid-in minimum capital is required<sup>7</sup>.

Efforts to digitalise the process to start a business, as well as the establishment of a one-stop-shop, may have helped to bring about improvements.

## Cyprus performs above the EU average in entrepreneurship, with one of the highest rates of entrepreneurial intentions in the EU

Entrepreneurial intentions in Cyprus are among the highest in the EU, with almost 1 in 4 Cypriots reporting their intention to start a business within 3 years. In line with this, early-stage entrepreneurial activity in Cyprus is above the EU average, having increased significantly in 2019<sup>8</sup>.

Figure 2: Entrepreneurial intentions (%)



Source: Global Entrepreneurship Report, 2019<sup>9</sup>

65% of the early-stage entrepreneurs claim to have been driven by the opportunity to be independent and increase their income, as opposed to being motivated by a lack of other options for work, which is one of the highest rates in the EU<sup>10</sup>.

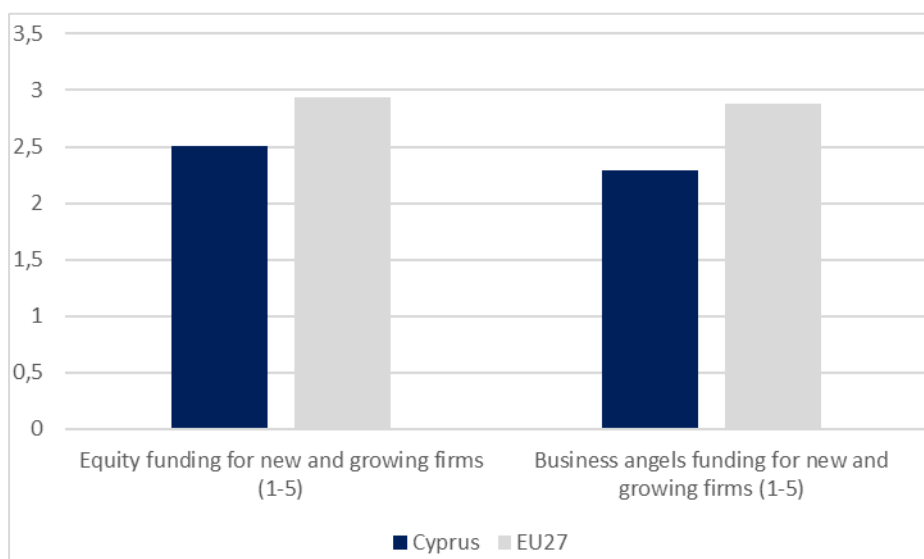
Furthermore, perceptions about entrepreneurs in Cyprus are very positive – 73% of Cypriots think entrepreneurship is considered a desirable career choice, one of the highest rates in the EU. Cypriots also tend to attach a high status to successful entrepreneurs<sup>11</sup>.

## 3. Key challenges

### Access to alternative sources of finance remains the key challenge for Cypriot SMEs

The country performs below the EU average in access to finance, especially when it comes to access to venture capital, equity funding, and professional business angels and crowdfunding. Venture capital investment is well below the EU average of 0.04%<sup>12</sup>. Availability of professional business angels funding or crowdfunding for new firms is among the lowest in the EU<sup>13</sup>.

Figure 3: Equity funding for new and growing firms and business angels funding for new and growing firms (Likert scale 1-5)



Source: National Expert Survey of the Global Entrepreneurship Monitor, 2019<sup>14</sup>

There are several potential underlying causes. First, the collateral requirements for new ventures are high and local business angels do not have sufficient capacity to finance large-scale projects. In addition, the capacity of traditional banks to finance high-risk/high-return projects remains limited by the strict financial measures in place since 2013.

Cypriot SMEs face other barriers in terms of finance and liquidity. On average, it takes 75 days for SMEs to get paid in Cyprus – the longest in the EU<sup>15</sup>. Access to credit information also needs to be significantly improved<sup>16</sup>.

Despite barriers to accessing finance, availability of public financial support is in line with the EU average. In recent years, Cyprus has launched financial support schemes, for instance, schemes aimed at tourism companies that want to upgrade their services<sup>17</sup> or start-ups and entrepreneurs with innovative products<sup>18</sup>.

### Cypriot SMEs are not fully participating in product and process innovation

While the European Centre for the Development of Vocational Training (CEDEFOP) reported that Cyprus is ranked first in the EU for introducing new products (46%) and new processes (21%) to the market<sup>19</sup>, SMEs have not been fully contributing to this strong performance, with only 28.54% introducing new products or processes against an EU average of 34%<sup>20</sup>.

Cypriot SMEs are also less likely to introduce marketing or organisational innovations – only 28.55% do so, against an EU average of 34%<sup>21</sup>.

Access to digital talent may be a factor in SMEs' capacity to introduce innovative products and processes. According to the European Commission's Digital Economy and Society Index, only 46% of Cypriots have basic software or digital skills, against an EU average of 61%<sup>22</sup>. Despite this, Cypriot SMEs are trying to upgrade their staff's ICT skills, with 30% providing training to their employees in this area against an EU average of 22%<sup>23</sup>.

Several measures to promote innovation and digitalisation have been taken in recent years. Most notably, a Deputy Ministry of Research, Innovation and Digital Policy (Υφυπουργείο Έρευνας, Καινοτομίας Και Ψηφιακής Πολιτικής) was created in 2020, which aims to promote the digital

economy<sup>24</sup>. Furthermore, in 2019, a digital upgrade scheme (*Σχέδιο Ψηφιακής Αναβάθμισης των Επιχειρήσεων*) was launched to step up the integration of digital technology into businesses and increase the number of SMEs that use ICT technologies<sup>25</sup>.

## 4. Other key SME-related brief insights



### IMPACT OF COVID-19 CRISIS ON SMES

In 2020, the government adopted measures to provide liquidity support to SMEs during the COVID-19 crisis, including a suspension of loan interest and certain tax contributions, and an unemployment support scheme for the private sector.



### GREEN TRANSITION OF SMES

Cypriot SMEs are among the worst performers in the EU in terms of environmental sustainability. Just 76% of SMEs have taken resource-efficiency measures, below the EU average of 89%. Government measures in this area are scarce, and only 10% of SMEs have benefited from public support measures for their resource-efficiency actions<sup>26</sup>. The investments under the Recovery and Resiliency Facility together with the expected liberalisation of the energy market and a reformed green energy taxation system may help to accelerate the green transition.



### REGULATORY BURDEN

Regulatory burden in Cyprus is moderate – with Cypriot businesses' perceptions regarding fast-changing legislation and the complexity of administrative procedures being more positive than the EU average<sup>27</sup> – and the process of starting a business is quite straightforward. However, the number of tax payments is the highest in the EU<sup>28</sup>.

In addition, public sector inefficiencies, poor regulatory enforcement of claims, and protracted court cases are worsening Cyprus' business environment and legal certainty<sup>29</sup>. Still, the rating of government policies in Cyprus – in terms of support and relevance – is higher than the EU average, according to the Global Entrepreneurship Monitor<sup>30</sup>.



### DIGITALISATION OF SMES

Cyprus has had mixed results in terms of digitalisation of its SMEs and businesses. Cypriot businesses perform below the EU average in some indicators, such as the share of companies with a website<sup>31</sup> or the share of SMEs selling online<sup>32</sup>. However, the share of businesses that have bought cloud computing services<sup>33</sup> or software specifically tailored to their needs<sup>34</sup> is relatively high but with room for improvement. In 2019, Cyprus had the highest broadband coverage of next generation access in the EU, while it lags behind in the take-up of at least 100 Mbps fixed broadband, in fixed very high capacity network coverage and in the broadband price index<sup>35</sup>. Furthermore, the Cypriot government is committed to the use of open data (80%) and access to public data, well above the EU average (65%)<sup>36</sup>.

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- <sup>1</sup> The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- <sup>2</sup> CYSTAT (2019), *Movement of Travellers, 1980-2019*, available at: [https://www.mof.gov.cy/mof/cystat/statistics.nsf/services\\_71main\\_en/services\\_71main\\_en?OpenForm&sub=1&sel=4](https://www.mof.gov.cy/mof/cystat/statistics.nsf/services_71main_en/services_71main_en?OpenForm&sub=1&sel=4)
- <sup>3</sup> Cyprus Hotel Association (2020), *Statistics*, available at: <https://www.cyprushotelassociation.org/statistics>
- <sup>4</sup> Deputy Ministry of Tourism (2019), *Cyprus Tourism Strategy 2030*, available at: [http://www.tourism.gov.cy/tourism/tourism.nsf/planning\\_en/planning\\_en?OpenDocument](http://www.tourism.gov.cy/tourism/tourism.nsf/planning_en/planning_en?OpenDocument)
- <sup>5</sup> Global Entrepreneurship Monitor (2020), *Entrepreneurship in Cyprus, National Report 2018/2019*, available at: <https://gemconsortium.org/report/entrepreneurship-in-cyprus-gem-national-report-20182019>
- <sup>6</sup> World Bank (2020), *Ease of doing business in Cyprus*, available at: <https://www.doingbusiness.org/en/data/exploreeconomies/cyprus>
- <sup>7</sup> Ibid.
- <sup>8</sup> Global Entrepreneurship Monitor (2019), *Global Entrepreneurship Report*, available at: <http://www.gemconsortium.org/data/key-aps>
- <sup>9</sup> Ibid.
- <sup>10</sup> Global Entrepreneurship Monitor (2018), *Global Entrepreneurship Report*, available at: <http://www.gemconsortium.org/data/key-aps>
- <sup>11</sup> See Note 8.
- <sup>12</sup> Eurostat (2018), *EVCA*, available at: <http://www.investeurope.eu>
- <sup>13</sup> Global Entrepreneurship Monitor – GEM (2019), *National Expert Survey (NES)*, available at: <http://www.gemconsortium.org/data/sets>
- <sup>14</sup> Ibid.
- <sup>15</sup> Intrum Justitia (2019), *European Payment Index*, available at: [www.intrumjustitia.com](http://www.intrumjustitia.com)
- <sup>16</sup> See Note 6.
- <sup>17</sup> Funding Programmes Portal (2020), *Σχέδιο Παροχής Οικονομικής στήριξης για τη δημιουργία, αναβάθμιση υποδομών / εγκαταστάσεων με στόχο την αναβάθμιση του προσφερόμενου προϊόντος που αφορά στις ειδικές μορφές τουρισμού (De minimis)*, available at: [https://www.fundingprogrammesportal.gov.cy/easyconsole.cfm/page/prog/prog\\_id/5964](https://www.fundingprogrammesportal.gov.cy/easyconsole.cfm/page/prog/prog_id/5964)
- <sup>18</sup> Research and Innovation Foundation (2020), *PRE-SEED 0719B*, available at: [https://www.fundingprogrammesportal.gov.cy/easyconsole.cfm/page/prog/prog\\_id/5581/CL/0](https://www.fundingprogrammesportal.gov.cy/easyconsole.cfm/page/prog/prog_id/5581/CL/0)
- <sup>19</sup> CEDEFOP (2019), *European Company Survey*, available at: <https://tinyurl.com/y3uwgrft>
- <sup>20</sup> Eurostat (2016), *Community innovation survey*, available at: [http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards\\_en](http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en)
- <sup>21</sup> Ibid.
- <sup>22</sup> European Commission (2020), *Digital Economy and Society Index (DESI)*, available at: <https://ec.europa.eu/digital-single-market/en/scoreboard/cyprus>
- <sup>23</sup> Eurostat (2019), *Community survey on ICT usage and eCommerce in enterprises*, available at: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc\\_ske\\_itn2&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ske_itn2&lang=en)
- <sup>24</sup> Government Gazette, N. 14(I)/2020 (2020), No 4744. Νόμος Που Προβλέπει την Ίδρυση Υφυπουργείου Έρευνας, Καινοτομίας και Ψηφιακής Πολιτικής, το Διορισμό Υφυπουργού Έρευνας, Καινοτομίας και Ψηφιακής Πολιτικής παρά τω Προέδρω και για Συναφή Θέματα, available at: [http://www.cylaw.org/nomoi/arith/2020\\_1\\_014.pdf](http://www.cylaw.org/nomoi/arith/2020_1_014.pdf)
- <sup>25</sup> Service of Industry and Technology (2019), *Digital upgrade scheme for enterprises*, available at: <http://www.mcit.gov.cy/mcit/sit/sit.nsf/dab57a092c36651fc225816f001d2b7f/d01840125d87a50dc2258409001bb768?OpenDocument>
- <sup>26</sup> European Commission (2017), *Eurobarometer survey of SMEs and the environment*, available at: [http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm)
- <sup>27</sup> European Commission (2019), *Flash Eurobarometer 'Businesses' attitudes towards corruption in the EU*, available at: [https://data.europa.eu/euodp/data/dataset/survey\\_number\\_482](https://data.europa.eu/euodp/data/dataset/survey_number_482)
- <sup>28</sup> See Note 6.
- <sup>29</sup> European Commission (2019), *European Semester Country Report Cyprus*, available at: <https://tinyurl.com/y2ovfp6y>
- <sup>30</sup> See Note 5.
- <sup>31</sup> Eurostat (2019), *Websites and functionalities*, available at: [https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc\\_ciweb&lang=en](https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ciweb&lang=en)
- <sup>32</sup> Eurostat (2019), *Community survey on ICT usage and eCommerce in enterprises*, available at: [http://ec.europa.eu/eurostat/web/products-datasets/-/isoc\\_ec\\_eseln2](http://ec.europa.eu/eurostat/web/products-datasets/-/isoc_ec_eseln2)
- <sup>33</sup> Eurostat (2018), *Cloud computing services*, available at: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc\\_cicce\\_use](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_cicce_use)
- <sup>34</sup> CEDEFOP (2019), *European Company Survey*, available at: [https://www.eurofound.europa.eu/sites/default/files/ef\\_publication/field\\_ef\\_document/ef20001en.pdf](https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef20001en.pdf)
- <sup>35</sup> DESI Report 2020, available at: <https://ec.europa.eu/digital-single-market/en/scoreboard/cyprus>
- <sup>36</sup> See Note 22.