



EUROPE 2020

Cyprus National Reform Programme 2016

Republic of Cyprus

APRIL 2016

Table of Contents

1. INTRODUCTION	2
2. MACROECONOMIC CONTEXT AND SCENARIO	3
3. KEY POLICY RESPONSES TO MAJOR ECONOMIC CHALLENGES	5
3.1 Improving the Business Environment.....	5
3.2 Labour Market	18
3.3 Education	20
3.4 Research and Innovation	24
3.5 Modernising Public Administration.....	26
3.6 Public Financial Management	29
3.7 Privatisation.....	29
3.8 Energy.....	33
3.9 Tourism Sector	35
3.10 Healthcare	36
4. EU FUNDS	39
5. PROGRESS TOWARDS NATIONAL EUROPE 2020 TARGETS.....	41
5.1 Employment National Target	42
5.2 Poverty National Target.....	47
5.3 Education National Target	50
5.4 R&D National Target	52
5.5 Climate and Energy National Targets	53
6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT.....	63

1. INTRODUCTION

The Cyprus economy is emerging from a deep economic crisis which has severely affected the welfare of its people. Through the determined efforts of its people, Cyprus exited the Economic Adjustment Programme in March 2016 accomplishing, as acknowledged by the EU Institutions, important achievements in the programme's duration. Economic policy in the past three years placed priority on fiscal consolidation, the resumption of financial stability and structural reforms to help businesses unlock the potential of the economy and return to growth, job creation and prosperity.

The successful completion of the support programme enables Cyprus to fully participate in the normal process of the European Semester, for the first time since 2012. Cyprus submits hereby the National Reform Programme (NRP) for 2016 aiming at smart, sustainable and inclusive growth, in the context of the sixth European semester. The NRP takes into account the priority areas identified in the 2016 Annual Growth Survey i.e. re-launching investment, pursuing structural reforms to modernise Member States' economies and promoting responsible fiscal policies. It is presented in conjunction with the Stability Programme for Cyprus.

The National Reform Programme encompasses:

- The broad macroeconomic context in Cyprus, in line with the Stability Programme.
- Structural and institutional reform measures promoted through the Government's Action Plan for Growth and other medium-term reform initiatives aiming at a smart, sustainable and inclusive growth, as well as measures that were identified in the context of the Economic Adjustment Programme the implementation of which has not yet been completed.
- Measures to address the priorities set out by the European Commission for the Euro Area Member States as a whole, as stipulated in the Euro Area Recommendations.
- Cyprus's actions in support of the five headline Europe 2020 targets, indicating progress achieved since last year's NRP.

2. MACROECONOMIC CONTEXT AND SCENARIO

This year's NRP has been prepared in the context of a still challenging, but, at the same time, stabilised economic environment. In the real economy, the signs of economic recovery are evident, as positive growth (of the magnitude of 1.6%) has been recorded in 2015, the highest in the last seven years.

On the supply side, the resilience of the business sector, as well as the better than anticipated performance of the tourism sector, significantly contributed to this result. On the demand side, private consumption remained the main growth component. Moreover, the implementation of a series of structural reforms, also played a role in the revamping of the Cyprus economy.

The confidence in the banking sector, which has taken the biggest hit given the abrupt and sudden shrinking and the loss of creditors' assets, is gradually resuming. The capital restrictions imposed since March 2013, were fully removed since April 2015. However, the high level of non-performing loans and the limitations to the banks' ability to channel credit to the economy needs to be addressed, in order to safeguard stability and sustainable growth. Also, the high levels of household and corporate indebtedness still hamper the ability for new investments.

In the labour market, even though unemployment rate has increased to unprecedented levels, reflecting the effect of a protracted slowdown in economic activity, it fell from a peak of 16.1% in 2014, to 15% in 2015. The most affected segment of the population is youth, although youth unemployment has been on a downward trend since January 2014. Particularly challenging is also the increase in long-term unemployed.

Coming to the prospects of the Cyprus economy, these are expected to continue improving. With the restructuring of the banking system and the expected gradual alleviation of the problem of non-performing loans, growth is expected to accelerate. The improved macroeconomic environment is expected to result in new investments, which are considered as key for the island's economy. In addition, fiscal consolidation has been achieved, thus enabling the adoption of a neutral fiscal policy stance, providing a positive contribution to the economy through the operation of automatic stabilisers.

Moreover, given the general recovery of the economy, disposable incomes are expected to improve, providing further boost to consumption and investment. As a result, domestic demand is expected to recover further, while unemployment is expected to continue declining. All the above, coupled with improved expectations regarding investment prospects in the areas of energy and tourism, create a positive outlook for the Cyprus economy.

According to the baseline scenario of the Ministry of Finance, the growth rate of the economy in 2016 is expected to be around 2.2% in real terms.

In the labour market, the unemployment rate is expected to decline further to around 14% in 2016. Inflation, as measured by Consumer Price Index (CPI), is projected to be around -1% in 2016, mainly due to developments as regards energy prices.

At the same time, potential destabilising factors are present, such as the performance of the banking sector and developments in relation to the level of non-performing loans. Developments related to household and corporate indebtedness will also play a major role for the prospects of the economy. Moreover, the Cypriot economy could be affected by potential deterioration in the economic situation of countries with which it has close economic ties.

3. KEY POLICY RESPONSES TO MAJOR ECONOMIC CHALLENGES

This section focuses on structural measures that are under implementation or planned which aim at tackling identified economic challenges. Information on fiscal policy issues as well as on the financial sector are excluded, as these are covered in the Stability Programme submitted concurrently to the European Commission.

Action Plan for Growth

Cyprus is committed to continuing the process of economic reform in order to return to a sustainable growth path. The aim is to achieve the improvement of the overall competitiveness of the economy and to unlock the country's investment potential. To this end, the reforms aiming at fiscal consolidation and financial stability are being complemented by efforts to develop a robust, more balanced and sustainable new growth model that will be less vulnerable to external shocks and will give rise to jobs and welfare. The Action Plan for Growth that has been adopted, provides an overarching framework driving the development of horizontal and sectoral policies aiming at enhancing competitiveness and growth. Emphasis is placed on horizontal, cross sectoral measures in priority areas such as the removal of bottlenecks and improvement of the overall business environment, the promotion of entrepreneurship and enhancement of SME competitiveness, the promotion of smart regulation, the promotion of e-government and process re-engineering, as well as the promotion of measures to improve the competitiveness of specific sectors of the economy, which are key drivers of growth.

The priorities set out through the Action Plan for Growth, which inform our policy and spending decisions, are closely aligned to the targets of Europe 2020, for smart, sustainable and inclusive growth. Implementation of the Action Plan for Growth will be catalytic to ensuring progress towards the achievement of the Europe 2020 targets.

A progress report on the Action Plan for Growth is prepared and published every six months. The second progress report was prepared in December 2015.

3.1 Improving the business environment

3.1.1 Attracting Foreign Investment

Creating an environment that facilitates investments, mainly through the simplification of procedures and the development of an effective, stable and transparent regulatory framework is a priority of the Cyprus government. To this end, a study has been carried out for the development of a legislative framework and the establishment of a fast track mechanism for major investments. The study assessed the existing legal and procedural framework for undertaking major investment in Cyprus, identified weaknesses and inadequacies and made concrete recommendations for improvements, including proposals for the operation of a fast track mechanism for licensing major investments. At a second stage, and based on the results of the study, the experts prepared a legal framework, which is currently being finalised by the authorities and is expected to enter into force in 2016.

In parallel, the investor's journey for the main categories of projects has been fully mapped, covering all the licensing procedures which an investor has to follow for the construction and operation of such investment projects in Cyprus. This is considered as a very useful tool which will provide, at a first stage, complete information and clear guidance to investors regarding the steps they have to follow for the implementation of a project (including estimations on the timeline) and, at a second stage, will facilitate the identification and promotion of simplifications in order to streamline the licensing procedures, where possible.

3.1.2 Promoting Entrepreneurship and SME Competitiveness

a) National Policy Statement for the Enhancement of the Entrepreneurship Ecosystem in Cyprus

Improving the business environment and the entrepreneurial ecosystem have been identified as a basic prerequisite for strengthening competitiveness and stimulating economic growth. In this respect, the Government of Cyprus developed a Policy Statement for the integrated development of the entrepreneurial ecosystem in the country. The aim is to contribute to the country's economic growth, by providing the appropriate conditions for the successful development of business initiatives, ensuring the creation of added value for the whole economy. The actions included in the Policy Statement will contribute by facilitating, supporting, complementing and linking the initiatives already undertaken by the private sector and the enterprises themselves.

The Policy Statement has been formulated on the basis of an extensive consultation with all the competent Authorities and the key stakeholders of the entrepreneurial ecosystem in Cyprus. The Statement identifies five priority areas which are addressed with concrete actions, as part of an action plan with a horizon up to 2020. The actions focus on the creation of the necessary infrastructure, conditions and incentives for entrepreneurial growth.

The priority areas of the Policy Statement are the following areas:

- Cultivating the Entrepreneurial Culture.
- Improving the Business Environment.
- Enhancing the Entrepreneurial Innovation.
- Facilitating Access to Finance.
- Improving Access to Markets.

Following the endorsement of the Policy Statement by the Council of Ministers in December 2015, a Steering Committee has been established with the participation of the competent public authorities, as well as representatives of key stakeholders from the private sector, with the view to monitor closely and assess the progress in the implementation of the actions promoted under the Policy Statement. Furthermore, a project manager has been appointed for each and every action included in the Policy Statement.

Work is currently focusing on promoting the implementation of the 2016 work plan set under the Policy Statement. Below are some of the key actions of this year's plan:

- Cyprus participation in the Global Entrepreneurship Monitor (GEM) Programme.
- Assess and promote the integration of entrepreneurship education in school curricula.

- Further promote and support the implementation and students' participation in entrepreneurship programmes, initiatives and competitions (e.g. Junior Achievement).
- Provide training programmes for teachers and careers advisors.
- Promote the simplification of the procedures to set-up a business (Registrar of Companies, Tax Department, Social Insurance).
- Promote further simplifications and improvements in the existing regulatory framework in the context of the "Think Small First" principle.
- Promote the introduction of an "SME Test" in the context of a revised Impact Assessment mechanism for new legislation.
- Examine the development of a national mechanism to attract and facilitate the establishment of start-ups from abroad in Cyprus (Startup Visa program).
- Promote tax incentives for innovative enterprises.
- Further promote e-government - new e-services for businesses through the government's gateway (Ariadne) and access to Public Service Information.
- Examine and revise legislation to enable the establishment of University spin-offs.
- Design of a National Technology Transfer Center.
- Assess new schemes and alternative funding instruments/mechanisms e.g. under European Structural and Investment Funds (ESIF) 2014-2020.
- Raise awareness and promote participation in EU Competitive Programmes.
- Assess regulatory framework for alternative financing (e.g. through Crowd Funding platforms) and government participation/support (e.g. in VC Funds).
- Undertake a study for the re-orientation and strengthening of the export activity.
- Promote e-commerce and other use of ICT by businesses.
- Enhance the role and use of CY Trade Centers abroad.
- Further promote the role and support provided by the Export Help Desk.

Some of the above measures are already in progress while others are expected to be implemented by the competent authorities within the following months.

It is noted that some of the activities under the framework of the Policy Statement also fall under the scope of areas that are presented in the sections that follow.

b) Measures promoted for enhancing entrepreneurship and SMEs' competitiveness

The Ministry of Energy, Commerce, Industry and Tourism (MECIT) implements various measures and schemes aimed to enhance the entrepreneurial activity, improve the competitiveness of SMEs as well as to reduce unemployment in the country. These are in line with the priorities set under the National Policy Statement on Entrepreneurship, the principles of smart specialisation as well as the targets set at European level through the Europe 2020 strategy.

Some of the main measures promoted by the MECIT are:

i. Entrepreneurship – Women and the Youth

Women and the youth remain two very important target groups which the government supports through two Grant Schemes (Scheme for the enhancement of Youth Entrepreneurship and Scheme

for the enhancement of Female Entrepreneurship) specially designed to encourage business development. A total amount of €4 mln approximately was allocated for this purpose in 2015, for the benefit of 190 enterprises, resulting in about 500 new job positions.

In addition, in 2015, there was a new Call of proposals for both schemes, under the programming period 2014-2020, with a total budget of €11 mln. More than 800 proposals were submitted under this Call which are currently under assessment.

ii. Enhancing the Competitiveness of SMEs

There are three schemes aiming at the enhancement of competitiveness of SME's, each scheme focusing on different manufacturing sectors.

The first provides grants to SMEs in the Manufacturing Sector and other specific economic activities, in order to upgrade their technology and to promote innovation. The total budget is €18 mln for 2014-2020 (50% co-financed by the European Regional Development Fund), €14 mln of which are expected to be utilised under the first Call of 2015. Proposals for a total amount of around €38 mln (corresponding to more than €80 mln new investments) were submitted under this Call.

The second scheme provides for the creation and upgrading of Manufacturing and Trading Units of Agricultural Products (50% co-financed by the European Agricultural Fund for Rural Development). The total budget for the period 2014-2020 is €15 mln. The first call is expected during the first half of the year with a total budget of €10 mln.

The third scheme provides economic support in the form of grants, aiming to improve and enhance competitiveness of SME's in the wine industry. This measure is included in the National Support Program for the wine sector and is fully financed by European funds. The total budget for the period 2014-2018 is €8 mln. A total amount of €2,4 mln was allocated up until 31st of October 2015 for the benefit of 16 wineries and the next call is expected during the course of next year, 2017.

iii. Business Innovation - Innovative products/Services Scheme

The Government, acknowledging that the production of innovative products and services, especially in high added value sectors, can lead to the strengthening of the country's competitiveness and resilience of the economy against external developments, while making it easier to access international markets, will promote the targeted use of resources of the ESIF for Innovation, within the priorities set through the Smart Specialisation Strategy (S3CY).

Research centers and innovative enterprises in Cyprus have obtained, through their participation to EU Competitive Programmes, funds around €19 mln during the period 2008-2012. A grant scheme supported by EU Structural Funds, aimed at the development of innovative products and services, was also successfully implemented in the 2007-2013 period with grants amounting to €2 mln, allocated to 39 projects/new innovative products.

Based on the knowledge accumulated, MECIT announced a new improved scheme with a total reserved amount of €10 mln for 2014-2020. The grant scheme encourages young people and new enterprises, especially startups, to turn to innovation in order to access the markets more easily. Moreover, it encourages cooperation and collaboration of enterprises with research centres and universities as well as among themselves, in order to enhance science based entrepreneurship and widen the range of possible innovative products/services integrated in the value chain.

iv. E-Commerce

The further development of ICT can bring important benefits, including a significant reduction of administrative costs incurred by businesses and citizens. Consistent with the objectives above for strengthening support for entrepreneurship in Cyprus, MECIT has defined a strategic action plan for the promotion and development of the wider use of e-business for Cypriot enterprises and citizens. The main goal of the strategy is to establish a competitive and dynamic environment to develop the basic infrastructure by encouraging enterprises to take advantage of the new technological opportunities presented by e-commerce worldwide.

During 2015, the main actions taken in the context of the aforementioned strategy are the following:

- Revision of the funding scheme for promoting the growth of E-Commerce by SMEs on the basis of the findings of the most recent market research of the Eurobarometer on E-commerce, which identifies the main obstacles to digital trade faced by enterprises, and problems/bottlenecks discouraging Cypriot consumers and businesses from buying/selling online from the local market. The Scheme is expected to commence in the first half of 2016 and will be co-financed by EU Funds. The total budget of €3,3 mln has been allocated to this end for the 2014-2020 period.
- Provision of information and educational material on information technology and the digital economy to the public and enterprises on a regular basis through the Business online website and also via Twitter. Moreover, requests for information on ecommerce or related matters can be lodged through the Business Online website Help Desk service section.
- Preparation of amending legislation on “Certain legal aspects of information society services, in particular Electronic Commerce and related matters”, in order to comply with the e-commerce directive (2000/31/EC) taking into account best practices.

v. Clusters

Clusters are regarded as effective platforms to increase productivity and enhance the competitiveness of businesses. Experience around Europe showed that successful implementation of such funding schemes could help SMEs to improve their performance and therefore their productivity, to adopt appropriate technology, to increase their turnover and export performance.

A new scheme is currently under development which provides for creating, developing, supporting and promoting business clusters through partnership/cooperation of competing or complementary

units in order to enable them to develop strategic partnerships and achieve economies of scale. MECIT intends to announce its first call during 2016, in the context of the €3,5 mln allocation made for the whole 2014-2020 period.

vi. Facilitation of the participation to the Grant Schemes operated by MECIT

Acknowledging that access to finance remains one of the main problems for enterprises, especially for SMEs, MECIT promoted the following two measures in order to facilitate and simplify the procedures for the applications and participation to the grant schemes:

- **Electronic Submission and Management of Schemes**

As part of the overall effort made to reduce bureaucracy, labour time as well as to increase productivity, MECIT has decided to proceed with the automation of submission, evaluation and management of all state aid schemes.

The aim is to set up an integrated system for the effective and efficient administration of the Ministry's funding schemes and to form the basis of gradual expansion based on the initially designed integration-master-plan (Ariadne and web-services to facilitate communication with the rest of governmental info systems). It is expected to commence in 2016.

- **Mechanism for the facilitation of Access to Loan Financing**

As a consequence of the limited access to finance which hampers the liquidity of enterprises, some enterprises while they are eligible for grants, they do not precede with their investment projects due to the difficulties in securing their own financial contribution.

To accommodate this, MECIT agreed with the Association of Commercial Banks that the Commercial Banks will positively examine loan application for investment proposals that have already secured an approval for grant.

vii. Cyprus Science Technology Park (STP):

The STP is expected to accommodate knowledge intensive enterprises/organisations and applied research centres both local and foreign, that will promote applied research and innovation for the development of competitive innovative products and services. The Government has decided to appoint a strategic investor on a basis of land lease agreement and the tender was published in March 2016.

3.1.3 Improving the regulatory environment

New momentum has been attached to better regulation, through the development and implementation of smart regulation actions. A new national Better Regulation Action Plan was approved by the Council of Ministers in February 2015 and has entered the implementation phase. The aim is to identify existing burdensome procedures and promote simplifications in as many Public Services procedures which relate to and affect the setting up and operation of business activity in the country, in combination with the promotion of e-government measures where possible.

The Action Plan is formulated around three priorities: (a) Simplification of procedures and legislation – reducing administrative burden, (b) Better lawmaking and impact assessment and (c) Cultivation of culture and development of relevant skills.

In addition, the Action Plan includes the development and implementation of the SME Test, as part of the overall Impact Assessment mechanism, with a view to taking into consideration all possible impacts, especially on SMEs, when drafting a new legislation. The intention is to examine the use of mitigation measures for small and micro enterprises, taking into consideration the structure of the business environment in Cyprus. Best practices from other Member States, are being examined, and to this effect exchange of experiences with two member states has taken place.

Actions of reform and simplification of procedures are already underway by several departments. More advanced are the projects of the Department of the Registrar of Companies and Official Receiver and the Tax Department. Simplification projects are also underway in relation to construction permits and licensing in the tourism sector. In relation to the latter, a project was undertaken in 2015 to map and simplify the regulatory framework and processes. The revised regulatory framework is currently being re-drafted and is pending for approval. It is expected to enter into force in Q4 2016.

Similar projects were also initiated in 2015, by the Departments of Civil Registry and Migration and the Social Insurance Services. In the Social Insurance Services Department, where three specific procedures have been selected, the mapping of the procedures has been completed and possibilities for simplifications are being considered, on the basis of best practice examples from other countries. In the Civil Registry and Migration Department, an action plan has been drafted concerning the pillars of necessary reform of the Department. As a first step, four main procedures have been selected, which are currently being mapped, and which will be further analysed in order to proceed with identifying relevant KPIs and simplification measures. To this end, technical assistance has been granted through the European Commission's Structural Reform Support Service and the relevant contract was signed in February 2016 for a 14 month period.

In addition, and according to the recommendations of the World Bank study regarding the reform of public administration, the Department of Environment has requested technical assistance from the Structural Reform Support Service (SRSS) for the establishment of a new legal and institutional framework for integrated environmental permitting and inspection system, moving away from the current multiple permitting system. This system will be based on best practices in other Member States and the new philosophy of integration provided for in the latest Environmental Directives.

3.1.4 Improving access to finance

Access to finance remains one of the main challenges for businesses and particularly SMEs in Cyprus. The Government of Cyprus, acknowledging the relevant market obstacles and in an effort to facilitate SMEs access to finance, has secured inter alia loans from EIB and EBRD, that will be directed to SMEs through:

- **The Cyprus Entrepreneurship Fund (CYPEF):** The aim of the fund is to facilitate access to finance for SMEs through financial instruments in the form of risk sharing loans with favourable

financing terms. The initial capital of €100 mln, acquired by the Government through a loan from EIB will be matched by equal contributions from selected financial intermediaries (commercial banks), raising the total amount available to SMEs to €200 mln. CYPEF is being managed and operated by the European Investment Fund (EIF). The maximum loan for each firm has been set at €1,5 mln. The only financial intermediary that participates, at present, in the CYPEF programme, is the Bank of Cyprus (BoC) with a contribution of €30 mln. For the full deployment of the targeted by the programme loan portfolio (of €200 mln), there is good prospect for the participation of two more banks¹, in Q3 of 2016, with a contribution of around €20 to €30 mln in total from both banks. Moreover, BoC has shown interest in increasing its present portfolio with an additional amount, similar to its present contribution and has devoted greater capacity for the efficient delivery of the CYPEF's existing product by the end of 2016, when the agreement between EIF and BoC will expire. To this end, a consultation procedure between EIF and the three banks is in progress.

The BoC has recently approved loans of €42,1 mln. The remaining balance is expected to be committed before December 2016, allowing for the allocation of the whole loan portfolio of €60 mln (state and BoC contribution). It is noted that the value of loans signed and loans disbursed, is €16,1 mln and €11,3 mln respectively, with the strict assessment procedures performed by the bank accounting for the gap between the two.

- **The JEREMIE Initiative:** The implementation of the JEREMIE Initiative in Cyprus started in January 2011. By December 2015 a total amount of €39,5 mln of new loans was disbursed to 521 eligible SMEs, with the support of around €18 mln from the European Regional Development Fund (ERDF). In 2015, an amount of approximately €15 mln was made available to SMEs. The implementation of the initiative has been enhanced following the increase in the maximum amount that can be granted to each SME from €100.000 to €300.000.
- **Grant Schemes and Other Financial Instruments through ESIF:** A number of schemes will be available to SMEs in the framework of the ESIF for the period 2014-2020, both in the form of non-repayable (e.g. grants) and repayable (e.g. Financial Instruments) assistance.

During 2015, a number of grant schemes were made available through calls of proposals, including, as already mentioned, the Schemes for the Enhancement of Youth and Women Entrepreneurship, for Saving Energy for Enterprises and Households, for the enhancement of SMEs' competitiveness in the manufacturing sector and other specific economic activities and for Strengthening Business Innovation Development for Products, Services and Processes. For most of these, the relevant authorities are now at the stage of evaluating the proposals submitted.

In addition, importance has been placed on the use of financial instruments. An indicative amount of €19 mln has been preliminary allocated for the financing of SMEs through financial instruments that will be designed and adopted following the finalisation of the ex-ante assessment as required by the Common Provisions Regulation, for the implementation of any

¹ EURO BANK and Russian Commercial Bank-RCB

form of financial engineering. The terms of reference for the study required for the ex-ante assessment are at the final stage of drafting.

- **The Trade Finance Facility:** The facility aims to re-activate credit lines with international banks and support short term trade-related instruments for the Cypriot enterprises. It was approved by the EIB in October 2013 in order to provide guarantees to the commercial banks for trade financing, up-to €150 mln, which through leverage was expected to support export and import flows reaching €300-450 mln per year, mainly by SMEs and mid-caps. The EIB guarantees provided to foreign banks under the Facility cover risks mainly related to letters of credit and other trade finance instruments issued by Cypriot banks. This will both alleviate cash collateral constraints otherwise imposed on most SMEs and increase access to international trade instruments.

A €50 mln first contract under the Trade Finance Facility was signed on 13 December, 2013 between Bank of Cyprus, City Bank, and Commerzbank. The Bank of Cyprus put the product into operation in June, 2014 but without much success. EIB considered that a Government Guarantee Scheme could operate more efficiently, and be exploited by other banks as well. For that reason the Council of Ministers approved the provision of Governmental Guarantees, amounting up to €150 mln, to the Cypriot banks for the conclusion of Agreements with the EIB in September 2014. Out of the €150 mln, an amount of up to €50 mln guarantee was approved to the Bank of Cyprus and the relevant agreement between the EIB and the Government, under the Trade Finance Facility mechanism, was signed in December 2015.

- **The European Bank for Reconstruction and Development (EBRD):** The EBRD Resident Office in Cyprus has been put into full operation, with considerable progress in terms of commercial activities. In September 2014 it completed its first project with the Bank's participation in the capital of the Bank of Cyprus with the amount of €107,5 mln. In September 2015 a 5.4% equity stake was acquired in Hellenic Bank with an investment of €20 mln in new shares. EBRD stepped up its support for Cypriot exporters and importers with a €20 mln, €50 mln and €20 mln trade facility to Eurobank, Bank of Cyprus (BoC) and Hellenic Bank respectively under the EBRD's Trade Facilitation Programme (TFP) for a three year period. Through the facility, the EBRD will issue guarantees in favour of international commercial banks covering the political and commercial payment risk of the transactions undertaken by the three banks. In addition, these banks will also benefit from the EBRD's technical cooperation projects in trade finance.
- **The Government Guarantee Scheme:** The Guarantee Scheme providing for up to €300 mln to Cypriot Banks for the conclusion of Loan Agreements with EIB for the financing of SMEs and Mid-Caps in Cyprus, was approved by the Council of Ministers in February 2014. EIB approved the full amount of €300 mln and a total of seven banks have benefited up to now from the scheme. The Council of Ministers, in October 2015, approved the increase of the said Government Guarantee Scheme from €300 mln to €500 mln.
- **European Fund for Strategic Investments (EFSI):** The Government of Cyprus has disseminated information to the private and public sector on the funding opportunities provided by the EFSI and has taken actions to facilitate the preparation of projects, where necessary, through the speeding up of decisions relating to the public sector. A list of projects/schemes has been

prepared following consultation with stakeholders of the private and public sector which cover, inter alia, the Renewable Energy Sector (RES), Energy Efficiency, Ports and Marinas, Information and Communications Technologies and Research and Innovation. Project promoters, mainly in the RES sector, are in direct consultation with EIB.

3.1.5 Digital Strategy

National Targets for Digital Society

The Department of Electronic Communications, of the Ministry of Transport, Communications and Works (MTCW), as the competent authority for the Digital Strategy, has the overall coordination responsibility for the promotion of the 16 initiatives (DSM actions) which comprise the Digital Single Market Strategy (DSM) adopted by the European Commission in May 2015. Top priorities are the promotion of the enhancement of use of digital technologies, the improvement of the citizens' access to information and culture, the improvement of job opportunities and the promotion of modern and open e-government.

The Action Plan for 2015-2017 includes the most prioritised measures and actions of the Digital Strategy of Cyprus and many of these projects will be co-financed from the ESIF for the programming period 2014-2020. At the same time, the Council of Ministers approved in June 2015 the establishment of the Digital Strategy Group (in replacement of the Advisory Committee of the Information Society), to be responsible for the continuous enrichment of the DSM, with recommendations from the private and public sector, and to coordinate the actions and achieve synergies of the National Digital Strategy.

The Council of Ministers, in May 2015, also decided the establishment of the Electronic Governance Council, which aims at approving, implementing and monitoring the progress of all IT/e-government projects and the policy development in e-government issues.

The most significant objectives of the Action Plan for implementing the Digital Strategy of Cyprus for 2015-2017 are described below:

(i) Connect Cyprus

The focus is to achieve the broadband targets of 2020. The third mobile broadband network that obtained license in 2014 to develop a mobile broadband electronic communications network (3G and/or 4G) became operational in March 2015, and currently all three mobile operators provide high speed mobile broadband access (4G). Furthermore, in January 2016 a call for applications for the authorization of the use of new spectrum (800 MHz and 2600 MHz) was issued. It is expected that this procedure will be completed within 2016, and new licenses will be issued for the provision of high quality and high speed mobile broadband services with a wide coverage throughout the island.

Additionally, a significant amount from the ESIF has been secured for the modernization of fixed broadband infrastructure through the implementation of an optical fiber network to the premises (Fiber To The Home) and/or extension of the optical fiber network as close as possible to the end

users' premises, with the objective of providing connection to ultra-high speed broadband networks. In February 2016 a Public Consultation started concerning the "Cyprus National Broadband Plan". The latter refers to the policy and objectives set by the Republic of Cyprus for the development of broadband electronic networks and the planned actions to implement for its achievement.

In parallel, the Office of the Commissioner of Electronic Communications Regulations and Post (OCECPR) has completed the study entitled "Broadband Acceleration Study for Cyprus" funded by EBRD. The findings of the study and the public consultation will shape the final design of the optical fiber network, which is expected to commence at the end of 2016.

(ii) Modernise public administration to provide public electronic services

The vision of the Republic of Cyprus as regards e-government is to leverage Information and Communication Technologies to strengthen and improve the quality and efficiency of public administration, aiming to assure a better quality of life for its citizens and to contribute to economic growth.

In this context, the Cyprus e-Government Strategy for 2014-2020 has been prepared, which applies to all government organisations. The major strategic interventions foreseen by the strategy, which are under way, are:

- The full exploitation and extension of Government Gateway Portal – Ariadne, aiming for creating a joint-up government.
- The provision of advanced electronic signatures.
- The roll out of the Office Automation System (electronic management of the official documents of the Public Service) throughout the government.
- The creation of a unified communication network for the Public Services.
- The Integrated Information System that will computerize the Justice sector supporting the automation of all processes of Courts (e-Justice).
- The Town Planning & Housing Information System aiming to upgrade and improve the relevant services and reduce bureaucratic procedures.
- The creation of an Integrated Health Information System (e-health).

The above strategic interventions are also included in the Digital Strategy Action Plan for 2015-2017.

(iii) Digital Entrepreneurship

Digital entrepreneurship is very important for SMEs which form the backbone of the economy. Therefore, the Action Plan for the Digital Strategy of Cyprus for 2015-2017 includes schemes co-financed by ESIF for empowering SME's with the use of ICT in their operations. The objectives of the funding schemes are to increase the development of local applications on the Internet, based on cloud computing services, to encourage the acquisition of experience from the use of cloud computing applications and to increase the use of e-commerce.

(iv) Digital Skills

The digital skills gap in the EU also reflects the current situation in Cyprus. Based on the latest statistics, Cyprus has one of the lowest percentages of regular Internet users in the EU (70%) while 26% of the Cypriot population has never used the internet which indicates that more than a quarter of the population cannot contribute to the digital economy. Additionally, only 43% of the population has at least basic levels of digital skills whereas only 2.4% of the total labour force in Cyprus is a qualified ICT Specialist, much less than the EU average (3.78%).

The above observation is also confirmed by the findings of a survey carried out by the Cyprus Productivity Centre on the Evaluation of the gap of ICT Professionals, indicating the state of play in terms of digital skills, (co-financed by the European Social Fund). The research findings showed a lack of specialized skills in the field of Digital Technologies and that the demand for professionals in this sector will increase over the next three years.

The Government of Cyprus has proceeded with specific policies in order to promote and address the digital skills gap, which are the following:

- Development of a National Coalition for Digital Jobs and recently joined the Grand Coalition for Digital Jobs.
- The Human Resource Development Authority of Cyprus (HRDA) promotes continuously the acquisition of digital skills through various actions, that improve and update the knowledge and skills of companies' employees on ICT issues which include among others single-company and multi-company training programmes.
- The Cyprus Pedagogical Institute is implementing a number of ICT actions promoting the training of school teachers and other executives at various levels. The ICT lesson is included in the curriculum of all schools for all students at all levels.
- The Cyprus Academy of Public Administration (CAPA) has completed the "Digital Ambassadors Training" project (co-funded EU project for the Local Authorities) which offered training to 155 digital ambassadors from 155 distinct communities/rural municipalities. CAPA continued to train Digital Ambassadors following completion of this project and has so far trained around 45 additional ambassadors.
- ICT classes are provided to the general public, through the Adult Education Centres within the framework of providing lifelong learning opportunities.

(v) National Plan for the Coalition for Digital Jobs

In support of the European Commission's recent action call for a Grand Coalition seeking to address the shortage in the new ICT skills and the future mismatching of unfilled ICT-related vacancies across Europe, Cyprus' Digital Champion proceeded, in September 2014, with the creation of a National Action Plan for Coalition for Digital Jobs in cooperation with the Department of Electronic Communications. Cyprus concluded its Action Plan and formally joined the Grand Coalition for Digital Jobs in October 2015.

More than forty stakeholders, including companies from the ICT and ICT-related sector, relevant public departments, and other education providers have notified their commitment to support and promote this effort. After the completion of two consultations between all relevant stakeholders

and the Digital Champion, interested parties transmitted their proposed actions, which have been divided into three categories namely, Training, Certification and Awareness. Each category is examined by a separate Working Group with the view to deliver and engage in actions, in their area of proficiency.

The implementation of the actions will be coordinated by a Committee under the supervision of the Digital Champion, with the participation of the Department of Electronic Communications and the stakeholders involved.

3.1.6 Promoting Justice

Judicial administration must be efficient and of a high qualitative standard. Acknowledging the need to modernise justice, the Supreme Court of Cyprus together with the Ministry of Justice and Public Order, have promoted a number of measures in order to improve and expedite its administration. In this respect the following actions and steps have been taken:

- Establishment of an Administrative Court which is operational since 1.1.2016. The Administrative Court has taken on board all first instance administrative recourses, thus discharging the Supreme Court of this task and enabling it to carry out more expeditiously its second instance jurisdiction (appeals). For the effective operation of the Administrative Court, five new judges have been appointed and have taken their post in December 2015.
- Successful use of automatic stenotyping in criminal cases before the Assize Courts with the result that cases are dealt with more expeditiously. Same practice and equipment is also applied in District Courts.
- Purchasing of services for a Court Administration/Management Information System (E-Justice) for the Cypriot Courts through a Strategic Investor, using an open tender process. This process has not yet been finalised.
- Assignment of three judges in each district (District judge, senior district judge and president) to deal with commercial and immovable property cases.
- Amendment of the Courts' Law of 1960 relating to the jurisdiction of the District Judges and the senior District judges, according to which every senior District Judge or District Judge has jurisdiction to hear and determine any application in relation to the execution of property under Part V of the Civil Procedure Law, regardless of the value of the property.
- Preparation of a draft Law which filters the right for filing of an appeal regarding interlocutory decisions during the proceedings.
- Preparation of a bill amending the Civil Procedure Law, so as to strengthen the legal framework for the enforcement of judgments. The provisions of the Bill include measures which facilitate the execution of warrants concerning the seizure of movable property.

Furthermore, the Supreme Court has forwarded the following changes in the procedural rules and administrative processes:

- Replacement of Order 30 of the Civil Procedure Rules by a new Order, supplemented by an amendment of Order 25, with the overriding objective of dealing with cases justly, by lessening the delays encountered in litigation and reducing the complexity of the system of civil procedure, thus ultimately improving its cost effectiveness. These orders are also applicable in special jurisdiction courts. As a result, the judge will have more extensive procedural and case

management powers and a more active role in the conduct of the action, inter alia, by giving directions regarding various procedural steps, setting deadlines for their performance and imposing sanctions if parties fail to comply with their procedural obligations.

The new Order 30 also introduces a “fast track” procedure for claims with a value not exceeding €3.000. In such cases the Court will decide the case “on the papers”, after an exchange of witness statements, without requiring oral evidence.

- Amendment of the court Rules on Insolvency of natural persons –action still in progress.
- Amendment of the rules on the foreclosure sales.

The Supreme Court is also considering the possibility of increasing the amount of the stamp duty for the filing of civil actions, especially in higher scales.

Further to the above, the Supreme Court has requested technical assistance from the Structural Reform Support Service of the EU for the modernisation of the judicial system and the management of the courts.

3.2 Labour Market

The key challenges as regards the labour market are the persistently high levels of unemployment, albeit with signs of recovery and decreasing unemployment rates, and especially youth and long term unemployment. These are addressed through targeted measures and schemes, with noticeable positive effects. Measures include the implementation of the National Youth Action Plan, the implementation of Activation Measures for the unemployed, women and youth, the long term unemployed, Guarantee Minimum Income beneficiaries, training opportunities as well as other measures such as systematic employment forecasting and identification of skills gap. Also, the Ministry of Labour, Welfare and Social Insurance is implementing reform measures for the enhancement of its Public Employment Services in order to be able to address their current mandate more effectively and efficiently. More analysis of the measures promoted can be found in section 5 below.

Other labour related issues are listed herebelow:

a) Workforce skills

Human resources in Cyprus are characterised by a high level of educational attainment. In 2015, the percentage of the population aged 15+ with tertiary education was 32%, while the corresponding percentage for the economically active population was 43%.

However, the recent economic crisis and its adverse effects on the labour market posed a critical challenge for the Cypriot education and training system. As a result, education and training activities have been redirected to respond flexibly and effectively to the crisis, with targeted actions for the unemployed, economically inactive but also for the employed.

A major challenge is to address the increased levels of unemployment with emphasis on youth as well as long-term unemployment. Actions that promote the employability of young persons and

the long-term unemployed, through individualised guidance, training and work placements are being implemented.

For the systematic employment forecasting and the identification of skills gaps, the Human Resource Development Authority (HRDA) provides 10-year employment forecasts on a regular basis. The 2015 forecasts for the period 2014-2024 as regards employment, expansion and replacement demand for 52 sectors of economic activity and for around 310 occupations, which cover the whole spectrum of the Cyprus labour market, indicate an increase in employment for the three broad occupational categories (high, medium, low level). Annual employment demand (including both expansion and replacement demand) is forecasted to reach around 13,000 persons during the period 2014-2024. Almost 7,000 of this will be for middle-level occupations (requiring secondary level education) and approximately 4,000 will be for high-level occupations (requiring tertiary level education). Thus by 2024 around half of employed persons will continue to be in middle-level occupations while almost 2 in 5 employed persons will be in high-level occupations.

In order to improve the skills of the workforce in Cyprus, the HRDA implements a variety of measures, which include the provision of training opportunities and job placements for the unemployed, the provision of training opportunities for the employed and the development and implementation of a System of Vocational Qualifications.

The System of Vocational Qualifications is designed for the assessment and certification of the competence of a person to carry out a specific job in real and/or simulated working conditions. During the implementation of the System, which was co-financed by the European Social Fund (ESF) in the programming period 2007-2013, 72 standards were developed and 1,700 persons were certified. The System is continuing in the programming period 2014-2020 and 80 new Standards will be developed, the existing Standards will be revised and around 10,000 certificates will be awarded.

The main measures directed towards the unemployed, as well as studies evaluating their impact are described in section 5.

b) Wages

No changes are expected to the system of wages covering only a limited number of professions by the minimum wage legislation. The minimum wage is expected to remain at the 2012 level of €870 on appointment, and €924 after six months of employment at the same employer.

In Cyprus there are no labour laws preventing the implementation of flexible and reliable labour contracts, while the system of social dialogue ensures to a great extent the contracts' reliability. In 2016, the collective agreement in the Tourism sector was concluded, covering the period March 2016-December 2018. The overall annual cumulative effect on the labour cost comprises of the following parts: (i) Bonus payment 1%, (ii) Service charge 2.25% for the 3 years and (iii) Provident fund 2% for each year. The renewal of the collective agreement in the construction industry has also been under negotiation, but it has not been renewed yet.

With regard to the Cost of Living Adjustment index, by the end of 2016 efforts will intensify to achieve consensus on the only remaining reform which provides for partial indexation at 50% of inflation. Other provisions relating to the reformed system that social partners have already accepted, relate to the annual (instead of bi-annual) frequency of adjustments, and the automatic suspension of indexation during recession.

More information on developments and policy undertaken in this area, are provided in chapter 5.1.

3.3 Education

The strategic goals of the Ministry of Education and Culture (MoEC), analysed in the Strategic Plan 2016-2018, include the following:

- Development, training and quality upgrade of education's human resource.
- Modernisation of the administrative structures of the educational system and of the school units.
- Provision of education and upgrade of its content, evaluation and effectiveness.
- Support and reinforcement of every pupil, acknowledging diversity.
- Reinforcement and upgrade of tertiary education.

a) Improvement of skills provision

An ongoing effort for the Enhancement of the quality, attractiveness and the relevance of Vocational Education and Training is taking place. A "Strategic Plan for the System of Technical and Vocational Education and Training 2015-2020", was approved by the Council of Ministers on 15 April 2015. This comprehensive Strategic Plan includes measures and activities that cover all the public Vocational Education Training (VET) programmes offered namely: (i) Secondary Technical and Vocational Education (STVE), (ii) the Evening Technical Schools (second chance schools), (iii) the Apprenticeship Scheme, (iv) the Afternoon and Evening Classes of Technical Schools, and (v) the Post-Secondary Institutes of VET (PSIVET).

(i) Reform and upgrade of Secondary Technical and Vocational Education (STVE)

Through the Strategic Plan mentioned above and also the Proposal of the Committee for the Upgrade of Secondary Technical and Vocational Education (STVE), approved by the Council of Ministers on 14 December 2015, the following measures aiming at the improvement of the quality of STVE and the acquisition of skills and competences required by the labour market are currently being implemented:

- Development of closer ties and further enhancement of the cooperation between STVE and Industry through dialogue with representatives of the Organisations of Employers in order to promote practical training (industrial placement) of STVE pupils in Industry.
- Reform and upgrading of the programme of industrial placements in order to increase the percentage of time STVE pupils spend in industry for their practical training, to be introduced as of the school year 2016-2017.
- Review and reform of the fields of study and specialisations offered by Secondary Technical and Vocational Education (STVE) in order to become more attractive and relevant to labour market

needs, to be introduced as of the school year 2016-2017. The views and suggestions of various stakeholders invited to participate in two focus groups have been taken into account.

- Review and reform of the existing curricula or development of new curricula for the STVE specialisations that are offered by Technical Schools and Evening Technical Schools. The reformed curricula will be oriented towards learning outcomes and will be based on Learning Modules and European Credit System for Vocational Education and Training (ECVET) units. They are expected to be introduced as of the school year 2016-2017.
- Organisation of information campaigns regarding the prospects for employment offered by STVE, through the development of suitable informative material and school visits.

(ii) Reform and upgrading of evening technical schools

The programmes offered at the two Evening Technical Schools are equivalent to the formal STVE programmes offered in mainstream Technical Schools, adapted to the needs of adult students. Therefore, Evening Technical Schools operate as second chance schools, offering good quality mainstream VET education to adults who are early school leavers, so that they have the opportunity to re-enter the formal school system, obtain a qualification at upper secondary level, move on to tertiary education if they wish and/or re-enter the labour market as skilled workers.

The following measures implemented in the context of the reform of secondary technical and vocational education relating to (i) Review of the fields of study and specialisations offered by STVE and (ii) review of the existing curricula or development of new curricula for the STVE specialisations mentioned under (i) above also cover the programmes offered by the Evening Technical Schools. It is noted that the modularisation of the programmes will offer adult students the opportunity to study and work on a part time basis at the same time.

In addition to the above and in order to increase access to formal VET programmes, an Evening Technical School has been established on the premises of the Central Prisons in Nicosia. This initiative aims to offer prisoners a real opportunity to re-integrate into society, through the provision of high quality vocational education and training that will enable them to obtain a qualification at upper secondary level. The programmes are characterised by additional flexibility and are offered in the form of curriculum modules, giving prisoners the opportunity to select them according to their capabilities. The specialisations offered cover Computer Engineering and Communications, Welding and Metal Constructions, Woodcraft and Furniture Making and Hotel and Catering.

(iii) Reform and upgrade of the apprenticeship scheme

The Council of Ministers on 15 April 2015, assigned full responsibility for the operation of the Apprenticeship Scheme to the Department of STVE of the MOEC.

The Department of STVE, following consultation with the members of the Apprenticeship Board (body responsible for supervising the operation of the Apprenticeship Scheme and comprised of the Government, the Technical Schools and the Organisations of Employers and Employees' representatives), prepared a comprehensive Proposal for the Upgrade of the Apprenticeship Scheme which was approved by the Council of Ministers on 19 August 2015.

Within this context, the following measures, aiming at the improvement of the quality of the Apprenticeship Scheme and the enhancement of its relevance to labour market needs, are currently being implemented:

Preparatory Apprenticeship:

- Operation of A and B class in order to cater for the needs of pupils with different academic backgrounds and levels of maturity.
- Development of criteria for the assessment of each pupil who wishes to attend Preparatory Apprenticeship, in cooperation with the Career Counseling and Educational Services.
- Pupils attending Preparatory Apprenticeship who are below 15 years old are given the opportunity, to return to the first cycle of lower secondary education (Gymnasium).

Core Apprenticeship:

- Development of closer ties and further enhancement of the cooperation between Apprenticeship Scheme programmes and the industry for the promotion of practical training of apprentices in industry. To this end, various meetings have already been held with representatives of the Organisations of Employers.
- Connection of the programmes offered by the Apprenticeship Scheme with the programmes offered by the Evening Technical Schools, which operate as second chance schools. The graduates of the Apprenticeship Scheme of the school year 2015-2016 and onwards will be entitled to attend the Evening Technical Schools with part of their education and training acquired in the context of the Apprenticeship Scheme being recognized. As a result, they will be given the opportunity to complete upper secondary education in one or two years instead of four.
- Training of trainers, teachers and counsellors, in order to be able to cater for the needs of apprentices.
- The Apprenticeship Scheme will become more flexible through the development of about forty specialisations, which will be offered alternately to the various districts, on the basis of the apprentices' demand, labour market needs and the readiness of organised employers to cooperate with the MOEC.

(iv) Reform and upgrading of the afternoon and evening classes of technical schools:

Evening Technical and Vocational Education classes, as well as afternoon preparatory classes for various examinations, are offered by the Department of Secondary Technical and Vocational Education in the afternoon and evening, on the premises of Technical Schools, in all major towns of Cyprus.

The Evening Classes of Technical Schools offer one-year programmes leading to the acquisition of a certificate, or three-year programmes leading to the acquisition of a leaving certificate equivalent to that awarded to graduates of Technical Schools (Secondary Technical and Vocational Education) as far as the technical component is concerned.

(v) Further development of the Post-Secondary Institutes of VET (PSIVET):

PSIVET began their operation in November 2012, offering secondary education graduates and young adults the opportunity for further education and training at a level that was not available before. The programmes offered were especially designed, after consultation with the social partners and stakeholders, to respond to the needs of emerging economic sectors and to be relevant to labour market needs.

Amongst the top priorities of the MOEC is the classification of PSIVET programmes at the Level 5 of European Qualifications Framework (EQF) and International Standard Classification of Education (ISCED). To this end, and after the authorisation by the Council of Ministers on 11 February 2015, a Special Committee was appointed and prepared a study, recommending the recognition of the PSIVET as a Public School of Tertiary Vocational Education and Training. The study was submitted to the Quality Assurance and Certification Agency for Higher Education for suggestions on 1 March 2016 and when finalized, the recommendations of the study will be submitted to the Council of Ministers for approval.

b) Counseling for NEETs

The Counseling Services in Secondary Education shall be enhanced so as to offer more targeted guidance to students. A project supported by the European Social Fund (ESF) will contribute significantly towards this endeavor by expanding the outreach of counseling services to young people not in Employment Education and Training (NEETs). The young people who will be supported by these services, will be helped to reflect on their capabilities and be given options for either employment or further education and training.

c) National Lifelong Learning Strategy

The National Lifelong Learning Strategy (LLL) for 2014-2020, aims at contributing towards achieving common European objectives in education and training. The vision, priorities and indicative actions to be promoted in 2014-2020 reflected in the Strategy, aim to the effective contribution of education and training systems in dealing with the impact of the economic crisis, adapting to variations in the structure of the economy, as well as promoting personal fulfillment and development of skilled, trained and flexible workforce.

The monitoring of the implementation of the LLL Strategy is carried out by the National and Technical Committees of LLL. The Progress Report for the period 2010-2014, reflecting the results of the LLL strategy, reveals a satisfactory situation. Nevertheless, it is also recognised that there are prospects for further improvement, in order for LLL to fully play its key role corresponding to the promotion of equality and efficiency in a rapidly changing labour market, in an effort to eliminate educational inequality and exclusion, contributing to citizens' welfare and the development of the economy.

The European Programme Erasmus+, for Education, Training, Youth and Sport for 2014-2020, contributes to the implementation of the LLL Strategy. In this respect Erasmus+ will be an important tool in promoting transnational mobility aiming to boost skills and employability,

training, and youth work. The programme will be providing to Cyprus a budget of about €9 mln through decentralised actions for 2016 (in comparison to about €8 mln for 2015) and it will offer the opportunity to Cypriots to study, train, gain work experience and volunteer abroad.

The Directorate General for European Programmes, Coordination and Development (DG EPCD) is the National Authority responsible for monitoring and supervising the management of the Programme which is undertaken by two National Agencies, the Foundation for the Management of European Lifelong Learning Programmes (for the sectors of education and training) and the Cyprus Youth Board (for the sector of Youth). The Commitment rate for 2014 of the two National Agencies is above 97%.

3.4 Research and Innovation

The S3CY for Research and Innovation was approved by the Council of Ministers in March 2015. This Strategy includes an extensive analysis of the national R&I priorities with the aim of maximising the knowledge based development potential of the Cyprus economy through targeted support to the sectors where Cyprus has a competitive advantage. The priority areas identified through the S3CY are: Energy, Tourism, the Structured Environment / Construction Industry, Transport / Marine, Agriculture / Food Industry and the sector of Health. Furthermore, a number of horizontal priorities have also been identified such as Information Technology, Environment and Human Resources. In addition, the Council of Ministers, in December 2015, approved the establishment and the terms of reference of the Smart Specialisation National Monitoring Mechanism.

The S3CY includes an Action Plan, to be implemented over the period 2016 – 2020, with measures amounting to €139,5 mln (ESIF €82,3 mln + €57,2 mln national funds). In addition to providing targeted R&I support to priority sectors in order to increase their competitiveness, the Action Plan of S3CY is expected to also address the main issues of the R&I system in Cyprus such as the inclusion of SMEs in RTDI activities and the attraction of private sector in RTDI investments, the establishment of synergies between the research and academic community with the business world and the enhancement of extroversion of the Cyprus RTDI system.

At European level, Cyprus follows closely all efforts towards the implementation of the European Research Area (ERA). At national level, a ERA Roadmap is under preparation, which is expected to be finalized by mid 2016. In particular, the following national actions for the implementation of the ERA are highlighted:

- **More effective national systems:** The Action Plan of S3CY includes various measures for rendering the National System more effective, the content of which agrees to a large extent with the recommendations by the National Committee for Research Innovation and Technological Development which had been delivered in 2014.
- **Transnational cooperation:** Cyprus is involved in transnational cooperation taking advantage of the opportunities offered mainly by Horizon 2020. It also participates in 4 Joint Programming Initiatives (JPI) and several ERA-NETs and has many bilateral agreements with EU and non-EU countries. Moreover, Cyprus is a member in 2 Article 185 Public to Public initiatives. It also had an active role in the preparation of the Joint Programme for the establishment of PRIMA, an

Article 185 Initiative, for strengthening R&I cooperation in the fields of Water and Food for the Mediterranean region.

- **Research Infrastructures:** Cyprus participates in several projects under the ESFRI roadmap and in 2 ERIC (European Research Infrastructure Consortium). Additionally, within the Action Plan of S3CY measures are foreseen for the creation of new and the upgrade of existing Research Infrastructure (RI) units and the facilitation of access of Cypriot researchers to European and Global RI.
- **Open labour market for researchers:** Cyprus pays special attention to open and transparent recruitment of researchers (vacancies published via EURAXESS portal and Cyprus Government Gazette).
- **Gender:** In terms of participation to national research programmes, there is equal treatment for both genders without any discrimination.
- **Knowledge circulation:** The National Policy on Open Access to Scientific Information in the Republic of Cyprus was approved on 25th of February 2016. Cyprus, currently has three Open Access Institutional Repositories. Furthermore, a network of Enterprise Liaison Offices in Universities was developed to enhance the links between the academia and the private sector.

In addition to the above, the S3CY Action Plan includes a significant number of measures that subserve the ERA priorities and goals.

Strengthening the link between academia and businesses and fostering better utilization of research results

The following schemes are being promoted in the context of the Structural Funds for the period 2014-2020:

- The financial scheme for Supporting Enterprises to Develop Innovative Products and Services encourages the cooperation between research institutions and industry. It is noted that 14% of proposals involve cooperation with Universities and other research centers. Start-ups can also submit proposals. All the proposals under this scheme are currently evaluated by the MECIT.
- The Innovation Houses Scheme will provide for the cooperation of University and private enterprises (planned for next year). This scheme will enable graduates to set up their own innovative companies to utilize research results.

Furthermore, the Research Promotion Foundation is planning the establishment of a Central Technology Transfer Office (TTO) in order to provide support to the academic and research institutions in Cyprus in relation to the protection and exploitation of their research results and intellectual property. The Central Technology Transfer Office will be complemented by Units within the major academic and research institutions, which will undertake basic technology transfer activities and facilitate the communication between the institutions and the Central National Technology Transfer Office. A Business Plan was created by external experts and is currently under discussion. It will be put into stakeholder consultation at a later stage.

3.5 Modernising Public Administration

Acknowledging the need for the modernization of the structure and functioning of the Public Administration and the improvement of the services provided to citizens and enterprises, the Government of Cyprus has promoted the introduction of a wide array of changes/reforms aiming at raising the productivity and efficiency of the Public Sector, for the benefit of the citizens and the society. The Public Administration Reform encompasses, inter alia, issues related to the mobility, promotion and evaluation procedures for public sector employees as well as functional reviews concerning the role, competences and organisational structure of the Central and General Government.

a) Horizontal Reforms

As regards staff mobility, the impediments regarding the duration and placement of secondments have been removed from the Public Service Laws through relevant Amendments that were adopted during the period 2011-2014, the mobility/interchangeability of public officers were enhanced and regulated with the introduction of "duty assignment". By this measure, the Permanent Secretaries of Ministries and the Directors of Independent Services/Offices have the authority to utilize their employees serving at entry level posts for any needs that may exist in any department within that particular Ministry/Independent Service.

In addition, in order to achieve more efficient use of staff of both the Public Service and the employees of State Owned Organisations, a draft law has been prepared, which regulates the staff mobility between the Public Service and State Owned Organisations and between State Owned Organisations. The draft law has been approved by the Council of Ministers in September 2015 and is pending at the HoR for approval.

Following an independent external review for the Public Service reform on horizontal issues, reform actions were promoted by the Cyprus Government, after consultation with the interested parties and five draft Laws were prepared which were approved by the Council of Ministers in August 2015, and submitted to the HoR in September 2015 for approval. The new legislation aims at introducing the following reform measures:

- i. New provisions for evaluation and selection of candidates for filling promotion posts in the public service. In particular:
 - a new category of posts, the "Interdepartmental Promotion" post, is introduced, in order to strengthen/encourage mobility.
 - written exams are introduced.
 - the selection will be based on certain criteria which include the written examination mark, the relevant qualifications (over and above the required), the years of relevant experience (over and above the required), the performance appraisal evaluation (for posts up to Senior Officer Level) and the recommendation of the Head of the Department.
 - A greater number of candidates will be enabled to pursue promotion posts.
- ii. A new performance appraisal system for civil servants:
 - includes criteria tailored to the level of responsibility required by the position.

- is consistent with the identification of areas for development for each employee.
 - will be used for promotion purposes up to Senior Officer Level.
 - strengthens the communication between Appraisers and Appraisees.
 - engages appraisers and appraises in career related discussion.
 - introduces mechanisms to “discipline” the annual performance appraisal process and ensure variance in ratings, away from the current practice of evaluating the vast majority as excellent.
- iii. New provisions for the Public Service Commission as follows:
- the assessment process to become more structured.
 - the interviews to be based on a structured questionnaire taking into consideration the Schemes of Service (technical and behavioural).
 - the interviews to assess technical competence as well as behavioural competencies.
 - structured forms to be filled in by the interviewers in order to document/certify the recorded interview.
 - detailed shorthand minutes to be kept during the interviews.
 - internal audit/checks on the process to be conducted.
- iv. New mechanism ensuring that any increase to the wage Bill (through salaries annual increments, general increases and COLA), will be based on the fiscal conditions and the percentage changes in nominal Gross Domestic Product.
- v. Abolition of the oral examination conducted by the Public Service Commission for filling posts of non-scientific staff.

Within the framework of public administration reform, sectoral/functional reviews have been carried out by independent external experts. The reviews aim, among others, to examine the role, competences, functions, size and organizational structure of the Services, and to submit relevant proposals and reform options towards their restructuring and to improve the operation and service delivery functions of public institutions.

b) Line Ministries

The first batch of sectoral functional reviews, examined the Ministry of Health, the Ministry of Education and Culture, the Ministry of Agriculture, Rural Development and Environment and the Department of the Registrar of Companies and Official Receiver and they were conducted by external experts.

Based on the findings of these reviews, recommendations were put forward in Action Plans prepared by the Line Ministries, with specific timeframes for implementation, in an effort to improve their efficiency and effectiveness, ensure provision of high quality services to citizens and efficient use of government resources. The Action Plans for the restructuring of the Ministries of Education and Agriculture and the Department of Registrar in particular were approved by the Council of Ministers, and the reforms have started to be implemented from the first quarter of 2015.

The second batch of sectoral reviews covered the remaining seven Ministries, grouped in two categories:

- i. Political Ministries (Defense, Justice and Public Order, Foreign Affairs): Studies have been concluded and were presented to the authorities in July 2015.
- ii. Economic Ministries (Labour, Transport, Interior and Energy): the reviews were completed and presented in December 2015.

Based on the sectoral studies and the recommendations of the experts, the relevant options are being examined by the Government, in order to reach political decisions.

During both batches of functional reviews, a number of SOEs under the competency of each Ministry (excluding those that were under the Privatisation Plan) were also reviewed.

c) Other Services

Within the context of the 2nd phase of the reform of the public administration, the functional reviews of the Constitutional and Independent Services are underway. Given their dissimilarities in terms of mandate, status, size, structure and staffing, a more individualized case by case approach is followed.

Currently, the sectoral studies at the following Services are ongoing: Public Service Commission, Audit Office, Educational Service Commission, Internal Audit Service, Office of the Commissioner for Administration and Human Rights (Ombudsman), Office of the Commissioner for Personal Data Protection and Tender Review Authority. The review of the Refugee Review Authority has already been completed.

d) Digitalisation of Public Administration

The use of Information and Communication Technologies (ICT) is widely recognised as a key horizontal factor for growth. Consequently, the Government considers that e-government should be implemented as a matter of priority in tandem with the Public Service Administration Reform, so that the necessary tools are developed and significantly improve the government performance as well as the public service delivery, while providing transparency about the operation of government to the general public. In this respect, the following measures are currently being implemented:

e) Citizen Service Centres (CSCs / one-stop-shops)

Citizen Service Centres (CSCs/one-stop-shops) have been established all over Cyprus, with the aim to provide multiple services from one point of contact/location, thereby offering citizens the convenience of having all their requirements met in one stop, in a timely manner. Acting as an alternative channel for dealing with public agencies/organizations, CSCs offer more than 90 different services from a number of governmental organisations, such as issuing of birth certificates, driving licenses, road tax licenses, social insurance contributions records etc. In addition, CSCs receive applications for the issuing of passports, identity cards and refugee identity cards, for registration in the electoral register, for grants, allowances, benefits and pensions. The

on-the-spot provision of services and information to citizens from a single point of contact is rendered possible, by fully utilising ICT. The network currently comprises of 7 CSCs in total (5 operating in urban areas and 2 in rural areas). The aim is to establish 3 more CSCs in the period 2016-2017.

f) Call Centre of the Citizen Service Centres

The Call Centre of the Citizen Service Centres has started its operation as of 2nd of March 2015, through a single 4-digit number (1434) which citizens can call in order to obtain information with respect to approximately 90 services offered by the CSCs (e.g. eligibility criteria for submitting an application, documents that need to be submitted, fees charged etc.). Through the Call Centre citizens can also submit applications for 18 services relating to the issuing of specific documents/licenses/certificates etc. Citizens also have online access to all the information regarding the 90 services, via the relevant website.

3.6 Public Financial Management

The government, in the process of reforming the public financial management in Cyprus, adopted the Fiscal Responsibility and Budget System Law (FRBSL) in February 2014. The FRBSL, inter alia, directly links the budget process with the medium-term fiscal targets, which translates into binding expenditure ceilings, based on a prudent macroeconomic policy framework, evaluated by independent institutions, including the Fiscal Council. Public Financial Management (PFM) provides flexibility to line ministries by moving from controlling inputs to achieving measurable outputs/outcomes. PFM also fosters accountability and transparency in the consumption of public resources through strategic planning, prioritization and risk mitigation. Additionally it allows for systematic investment project evaluation and overall systematic assessment, monitoring and management of fiscal risks.

In the context of the new Public Financial Management System, Ministries prepare strategic plans which need to be in line with the Government Strategy Statement which sets out the overall objectives and direction for the economy which is also consistent with the Action Plan for Growth.

In 2015, all Ministries prepared Strategic Plans which were linked to the budget process. Furthermore, there was pilot implementation of activities based budgets by the Ministries and a gradual application of the monitoring and assessment system which includes performance and evaluation indicators related with the achievement of objectives and policies, as defined in strategic projects.

3.7 Privatisation

On 4 March 2014, the House of Representatives (HoR) enacted a law regarding the Regulation of Issues of Privatisations (“Privatisations Law”) which sets the legal and institutional framework to enable the implementation of the Republic of Cyprus’ Privatisations Programme.

The Privatisations Law included the establishment of the Privatisations Unit (“PU”), an independently appointed unit that operates under the supervision of the Interministerial

Committee for Privatisations pursuant to the provisions of the Privatisations Law. The PU was established in June 2014.

The PU acts as a consultative and coordinating body under the direction of the Commissioner of Privatisations, who consults and acts, at all times, under the direction of the Interministerial Committee for Privatisations and/or the Council of Ministers, as appropriate.

Below is the list of entities/assets that have been declared by the Council of Ministers as entities/assets subject to privatisation, and which fall under the remit of the PU.

Date	Decree	Entity/ Asset
28/3/2014	ΚΔΠ 175/2014	Cyprus Telecommunications Authority
28/3/2014	ΚΔΠ 175/2014	Cyprus Stock Exchange
28/3/2014	ΚΔΠ 176/2014	Cyprus State Fairs Authority
28/3/2014	ΚΔΠ 177/2014	Pancyprian Company of Bakers Ltd
18/7/2014	ΚΔΠ 355/2014	Cyprus Petroleum Storage Company Ltd
03/4/2015	ΚΔΠ 112/2015	Cyprus Airways Logos and Trademarks
22/5/2015	ΚΔΠ 170/2015	National/ Government Lottery
07/8/2015	ΚΔΠ 273/2015	Certain Troodos Area Real Estate Assets

It is noted that the Electricity Authority of Cyprus ceased to be an entity subject to privatisation following the publication of Decree Κ.Δ.Π. 6/2016 on 22 January 2016 that amended the initial relevant Decree Κ.Δ.Π. 176/2014.

Overview of the PU's current mandates:

a) Cyprus Telecommunications Authority ("CYTA")

In early 2015, the PU concluded the appointment of international advisors (Financial Advisor/ Project Coordinator, Legal Advisor, Technical Advisor, Accounting Advisor), mandated to design, manage and implement the preparation and execution of the process for selecting a strategic partner/investor for CYTA.

The Council of Ministers has approved the following three legislation bills which were subsequently submitted to the House of Representatives. On 28 March 2016, due to the low likelihood of the bills being approved at the plenary because of the proximity to the May 2016 parliamentary elections, the three bills were withdrawn from the House of Representatives. The Government stated publicly its intention to resubmit the bills to the House of Representatives after the May parliamentary elections.

- i. Corporatisation Bill² (submitted to the HoR in September 2015) - Amends the existing law governing the operation of CYTA and sets the legal framework for the transfer of the main telecommunication operations and related assets and liabilities of CYTA to a private limited liability company ("LLC"), which will, at the initial stage, be completely owned by the Republic

² Telecommunication Services (Amending) Law of 2016

of Cyprus. The creation of the LLC will enable, at a later stage, a strategic partner(s)/ investor(s) to enter the shareholding.

- ii. Employee Bill³ (submitted to the HoR in December 2015) - Sets the options and rights of the employees of CYTA, as per the provisions of article 5(a) of the Privatisations Law, in case a strategic partner/investor participates in the share capital of the LLC.
- iii. National Security Bill⁴ (submitted to the HoR in December 2015) - Safeguards the relevant national security matters that may arise when the telecommunication operations and related assets and liabilities of CYTA are transferred to the LLC, by providing certain powers to the Council of Ministers.

It is noted, however, that on 14 April 2016 the House of Representatives passed an amendment to the Privatisations Law through which the privatisation procedures for CYTA (and EAC) are suspended until the end of 2017. Following this development, the Government will take a political decision as to how to proceed.

In addition, as per article 12(2)(α) of the Privatisations Law, the Commissioner of Privatisations has submitted to the Interministerial Committee for Privatisations the Specific Privatisation Programme for CYTA, which includes all interim stages regarding the privatisation of CYTA and the relevant implementation timeframe. The Interministerial Committee for Privatisations approved the Specific Privatisation Programme for CYTA on 1 March 2016.

The launch of the transaction process for the selection of a strategic partner(s)/investor(s), is subject to the approval of the relevant legislation by the House of Representatives. Without prejudice to the above, the privatisation is estimated to be concluded within 9 months from the commencement of the transaction process.

b) Cyprus Stock Exchange (“CSE”)

The PU is currently in the process of initiating a tender for the appointment of an advisor that will be mandated to perform, among others, the following key tasks:

- i. Prepare a strategic plan which will include the identification, analysis and presentation of feasible private sector participation options and recommendation as to the optimal strategy and way forward for the CSE. Based on the results and recommendations of the strategic plan, the Interministerial Committee for Privatisations and/or the Council of Ministers will approve/reject/require amendments to the strategic plan submitted by the advisor.
- ii. Subject to the decision(s) of the Interministerial Committee for Privatisations and/or the Council of Ministers, as described above, design, prepare, manage and execute all aspects of the transaction for the selection of the strategic partner(s)/investor(s).

The advisor is expected to be appointed during the second quarter of 2016. Subject to the relevant decision(s) of the Interministerial Committee for Privatisations and/or the Council of Ministers, the

³ Safeguarding of the Rights of the Employees of the Cyprus Telecommunications Authority Law of 2016.

⁴ Right of Intervention in certain circumstances in the new limited liability company of the Cyprus Telecommunications Authority Law of 2016.

process for the preparation of the strategic plan and selection of the strategic partner(s)/investor(s) is expected to be completed within 12 months from the appointment of the advisor.

c) Licensing of the National Lottery's activities ("National Lottery")

The tender procedure for the appointment of a consortium of advisors that will assist and advise on the license to operate the National Lottery, is expected to be concluded in April 2016.

The advisors' scope of work includes: (i) the analysis and recommendations of the most economically beneficial options for the Republic of Cyprus, (ii) the assistance in the establishment of the regulatory framework, and (iii) the analysis, design, management and implementation of a process to identify and select a private investor/operator under a long-term license structure for the operation and management of the National Lottery.

The selection of the investor(s)/operator(s) for the National Lottery is expected to be completed within 12 months from the commencement of the contract with the appointed advisor.

d) Specific State residences/areas/assets in the Troodos mountain ("Troodos State Assets")

A tender has been launched in March 2016 for the appointment of a consortium of advisors who will provide professional services regarding: (i) the long term development of the wider area of Troodos' mountain, and (ii) the private sector participation in specific real estate assets in Troodos, through either a long-term lease and/or licence and/or right to use/exploit them.

The advisors' scope of work shall also include the analysis, design, management and implementation of a process to identify and select private investor(s)/operator(s) under long-term lease structures for the operation and management of the Troodos State Assets.

The tender for the appointment of the advisors is expected to be concluded by June 2016.

The financial close of the transaction (or of the last transaction in case of more than one transaction) is estimated, for indicative purposes, to occur not later than the end of 2017.

e) Real Estate Assets

The Republic of Cyprus initiated a structured approach to identify the optimal exploitation method for 38 selected plots of land throughout Cyprus. On 14 December 2015, the Council of Ministers adopted the action plan, developed by the appointed advisors, which included detailed intermediate steps and timing for disposing of 30 plots of land and authorised an interministerial committee to oversee the implementation process.

f) Licensing of Cyprus Airways logos and trademarks

On 15 June 2015, the PU launched a process to determine the potential interest of technically qualified parties for the award of the exclusive license to use/exploit the Cyprus Airways Logos & Trademarks for the operation of a flights schedule out of the Republic of Cyprus.

Based on the results of the above process, the PU launched on 5 January 2016 a formal international tender procedure to award the above license. The first phase of the procedure which included the submission of Expression of Interest by interested parties has been completed.

The tender procedure is expected to be completed, with the selection of the preferred investor/operator by the end of the second quarter of 2016.

In addition to the entities that fall under the mandate of the PU, the responsibility for the commercialisation of the Cyprus Ports Authority lies with the Ministry of Transport, Communications and Works (MTCW) (the Council of Ministers' decision, no 76.680, dated 19th of March 2014 is relevant). The MTCW appointed technical, financial – commercial and legal advisors and procured three separate concessions for the Port activities, one for the Container Terminal, one for the Marine Services and one for the Multipurpose Terminal. Following a transparent and challenging tendering procedure, the MTCW has announced the three preferred tenderers and is now working towards the contractualisation of the Agreements. The signing of the Agreements is due in April 2016. The successful Operators will take over the port operations on the 1st of January 2017, after a 9 months transitional period.

3.8 Energy

3.8.1 Electricity sector

a) State of play regarding the reform of the electricity market

The Cyprus Transmission System Operator (TSOC) has initiated a public consultation regarding the amended Trade and Settlement Rules (TSRs) for the Electricity Market on 29th of February 2016. According to the TSOC's revised detailed timeline, the overall process is expected to finish in November 2016, following which, the TSOC will submit the revised Trading and Settlement Rules (TSRs) to CERA and the competent Minister for approval.

MECIT has requested Technical Assistance via the SRSS in order to review the draft TSRs and also with regard to its participation in the Advisory Committee. TSOC is currently receiving Technical Assistance for the Consultation Process of the TSRs.

b) Assessment of CERA's current resources and staffing

CERA has completed the selection process for filling 4 new permanent posts. CERA's budget was published on 11th of March 2016, enabling the Regulator to proceed immediately with the appointment of the successful candidates. In addition, CERA has informed MECIT of its intention to create additional posts of permanent personnel, a request for the filling of which will be forwarded to the Ministry of Finance for approval in due course.

c) EAC Unbundling

On the basis of the results of a study contacted by independent Consultants for examining and evaluating the various options regarding the future ownership status of the Electricity Authority of

Cyprus (EAC), and in line with the 3rd Energy Package, the Council of Ministers has adopted on 11th of January 2016 a Decision 'in principle' for the Ownership Unbundling of the EAC into two public entities, one for the monopolistic activity (networks) and the other for the competitive activity (generation & supply) as conducted by the EAC in its present form. The Draft Final Implementation Plan was delivered by the Consultants on 11th of March 2016.

Currently the Implementation Plan and the respective timeline is under review according to political decision in order to allow for sufficient time for EAC to apply accounting and functional unbundling in conformance to the related Regulatory Decisions 02/2014, 03/2014 and 04/2014.

3.8.2 Natural Gas Sector (Internal Market)

DEFA announced, on 8th of February 2016, that it has been unable to reach an agreement with any of the respondents to the Tender initiated on 25th of January 2014 as regards the medium term supply of natural gas at Vasilikos Power Station and this process has been completed. Following this development, the Ministry in close cooperation with CERA, is examining alternative ways to import natural gas before 2020.

Promotion of the Cyprus electricity network interconnection

Within the framework of Regulation 347/2013 (EU) regarding the guidelines for trans-European energy infrastructure, the Republic of Cyprus is promoting the project “EuroAsia Interconnector”, a cluster of Projects of Common Interest aiming at realizing the electrical interconnection between Cyprus, Greece and Israel. The project Promoter is the private company EUROASIA INTERCONNECTOR LTD.

The project, when commissioned (expected Commissioning Dates according to the project Promoter: Phase One: Cyprus - Israel 21/12/2019, Phase Two: Crete - Attica 21/12/2020, Phase Three: Cyprus - Crete 21/12/2022) will contribute to the security of energy supply and also to the EU target for achieving the 10% electricity interconnection between Member States by 2020.

The project will effectively create a highway for the transmission of significant amounts of electricity, generated from natural gas from the deposits recently discovered in the Eastern Mediterranean, but also from Renewable Energy Sources.

The “EuroAsia Interconnector” is expected to play a pivotal role in contributing to the operation of the competitive electricity market and the improvement of the technical capability of the system to accommodate the increasing amounts of Renewable Energy. Effectively, the Project will contribute to the strategic target for reducing CO₂ emissions.

3.8.3 Hydrocarbons

Block 12 Licensees in collaboration with MECIT proceeded in the assessment of several alternative monetization options for the “Aphrodite” gas discovery. The assessment concluded that under the current economic and commercial conditions, the most economically viable option was the regional gas pipeline connection to the regional markets of Cyprus and Egypt.

Noble Energy International Ltd declared commerciality of the “Aphrodite” natural gas field in June 2015. The Operator, subsequently, submitted the Development and Production Plan for the “Aphrodite” field to the MECIT. This is considered as an important milestone for Cyprus towards the transition from gas resources discovery to monetisation stage. The discussions on the submitted Development and Production Plan are currently underway.

Furthermore, a technical and economic study was completed by the companies EGAS and Cyprus Hydrocarbons Company (CHC) in late 2015, regarding the gas pipeline connection between the “Aphrodite” field and Egypt. In parallel, the commercial discussions with potential buyers in Cyprus and Egypt for long-term gas contracts (GSPA) are in progress.

The developments in the field of hydrocarbons within Cyprus’s Exclusive Economic Zone offers new opportunities in the wider Eastern Mediterranean region. Regarding the prospective of gas supply to EU from resources in Eastern Mediterranean, the concept of subsea connection through the “East-Med” pipeline is being assessed and promoted under the EU Projects of Common Interest (PCI).

In January 2016 the Council of Ministers approved the Noble Energy farm-out agreement for a 35 percent of its interest in Block 12 License with BG International. In this transaction Noble Energy remains the Operator of Block 12 with a 35% interest. The joining of BG in Block 12 confirms the commercial importance of the “Aphrodite” field and contributes further in the progress and materialization of the project.

Further exploration activity within the Cyprus’ EEZ is in progress, as the licensees ENI / KOGAS and TOTAL proceed with their exploration programmes.

Also, the Republic of Cyprus announced on the 24th of March 2016 the commencement of the 3rd Licensing Round concerning the granting of hydrocarbon exploration licenses for an additional number of blocks in its Exclusive Economic Zone. The Blocks that have been selected for licensing comprise, on one hand, of areas which are largely unexplored and, on the other hand, have been interpreted to contain carbonate structures, as is the case of the “Zohr” discovery offshore Egypt.

3.8.4 Sovereign Wealth Fund (SWF)

The Legislation governing the establishment and functioning of a Sovereign Wealth Fund, which will manage the various types of public revenues from offshore natural gas exploitation, is expected to be submitted to the Council of Ministers for approval by the end of April 2016, pending the final approval by the Minister of Finance.

3.9 Tourism Sector

Tourism has been one of the most important sectors of the Cypriot economy since the 1980s with a high direct and indirect contribution to GDP and employment. As such, the sector has been one of the major pillars supporting the effort of the economy towards recovery following the 2013 crisis. Despite this, the sector faces structural weaknesses and loss of competitiveness and is thus one of the priority sectors being addressed in the Action Plan for Growth.

To this end, recognizing the need for further in-depth treatment of the structural problems that hamper its competitiveness, the MECIT, in cooperation with the Presidency of the Republic have acquired external consultancy services for conducting a study for the development of a comprehensive National Tourism Strategy. The aim of the study is to improve the performance and revenue yield of the tourism sector and establish a sustainable tourism model, by improving the competitiveness of the industry, developing a diversified tourism product and a strong tourism brand and alleviating the seasonality problem. The study will further provide recommendations for the territorial development of tourism, looking at the development potential and opportunities of all major tourism areas of Cyprus, covering both urban and rural Cyprus. The relevant contract was awarded to consultants and was signed in January 2016. The study is expected to be delivered in Q3 2016.

Furthermore, a project on the institutional framework and simplification of legislation and procedures of the tourism sector is underway. The assessment of the institutional framework has been carried out within the framework of the functional review of MECIT, as well as a study assessing the current CTO Law. Both were completed in December 2015. The said study examined the factors hampering competition and provided recommendations for the simplification of procedures.

As stated in paragraph 3.1.3, the revised regulatory framework is currently being re-drafted. It is expected to enter into force in Q4 2016.

With regards to Air Connectivity, the Action Plan of Cyprus' Aero-political Strategy is being implemented by the competent Services of the Ministry of Transport, Communications and Works and it is reviewed on an annual basis.

3.10 Healthcare

Despite the absence of a universal health system in Cyprus, under the current situation, approximately 75% of the population is entitled to public health care. This figure includes public sector employees who contribute 1.5% of their gross earnings and have also access to public health care. The entitlement to public health is governed by income criteria and a system of co-payments. However, entitlement does not necessarily imply actual utilisation as a significant percentage of eligible persons choose to use private sector providers. The income threshold for access to public hospitals stands at €15.400 for a single person household and €30.750 for two persons household and increases by €1.700 for every dependent child.

The remaining 25% of the population is not eligible either because they fall out of the income criterion or because they are individuals with relatively low income but not entitled to the Guaranteed Minimum Income (GMI) due to immovable property criteria. It should be emphasized that the GMI legislation enacted in July 2014 provides access to public hospitals only to those who are beneficiaries i.e. working poor, unemployed, disabled persons and public assistance recipients.

Access to quality healthcare services is also demonstrated by the value of the amenable mortality rate, with Cyprus being among the MS with the lowest rate and being in the group of MS with the

highest performance/high efficiency rate⁵. Possible reasons for these are the good socio economic status of the population, notwithstanding the recent setback because of the crisis, the high technology advances in the healthcare provision and the easy and wide access to healthcare services.

The resilience of the system is expected to be improved and access to quality health care in Cyprus is envisaged to be enhanced with the autonomisation of public hospitals, and the introduction of a National Health System (NHS). Public hospitals' financial autonomy can facilitate the improvement of access to quality health care and foster it, with the public hospitals administering their own budgets based on available resources. The public hospitals' autonomisation should lead to normalisation of admissions and length of stay as well as the appropriate utilisation of infrastructure, staff and efficient use of hospitals' properties.

With respect to the hospital autonomisation Bill, it should be noted that a revised draft autonomisation Bill was provided to the various stakeholders for discussion, on 11th of March 2016. Once this procedure is finalised, the proposed autonomisation Bill will be submitted to the Council of Ministers and then to the HoR for approval. The road map for the implementation of hospital autonomisation will be prepared once the content of the revised draft autonomisation Bill is finalised with the input of the stakeholders.

a) Healthcare spending

The impact of the recent financial crisis unavoidably affected health spending in Cyprus, both public and private. Public spending fell by about 4.3% in 2013 compared to 2012, in the context of the front-loaded fiscal consolidation efforts of the government. Private spending also recorded a fall in 2013 (the last year for which official data exist) by around 6% due to declining disposable incomes and increase in unemployment. In absolute terms, in 2013, private health spending fell by €42,7 mln and public health spending by €24,8 mln. In total, expenditure in health services fell by 3.6% in 2013, compared to 2012, but remained relatively stable as a percentage of GDP since 2011 (6.8% in 2011, 6.6% in 2012 and 6.6% in 2013).

Introduction of co-payments in 2013 played a role in curtailing pre-crisis excessive demand. More specifically, Cyprus increased or introduced user charges in outpatient and inpatient hospital services such as prescription for outpatient drugs, diagnostic tests and analysis, use of the trauma and emergency services, thereby containing procyclical excessive demand.

Provisional data from National Accounts for the year 2014 reveal that total public health spending was €461,8 mln, which was lower by €91,8 mln compared with 2013 denoting a decrease of 16.6%, confirming that the per capita public health spending continued falling.

b) Evaluation of the plan put forward to implement a National Health System (NHS)

With regard to the plan put forward to implement a NHS during the Programme period in the field of healthcare reforms, slow progress has been observed. Advancement has been observed in the

⁵ Quality of Public Expenditure Document by the European Commission to the Economic Policy Committee in Eurogroup format, page 15.

operational design, in the financing aspect of the new NHS and on the acquisition of the IT system for the NHS, which is of paramount importance for the new system's correct operation. The tender documents have been concluded and the tender invitation was issued end of 2015. At this stage, the tenders received are under evaluation. In addition, the updating of the 2013 NHS Bill is expected to be concluded. As regards the adoption of contingency measures, these are currently being finalized.

Besides the existing challenges for the current system, such as the fragmented provision and funding of healthcare between public and — largely unregulated — private providers of healthcare services, current financial constraints impose an additional challenge to those already existing for the implementation of the NHS.

c) Future steps

The planning of the comprehensive reform of the healthcare sector is soon to be completed and will include the Autonomisation of Public Hospitals, the modernisation of Primary Healthcare, the e-Health, the establishment of University Clinics, the setting up of National Medicines Organisation and the introduction of a National Health System. Through Autonomisation, each public hospital will be able to operate in a private-economic environment, without the discrepancies imposed by the public system, aiming at improving the care provided to patients and at upgrading the quality of the health care services. The Public Hospitals will be streamlined and their productivity increased, so as to be able to compete with the private hospitals on an equal basis, in the new environment imposed by the NHS.

A detailed restructuring plan of the primary health care centres is currently being finalised. The Ministry is at present, in the process of pilot implementation of the restructuring plan at one rural health care centre and is also working on the extension of the working hours of the urban healthcare centres in Nicosia. A consultation with all stakeholders, including the local authorities of the communities to be covered by the reform, healthcare professionals, and directors of the District hospital took place on 30th of March 2016.

It is expected that the introduction of a NHS will provide citizens with high level healthcare services, in a single market, without public – private boundaries, with the patient in the centre, able to choose healthcare provider.

4. EU FUNDS

A total amount of €956 mln has been allocated to Cyprus for the Programming Period 2014-2020 from the ESIF, as follows:

- European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF) and Youth Employment Initiative (YEI): €784 mln.
- European Agricultural Fund for Rural Development (EAFRD): €132,2 mln.
- European Maritime and Fisheries Fund (EMFF): €39,7 mln.

For the effective utilisation of the abovementioned resources, Cyprus has prepared the Partnership Agreement (PA) which aims at securing the synergy and coordination among the ESI Funds allocated to Cyprus, so as to achieve effective results that will contribute to the goals of the Europe 2020 Strategy and, consequently, to growth and job creation in Cyprus.

The main strategic objective of the PA is the restructuring of the economy, the preservation and creation of new jobs and the safeguarding of social cohesion. This objective will be attained through the following three funding priorities:

- Supporting the restructuring and strengthening the competitiveness of Cyprus economy,
- Upgrading human resources, promoting employment and social cohesion, and
- Protecting the environment and promoting the efficient use of resources.

At the same time, the promotion of sustainable local development constitutes a horizontal priority of the PA.

The funding priorities set in the PA, derived from the analysis of the country's development needs and perspectives and the national targets set in the context of the Europe 2020 Strategy.

In order to attain the aforementioned priorities, Cyprus decided to allocate its ESI Funds to the following Thematic Objectives (TOs):

Thematic Objective	ERDF (€mln)	ESF/YEI (€mln)	CF (€mln)	EAFRD (€mln)	EMFF (€mln)	Total (€mln)
1. Research & Innovation	70	0	0	2,27	0	72,27
2. ICT	73,5	0	0	0,32	0	73,82
3. SME Competitiveness	70	0	0	36,2	9,84	116,00
4. Energy	13	0	32	35,12	0,47	80,59
5. Climate Change	0	0	10	13,07	0	23,07
6. Environment	30	0	127	23	23,4	203,4
7. Transport	14,25	0	85	0	0	99,25
8. Employment	0	81	0	6,3	5,25	92,55
9. Social Inclusion and Poverty	15	27	0	13,55	0	55,55
10. Education-Life Long Learning	0	26	0	0,25	0	26,25
11. Institutional Capacity and Public Administration	0	5,06	0	0	0	5,06
Technical Assistance	6,55	1,93	15,54	2,27	0,75	27,04
TOTAL	292,3	140,99	269,5	132,4	39,71	874,9*

**Additional €32,7mln of ERDF was allocated to European Territorial Cooperation, whilst €48,4mln of Cohesion Fund was allocated to Connecting Europe Facility.*

It can be derived from the table above that Cyprus allocated 42% of its ESI Funds (TOs 1, 2, 3, 7 and 11) to support the restructuring of the economy and the enhancement of its competitiveness (funding priority 1), 20% (TOs 8, 9 and 10) for the promotion of employment and social cohesion and the upgrading of human resources (funding priority 2), and 35% (TOs 4, 5 and 6) for the protection of environment and the promotion of efficient use of resources (funding priority 3).

In addition, it is important to mention that most of the TOs selected for investment during the 2014-2020 programming period, do contribute to the national targets set for Europe 2020 strategy, as illustrated in the table below:

Employment target	TO3, TO8
R&D target	TO1
GHG emission reduction target	TO4, TO5, TO6, TO7
Renewable energy target	TO4
Energy efficiency target	TO4
Early school leaving target	TO9, TO10
Tertiary education target	TO10
Poverty target	TO9

5. PROGRESS TOWARDS NATIONAL EUROPE 2020 TARGETS

In summary the developments as regards the national targets have been as follows:

In the context of a still challenging but, at the same time, stabilised economic environment, the employment rate has slightly increased in 2015 compared to 2014 and the poverty rate has shown a decrease in 2014 compared to 2013. Both indicators deviate considerably from the respective national targets. The two education indicators have improved in 2014 and 2015 and have both satisfied the national targets. The R&D ratio to GDP is expected to record a small increase in 2014 according to provisional data. All three climate indicators remain on course with the energy efficiency indicator for 2014 already achieving the national target and the renewable energy indicator for 2014 continuing its upward trend. As regards the greenhouse gas emissions indicator, in the non-ETS sectors (EU Emission Trading System- ETS), a decrease of the amount of 6.5% was observed in 2014 and of 9.6% in 2015 (provisional data), compared to 2005, exceeding the national annual target.

EU HEADLINE & NATIONAL TARGETS	EU TARGET	CYPRUS TARGET	CYPRUS 2014	CYPRUS 2015	EU 28 2014 (Eurostat data)
Employment rate (20-64 years old)	75%	75-77%	67.6%	67.9%	69.2%
Reduce poverty and social exclusion	20 mln	19.3% or 27.000	27.4%	n.a	24.5%
Decrease early school leavers to	10%	10%	6.8%	5.4% ^p	11.2%
Increase tertiary educational attainment	40%	46%	52.5%	54.2% ^p	37.9%
R&D (% of GDP)	3%	0.50%	0.48% ^p	n.a	2.03% ^p
CO ₂ emission (non-ETS)	-20% (c.t. 1990)	-5% (c.t. to 2005)	-6.5% (c.t. to 2005)	-9.6% ^p (c.t to 2005)	n.a for 2014 for 2013:-9,6% (c.t. to 2005)
Renewable energy	20%	13%	8.9%.	n.a	16%
Energy efficiency	1.483 Mtoe	2.2 Mtoe	2.2 Mtoe	n.a	1.507
e = estimated, c.t.= compared to, p = provisional data, n.a. = not available					

A more detailed account of developments as regards the national targets follows:

5.1 Employment National Target

75-77% of the population aged 20-64 should be employed by 2020

- Increased to 67.9% in 2015 compared to 67.6% in 2014.

Employment – unemployment situation

The Employment target set for Cyprus within the framework of the Europe 2020 Strategy is 75-77%. In 2008, the employment rate stood at 76.5%. Over the next years, the employment rate gradually slipped to 70.2% in 2012, to 67.2% in 2013, increasing slightly to 67.6% in 2014 and to 67.9% in 2015. As regards the sectoral distribution of employment, services accounted for the biggest percentage of employed persons in 2015 with 79.9%, whereas industry accounted for 16.2% and agriculture for 3.9%.

Unemployment increased significantly in the past few years because of the economic crisis. The unemployment rate rose sharply from 3.7% in 2008 to 15.9% in 2013, and marginally increased further to 16.1% in 2014. In 2015 the unemployment rate started to decrease, reaching 15%. The unemployment rate for male workers in 2015 stood at 15.2% compared to 17% in 2014, and for female workers at 14.9% compared to 15.1% in 2014. The employment rate for male workers increased to 72.2% compared to 71.6% in 2014 and 72.6% in 2013, whilst for female workers it slightly increased to 64.1% in 2015 compared to 63.9% in 2014 and 62.2% in 2013 (age group of 20-64 years).

Long term unemployment has been increasing over the past few years, from 0.5% in 2008 to 6.1% in 2013, to 7.7% in 2014 and 6.8% in 2015. The share of young people neither in employment nor in education and training (NEETs) in 2014, represented 17% of the total youth population (17.881 persons), decreasing by 1.7% compared to 2013 (18.7%: 18.900 persons).

The unemployment rate for young people (15-24 years) was 9% in 2008, more than double the rate for the general population (3.7%). In 2013, the unemployment rate for young people rose dramatically to 38.9%, while it fell to 36% in 2014 and to 32.8% in 2015. The respective employment rate for this age group dropped from 41.7% in 2008 to 23.5% in 2013, whilst it recorded a small increase in 2014 reaching 25.8%, and 25.3% in 2015.

During recent years several activation schemes were put in place in order to tackle unemployment and increase labour market participation. The adopted approach was to introduce measures along three pillars; measures for creating new jobs (mainly through subsidised employment schemes), measures for job retention (mainly through training schemes targeting the employed) and measures for improving the employability of the unemployed (mainly through training/work experience schemes) aiming to facilitate their entry/return to employment.

With respect to target groups, the measures introduced were initially targeted to the unemployed in general, aiming to facilitate their entry/return to employment as quickly as possible. Gradually, the measures became targeted to specific groups as well, such as the young, women, the long-term unemployed, people with disabilities and the vulnerable in general.

Progress of main measures implemented for the achievement of national targets:

a) National Action Plan for Youth Employment and Youth Guarantee Implementation Plan

A National Action Plan for Youth Employment (NAP) was approved by the Council of Ministers at the end of 2014, aiming at addressing the high level of unemployment in Cyprus. The NAP calls for the deployment of a strategy that combines measures targeting young individuals aged 15-29 who face multiple barriers to labour market integration and are exposed to longer unemployment spells.

The NAP has a total budget of €47,2 mln financed mostly from the European Social Fund (€29,2 mln), the Youth Employment Initiative (YEI) (€11,6 mln) but also from the ERDF (€3,1 mln) and national funds (€3,3 mln). It encompasses a Youth Guarantee Implementation Plan (YGIP) to which funds of €37,6 mln have been allocated. It includes measures for an early intervention in the form of a Youth Guarantee (YG) to prevent school leavers and newly unemployed individuals in the younger cohort (ages 15-24) from falling into long-term unemployment and inactivity traps.

The measures covered under the NAP for Youth Employment during the years 2015-2017 fall under seven policy objectives as follows:

- i. Timely intervention for early school leavers and easing the transition of young people from school to work (e.g. through adjusting the secondary and post-secondary vocational education curricula to align with labour market requirements and to include work experience in enterprises).
- ii. Reform of the design and implementation of labour market policies targeting the youth (e.g. by improving the design and implementation of labour market policies to effectively address the multiple disadvantages faced by young people).
- iii. Implementation of a national youth guarantee, offering youth, less than 25 years old, education, training and employment opportunities within four months of leaving school or becoming unemployed (e.g. through the introduction of an integrated service delivery model for the implementation of the Youth Guarantee, by providing group counseling and job search services to school leavers and newly unemployed youth, through training programmes and the provision of skills required by the labour market and by occupations in demand).
- iv. Promotion of entrepreneurship as a career path among young people (e.g. through the Youth Entrepreneurship Scheme and the Social Enterprises Programme available to young people of the age 20-35 to set up their own enterprise).
- v. Reduction of youth labour market detachment through outreach strategies and partnerships (with the implementation of a national information campaign to raise awareness on decent work for young people and the support provided by labour market institutions including through the National Youth Guarantee).
- vi. Expansion of the capacity of the Public Employment Services (PES) for the provision of effective youth employment services (e.g. by enhancing the service capacity of the PES and

providing information and guidance to the youth and by upgrading the PES information system).

- vii. Establishment of a monitoring and evaluation system to verify the achievement of policy outcomes.

In 2015, the following activation measures targeting young people were issued both under the YG initiative as well as under the National Action Plan for Youth.

- **Scheme for the employment and training of tertiary education graduates**

The Scheme aims at providing opportunities to tertiary education graduates under 30 years old with less than 8 months' work experience in a specific job position, to secure a suitable job and acquire work experience and specialised knowledge and skills. At the same time, enterprises and organisations are strengthened through the employment and training of qualified persons. The implementing body for this Scheme is the HRDA.

- **The Youth Entrepreneurship Scheme**

The Youth Entrepreneurship Scheme provides financial support to young entrepreneurs 20 to 40 years old. Ventures that exploit new technologies, introduce new methods for the production and distribution of goods and services, or operate in the environment protection field (green economy) receive priority attention. The implementing body for this Scheme is the Ministry of Energy, Commerce, Industry and Tourism.

- **Scheme for the Job placement of Unemployed Young graduates for the Acquisition of Work Experience in Enterprises / Organisations**

The Scheme offers job placements in enterprises/organizations to young unemployed tertiary education graduates less than 35 years old with limited work experience. The duration of the job placements is 6 months and a training allowance of €125 per week is provided. The implementing body for this Scheme is the HRDA.

- **Scheme for Job Placement of Young Unemployed Graduates of Lower Secondary, Upper Secondary and Post-Secondary Education of up to 2 years for the Acquisition of Work Experience in Enterprises / Organisations**

The Scheme offers job placements in enterprises/organisations to young unemployed graduates of lower secondary, upper secondary and post-secondary education of up to 2 years, of less than 25 years old with limited work experience. The duration of the job placements is 6 months and a training allowance of €125 per week is provided. The implementing body for this Scheme is the HRDA.

In addition to the schemes mentioned above, in 2016 the following measures/schemes are foreseen:

- a subsidy scheme providing financial incentives to employers for the employment of the unemployed young people less than 25 years old,
- a measure for the improvement of the career guidance system,
- an advertising campaign for the activation of the youth, and
- development of an automated comprehensive monitoring and evaluation system of the Active Labour Market Policies with the participation and input of all stakeholders.

b) Wage subsidies

Two schemes were put in place to help the employers hire unemployed persons. The “Scheme providing incentives for employment of the unemployed - Target Group: Enterprises of the retail trade sector employing 1-4 employees”, with a total budget of €8 mln in 2015. For this scheme, 114 applications were submitted and 92 enterprises benefited with the amount of €0,7 mln. There was no other call for this target group due to the low interest from the enterprises. The remaining budget of €7,3 mln was allocated in 2015 for the “Scheme providing incentives for employment of the unemployed - Target Group: Long Term Unemployed (≥ 6 months)”, through which 946 enterprises were benefited and about 1,176 new job positions were created.

In addition to the schemes mentioned above, in 2016 the following are foreseen:

- Incentives for the Employment of Disabled People.
- Incentives for the Recruitment of People who belong to the Disadvantaged Social Groups.
- Subsidy Scheme for Flexible Forms of Employment.
- Scheme for the Employment of the Unemployed for Providing Care Services for Children.
- Scheme for the Employment of the Unemployed for Providing Care Services for Low Income Pensioners.
- Scheme for the Employment of the Unemployed for Providing Care Services for Disabled Persons.

c) Long term unemployed

A priority was given for the long term unemployed (LTU) in the schemes launched by the Ministry of Labour and Social Insurance (MLWSI) in 2015. More specifically, the HRDA issued two schemes where a priority was given for the LTU, namely:

- The scheme “Job placement of unemployed young tertiary education graduates for the acquisition of work experience in enterprises/organisations”, as mentioned in (a) above.
- The “Scheme for the job placement of young unemployed graduates of lower secondary, upper secondary and post-secondary education of up two years for the acquisition of work experience in enterprises/organisations”, as mentioned in (a) above.
- Furthermore, the Department of Labour issued a special subsidy scheme in 2015 for the LTU, namely “Scheme for providing incentives for employment of the LTU”, as mentioned in (b) above.

d) Enhancement of Public Employment Services

One other key challenge concerns the limited capacity of PES. A series of corrective and enhancing measures to boost PES effectiveness and responsiveness are currently under way.

In 2015, the Department of Labour continued the implementation of the project “Further enhancement and modernisation of PES”, that was co-funded by the ESF. It included the following actions:

- Strengthening of PES administrative and technical capacity.
- Strengthening of the operation of PES by the creation of an Operational Unit of Employment Counselors (purchase of services) that offered personalised guidance services to the unemployed.

- Funding of the PES structure operation.

The total PES actual expenditure for 2015 was €3,9 mln, while the projected budget for the PES for 2016 is €4,5 mln.

In 2016, the following measures will be implemented in the framework of the National Action Plan for Youth Employment, the Enhancement and Modernisation of Public Employment Services and the operation of EURES:

- Purchase of services of Employment Counselors for the strengthening of the PES operation and training of the Employment Counselors.
- Training of the PES Employment Officers.
- National informative campaign about decent work for young people.
- Operation of Cyprus EURES.

The process for the reinforcement of the PES with additional counselors, has already started and the launching of the call is expected to take place in May. Counselors are expected to start working at PES in the second half of 2016.

Additionally, the Department of Labour plans to implement a new project which will provide grants to Private Employment Agencies (PEA) for the promotion of employment for Youth and Long Term Unemployed. Grants will be given to PEA through the implementation of the system «Job Placement Voucher» in order to enhance temporarily the capacity of the PES.

e) Subsidy Scheme to Promote the Creation of New Jobs with Flexible Arrangements

The Scheme was launched in May 2013 with the objective to alleviate unemployment through the recruitment of individuals willing to work with some form of flexible arrangement and to assist companies/organisations to cope with the difficulties caused by the economic crisis, with a budget of €6,8 mln. The actual expenditure (subsidies) by the end of 2015 was €3,5 mln and the number of contracts (employments) signed by the end of 2015 was 980.

The measure is related to the labour market, education and social challenges and to the employment national target.

f) Entrepreneurship

The promotion of entrepreneurship is a key priority to the government. Women and the youth are two important target groups which the government supports through two Grant Schemes (Scheme for the enhancement of Youth Entrepreneurship as mentioned in (a) above and Scheme for the enhancement of Female Entrepreneurship) specially designed to encourage these segments of the population to develop their own businesses. A total amount of €4 mln was allocated for this purpose in 2015, for the benefit of 147 enterprises, resulting in 285 new job positions.

g) Active Labour Market Policies (ALMPs)

The total expenditure of ALMPs (the above mentioned Schemes) excluding the PES expenditure in 2015 was €33,2 mln. Cyprus is currently implementing a monitoring and evaluation system for its ALMPs. The "User Requirements" and "Function Definitions" have been finalised and the system for the continuous monitoring and evaluation of ALMPs is expected to be operational by the end of 2016.

h) Undeclared Work

Combating undeclared work has also been set high in the priorities of the MLWSI. Technical assistance provided through the SRSS of the European Commission, has identified the key components necessary to efficiently fight undeclared work. Based on the SRSS's key findings, a review of the system of labour inspections will be promoted in order to introduce, or adapt, necessary structures, to improve the effectiveness and efficiency of inspections to combat undeclared work.

5.2 Poverty National Target

Reduce the number of people-at-risk-of-poverty and social exclusion by 27.000 people or decrease the percentage from 23.3% in 2008 to 19.3% by 2020.

- Decreased to 27,4% in 2014 compared to 27,8% in 2013.

The at-risk-of poverty or social exclusion rate (AROPE), which had risen significantly from 23.3% in 2008 to 27.8% in 2013, decreased by 0.4 percentage points to 27.4% in 2014. Looking at the analysis of the AROPE sub-indicators we can notice an increasing trend in people living in very low work intensity households (VLWI). In particular, the VLWI (quasi-jobless households) shows an increasing trend from 4.9% in 2011, to 7.9% in 2013 and to 9.7% in 2014. This reflects the increase in unemployment rate in Cyprus over the last four years. In addition, a slight increase is noticed to the AROPE of the elderly (65+) from 26.1% in 2013 to 27.2% in 2014. On the contrary, the AROPE for children (aged 0-17) decreased by 3 percentage points (from 27.7% in 2013 to 24.7% in 2014). The at-risk-of poverty (after social transfers), i.e. monetary poverty, decreased from 15.3% in 2013 to 14.4% in 2014. The poverty threshold for 2014 was €8,640 compared to €9,524 in 2013 (a decrease of 9.3%). Also, the severe material deprivation rate decreased from 16.1% in 2013 to 15.3% in 2014. Looking at the at-risk-of poverty by most frequent activity a decrease is noticed both for the working population and the unemployed (from 8.9% in 2013 to 7.8% in 2014, and from 33.6% in 2013 to 32.6% in 2014, respectively).

Progress of main measures implemented for the achievement of national targets.

a) Reform of the Social Welfare System

A major reform as regards the governance of Social Long Term Care (LTC⁶) came with the introduction of the Guaranteed Minimum Income (GMI) in July 2014 and subsequently with the Decree “Guaranteed Minimum Income and in General the Social Benefits” (Emergency Needs and Care Needs)” of 2014, which was revised in 2015 (353/2015) and which came into force in July 2015. The Decree (353/2015) incorporates the Scheme for the subsidisation of care which includes the following types of care: (a) home care, (b) institutional care, (c) day care and (d) respite care. The Decree also covers the child care needs of GMI recipients. The Service responsible for the benefit provision to GMI recipients for their care needs, is the Welfare Benefits Administration Service, while the Social Welfare Services are responsible for assessing the care needs of the GMI recipients based on specialised evaluation tools, the service delivery and the monitoring of the provided care.

i) Guaranteed Minimum Income

The Council of Ministers adopted in November 2014, the National Strategy on Social Policy for the period 2014-2020. The Strategy sets the main policy guidance for the period 2014-2020 providing a comprehensive approach to the challenges faced. The Strategy addresses the promotion of children’s welfare, the reform of the welfare system, active inclusion, long-term care and effective governance. More specific information on the measures included in the Strategy is provided in the National Social Report submitted to the EU’s Social Protection Committee.

In combating conditions of poverty and social exclusion, Cyprus has undertaken a major reform of its welfare system. As welfare benefits were considered to be fragmented and in order to improve efficiency:

- a comprehensive social governance was decided through the creation of a single welfare benefit administration service under the MLWSI which was assigned the design and administration of all social benefits including those that in the past were under the responsibility of other Ministries, e.g. the child and lone parents benefits, the benefit provided to support low income pensioners, etc.
- a national registry of beneficiaries of social benefits was created so that the state is now in a position to know the recipients of social benefits and the level of support they receive. By the end of February 2016, the registry covered more than 250,000 social benefits recipients.
- a comprehensive and reliable verification and control system was established that allows for the provision of targeted benefits to citizens who genuinely need the assistance.

At the heart of the reform was the introduction of the GMI Scheme, which will ultimately replace the public assistance benefit. The GMI aims to provide assistance to individuals and families that cannot, despite their efforts, gain enough income to support themselves.

⁶ Long-term care in Cyprus is a shared responsibility of the Ministry of Labour, Welfare and Social Insurance (social LTC) and the Ministry of Health (geriatric / health LTC).

The GMI provides for basic needs based on a minimum consumption basket and covers also other needs, such as housing (rent or mortgage interest), municipality taxes and extraordinary needs, as well as care needs and long-term care. The GMI is also provided to families which were not receiving any income support benefits in the past as it incorporates a new group, the working poor, as an eligible group and consolidates low-income pensioners.

Furthermore, the GMI provides the framework for two mechanisms, namely social care and social intervention to GMI recipients. Social care provides for the subsidisation of the cost of home, institutional, respite and day care including child care of GMI recipients. Social Intervention refers to the activation and social inclusion of GMI recipients. This action includes a wide spectrum of services provided to a person or family unit receiving the GMI that will empower and support them in their social integration. The ultimate purpose of this action is the employment rehabilitation through co-operation with the PES. Activation measures targeted at GMI beneficiaries, that involve training and development interventions as well as participation in public benefit programmes, are at the design stage, with implementation expected to begin in April 2016. The measure is related to the labour market, education and social challenges and to the employment national target.

Cyprus is in the final stage of the transition from the public assistance benefit to GMI as public assistance continues to be provided to a number of beneficiaries until the processing of their GMI applications is completed.

By end of February 2016, out of the 80,262 applications received (24,218 from Cypriot citizens, 4,605 from EU citizens, 1,939 from third country nationals, 28,211 from low income pensioners and 21,289 from public assistance recipients), a decision has been taken for about 68,000 of them. Priority was given to applicants not receiving any other benefits from the state.

The implementation of the GMI, including its fiscal impact, is monitored through the preparation of quarterly costing updates and beneficiary profile analysis.

An assessment report on several aspects and dimensions of the GMI will be prepared as soon as the transfer of the public assistance beneficiaries is completed, in order to serve as a basis for designing improvements to the system as well as well-targeted activation programmes.

ii) Social Care Programmes

Regarding the provision of social care programmes, the Government is paying particular attention to the provision of accessible, affordable and quality social care programmes at local level (i.e. child care services, long-term social care services to the elderly and persons with disabilities, counselling services). In this direction, the Government through the competent Service (Social Welfare Services) is implementing the State Aid Scheme, under the Regulation 360/2012 for the provision of services of general economic interest (De minimis) where NGOs and Local Authorities may receive state aid based on certain criteria for the development and functioning of social care programmes. In 2015, 156 organisations received state aid for the operation of quality social care programmes with a total budget of around €6 mln.

In addition, Social Welfare Services, supervise the minimum quality standards of care structures according to the relevant legislations. Towards assuring the improvement of the quality of care services provided by the private sector (private for profit, NGOs and LAs), the Social Welfare Services are in the process of amending the existing legislative framework on minimum standards of care structures and are also drafting a new Law on home carers.

Following the transposition of the Directive (2011/92/EE) on combating the sexual abuse and sexual exploitation of children and child pornography and the ratification of the Lanzarote Convention (the Council of Europe Convention on Protection of Children against Sexual Exploitation and Sexual Abuse), the Council of Ministers in July 2015, approved the creation of an Ad Hoc Committee for the development of the National Strategy for the Prevention and Combating of Sexual Abuse and Sexual Exploitation of Children and Child Pornography.

5.3 Education National Target

Reduce the dropout rate to 10% by 2020 from 11.9% in 2009.

-Decreased to 5.4⁷% in 2015 compared to 6.8% in 2014.

Increase the share of the population aged 30-34 having completed tertiary education to at least 46% by 2020 from 47.1% in 2008

- Increased to 54.2⁸% in 2015 compared to 52.5% in 2014.

Cyprus has achieved both of the national Europe 2020 education targets. The rate of early leavers from education and training (EU and national target 10%) has decreased from 11.3% in 2011 to 5.4% (provisional data) in 2015. This is considered to be, to a certain extent, a result of a number of structured measures which have been implemented for the reduction of early school leavers over the last years. Also, the tertiary education attainment has increased and it has continued to exceed both the EU target (40%) and the national target (46%). The share of population of 30-34 year olds that have completed tertiary education increased to 54.2% in 2015 (provisional data), despite the decreased household income due to the economic crisis.

Progress of main measures implemented for the achievement of national targets

a) Early school leaving

Cyprus has a steady drop in early school leaving rates and has thereby exceeded its national target of 10%. However, certain challenges related to issues of quality and equality in education still remain to be faced:

- The 2012 OECD Programme for International Student Assessment (PISA) has shown a poor performance of students in basic skills in mathematics, reading, and science.

⁷ Provisional Data.

⁸ Provisional Data.

- Young men are more likely to leave school early than young women and children with a migrant background are at a higher risk of dropping out from education.

Several reforms are under way to counter the aforementioned challenges:

- A Bill amending the relevant legislation aiming at a new more effective system for the recruitment of teachers was adopted on 9 July 2015. Through the new process, teachers will be appointed based on: a) examination results, b) extra qualifications and c) seniority.
- New school timetables and reformed curricula started being implemented since September 2015. The curricula were restructured based on adequacy and success indicators. The introduction of these indicators will support the teachers in implementing the curriculum in a more efficient way.
- An ongoing social dialogue is taking place between the Ministry of Education and Culture and all stakeholders, regarding the submission of a final proposal, which will introduce a new Evaluation System for Teachers and School Work.
- A New Professional Learning System for teachers and teaching processes, in elementary and secondary education was approved by the Council of Ministers on 19 August 2015. The new Professional Learning System has been piloted in a number of schools, since September 2015 and will be reviewed at the end of the school year. The system will allow the professional development of the teachers based on their individual needs and their school's needs.
- The project "Actions for social and school inclusion", continuing the good practice of the "Zones of Educational Priority" (ZEP) project, tackles issues of low performance, delinquency and early school leaving, in primary and secondary education, through assertive actions. The project will contribute to the alleviation of inequalities in the participating school units.

b) Tertiary Education

Cyprus has one of the highest rates of tertiary education attainment in the EU with 54.2%⁹ in 2015 compared to the European average of 38.5¹⁰%. At the same time it also has one of the highest rates of unemployment within tertiary education graduates in the EU. Also, a large percentage of persons with tertiary education are employed in middle level occupations and some are even employed in low level occupations.

Given the above, the challenge is not to attract more people in tertiary education, but to encourage more people to choose educational paths which are more likely to lead to employment, such as vocational tertiary education. In order to achieve this, Institutions of Tertiary Education were encouraged, through the publication of Job Forecast Reports to offer vocational programmes, especially in areas where there is demand. For example new programmes of study in areas such as "Technician of mechanical installations and natural gas", "Automobile Engineering" and "Food preparation and culinary arts" were evaluated and accredited in the last years. At the same time, there is a need for the creation of high value added jobs to absorb the university graduates.

⁹ Provisional Data.

¹⁰ Provisional Data.

Another measure promoted to this end is the enhancement of the cooperation between Universities and enterprises. In order to link academia and businesses, seven Industry Liaison Offices in three public and four private Universities have been set up. Thus far, 36 Agreements have been signed between Universities and businesses aiming to promote a better and stronger communication and cooperation between the two parties. So far, Industry Liaison Offices have succeeded in placing 2,472 students in business and have carried out dissemination activities and promotion through a website designated for this purpose. Moreover, one press conference, six workshops and one Conference have been organised, 859 academic profiles from all Universities, 881 enterprise profiles and 224 research lab profiles have been collected. This information is being utilised for matching academic and research personnel to particular businesses' needs and characteristics.

Furthermore, a Bill for the establishment of a Quality Assurance Agency and Certification for Higher Education has been adopted by the House of Representatives on 9th of July 2015. The Agency will support the enhancement of the quality of Tertiary Education Institutions of Cyprus.

5.4 R&D National Target

Increase R&D expenditure to 0.50% of GDP by 2020

- Increased to 0.48% in 2014¹¹ compared to 0.46% in 2013.

Investment in Research and Development as a percentage of GDP amounted to 0.42% in 2008, and rose to 0.46% in 2013 and 0.48% (provisional) in 2014. It is noted that from the onset of the economic crisis, severe fiscal restrictions affected also the research and development sector.

Although the national target for R&D expenditures as a percentage of GDP for 2020 (0.50%) is low compared to the overall EU target, it is considered appropriate for Cyprus since it will result in a considerable increase of annual research expenditure by 2020 (now €83,8 mln and by 2020 €140/ mln), without being at the same time unrealistically ambitious. This target was set taking into due consideration the particularities of Cyprus in terms of:

- the size of the research community,
- the orientation of the economy in low value added products and services (lack of big manufacturing firms), and
- the very small size and low involvement of Cypriot companies in research and innovation activities in terms of participation and expenditure in R&D and innovation.

Furthermore, not only the level but the quality of expenditure is of equal, if not greater, importance. The tight budgetary constraints prevailing in recent years render even more pressing the need to increase the effectiveness of public expenditures for R&D and Innovation. In this respect, the S3CY, which is now under implementation, aims to maximise the knowledge based development potential of the Cyprus economy through targeted support to Research and Innovation, leading to greater competitiveness. The S3CY for Research and Innovation includes an Action Plan, to be implemented over the period 2016 – 2020, with measures amounting to €139,5

¹¹ Provisional Data.

mIn (ESIF €82,3 mln and €57,2 mln national funds). The Implementing agencies are mainly the Research Promotion Foundation (RPF) and the Ministry of Energy, Commerce, Industry and Tourism and, to a much lesser degree, the Ministry of Agriculture, Rural Development and Environment and the University of Cyprus.

The Research Promotion Foundation has completed the Public Dialogue concerning the New RPF Programmes 2016-2020. This Public Dialogue took place in two phases:

- Phase 1: "Horizontal Issues" which concerned consultation on horizontal issues such as the "Submission, evaluation and selection of proposals", "Project monitoring", "Procedures and regulations for participation" and "General and Legal issues".
- Phase 2: "Programmes", which concerned consultation on the draft New Programmes 2016-2020, based on the results of the First Phase of the Public Dialogue on "Horizontal Issues" and the Action Plan of the S3CY.

The RPF is currently finalizing the new Programmes 2016 – 2020 which are expected to be launched in the first semester of 2016.

Furthermore, the Ministry of Energy, Commerce, Industry and Tourism has launched the programme "Enhancing Entrepreneurial Innovation" included in the S3Cy Action Plan. The other two stakeholders, that is the University of Cyprus and the Ministry of Agriculture, Rural Development and Environment are also expected to launch their programmes in 2016.

5.5 Climate and energy National Targets

5.5.1 Reduction of GHG emissions

Reduce greenhouse gas emissions by 5% by 2020 compared to 2005.

- Reduced by 6.5% (non-ETS emissions) in 2014 and 9.6% in 2015¹²

The Department of Environment publishes annual inventories and projections for greenhouse gas emissions. The latest inventory, concerning period 1990-2014, was submitted to the European Commission in February 2016. The GHG emissions in 2014 were 7,768 Gg CO₂ eq. including land use, land use change and forestry (LULUCF) and 8,420 Gg CO₂ eq. excluding LULUCF. Between 1990 and 2014, the total national emissions excluding LULUCF increased by 48.3%. Total emissions in 2014 decreased by 9.5% compared to 2005 and non-ETS emissions reduced by 6.5% compared to 2005. In 2015, non ETS emissions were reduced by 9.6% (provisional data) compared to 2005.

a) Mitigation

The Government's primary focus for securing compliance with EU legislation in the period to 2020 is domestic mitigation.

¹² Provisional Data.

The draft Low-Carbon Development Strategy that was prepared in 2015 by the ad-hoc committee that was established for this purpose needs to be re-designed on the basis of the adopted Climate Package for 2030.

In February 2016, the Department of Environment submitted to the UNFCCC Secretariat, the Biannual Report 2016, containing the latest update of the national policies for the reduction of greenhouse gas emissions. Such measures include the introduction of natural gas to Cyprus, primarily for use in electricity generation, increase of the Renewable Energy Sources share to electricity, heating, cooling and transport, increase of energy savings from energy efficiency in buildings, promotion of public transport and low emissions' vehicles, improvement of solid waste disposal sites and promotion of anaerobic digestion of the treatment of animal waste. According to the projections of the Biannual Report, it is anticipated that the national emissions of Cyprus will be reduced during the following years and will continue to satisfy the National target of -5% in the non-ETS sectors (see Table herebelow).

Non-ETS greenhouse gas emissions 2013-2020 compared to 2005

Gg CO₂ eq.	2005	2013	2014	2015	2020
Non-ETS emissions	4226	3969	3951	3820	3933
Change compared to 2005		-6.1%	-6.5%	-9.6%	-6.9%

b) Adaptation

The impacts of climate change are expected to intensify over the coming decades and the Cypriot economy needs to implement appropriate measures to enable adaptation to climate change. The National Adaptation Strategy, which will be partially financed by the Cohesion Fund, has been prepared by the Department of Environment in 2015. The Ministry of Agriculture, Rural Development and Environment, is currently preparing in cooperation with all stakeholders, the national risk assessment in relation to climate change. The relevant study will be elaborated and linked to the National Adaptation Strategy. The completed Strategy and Assessment will be submitted to the Council of Ministers for adoption by the end of 2016. It is noted that the national risk assessment will be financed by the Cohesion Fund.

c) Circular Economy

Through policies and measures designed to meet the National greenhouse gas emission targets and promote increases in energy efficiency and consumption, as well as the National Waste Prevention Programme, Cyprus is already implementing measures which support the transition towards a more resource efficient, low carbon, circular economy. The transition to a circular economy, however, relies on the appropriate combination of regulatory measures, market instruments and voluntary tools. Cyprus therefore places equal importance on the promotion of voluntary and market instruments as these have the potential to contribute significantly to the uptake of new, innovate and cleaner production processes and technologies that will enhance resource efficiency, minimize pollution and facilitate the reuse of waste as a resource into the production cycle. They also contribute to the strengthening of the market for greener, more efficient and durable products. Cyprus will also target production and consumption patterns and the provision of

services through the active promotion of voluntary environmental tools and product labeling schemes, and in particular the Eco-Management and Audit Scheme (EMAS) and the ECOLABEL, coupled with an enhanced green public procurement as a means of boosting the market for green products and services.

d) Natura 2000 Network

With respect to Natura 2000 network, Cyprus has one of the largest networks, with approximately 28% of its territory designated as such. Cyprus follows all relevant procedures in order to assess impacts of projects on the environment and on protected areas according to EU legislation on environmental assessment. However these assessments need to be empowered further in order to ensure appropriate results that will be legally binding and respected to allow for sustainable development and conservation of nature.

e) Environmental Impact Assessment

Moreover the Department of the Environment is in the process of amending the current national legislation relating to environmental impact assessment (EIA) and strategic environmental impact assessment (SEA).

f) Waste management

Waste management is a high priority for Cyprus given the need for the effective management of the environmental impacts resulting from waste and for ensuring a high level of protection of the environment and human health. Despite full harmonization of the relevant EU policy regarding waste, the largest share of municipal waste is still landfilled inappropriately. To address this problem, a Municipal Solid Waste Management Plan 2015-2021 and a National Waste Prevention Programme 2015-2021, prepared in accordance with the requirements of the Waste Framework Directive (2008/98/EC), were approved by the Council of Ministers in November 2015. The Plan and the Programme form a comprehensive, integrated 6-year management strategy on municipal waste that will be partly co-financed by ESIF. The basic objectives is to achieve by 2020 at least a 50% recycling of paper, plastic, metal and glass and by 2021 a 15% in the separate collection of the organic content of municipal waste and a 40% separate collection of municipal waste. In 2013, Cyprus has succeeded a 26% recycling of recyclable waste, compared to the 50% recycling that must be reached by 2020.

Furthermore, in 2016, the competent authority (Ministry of Agriculture, Rural Development and Environment), will promote legislative measures, that are included in the 6-year management strategy in order to enable local authorities to promote prevention, separate collection and treatment of recyclable waste.

In addition, a project developed in 2014 for the reduction of municipal solid waste in coastwise hotels through recycling will start operation in 2016.

It should be noted that an amendment of the Waste Law was published, in February 2016, where the responsibilities of the Minister of Interior on this issue were transferred to the Minister of

Agriculture, Rural Development and Environment for better coordination and implementation of waste management actions, since it is closely linked to the impact on the environment.

g) Water management

Effective water demand management is one of Cyprus' priorities as a fundamental condition for the exercise and application of a sustainable water policy. Various measures aiming at further improving the good practices for water consumption and reuse are being implemented by the Ministry of Agriculture, Rural Development and Environment.

The implementation of the Water Framework Directive 2000/60/EC (WFD), which aims at protecting and improving the status of waters, is also a priority. At the same time, it is important to strengthen the resilience of the aquatic ecosystem, in order to adapt to climate change. In this context, the implementation of the 1st River Basin Management Plan and Drought Management Plan was adopted in June 2011. The 2nd River Basin Management Plan (RBMP) and Drought Management Plan have recently been completed and will be submitted to the Council of Ministers soon. The 1st Flood Risk Management Plan which is being developed in coordination with the 2nd RBMP has also been concluded. A Strategic Environmental Assessment has been prepared for both Plans and public consultations have been completed. The Plans are expected to be adopted within 2016.

As regards waste water, the priority is the full implementation of the Urban Waste Water Treatment Directive. The National Implementation Program includes 57 Agglomerations. Seven are Urban Agglomerations of which 5 are completed and 2 are being implemented. There are 50 Rural Agglomerations, of which 26 are completed, 6 are being implemented and 15 are planned to be completed by 2027. Particular importance is also given to the implementation of other relevant Directives, as well as to the relevant national legislation for the protection, monitoring and management of water resources. To this end relevant European Directives are being transposed into national legislation. The Directive 2013/39/EU as regards priority substances in the field of water policy was adopted in November 2015.

In order to address water scarcity, which is one of the most serious problems faced by Cyprus, the optimum use of non-conventional water resources, such as desalination and recycling are being promoted. In particular, with the completion of all desalination units, except the Paphos desalination plant which is planned for the near future, the dependency of the large urban, suburban and tourist centers on rainfall has been eliminated. The study for "Vasilikos to Western Nicosia Conveyor Water Supply Project" is underway and the design of Kokkinokremmos Water Supply Project is at tender stage.

Recycled water is a growing and stable resource, and increasing quantities of tertiary treated urban wastewater under strict quality standards and controls are used for irrigation and recharge of aquifers. The use of recycled water is expected to increase the supply of water for irrigation, ensure protection against drought and contribute in the water balance, enabling the best allocation of available water resources for all uses. Two projects are under way, the Anthoupolis Water Reuse Scheme which is funded by the European Agricultural Fund for Rural Development and the Larnaca Water Reuse Scheme that is funded by the ESIF.

Regarding water pricing policy, an action plan has been included in Cyprus' operational programme "Competitiveness and Sustainable Development 2014-2020". The action plan provides for the gradual implementation of the Pricing and Cost Recovery of Water Regulations in accordance with article 9 of the WFD. Additionally, there is underway a process for the change in water charges that is estimated to be completed within 2016.

The Water Development Department will also contribute to the implementation of the Waste Framework Directive, by undertaking the construction management laid down by the National Waste Management Plans.

h) Transport Sector

The "National Action Plan for the Improvement of Ambient Air Quality in Cyprus" and the "National Strategy for Sustainable Development – (Chap. 2 – Sustainable Transport)" include policies and climate related programmes and measures to address the environmental impact of the transport sector. Examples are the promotion of public transport, the introduction of Intelligent Transport Systems, the development of the Integrated Mobility Master Plan, park and ride and central bus stations, the promotion of the use of bicycles, incentives (through legislation) for the purchase of car with low CO₂ (including electric cars), etc.

It is worth noting that, as a result of the measures adopted with respect to the legislation on excise taxes and Annual Circulation Tax on cars, Cyprus recorded the second largest annual relative and absolute CO₂ emission reductions in newly registered cars (comparison 2013 – 2014) between the EU 28 and it has the third largest relative and annual CO₂ emission reductions in newly registered cars from 2010. Also, Cyprus, met the 2015 target for the average CO₂ emissions from newly registered cars from year 2014¹³.

i) Deployment of alternative fuels infrastructure and promotion of the use of electric vehicles

The Department of Electrical and Mechanical Services and the Ministry of Energy, Commerce, Industry & Tourism are preparing a national policy framework and action plan for the deployment of alternative fuels infrastructure and the encouragement of the purchase of electric vehicles. The regulatory framework will consist of direct financial incentives for the installation of charging stations, tax incentives etc. Also, it will include policy measures with non-financial incentives such as preferential access to parking areas, roadside parking, building and parking permits.

In this connection, the Electricity Authority of Cyprus has deployed in 2015 a total of 16 recharging stations accessible to the public. Furthermore the Department of Electrical and Mechanical Services is studying the installation of a number of charging stations in specific areas, in order to expand the current network of charging points.

¹³ see EEA Technical Report 16/2015 "Monitoring CO₂ emissions from new passenger cars and vans in 2014 (esp. fig. 3.6 and fig. 3.7, pp. 21 – 22) – <http://www.eea.europa.eu/publications/monitoring-emissions-cars-and-vans>).

5.5.2 Energy efficiency

Achieve an increase of 14.5% (375 ktoe) in energy savings in the projected primary energy consumption of the year 2020, by comparing the national scenarios for energy efficiency¹⁴. The national indicative target for energy efficiency is also expressed in achieving primary energy consumption of 2.2 Mtoe at the year 2020.

- Primary energy consumption remained at 2.2 Mtoe in 2014 as in 2013.

The National Energy Efficiency Action plan of April 2014 includes a list of measures that will be implemented until 2020 in order to achieve the aforementioned national target. Over half of the planned reduction in primary energy will be achieved through the switch from oil to natural gas in electricity generation. On the energy demand site, special attention is given in improving the energy efficiency of the construction sector, where the aim is to reduce energy use in a way that will increase wealth, improve quality of life and reduce CO₂ emissions. This objective is derived and supported mainly by the implementation of Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EE for energy efficiency. The two pillars of this policy are: (a) the continuous improvement of the energy performance of new buildings with the aim all new buildings to be Nearly Zero Energy Buildings (NZEB) by 31st of December 2020; and (b) the upgrade of the energy efficiency of the existing building stock to the extent that this is financially and technically feasible. It should be noted that the national Energy Efficiency Action Plan and the national measures will be reviewed in April 2017.

a) Current situation

Even though the current primary energy consumption (2.2 Mtoe in 2013 and in 2014) is in line with the national 2020 target, additional efforts are being made in order to keep the primary energy consumption at the same level or to minimise its increase, in anticipation of GDP increases due to the foreseen economic development in the coming years. The progress towards achieving the national energy efficiency target is being annually monitored by MECIT. The report for the progress achieved by the end of 2014 is currently under preparation and it will be submitted to the European Commission by the end of April 2016, in compliance with the requirements of Directive 2012/27/EE for Energy Efficiency.

An assessment of the progress can be made by examining the Energy Intensity Index (EII), which is determined as the ratio of primary energy consumption over GDP. EII provides a good indication on how energy efficient is the economy, and in the case of Cyprus it has started to show a decreasing trend, at a rate considerably greater than the EU average. This reflects the improvements already achieved in the field of energy efficiency.

¹⁴ A national baseline scenario and a national energy efficiency scenario had been compared. Both scenarios were executed in 2014.

b) Policies, measures and activities for reaching 2020 target

Cyprus aims to achieve its energy efficiency target through the implementation of an array of measures which include regulatory changes, provision of financial incentives as well as emphasizing on horizontal issues such as consumer knowledge and information, enhancement of the role of the private sector's financial institutions, as well as encouraging research and technological development. The most important measures currently in place in order to promote energy efficiency are:

- Setting of minimum energy performance requirements for new buildings, buildings that undergo major renovation and building elements that are retrofitted.
- Issue of Energy Performance Certificates (EPC) for new buildings and for buildings that are sold or rented.
- Frequent inspection of large air conditioning systems and central heating systems with boiler.
- Implementation of legislation that defines the technical requirements that a NZEB has to fulfill.
- Implementation of legislative framework for the promotion of combined heat and power and high efficiency in heating and cooling.
- Implementation of legislative framework for energy efficiency (e.g.: i) setting obligations for energy efficiency in the public sector, ii) obligations for energy efficiency in metering and billing, transformation, transmission and distribution, iii) obligations for energy audits and for energy savings measures at end use etc).
- Implementation of legislative framework for regulating the market for energy auditing in buildings, industries and transport and the operation of Energy Service Companies (ESCOs).
- Implementation of legislative framework for energy labeling and market surveillance.
- Implementation of energy efficiency measures in the buildings occupied and used by the central government including deep renovations, utilizing ESIF of the period 2014-2020.
- Operation of financing schemes for energy upgrade of existing households and buildings of enterprises, utilizing ESIF of the period 2014-2020.
- Implementation of projects on energy efficiency in street lighting, utilizing national funds.
- Implementation of pilot projects for high efficient heat and power generation, utilizing ESIF of the period 2014-2020.
- Implementation of pilot projects for energy efficiency in public buildings and street lighting utilizing ESCOs and energy performance contracting.
- Implementation of pilot projects for energy efficiency in public buildings in the framework of the competitive EU Programs.
- Implementation of measures in the transport sector, utilizing ESIF of the period 2014-2020.
- Implementation of projects for installing smart meters.
- Provision of information and training to the public sector aiming to change habits in energy use.
- Certification of professionals in the field of energy efficiency.
- Provision of information/education to energy professionals and final consumers on energy efficiency.

For the renovation of buildings that are used by the central government a working group has been set by MECIT and the Ministry of Transport, Communications and Works.

For the period 2014 – 2020, EU financing of €20 mln has been secured for upgrading the energy efficiency of public buildings. As regards the upgrading of the energy efficiency in existing buildings

of the private sector, the support scheme “Save – Upgrade” is the main financial tool. It is co-financed by ESIF and it targets deep renovation of households and buildings used or owned by small and medium size enterprises. The scheme promotes simultaneously all policy objectives i.e.:

- i. Implementation of cost effective measures as indicated by an independent expert i.e. Qualified Expert, Energy Auditor.
- ii. Deep renovation based on EPC energy rating.
- iii. Promotion of NZEB.
- iv. Individual measures and higher subsidies for vulnerable consumers.

Additionally, the installation of photovoltaic systems in residential buildings and buildings of local authorities is supported by the net metering scheme which was launched in 2013. Photovoltaic systems can also be installed in commercial buildings in order to produce electricity for their own use. Also, the Ministry of Interior has recently decided to increase the building factor for new buildings and buildings that are renovated, if they achieve an “A” energy class on EPC and at least 25% contribution from RES. A funding scheme for the replacement of existing solar water systems with more efficient ones had also been successfully completed by the beginning of 2016.

Informing the public as well as the professionals about the benefits of improving energy efficiency is mostly done through workshops, leaflets and advertising flyers. In addition, MECIT organizes or participates in seminars especially directed to professionals in the construction industry and professional organizations. The annual exhibition “SAVENERGY” is one of the most important public events in the field of energy efficiency. The exhibition started in 2004 and gives the opportunity to the public to come in direct contact with the companies that provide energy saving systems and renewable energy systems.

MECIT has recently identified areas where studies are needed for ensuring that the national energy efficiency potential in all sectors of the economy has been well identified and that it will be cost-effectively exploited by 2020. It has also identified the need for establishing an energy efficiency strategy after 2020. For this purpose, and with Technical Assistance provided by the Structural Reform Support Service for Cyprus, a set of studies are currently under preparation (while some additional studies are planned to be completed by the end of 2016), aiming to assist Cyprus in achieving its 2020 energy efficiency target, to prepare its national strategy for energy efficiency for the post 2020 period, and to develop and implement new legislative, financial and awareness raising measures to boost the uptake of energy efficiency measures by 2020 and beyond.

5.5.3 Renewable Energy Sources (RES)

Increase of the contribution of RES to 13% of the total energy consumption by the year 2020.

- Increased to 8.9% in 2014 compared to 8.7% 2013

The National Action Plan for Renewable Energy Sources (RES) sets a list of measures and renewable energy technologies that will be implemented until 2020 in order to achieve the national targets.

Regarding the specific target of 10% RES in transport under Article 3(4) of Directive 2009/28/EC,

Cyprus has reached 2.59%. It is noted that the methodology for calculating the target for transport is different from the methodology provided based on Article 3(1) of the Directive. In the framework of establishing a National Strategy to promote alternative fuels in transport to achieve the 10% target of renewable energy in transport by 2020 and the various environmental objectives, a national action framework is being prepared in cooperation with other competent authorities in order to promote environmentally friendly technologies, alternative fuels and ultimately the necessary infrastructure needed.

A recent study performed by the International Renewable Energy Agency (IRENA), showed that renewable energy offers a way for Cyprus to reduce both the cost and the environmental impact of generating electricity, especially in the case of high oil price projections. Turning to renewables can help to reduce fuel imports, strengthen the trade balance and create local jobs. The study showed that the success of solar water heaters, where Cyprus is the first country in the world in such installations per capita, can be replicated for solar photovoltaics (PV) as well.

Cyprus has set out to attain a higher share of renewables, and the roadmap of IRENA helps to assess optimal investment strategies in the power sector. Solar PV, CSP and wind power will play a major role in the roadmap to 2030. Based on the analysis, Cyprus energy mix can come from renewables in the range of 25%-40%.

a) Current situation

With the implementation of the National Action Plan for Renewable Energy Sources (RES) and the measures taken by the government, the Republic of Cyprus succeeded in increasing the share of RES in the total final consumption to 8.9% in 2014. With this rate, Cyprus has achieved the intermediate National Action Plan target for renewables in 2014, which is 8.4%. The average indicative progress for the biennium 2013-2014 is 5.93%. As regards the 10% target of RES in transport, the rate reached is 2.59%.

Based on the EAC data, the following systems were installed by the end of 2015:

- approximately 80 MW of photovoltaic systems.
- total of 157.5 MW from five wind farms.
- total of 10.4 MW from 14 biomass plants.

b) Policies, measures and activities for reaching 2020 target

During the second half of 2015 two amendments of the Promotion and Encouragement of the Use of Renewable Energy Sources Law 2013 [N.112 (I) / 2013] came into force.

The first amendment concerns the imposition of temporary green fee on consumers and renewable energy producers for the purposes of maintaining the RES Fund, while the second amendment concerns the improvement of the regulations governing the function of the certification schemes for RES installers of small-scale biomass boilers and stoves, solar photovoltaics and solar thermal systems, shallow geothermal systems and heat pumps.

In the RES Sector, the following measures were also taken:

- Announcement of the support scheme: “Solar Energy for All” which provides: (a) the installation of Net-metering photovoltaic systems with capacity up to 5KW connected to the grid for all consumers (residential and non-residential) and (b) the self-generation systems with capacity up to 2,000 kW for commercial and industrial consumers.
- A support scheme for the replacement of old solar domestic hot water heating systems.
- Implementation of measures in transport sector, utilizing ESIF of the period 2014-2020.
- Certification of professionals in the field of renewable energy sources.
- Provision of information/education to energy professionals and final consumers on renewable energy systems.

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The NRP was prepared in close cooperation with all competent Ministries and other Services. There was also consultation with local authorities, social partners and other stakeholders.

In addition, on many of the policy measures and initiatives in individual policy areas included in the NRP, separate consultation had taken place with the relevant stakeholders during their formulation.

The comments received in the context of the consultation on the NRP related mainly to the areas of appropriate policy choices aiming at employment creation and poverty alleviation, the modernization of public administration and enhancement of e-government, the enhancement of opportunities and public services in the rural areas as well as issues related to waste management.

The NRP was approved by the Council of Ministers on the 21st of April, 2016.