



Cyprus National Reform Programme 2012

**Europe 2020 Strategy for:
Smart, Sustainable and Inclusive Growth**



PLANNING BUREAU

APRIL 2012

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INTRODUCTION



1. INTRODUCTION

Cyprus submits its National Reform Programme (NRP) on EU2020, for smart, sustainable and inclusive growth, along with the submission of the Stability Programme (SP), within the framework of the European Semester and in accordance with the new cycle for improved economic policy coordination of the EU Member States. The reforms and policy ambitions set out in the National Reform Programme are consistent with the budgetary developments and objectives set out in the Stability Programme, as is the macroeconomic policy.

Europe 2020 is the EU's growth strategy for the decade 2010-2020 and focuses on three mutually reinforcing priorities – smart, sustainable and inclusive growth – that should help the EU and Member States deliver high levels of employment, productivity and social cohesion and deal with the adverse effects of the financial economic crisis. Europe 2020 Strategy sets five ambitious objectives on employment, innovation, education, climate/energy and social inclusion to be reached by 2020. Each Member State has adopted its own national targets in each area and has set its own measures at national level to underpin the strategy.

The European Semester is the EU's new coordination device to monitor commitments at EU level. Over the first half of each year, discussions take place both on the EU's economic agenda, on the basis of the Annual Growth Survey presented by the Commission in January, and on Member States' priorities, presented in their national programmes in the spring. Country specific recommendations (CSRs) will be issued in June, giving time for these to be incorporated into national budgets and economic policies for the following year.

The National Reform Programme has been prepared in collaboration with all pertinent Ministries and in consultation with social partners. It maintains the same structure and priorities as that of last year, but also focuses on new priorities as for those set by the Annual Growth Survey and of new challenges like the high rate of Youth Unemployment. **Under Macroeconomic Surveillance** (Chapter 2) it presents progress with respect to measures already in place and new measures that address the Country Specific Recommendations for the period 2011-2012, the Euro Plus Pact commitments, the five quantitative national targets for smart, sustainable and inclusive growth, the priorities under the 2012 Annual Growth Survey and the measures taken with respect to the potential macroeconomic imbalances or challenges identified by the first Alert Mechanism Report issued by the European Commission on February 14th, 2012. Indicatively such measures relate to the reform of the public pension system, the anticipated submission, by the end of May 2012, of the Bill on Budgetary Stability, the establishment of an Independent Financial Stability Fund and the continuous efforts for the reform of the Health Care System.

The **Macroeconomic Scenario** (Chapter 3) gives a summary of the macro-economic scenario developed in the Stability Programme, thus making a connection between the National Reform and the stability Programme. A brief reference is also made to the Package of measures to stimulate growth adopted by the Government.

To promote smart growth, emphasis is given on **“Innovation”** (Chapter 4) given the limited capacity of Cyprus to increase private research. Due to the considerable number of micro enterprises operating mainly in the services sector, supplementary efforts are being placed on enhancing the involvement of businesses in innovation activities. To this end, new subsidy schemes have been introduced for enterprises, but a comprehensive National Strategy for Research and Innovation 2012-2015, is also in its final stage of preparation.

The main progress with respect to measures in the field of **education** (Chapter 5) during the last year, relates to the establishment of four Post Secondary Institutes of Vocational Education and Training, which is anticipated by September 2012, the design-development and application of the new national curriculum for all public schools of pre-primary, primary and lower secondary education, the restructuring of upper secondary and secondary technical and vocational education for which the stakeholders consultation began this March, the approval of a proposal for the establishment of a National Board for the Lifelong Guidance and the establishment of a National Qualifications Framework by September 2012.

With respect to the **Digital Society**, (Chapter 6) which is part of the 2012 Annual Growth Survey as well, on the 8th of February 2012, the Council of Ministers approved the Digital Strategy for Cyprus. It is a comprehensive plan for the period 2012-2020 and adopts a holistic approach for the development of information society in Cyprus. The Strategy promotes the use of ICT in all vital sectors of the economy like education, health, tourism, transport and generally in the exercise of every business activity and plays a key role in the development of Cyprus into a regional service centre and the attraction of foreign investments. Cyprus has adopted the broadband targets of the Digital Agenda for Europe in its Digital Strategy and already, the first broadband target, which is all households and businesses to have access to the Internet with at least 2Mbps has already been achieved; Cyprus has 100% broadband coverage in all urban and rural areas.

To promote sustainable growth, Cyprus has set the increase of energy efficiency, in connection with addressing the impacts from climate change, as one of its top priorities, given that the country is already experiencing its adverse impacts (Chapter 7: **“Climate, Energy and Mobility”**). It has been decided to introduce natural gas as a fuel for power generation purposes, in order to diversify the energy mix and limit CO₂ emissions. Pending final political decisions, natural gas could potentially come from the recently discovered gas deposit offshore Cyprus; first gas is anticipated by 2016. The most important measures implemented for the reduction of emissions are associated with energy production and efficiency, such as using natural gas for energy, with the increase of the share of renewable energy sources (RES) and the increase in the use of the public transport. The implementation of these measures has started and their impact on the emissions is obvious as of 2010.

Chapter 8: **“Competitiveness”**, analyses measures to enhance the competitiveness of both the private and of the public sector, in line with the Annual Growth Survey 2012 priorities of (i) Promoting growth and competitiveness for today and tomorrow (ii) Restoring normal lending to the economy and (iii) Modernising public administration. During 2011 significant progress has been made towards the setting up of the Cyprus National Guarantee Fund for Small and Medium Enterprises, to facilitate their access to finance, through the provision of guarantees to SME loans. Significant progress has been made in the field of Modernisation of the Public service with

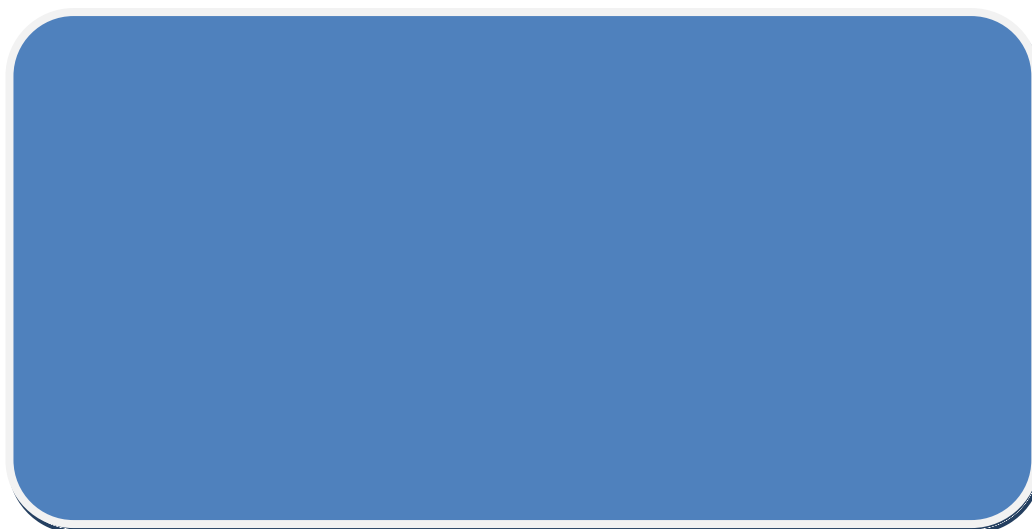
the promotion of E-government measures including e-procurement and also by promoting the National Plan on better regulation.

For inclusive growth, Chapter 9: “**Employment and skills**” focuses on measures for promoting **youth unemployment**, like job placement and training of young unemployed who are tertiary education graduates, accelerated initial training of newcomers and other unemployed people, the new modern Apprenticeship scheme, a scheme for promoting employment and in company training of Apprenticeship System Students, a scheme for the enhancement of youth entrepreneurship and a scheme that will be implemented in May 2012 targeting the young and the long-term unemployed. Other measures for reaching the national EU2020 target for employment, involve measures for training, job creation and for reducing the gender pay gap.

Finally, Chapter 10: “**Fighting poverty**”, includes measures aimed at the promotion of social inclusion and the fight against poverty, an important and integral part of the socio-economic model on which the Cyprus economy has always relied on. Some of the measures promoted are: the consultation for reforming long-term care that is being continued in 2012, the subsidisation of social care services within the framework of family and employment reconciliation, launched in February 2012, actions for reducing gender pay gap, schemes for the employment of unemployed and inactive population and of persons with disabilities, the introduction of income criteria for the Comprehensive Housing Scheme as of 2012 and the appointment of an Advisory Committee for the implementation of the National Action Plan 2010-2012 for the integration of third country nationals legally residing in Cyprus.

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PROGRESS ON CSRs, EURO PLUS PACT, NATIONAL TARGETS – MACROECONOMIC SURVEILLANCE



2. PROGRESS ON CSRs, EURO PLUS PACT, NATIONAL TARGETS – MACROECONOMIC SURVEILLANCE

In order to facilitate growth and deliver Europe 2020's objectives, the European Council has highlighted the need to address bottlenecks constraining growth at national and EU level, including those related to infrastructure and to the working of the internal market. The focus is on medium to long-term challenges and specifically the macro-structural bottlenecks to growth. This encompasses both framework conditions to growth at macro level (budgetary, macro-financial, external imbalances) and growth drivers at micro level (labour utilisation, investment, productivity, competitiveness). The macro-structural bottlenecks to growth have been agreed by the European Commission and each respective Member State.

2.1 Macro structural bottlenecks

The Macro-structural bottlenecks that are identified for Cyprus are the following:

1. Reducing the high general government structural deficit and ensuring the long-term sustainability of public finances in view of population ageing.
2. Improving efficiency of public spending and ensuring a reallocation of public expenditure towards growth-enhancing items including weakness in energy and transport infrastructure.
3. Ensuring wage and price adjustment to regain and sustain competitiveness.
4. Promoting innovation and ICT capacity mainly of the private sector to support investment, diversification of the economy and orientation towards high value-added production and services
5. Restructuring the economy with emphasis on high-skilled jobs and the training of the low skilled and disadvantaged groups.

2. II Country Specific Recommendations (CSRs)

A. Evaluation and CSRs

After evaluating the NRP of Cyprus submitted in April 2011, seven Country Specific Recommendations (CSRs) were issued to Cyprus, which were formally adopted by the Council on July 12th, 2011. The CSRs adopted for Cyprus are the following:

CSR No. 1: Achieve the budgetary target in 2011 and the correction of the excessive deficit by 2012. Accelerate implementation of a multiannual budgetary framework, as from the preparation of the 2012 budget.

CSR No. 2: Strengthen further the prudential framework for supervision of banks and cooperative credit societies to ensure early detection of risks.

CSR No.3: Improve the long-term sustainability of public finances by implementing reform measures to control pension and healthcare expenditure in order to curb the projected increase in age-related expenditure.

CSR No.4: Take steps to reform, in consultation with social partners and in accordance with national practices, the system of wage bargaining and wage indexation to ensure that wage growth better reflects developments in labour productivity and competitiveness.

CSR No.5: Take further steps, within the reforms planned for the vocational education and training system, to match education outcomes to labour market needs better, by including setting up a post-secondary vocational education and training institute.

CSR No.6: Abolish remaining obstacles to the establishment and free provision of services in sector-specific legislation by December 2011 in order to create more opportunities for growth and jobs in the services sector.

CSR No.7: Increase the diversity of the energy mix and the expansion of renewable energy sources and establish, by 2012, a water management plan and a price-setting scheme reflecting cost efficiency and equity.

B. Progress in compliance with the CSRs

CSR No. 1: Achieve the budgetary target in 2011 and the correction of the excessive deficit by 2012. Accelerate implementation of a multiannual budgetary framework, as from the preparation of the budget 2012.

The measures to effect fiscal consolidation have been adopted in three packages and covered both the revenue and the expenditure side of the budget. In addition a modern framework for fiscal management is being promoted, with the submission of a Bill on Budgetary Stability by the end of May 2012.

1st Fiscal Consolidation Package – Expenditure

- Contribution of 3% on gross earnings of broader public sector employees against public pension entitlements.
- Temporary contribution on gross earnings of broader public sector employees and pensioners for a period of two years:

Table 2.1:

Monthly gross earnings	% of contribution
0-€2.500	0%
€2.501 - €3.500	2,5%
€3.501 - €4.500	3%
> €4.501	3,5%

- Increase of the rate of contribution for the Widows and Orphans Fund by 1,25 p.p. to 2% on gross earnings, of broader public sector employees.
- Abolition of occupational pension for new employees of the broader public sector with considerable savings over the long term.

1st Fiscal Consolidation Package – Revenue

- Increase of the tax rate on deemed dividend distribution from 15% to 17%.
- Revision of scales used for applying the tax coefficients on immovable property, until the re-evaluation of land prices from 1980's prices to current prices.
- Introduction of a levy of €350 on all registered companies.
- Increase of withholding tax on interest accrued on deposits of financial institutions from 10% to 15%.
- Increase of the tax rate for personal income of physical persons above €60.000 from 30% to 35%.

2nd Fiscal Consolidation Package – Expenditure

- Abolition of all vacant posts (exemptions up to 10%).
- Reduction of salary scales for new employees of the broader public sector by 10%.
- Reduction of the number of personnel in the broader public sector by 5.000 over the next five years (one recruitment for every four retirements).
- Targeting of social schemes based mainly on income and economic criteria.
- Reduction of social welfare benefits.
- Tight Budget for 2012 incorporating cuts in other discretionary spending including cuts in budgeted appropriations approved by the Parliament.

2nd Fiscal Consolidation Package - Revenue

Increase of the standard VAT rate from 15% to 17% as of March 1st, 2012.

3rd Fiscal Consolidation Package - Expenditure

- Freeze of wage^{and} salaries and pensions in the broader public sector for a period of two years having a permanent impact on the level of expenditure.

3rd Fiscal Consolidation Package – Revenue

- Introduction of a temporary scaled contribution for private sector employees for a period of two years in line with public sector employees. The contribution will be equally distributed between the employer and the employee.

- Increase of the rate of taxation of deemed dividend from 17% to 20% for a period of two years.

The above measures will be complemented by the ratification of the Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union by the end of May 2012, as well as by the introduction of a Law on Budgetary Frameworks incorporating the provisions of the corresponding acquis, as well as the provisions of the said Treaty, the latest by the end of May 2012.

Budgetary Framework

For ensuring fiscal sustainability, a modern framework for fiscal management is being promoted, with the submission of a Bill on Budgetary Stability by the end of May, 2012, establishing principles of transparency and reliability and incorporating a set of fiscal rules and an automatic correction mechanism in primary legislation. The Bill provides for the achievement of the Medium-Term Budgetary Objective over the medium term, through the introduction of expenditure and debt brake rules. The Bill will also provide for the introduction of a Medium-Term Budgetary Framework, which intends to lead to the containment of expenditures by line ministries and, at the same time, promote the reallocation of expenditure in favour of growth - enhancing activities, consistent with the priorities set by the NRP. This framework is reflected in the 2012 Budget, in which ceilings on expenditure per line ministries are provided for the years 2012-2014.

More specifically, budgetary reforms require that ministries and other government spending agencies enter a process of redesigning their annual budgets, using new Medium-Term Budgetary Framework (MTBF) and Programme and Performance Budgeting (PPB) methods.

These new methods are being introduced progressively since 2007, with all spending agencies being required to prepare rolling over three-year budget of indicative nature. The first steps for introducing the new PPB framework were taken in 2007, with the implementation of pilot projects, covering three ministries. In 2008, the number of ministries and spending agencies adopting this approach increased and it is expected that, all agencies will prepare their financial year (FY) 2013 budgets according to both the traditional (input-based) budget method and the new PPB/MTBF format. This will enable all spending agencies to have at least two “trial” years, in which the new methods can be developed, tested and refined.

During this trial period, the Treasury Department has been upgrading the accounting software Financial Management Accounting System (FIMAS) to a newer version that is capable of supporting the new budgetary methods and classifications. The new MTBF/PPB approach will become the official (and only) budget method from FY 2014 onwards.

CSR No. 2: Strengthen further the prudential framework for supervision of banks and cooperative credit societies to ensure early detection of risks.

Banking System Supervision is split between the Central Bank of Cyprus - being the competent authority for the supervision of banks - and the Co-operative Societies Supervision and Development Authority being the competent authority for the supervision of Co-operative

Societies. The cooperative legislative and regulatory framework applicable to CCIs is the same as that of the Central Bank of Cyprus applicable to banks. The legal and regulatory framework of the two authorities is aligned with EU requirements, but also with the requirements and guidelines of the EBA (formerly CEBS) and the Basel Committee on Banking Supervision.

The regulatory regime is very conservative and the EU Capital Requirements Directive was transposed adopting the more conservative option for areas where national discretion was allowed. In addition, strict liquidity requirements are imposed to address non-resident deposits while a maximum loan to value ratio of 70% is imposed for property financing (80% for the primary residence).

Both Supervisory Authorities conduct their work through a combination of off-site monitoring and on-site examination. Off-site monitoring entails the submission by banks of an extensive range of periodic returns which cover numerous aspects of banking operations. On-site examinations are carried out with a view to assessing the current financial position and soundness of a bank and its future prospects at a given time. Supervision is exercised on a consolidated basis and covers the bank and its subsidiary companies which carry out banking related activities.

The prudential framework for supervision of Banks and CCIs will be strengthened through the implementation of the new capital requirements under Basle III as well as through the implementation of the Commission forthcoming proposal on setting up a new EU framework on bank recovery and resolution.

The measures taken towards strengthening supervision of the banking sector are:

1. Close monitoring of the financial sector: An ad hoc committee has been set up, with the participation of the Central Bank, in its capacity as supervisor of banks and responsible for the overall financial stability, as well as with the other supervisors the Committee closely monitors the developments of the financial sector.

2. A framework Law for dealing with financial crisis has been approved by the House of Representatives. This Law enables the Cypriot Council of Ministers to adopt measures, ‘in a period of a financial crisis’, intended to address liquidity or insolvency problems affecting financial institutions, in full compliance with the relevant acquis framework. Such measures will be proposed by the Minister of Finance, after taking into account the opinion of the Governor of the Central Bank of Cyprus and after securing the approval of these measures by the House of Representatives.

3. Imposition of a special tax in relation to banks and cooperative institutions. A Bill for the imposition of a special tax (bank levy) was enacted in April 2011 and amended in November. The imposition of this tax for the years 2011 and 2012 aims at supporting and facilitating the resolution of distressed credit institutions.

4. Law for the establishment of an independent Financial Stability Fund. The Law, which has been approved by the House of Representatives, aims at the establishment of an independent Financial Stability Fund, financed by contribution from credit institutions, with a view to enhancing the current crisis management and resolution framework in Cyprus and thus

contributing to the safeguarding of financial stability. It is noted that the Fund does not aim at bailing out, or preventing the failure of credit institutions.

CSR No.3: Improve the long term sustainability of public finances by implementing reform measures to control pension and healthcare expenditure in order to curb the projected increase in age related expenditure.

1. Reform of the Pension system

In order to address the long-term sustainability of the public pension system, an amended Social Insurance Law was enacted in 2009, which included a number of reform measures to be phased-in gradually. This Law also includes the procedure to be followed by the Government, concerning the upgrading of the investment framework and policy of the General Social Insurance Scheme (GSIS) and the effective investment management of the GSIS' assets. Policy reform measures that were adopted included: (i) the progressive increase of contribution rates (seven increases by 1,3 percentage points every five years – last increase in 2039), which will increase significantly the future revenues of the GSIS, and (ii) the tightening of eligibility criteria to pension benefits, which is expected to improve considerably the future labour force participation rates, especially the female older worker ones. The effective retirement age currently stands at 63,5 years, considerably above the EU-27 average.

More recently, during the second half of 2011, a number of new measures were adopted, which include the following: (i) the closure of the occupational Government Employee Pension Scheme (GEPS) to new members and the provision that any newcomers join GSIS under the same terms and conditions as those of salaried employees in the private sector, eliminating therefore any inequalities in the level of contributions and pensions entitlements between public sector newcomers and those in the private sector, and (ii) the increase in employee contribution rate towards retirement and survivors' pension benefits, in respect of the existing members of the GEPS, by approximately 4 percentage points of pensionable emoluments, in particular from 1% to 5% of pensionable emoluments. The 2011 GEPS' legislative amendments will have a significant downward effect on the public pension expenditures, especially in the longer term. According to a recent actuarial exercise, based on the 2011 commonly agreed assumptions of the EPC (Economic Policy Committee)-AWG (Ageing Working Group) (adopted in July 2011 for the purposes of the 2012 Ageing Report), in 2060 it is projected that the GEPS pension expenditure decreases by more than 2 p.p. of Gross Domestic Product (GDP) when compared to the corresponding projected level of GEPS pension expenditure under the 2009 EPC-AWG projection exercise (the results of which are included in the 2009 Ageing Report).¹

It is important to note that the above two packages of reform measures are perhaps the most important steps that have been taken for the improvement of the long-term sustainability of public finances in the area of pensions since the establishment of the Republic.

¹ For the purposes of the CSR No. 3, we estimated the financial impact of a hypothetical increase in retirement age of entitlement to a full old-age pension (without actuarial reduction) under the GSIS from 63 to 65 over the next 6 years. Under such measure, the projected pension expenditure in 2060 under the GSIS would have been reduced by approximately 1 p.p. of GDP.

A recent actuarial study, based on the 2011 commonly agreed assumptions of the EPC-AWG, has evaluated the above packages of reform measures and revealed that the total public pension expenditure is projected to increase significantly after 2040 and exceed the EU average for the first time during the period 2040-45. In particular, the public pension expenditure in Cyprus is estimated to be at the level of 9,5% of GDP in 2020 and then projected to increase to around 12,1% of GDP in 2040 and 16,4% of GDP in 2060. The corresponding revenues from pension contributions are projected to increase from 7,3% of GDP in 2010 to 10,5% of GDP in 2040, and remain constant thereafter.

The primary driver of that trend is population ageing. In particular, the old-age dependency ratio (OADR) is expected to increase by 29 p.p. over the period 2010-60, from 19% in 2010 to 48% in 2060. Compared to the EU-15 Member States, where population ageing occurs now but completes its cycle by 2040 and after that year their OADR becomes rather stable, at a level of 50%, Cyprus is expected to experience a more rapid increase in the OADR after 2040, increasing from 33% in 2040 to 48% in 2060, and remain rather stable thereafter.

Even though, as the above analysis shows, Cyprus will face problems with public pension expenditure mainly in the longer term, a number of initiatives have recently commenced towards the improvement of the budgetary impact of ageing in the long-term. Those initiatives include:

- (a) conduct of an actuarial study for the reform of the public pension system to ensure that an adequate balance between financial sustainability and pensions adequacy is maintained in the long-term as well as to address the high at risk of poverty rate for the elderly
- (b) drafting of a new legislation concerning the upgrading of the investment framework and policy of the Social Insurance Fund and the effective investment management of the Fund, following the establishment of an adequate level of real reserves, the financing of which will be linked to net revenues of the newly discovered net hydrocarbons revenues, which are expected to be available by the end of this decade. Those reserves will play an important role in meeting future demands on state pension expenditure.

2. Reform of the Health Care System

(a) Public Hospitals Transformation (Reorganisation)

To be able to adapt to the anticipated challenges, exercise effective cost control on health care spending and improve the quality of health care provision, the Ministry of Health aims to implement a more effective system, through the reorganisation of public hospitals. This entails reinforcing managerial structures, allocating budgets to each hospital and each Clinic and creating hospital clusters between neighbouring districts. The Ministry of Health will submit very soon a Proposal concerning the reorganisation of the hospitals to the Council of Ministers for approval.

(b) Implementation of the National Health Insurance System (NHIS)

The continued economic recession has forced the Government to reassess its plans for the implementation of the NHIS, so that to ensure the System's long-term viability, through more realistic data and assumptions.

Towards this end, during 2011, the Health Insurance Organisation mainly focused on the System's financing aspect, while it also achieved progress with its operational design.

More specifically, the Organisation worked towards identifying ways which would ensure that the NHIS implementation would not constitute undue pressure on public finances, both with respect to the upfront investment required, as well as to the Government's on-going contribution to the fund.

The funding of the NHIS will be achieved through a combination of contributions from all categories of contributors (employees, employers and Government) and co-payments by patients. The final allocation of costs between contributions and co-payments and their level will be determined after discussion with all stakeholders.

The tendering and implementation of the IT system, currently being assessed and other business processes affects the critical path of the overall NHIS implementation.

Based on the above, a new timetable has been prepared for NHIS implementation and awaits the final approval by the Council of Ministers.

CSR No.4: Take steps to reform, in consultation with social partners and in accordance with national practices, the system of wage bargaining and wage indexation to ensure that wage growth better reflects developments in labour productivity and competitiveness.

The initiatives, which were also taken in the context of the Euro Plus Pact, include the reduction of salary scales for newcomers in the broader public sector by 10% and the total freeze of wages, salaries and pensions for two years.

Despite the fact that wages and salaries in the broader public sector have been frozen for a period of two years, the current Minister of Finance is also committed to initiate the consultation process with the political parties and social partners, with the aim of reforming the Cost of Living Allowance. The process is envisaged to be finalised during the first Semester of 2012. (The Alert Mechanism Report in Section 3V also comments on other important competitiveness factors).

CSR No.5: Take further steps, within the reforms planned for the vocational education and training system, to match education outcomes to labour market needs better, by including setting up a post-secondary vocational education and training institute.

The Post Secondary Institutes of Vocational Education and Training (PSIVET) are envisaged to be established by the end of 2012 in order to increase the number of people attending Technical Vocational Education so as to decrease skills mismatch. All measures have been taken and in September 2012 four such Institutes will start operating, one in each district (More information in Chapter 5: “Education”).

CSR No.6: Abolish remaining obstacles to the establishment and free provision of services in sector specific legislation by December 2011 in order to create more opportunities for growth and jobs in the services sector.

1. Transposition of the Services Directive into national law

(a) A horizontal law to implement the **Services Directive** was adopted in 2010: By mid- March 2012, a significant number of sector-specific amending laws and regulations have been adopted by the House of Representatives, whilst a certain number of bills are pending before the House for adoption and a few are undergoing the final stage of legal vetting by the Law Office of the Republic. Overall, about two thirds of amending legislation have so far either been already approved by the House of Representatives or are pending before the House for adoption.

(b) **Point of Single Contact (PSC):** The PSC Cyprus Portal (www.businessincyprus.gov.cy) provides comprehensive information regarding the administrative procedures and formalities required for the access to and exercise of service activities that fall within the scope of the Services Directive, including the horizontal procedures and formalities, for setting up of a business in the Republic of Cyprus, such as income tax registration, VAT registration, Social security registration, and Registration of Companies. Moreover, the PSC Cyprus portal provides information regarding a wide range of matters, such as the economic and business environment, direct links to the Points of Single Contacts in Europe, and information regarding service recipients.

Notably, during 2011 the PSC Cyprus Portal received approximately 31.000 visits and 20.000 unique visitors, showing an increase in the range of 150% in the 2nd semester of 2011 compared to the 2nd semester of 2010 (More information in Chapter 8: “Competitiveness”).

CSR No.7: Increase the diversity of the energy mix and the expansion of renewable energy sources and establish, by 2012, a water management plan and a price-setting scheme reflecting cost efficiency and equity.

- Pending final political decisions, natural gas could potentially come from the recently discovered gas deposit offshore Cyprus; first gas is anticipated by 2016.

- The development of the local gas transmission/distribution network has been granted a €10 mln funding under the European Economic Programme for Recovery (EEPR). Total investment is anticipated to be around €60-70 mln.
- Following a 1st step of an Open Season procedure to assess the local market demand for natural gas, a 2nd step has then been carried out by the Public Natural Gas Company (DEFA) with a view to contacting potentially interested End-Users in order to further determine the natural gas demand.
- Implementation of the National Renewable Energy Action Plan (NREAP) which sets the national targets for the share of energy from renewable sources consumed in transport, electricity and heating/cooling in 2020 and describes adequate measures to be taken to achieve those national targets.
- Support schemes for the promotion of the utilisation of RES and Energy Conservation. It covers investments regarding utilization of RES for electricity production, for heating/cooling, energy efficient technologies, cogeneration of heat and power and investments under three different schemes. The total budget for the period 2010-2020 is €454 mln.
- Introduction of a new legislation for the utilization of RES. Within 2012 all necessary measures to fully transpose the provisions of the Directive 2009/28/EC will be taken.
- Accelerating the implementation of RES investments via accelerating the whole procedure for the submission and evaluation of the applications and the securing of the necessary licenses and permits through “One Stop Shop” and a Ministerial Committee, set up to examine problems and promote RES Investment.
- Cyprus adopted its River Basin Management Plan on June 9th, 2011, in accordance with Article 13 of the Water Framework Directive (WFD).
- The Government of Cyprus is currently in the process of revising the pricing policies both in the agricultural, as well as the domestic water sector according to Article 9 of the WFD, taking into account the environmental objectives of the Directive to include new concepts such as environmental and resource costs into the pricing structure.
- The new pricing policies will also promote equity, by introducing common principles to be adopted by all local water authorities. The relevant Bill has been approved by the Council of Ministers and submitted to the House of Representatives for enactment.
(More information in chapter 7: “Climate, Energy and Mobility”)

3.III Measures committed under Euro Plus Pact

In March 2011, the member countries of the Euro area and six non Euro area Member States agreed on the "Euro Plus Pact" which requires these countries to make voluntary commitments in the areas of competitiveness, employment, sustainable public finances and financial stability, going beyond what has been agreed at EU level. Their national commitments are integrated in the NRP and SP and assessed within the framework of the European Semester.

Cyprus has made commitments under all four priority areas, proposing measures with immediate implementation (within 12-18 months). Most of these commitments have been fulfilled and progress is briefly analysed below, whereas more information is given under the relevant chapters of the SP or of the NRP:

A. Fostering competitiveness (related to CSR No. 4 and CSR No. 7)

1. Containment of public sector wages: In this area, a number of concrete measures have been implemented, such as (analysed under CSR 4):

- Total freeze of wages and salaries during 2011-2012
- Temporary contribution on gross earnings of broader public sector employees and pensioners
- Reduction of salary scales for newcomers in the broader public sector by 10%.

2. Concerning corporate taxation, Cyprus has maintained its current system which is characterised by low tax rates and a broad tax base, in line with broadly accepted principles of effective and fair taxation systems.

3. To strengthen the competitiveness of SMEs in the manufacturing sector, a company incentive scheme for the enhancement of employment is being implemented since March 2010. This measure was introduced in response to the crisis and provides for subsidies to enterprises for the development and implementation of a specific business plan that will lead to the improvement of their competitive advantage and competitive ability, and through this improvement to the quantitative and/or qualitative enhancement of employment within the specific enterprise. The budget of the Scheme is €8 mln and is co-funded by the European Social Fund (ESF) (85%). The total amount of approved subsidies is €2,689,990 whereas a total of 43 agreements have been signed. By March 2012 three projects were completed and two were interrupted.

4. Enhancing digital economy: The Council of Ministers approved the Digital Strategy on February 8th, 2012, as committed. The Digital Strategy is a comprehensive plan for the period 2012-2020 and adopts a holistic approach for the development of information society in Cyprus. It focuses on six strategic objectives, (i) Connect Cyprus, (ii) Modernise public administration and provide public electronic services, (iii) Inclusion of all into digital Cyprus, (iv) Education and learning, (v) Digital entrepreneurship, (vi) ICT for the environment. In addition Cyprus has achieved 100% coverage of at least 2Mbps of all urban and rural areas.

5. Measures for energy efficiency and promotion of RES: the Directive 2009/28/EC, comprising the legal basis for the promotion of RES has been partially transposed into national law and within 2012 all necessary measures will be taken to fully comply with its provisions e.g. adopting sustainability criteria for biofuels.

B. Fostering Employment (related to CSR No. 5)

1. Exploit job creation possibilities by improving the competitiveness of enterprises. One of the schemes related to this measure is covered in A3 above whereas the second scheme concerns grants to SMEs that will introduce to the market and/or the public sector innovative products and services. These SMEs can be developed either by themselves or by cooperating with other SMEs (especially innovative R&D SMEs) or Applied Research Centers. The budget for the scheme is €4 mln (co-funded by the European Regional Development Fund - ERDF) with a target of subsidising 40-50 enterprises (details in chapter 9: “Employment and skills”).

2. Labour market reforms to reduce undeclared work: Measures to strengthen the prevention and inspection of combating illegal and undeclared work, associated with the large inflows of third-country nationals and asylum seekers have been implemented. Morning and Evening Joint Special District Units of Inspector are established in order to inspect, at employers' premises, illegal work and unregistered employees. A nationwide complains line has been established that allows citizens to report illegal work. This is an on-going measure (details in chapter 9: "Employment and skills").

3. Strengthening the links between technical vocational education, training and the labour market: Post Secondary Institutes of Vocational Education and Training (PSIVET) are envisaged to be established by 2012 in order to increase the number of people attending Technical Vocational Education so as to decrease skills mismatch. All measures have been taken and in September 2012 four such Institutes will start operating, one in each district (details in Chapter 5: "Education").

C. Contributing further to the sustainability of public finances (related to CSR No. 1 and CSR No. 3)

Details are given under CSR 1 and CSR 3: "Macroeconomic Surveillance" and in the SP. Indicatively two measures with long-term impact are repeated:

1. In the context of **reforming the public pension system**, a number of concrete measures have been adopted. These measures include a contribution of 3% on gross earnings of broader public sector employees for public pensions, increase of the rate of contribution in the Widows and Orphans Fund by 1,25 p.p. to 2% on gross earnings and the inclusion of newcomers to the social security fund only (abolition of occupational pension).

2. For ensuring fiscal sustainability, a modern framework for fiscal management is being promoted, with the submission of a Bill on **Budgetary Stability** by the end of May, establishing principles of transparency and reliability and incorporating a set of fiscal rules and an automatic correction mechanism in primary legislation. This framework is reflected in the 2012 Budget, in which ceilings on expenditure per line ministries are provided for the years 2012-2014.

D. Reinforcing Financial Stability (related to CSR No. 2)

1. Close monitoring of the financial sector: An ad hoc committee has been set up.
2. A framework law for dealing with financial crisis has been approved by the House of Representatives.
3. Imposition of a special tax in relation to banks and cooperative institutions, for the years 2011 and 2012 aiming at supporting and facilitating the resolution of distressed credit institutions.
4. Establishment by law of an independent Financial Stability Fund, financed by contribution from credit institutions, contributing to the safeguarding of financial stability.

3.IV National Targets

Europe 2020 Strategy is based on five EU headline targets presented in Table 2.3 below (first column). Member States have translated these headline targets into national targets reflecting different situations, circumstances and specificities at national level. Cyprus national targets are enumerated in the last column and progress can be seen by comparing it to the adjacent column with the most recent available data.

Table 2.2: EU 2020 and National Targets

EU HEADLINE TARGETS & NATIONAL TARGETS	EU HEADLINE TARGETS	NATIONAL LEVEL 2008	NATIONAL LEVEL 2009	NATIONAL LEVEL 2010	MOST RECENT DATA 2011	NATIONAL TARGETS
Employment rate for women and men aged 20-64	75%	76,5%	75,7%	75,4%	73,8%	75-77%
3% of the EU's GDP should be invested in R&D	3%	0,42%	0,49%	0,50%	N.A	0,50%
CO ₂ emission reduction targets	-20% (compared to 1990 levels)	N.A	N.A	N.A	6.000t (2013 projection)	-5% 5.500t
Renewable energy	20%	4,5%	4,8%	5,8	N.A	13%
Energy efficiency reduction of energy consumption in Mtoe	20% equaling 368 Mtoe	N.A	N.A	3,6%	N.A	14,3%
Early school leavers	10%	13,7%	11,9%	12,6%	11,2%	10%
Share of 30-34 years old having completed tertiary or equivalent education	40%	47,1%	44,7%	45,1%	45,8%	46%
Promoting social inclusion in particular through the reduction of poverty	Lift at least 20 mln people out of the risk of poverty and social inclusion	22,2% or 174.000 people at risk of poverty	22,2% or 176.000 people at risk of poverty	24% or 191.000 people at risk of poverty (Eurostat)	N.A	19,3% Lift 27.000 people out of the risk of poverty

In the last year, there has been a worsening with respect to the targets for employment and poverty, mainly due to the delayed crisis and the considerable increase in unemployment, which has been accentuated by the high influx of non-Cypriots into the labour market. Unemployment dropped to 73,8% in 2011 compared to 75,4% in 2010, whereas the rate of people at risk increased from 22,2% to 24%, respectively.

The rest of the indicators have improved: (i) the dropout rate fell to 11, 2% in 2011 from 12, 6% in 2010, and the share of population aged 30-34 having completed tertiary education have moved from 45,1% in 2010 to 45,8% in 2011, approaching the national target of 46%). (i) R&D expenditure reached 0,50% as the national target is, but it is expected to fall in the coming years when the economy gets back on the growth path, until it finally reaches 0,5% again by 2020 (see Chapter 4: “Innovation”). (iii) The targets for RES and energy efficiency are a bit above the indicative targets of the set trajectory, having reached 5,8% and 3,6% respectively in 2010 (see also chapter 7: “Climate, Energy and Mobility”).

3.V Annual Growth Survey 2012

The Annual Growth Survey 2012 is the basis for building the necessary common understanding about the priorities for action at national and EU level for the year 2012. It puts a strong emphasis on the need for implementation, especially of growth enhancing actions. This year's priorities under the AGS are the following:

1. Pursuing differentiated growth-friendly fiscal consolidation
2. Restoring normal lending to the economy
3. Promoting growth and competitiveness for today and tomorrow
4. Tackling unemployment and the social consequences of the crisis
5. Modernising public administration

Measures promoting all of these priorities had already been included in the NRP of 2011 as well. Here only a few measures are highlighted:

1. Pursuing differentiated growth-friendly fiscal consolidation (More information under CSR 1&3): The Growth Stimulus Package that has been promoted by the Government, covering measures with little cost that promote growth is a step along these lines. The package includes measures to stimulate employment and also green growth (See Chapter 3.II).

2. Restoring normal lending to the economy (more information in chapter 8: "Competitiveness" relating to the Jeremie initiative, National Guarantee Fund for SMEs and National Guarantee Mechanism).

3. Promoting growth and competitiveness for today and tomorrow: The promoted growth, the stimulating package is analysed in Chapter 2 "Macro-economic Surveillance" and competitiveness measures in chapter 8.

4. Tackling unemployment and the social consequences of the crisis (analysed extensively in Chapters 9: "Employments and Skills" and 10 "Fighting Poverty")

In order to tackle the consequences of the economic recession, new measures or adaptation of existing ones were introduced with a three year time- frame of implementation (2009-2011) aiming at job retention, job creation and employability improvement of the unemployed through training. The overall budget for these schemes is €34 mln (co-funded by the ESF) including company incentive schemes, job placements, training of the unemployed, training programmes for upgrading the skills of the unemployed, on the job training programmes for the prevention of layoffs and enhancement and modernisation of Public Employment Services (PES).

As regards the measures for the promotion of youth employment, a total budget of €32,6 mln has been allocated (mostly co-funded by the ESF) for job placements and training of young unemployed tertiary education graduates and training of newcomers (targeting the young), a New Modern Apprenticeship has been developed and will be launched in September 2012, in-company training of Apprenticeship System Students and a scheme for the enhancement of

Youth Entrepreneurship. In addition to the above measures, which are in line with the priorities set in the AGS of 2012 and the guidelines of the Youth Opportunities Initiative, a new subsidised employment scheme, targeting the young and the long term unemployed will be launched in May 2012 with a budget of €8 mln (80% t will be co-funded by the ESF).

5. Modernising public administration (more details in chapter 6: “Digital Society & Chapter 8: “Competitiveness”, on **E-Government** including Electronic public procurement system (e-PS) and **Better regulation**.

3.VI Alert Mechanism Report

The Alert Mechanism Report (AMR) marks the first step in implementing the new surveillance procedure for the prevention and correction of macroeconomic imbalances (Macroeconomic Imbalance Procedure – MIP). The MIP forms part of the "European Semester" and takes an integrated and forward looking approach to the economic policy challenges facing the Union in ensuring fiscal sustainability, competitiveness, financial market stability and economic growth. This process has identified 12 Member States for which an in-depth review is needed before the Commission can come up with an opinion on the nature and the impact of the Imbalances, i.e whether preventive or corrective measures will be needed. The Member States concerned are: Belgium, Bulgaria, Denmark, Spain, France, Italy, Cyprus, Hungary, Slovenia, Finland, Sweden and the United Kingdom.

The report presents the following findings with respect to Cyprus: “ with the values of many indicators above indicative thresholds an economic reading of the scoreboard points to wide-ranging challenges as regards both the external and internal side. The Cypriot economy has been characterised by persistent current account deficits over the past decade mainly driven by buoyant domestic demand. The evolution of the Cypriot current account shows large disparities in the trade of goods and services reflecting a shift of the Cypriot economy towards the tertiary sector. The negative trade balance in goods is only partly compensated by the surplus recorded in services trade. Cyprus recorded price competitiveness losses in the years ahead of the crises but this trend has been more contained in later years. The highly leveraged private sector has continued to unwind its large level of outstanding debt, which nevertheless coexists with substantial assets. The deterioration of the economic outlook and the fiscal situation as well as the implications from the exposure of the banking sector to Greece add to concerns on the challenges involved in adjusting to imbalances in other sectors of the economy.”

Cyprus Comments on the findings:

Current Account position: A particular feature of the balance of payments of Cyprus is the income account, which is greatly affected by the role of Cyprus as an international business and financial centre. More concretely, the profile of these international organizations are statistically treated as outflows from the income account, thus burdening the current account balance, however in parallel, in the capital account a corresponding inflow is recorded in the form of reinvested earnings. Table 2.4 below shows that the “statistical” treatment of profits of international organizations operating from Cyprus are sizeable and they burden the current account balance, however from an analytical prospective they do not reflect either the

competitiveness or the sustainability position of the country. Excluding the effect of this element, the current account position of the country appears more manageable.

It should be mentioned that the current account deficits have been financed through non debt flows.

The trade balance of goods, exhibits persistent deficits, attributed to competitiveness problems of the manufacturing, the re-allocation of production factors in favour of the services sectors in line with the comparative advantages of Cyprus and the overheating of the economy, before the financial crisis.

In more recent years, the trade balance has improved, on account of both the containment of the potential GDP growth, but also the cyclical slowdown of economic activity.

The services account is showing surpluses, which ameliorated but do not offset the deficit in the goods balance. Important drivers have been the noteworthy performance in the exports of business and financial services, reflecting the comparative advantages of Cyprus as an international business and financial centre.

The balance of goods and services, which is deemed to be a better indicator for the competitiveness of the economy improved substantially during recent years from a deficit of 11,4% of GDP in 2008 to a deficit of 3,6% in 2011. Part of this deficit is attributed to higher oil imports and higher imports of defence equipment and is not directly linked to competitiveness issues.

Looking forward, the underlying current account position of the country is expected to improve, on the account of the continuing satisfactory performance of export of services (tourism, financial services and business services) and the expected containment of the domestic demand, reinforced through the fiscal consolidation and the subsequent improvement of the public savings investment balance.

From a policy perspective this process is envisaged to be supported by fiscal consolidation, the moderate wage settlements, which will improve the prospects mainly for tourism, as well as the policies already implemented to reinforce the role of Cyprus as a business centre.

Net International Investment Position: The Net International Investment Position (NIIP) deteriorated markedly in the period 2007-2011. From a positive NIIP of 11,7% of GDP in 2007, it became negative in 2008 at -15,1% and deteriorated further at -30,4% in 2009, -43,4% in 2010, until by 2011 NIIP fell to -80,7% of GDP. Although part of NIIP developments are explained by current account deficits, price, exchange rate and other changes, a remaining difference remains to be explained by losses due to price changes of Cyprus portfolio holdings in Greek government debt securities (PSI). Particularly, in 2011, €8 billion out of the €14 bln NIIP is solely explained by the effect of the PSI and the losses the Greek subsidiary banks.

The PSI has admittedly had a pronounced effect on the level of the NIIP of the country. Therefore, it should be acknowledged that sustained improvement in the current account balance is necessary to enhance the sustainability position of the country.

Table 2.4:

	2007	2008	2009	2010	2011
CURRENT ACCOUNT (CA)	-1865,0	-2.679,0	-1.808,0	-1.711,9	-1855,1
% GDP	-11,8	-15,6	-10,7	-9,9	-10,4
TRADE BALANCE (TB)	-1039,6	-1.953,4	-929,6	-1.081,6	-639,8
% GDP	-6,6	-11,4	-5,5	-6,2	-3,6
Trade balance in Goods	-4710,4	-5554,8	-4292,4	-4664,1	-4342,9
% GDP	-29,8	-32,4	-25,5	-26,9	-24,5
Trade balance in Services	3670,7	3601,4	3362,8	3582,5	3703,2
% GDP	23,2	21,0	20,0	20,7	20,8
GDP	1.5829,7	17.157,1	16.853,5	17.333,6	17.761,4
Oil (Imports)	895,2	1244,6	880,6	1156,1	1382,5
Defence (Imports)	13,3	26,3	8,6	115,5	64,7
Net Re-invested earnings	386,0	-6,0	1.009,0	-249,0	1.073,9
Normalized Current Account as % of GDP					
CA with Normalised Oil	-11,7	-13,8	-10,8	-8,5	-7,9
CA with Normalised Defence	-11,9	-15,6	-10,8	-9,4	-10,3
CA excluding re-invested earnings	-9,3	-15,6	-4,7	-11,3	-4,4
Total effect of normalization	-9,4	-13,9	-4,9	-9,5	-1,5
Normalised Trade balance as % of GDP					
TB with Normalized Oil	-6,5	-9,5	-5,6	-4,8	-0,8
TB with Normalised Defence	-6,7	-11,4	-5,6	-5,8	-3,4
Total effect of normalization	-6,6	-9,5	-5,7	-4,3	-0,6

Export Market Shares: Despite the very challenging external environment, export prospects appear moderately positive. The main driver of growth is expected to be the tourism sector, following initiatives of the government and the private sector to expand into new markets, while extending the tourism period.

Unit Labour Cost - Wages: Even though the ULC indicator is not flashing for Cyprus, some comments are made on wages. Wage moderation, or even decreases are expected in some sectors of the economy. It is noted that nominal earnings in 2011 increased by 2,7%, compared to 2,4% in 2010 and 4,3% in 2009. It is expected that the trend towards wage growth moderation will continue, driven by the economic slowdown, rising unemployment and public sector wage restraint that should spill over to the private sector. Moreover, the presence of foreign workers should also contribute to this respect. This is particularly relevant for the tourism sector, a tradable sector in Cyprus where wage competitiveness does play an important role.

A final note on wage developments concerns developments in relation to the Cost of Living Adjustment (COLA) mechanism in effect in Cyprus today. The social dialogue between the Government and social partners is about to start imminently, and is to be completed within the first semester of 2012. The political commitment on the social dialogue on COLA comes in response to the CSRs 2011 on wage indexation, and also in relation to the commitments undertaken by Cyprus in the context of the Euro Plus Pact. The social partners will discuss all possible reform options towards a more efficient and equitable COLA system in Cyprus.

Private debt: Gross private sector indebtedness in Cyprus, as a percentage of GDP, is one of the highest in the EU. Concerning households, this is largely due to the fact that Cypriots have a

high tendency for home ownership. In concrete terms, 73,8% of Cypriots owned their own residence in 2010, compared to 66,7% on average in the euro area. As a result, housing loans form the bulk of loans by households, with loans with a purpose to purchase the household main residence coming up to 75,8% of all loans in 2009.

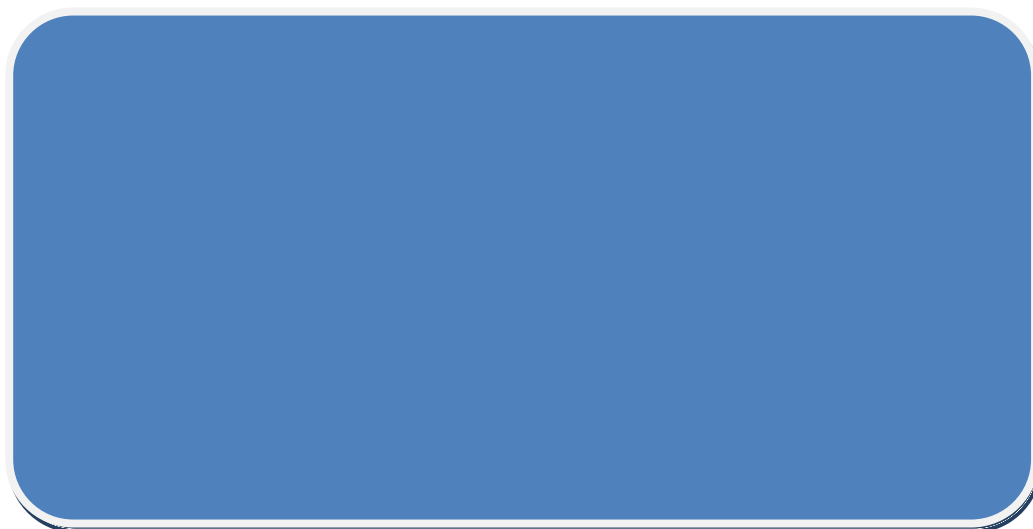
The high indebtedness of non-financial corporations (NFC) is explained by the fact that 99% of enterprises in Cyprus are SMEs. In fact, these are mostly very small family enterprises, operating in an environment that lacks a developed capital market to which they can resort to raise capital. As a result, lending from banks is their main source of funding.

It should be noted that high private sector indebtedness coexists with high assets. As a result, the net financial position, which is what matters most in analysing the vulnerability/imbances of the private sector, is less problematic than what the liability side on its own suggests. Moreover, with regards to the household housing loans, these are securitized with collateral and cash deposits. The collateral is usually land or the property itself. Although land prices/immovable property have somehow declined during the current economic crisis the drop has been rather contained at around -4% over 2009-2011. In fact, households record a positive net financial assets position of 104,9% at the end of March 2011.

Concluding remarks: Overall, during the pre-crisis period significant imbalances have built up. However, since 2008, due to the economic slowdown, the current account deficit almost halved between 2008 and 2010. The reduction would have been even more pronounced in the absence of one-off factors and rising oil prices, which affected 2010. It is noteworthy that this improvement took place in tandem with a significant deterioration of the fiscal position. This implies a significant improvement in the private sector's balance sheet, following years of rising private indebtedness and rapid credit expansion in the pre-crisis years. The substantial savings of the private sector are reflected in subdued consumption, shrinking investment thus, lower growth. The key challenge now is the reversal of the unfavourable fiscal outlook, while supporting growth and boosting competitiveness. The recent adoption and implementation of significant fiscal consolidation measures, in parallel with growth supporting initiatives, shall lead to further improvement of imbalances in the medium term. The analysis above clearly denotes that there may be a lot of factors influencing the imbalances of each Member State and which must be analysed very thoroughly in the in-depth report to be prepared by the Commission, before any safe conclusions may be deduced.

3

MACROECONOMIC SCENARIO



3. MACROECONOMIC SCENARIO

3.1 MACROECONOMIC SCENARIO

Taking into account the high degree of uncertainty in the external environment, the difficulties in loan channelling, the fiscal consolidation efforts and the negative confidence climate, the medium-term scenario incorporated in the Stability Programme (SP) envisages a gradual recovery towards a lower, compared to pre-crisis period, potential GDP growth. This is a conservative scenario and it is in line with the European Commission's scenario.

The recent financial crisis has affected potential output. According to the latest estimates by the European Commission, the potential growth is now estimated slightly above 1% on average for the period 2012-15, compared to around 3,5% on average for the pre-crisis period. The Total Factor Productivity (TFP) contribution is at around -0,5%, the labour contribution at around 0,5% and the capital contribution at around 1% on average in 2012-15, from around 0,5%, 1,5% and 1,5%, respectively on average, prior to the crisis.

Table 3.1: External Growth Assumptions 2012-2013

	2012	2013
EU	0,1	1,4
UK	0,6	1,5
Germany	0,6	1,5
Greece	-4,4	0,7
Euro area	-0,3	1,3
Russia	3,3	3,5
USA	2,3	2,0

For the preparation of the underlying macroeconomic framework presented here, the following key assumptions have been made for 2012-15 and are based on information available with cut-off date April 11, 2012:

- The recovery in the EU and Russia will gather pace in 2013 (see Table 3.1 with External Growth Assumptions) and continue thereafter.
- The price of crude oil (Brent crude), which averaged \$111,5 per barrel in 2011, is assumed to reach \$119,9 and \$113,5 per barrel in 2012 and 2013, respectively and then remain at \$110 per barrel in subsequent years.
- The dollar/euro exchange rate will average around 1,3\$/€ in 2012 and 2013 and 1,36\$/€ thereafter.
- Based on the external assumptions for growth, it follows that tourist arrivals will increase by 2% in 2012 and on average by 3,5% thereafter. Revenues will increase by some 3% in 2012 and on average by 4,5% thereafter.

- Nominal earnings will rise by about 1,5% on average per annum and real earnings will decline by about 0,8% on average during 2012-15. Hence, real unit labour costs are projected to decelerate on average by 1,3% per annum over the same period.
- Employment will expand by around 0,1% on average per annum over 2012-15, in line with the assumption that the inflow of foreign workers will moderate in the medium term.

This rather conservative profile takes into account moderate optimistic exports. For other components of demand, notably investment in construction, the SP assumes further downward correction which is offset by the various private investment plans expected to take place in the period 2012-15.

Against this background, the current account deficit is expected to register a gradual downward trend throughout the programming period, reflecting the envisaged improvement of public sector savings investment balance.

In more detail, private consumption growth is projected to exhibit a moderate gradual increase over the medium term. The SP assumes that private consumption will grow by some 0,7% over the period 2012-15, compared to 2,6% in the period 2006-11. Public consumption growth is expected to decline in the medium term, as a result of the fiscal consolidation assumed in the SP. Compared with an average growth of around 2,8% over the period 2006-2011, public consumption growth is set to decline by around 2,3% per annum over 2012-15.

Table 3.2: Medium Term Framework, 2012-2015

<i>Annual % change</i>	2006-11	2012	2013-15
GDP growth (constant prices)	2,1	-0,5	1,0
<i>Private consumption</i>	2,6	-1,3	1,4
<i>Gross Fixed Capital Formation</i>	0,2	5,5	0,0
<i>Exports</i>	0,8	2,0	3,5
<i>Imports</i>	1,1	1,5	2,5
GDP deflator	2,7	3,0	2,1
Tourist arrivals (000's)	2.321	2.440	2.607
Tourist arrivals (%)	-0,5	2,0	3,5
HICP	2,5	3,0	2,1
Productivity growth	0,8	-0,3	0,7
Employment growth	1,3	-0,2	0,3
Nominal Earnings (%)	4,2	1,0	1,7
Unemployment rate (Labour Force Survey)	5,2	9,5	9,0
Trade balance of goods (% of GDP)	-27,7	-25,0	-25,8
Trade balance of services (% of GDP)	21,5	21,9	23,9
Current account balance (% of GDP)	-10,9	-7,5	-5,7

Investment is expected to exhibit low growth over the medium term, owing mainly to the projected continuing correction of the construction sector. In 2012, the envisaged correction in construction investment is assumed to affect mainly the housing investment and, to a much smaller degree, the other construction investment which are assumed to benefit and exhibit some growth from the reconstruction work in Vasilikos power station and from other infrastructure projects like CYTA's and the construction of an energy hub. Overall, gross fixed capital

formation will increase by 1,3% over the period 2012-15. Specifically, during 2012-15, investment in construction will expand on average by 1,3%, investment in machinery and equipment and investment in transport equipment by some 1,7% and 0,4% respectively per annum, following some very large adjustments during the period 2009-11.

Imports are assumed to moderately rebound in 2012 following the decrease of 5% in 2011. It is estimated that imports will increase by 1,5% in 2012 and by around 2,5% on average thereafter. Exports are also forecast to increase in 2012 by some 2% and to further increase in the medium term by 3,5% on average. This moderate performance, masks differences among sectors. For example, it is assumed that receipts from tourism will increase by some 3% in nominal terms and around 0% in real terms in 2012, as the world economy wrestles with the ongoing recovery. A similarly modest growth is projected in transport services, following a contraction in previous years. Growth is expected to come mainly from the Russian market and to a lesser extent from UK, Germany and Scandinavian countries, as well as other new tourist destinations. On the other hand, financial services, as well as other business services, are assumed to exhibit more robust growth rates over the medium term.

This central scenario implies an improvement of the current account deficit to around 7% on average of GDP in 2012 and 2013 and a further improvement thereafter to around 5% of GDP by 2015. The trade balance is expected to gradually improve reflecting the improvement in the export of services, mainly tourism, financial and other business services, and the smaller increase in imports. The income account is expected to decline, following the big deficit in 2011, to levels closer to the ones prior to the crisis. Overall, forecasts in the Balance of Payments are based on the assumed fiscal consolidation. The improvement in the savings investment balance comes from the implied improvement of the public sector and takes into account that in the private sector, after the significant improvement in 2011, the financial deficit is likely to modestly increase.

Based on this scenario, real GDP is projected to contract by some 0,5% in 2012 and gradually recover to around 1,5% by 2015.

3.II GROWTH ENHANCING MEASURES

In order to enhance the growth prospects of the economy, the Government prepared a comprehensive package of growth-enhancing measures, in close cooperation with the political parties and social partners. The measures are grouped into a number of categories, such as measures for strengthening employment, investment and tourism.

For **stimulating employment/reducing unemployment** concerted efforts are being made for improving the skills of the unemployed, related to ongoing measures totalling €20 mln, as well as for introducing an extraordinary scheme for hiring long-term unemployed persons and young people with a budget of €8 mln (more details in Chapter 9: “Employment and skills”, Sections 2A & 2B).

In order to **attract foreign investment** concerted efforts are made to assessing and prioritising large proposals of the private sector based on criteria of maturity, contribution to growth and employment for which strategic investors could be pursued.

With respect to taxation it is aimed to increase and/or renegotiate **double taxation treaties**.

In the field of **tourism**, incentives have been offered to airline companies that aim to increase tourist traffic, especially from new destinations, through the reduction of passenger charges. Moreover, a Scheme for the reduction of tourist accommodation capacity will be introduced.

For promoting **green growth** there will be an environmental utilisation of the proceeds from auctioning greenhouse gas as of 2013 and the establishment of a Fund that will manage resources flowing from environmental levies. Under the provisions of the Trading System Establishing Greenhouse Gas Emissions Act of 2011, with regard to revenues from auctioning emissions, it is envisaged that, at least 50% of the proceeds will be allocated for various environmental purposes, such as actions to reduce emissions, develop renewable energy, tackling deforestation, fund research, increase energy efficiency, etc., and social purposes, e.g financial support to low income households, due to an increase in electricity prices. In addition, there will be a repetition of the Vehicles Withdrawal Scheme with a budget of €3 mln.

4

INNOVATION

SMART
GROWTH

4. INNOVATION

National target:

Increase R&D expenditure to 0,50% of GDP by 2020

Has reached 0,49% in 2009 from 0,42% in 2008

Guideline 4: “Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy”

4.1 CURRENT SITUATION

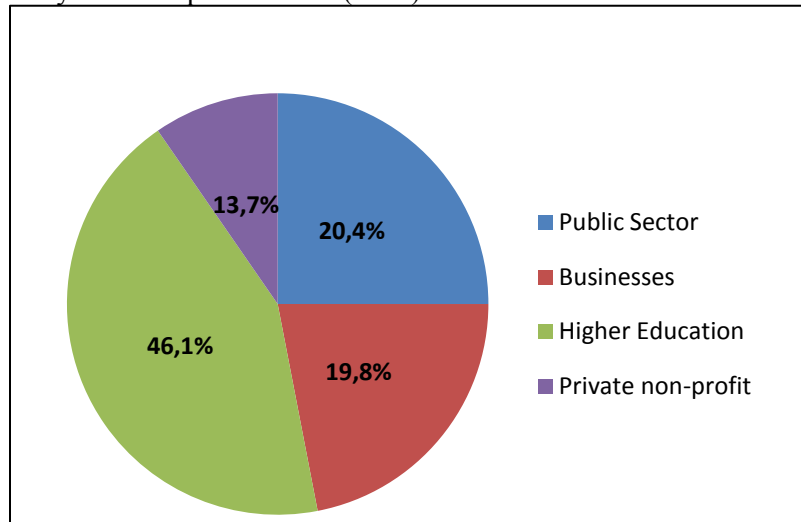
1. Research and Development: While public efforts to improve research and innovation capabilities have been significantly enhanced during the last five years, the weakness of the business sector to undertake and invest in R&D activities did not help the country to increase its overall performance. As a consequence, Cyprus still ranks among the lowest performers in the EU, in terms of R&D expenditure as a percentage of GDP. Meanwhile, innovation policy has evolved rapidly, albeit in a rather fragmented way, with considerable progress leading to the classification of Cyprus among the “Innovation Followers” countries since 2009.

Gross domestic expenditure on R&D (GERD) increased to €82,99 mln in 2009, which accounts for 0,49% of GDP, compared to €73,4 mln and 0,42% of GDP, in 2008. This percentage ranks Cyprus last among the EU members, despite its efforts to increase considerably its expenditure in absolute figures, at a record 12,28% average annual growth during the last five years, which is one of the highest rates in the EU.

The main driver of the increase in R&D expenditures was public investment, with a share of 69% of GERD from 64% in 2008, whilst the investment of businesses in R&D decreased even more, to only 15,72% of GERD from 18% and funds from abroad accounted for 12% instead of 15% in 2008. The major source of external funds is the EU Framework Programmes for RTD, as well as other European Research Programmes.

Higher Education Institutes are consistently the major performers in R&D with a share of 46,12% of GERD. The expansion of research activities of the higher education institutions increased the previous year from €32,06 mln to €38,27 mln, implying an increase of 19,36% compared to 2008. Public sector’s performance on R&D has been declining during the last six years and dropped to 20,41% of GERD in 2009 compared to 36% in 2004. Businesses’ share on R&D activities has also declined in the last six years period, being at 19,80% in 2009, compared to 23% in 2008 with Information and Communication Technologies (ICT) being the major sector of business performance. An upward trend has been observed during the last five years in the private non-profit organisations, as its share of R&D performance reached 13,65% in 2009 from 7% in 2004.

Figure 4.1: GERD by sector of performance (2009)



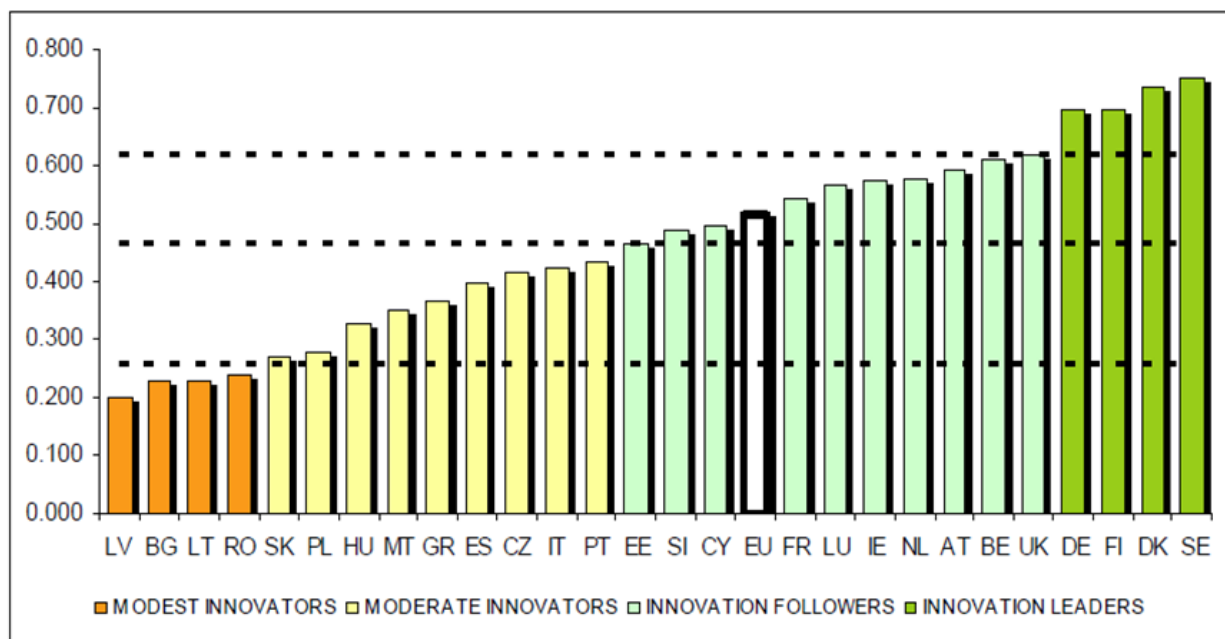
On the basis of international collaboration and bilateral agreements with distinguished institutions and research centres of excellence from third countries, new Research Institutes and Research Centres have been created in Cyprus, which conduct high quality research. They primarily concentrate on research areas where Cyprus and the Mediterranean region in general face common challenges, such as water shortage, energy inefficiencies, climate change etc.

2. Emphasis on Innovation: As there is a limited capacity for Cyprus to increase private R&D, due to the considerable number of micro enterprises, operating mainly in the services sector, supplementary efforts will be placed on enhancing the involvement of businesses in innovation activities.

Cyprus' efforts to broaden the relatively small base of high technology industry brought tangible results during the last few years, with the establishment of a number of innovative companies that export to Europe and to the USA. Most of these companies have graduated from the business incubators programme.

Furthermore, Cyprus manufacturing companies and companies involved in the manufacturing sector with the cooperation of Public Organizations and Research Centres, have taken the initiative to establish the national technological platform "Manufuture CY" as part of the European technological platform Manufuture. The platform is expected to enable the Cypriot companies to take an active part in the combined efforts to improve European Manufacturing competitiveness and in research and innovation programs with other European companies. It will also help Cypriot companies to have access to European networks of cooperation to research and to experience best practices used in Europe. An official request to become a full member of the European Technological Platform Manufuture is pending.

Figure 4.2: EU Member States' Innovation Performance

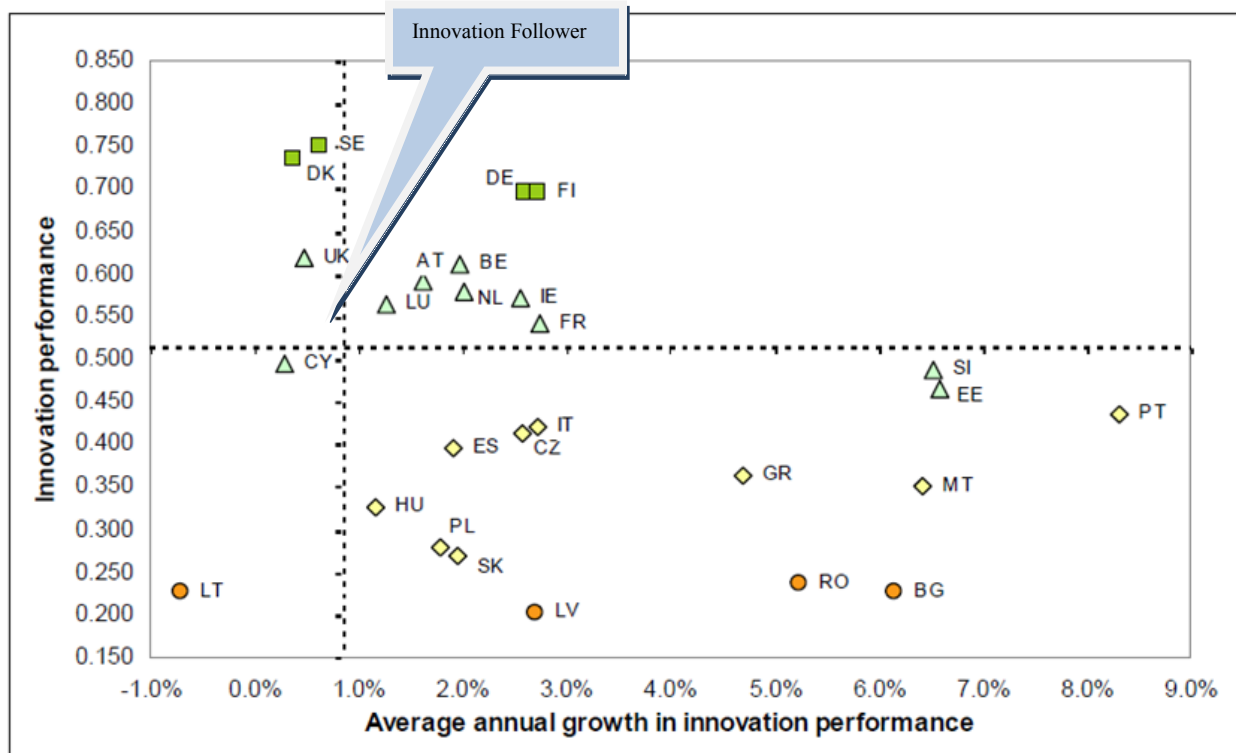


As indicated by the Innovation Union Scoreboard-IUS (2011), as well as by previous European Innovation Scoreboards (2007-2010), Cyprus has demonstrated a consistent gradual progress, which allowed the country to upgrade from a “Catching-up country” in 2007 to an “Innovation Follower country” since 2009. In 2011, Cyprus continues to show a performance close to that of the EU27 (0,516) with a score of 0,495, which ranks Cyprus 15th among EU27.

According to the Innovation Union Scoreboard 2011, the main relative strengths of Cyprus fall within the category “Innovators” where Cyprus is ranked 5th among EU27. “Linkages & Entrepreneurship” is another category where Cyprus scored high, significantly above the EU27 average (ranked 7th). On the other hand, relative weaknesses are observed mainly in the categories “Finance and Support” and “Intellectual Assets” and to a lesser extent in category “Open, excellent and attractive research systems”. Regarding the category “Finance and Support”, Cyprus is underperforming on “Public R&D expenditure” while there is no market of venture capital, which is a common characteristic of most of the “smaller” EU member states. It should also be noted that in the category “Firm Investments” Cyprus records a rather impressive IUS score in “Non R&D innovation expenditure” (ranked 2nd), while in “Business R&D expenditure” it appears as the second to last performer.

Cyprus experiences both a top-5 rank in the IUS and high growth in the following categories: “Community Trademarks” and “Sales of new products”. However, a strong decline is observed for “PCT patent applications in societal challenges” and “Community designs”. Finally, it can be derived that there is potential for improvement in human resources, doctorate graduates in particular, in EPO patents and Community designs, as well as in business R&D expenditures.

Figure 4.3: Convergence in Innovation performance



An important recent development is the reform of the National Research and Innovation System of Cyprus, which envisaged the establishment of two new autonomous entities; namely the National Research and Innovation Council (NRC) and the Cyprus Scientific Council (CSC). The NRC is responsible for adopting long-term strategies in research and innovation, while the CSC is the advisory board to the NRC and its mandate is to formulate research strategy proposals. At the same time, innovation activities were taken up by the Research Promotion Foundation (RPF), which is the major funding agency for the implementation of the National Research and Innovation Strategy.

Bottlenecks:

As indicated in the Peer Review of Cyprus 2010, the major constraints in the development of the research and innovation sector in Cyprus are:

1. Limited human capacity available for research:
 - Small number of researchers.
 - Low number of new doctorate graduates.
 - Restricted demand from industry and businesses for researchers and PhD holders, which prevents students to pursue researcher’s career.

2. Limited engagement of enterprises to research activities:
 - The absence of significant size industries in Cyprus and the very small size of Cypriot businesses, 94% of which employ less than 10 persons.
 - Limited research activities in the services sector, which accounts for about 80% of GDP.

- Lack of awareness (and culture) of enterprises for the potential benefits of innovation.
- Lack of availability of seed capital and market exit capitalisation for R&D businesses.
- Limited number of high-tech companies in the country.

4. II NATIONAL TARGET

The national target for R&D expenditures as a percentage of GDP has been set to reach 0,50% by the year 2020, from 0,42% in 2008. Gross domestic expenditure on R&D (GERD) increased to €82,99 mln in 2009, which accounts for 0,49% of GDP, compared to €73,4 mln and 0,42% in 2008. This target has been derived on the basis of statistical analysis of historical data on R&D expenditures, taking seriously into consideration the particularities of Cyprus in terms of both the size of the research community, as well as the structure of the productive web (lack of big manufacturing firms) and the very small size of the Cypriot enterprises. It is important to note that the attainment of the 0,50% target implies that the overall annual research spending will increase in absolute figures from €73,4 mln in 2008 to nearly double in 2020, reaching €140 mln. Given the projection of GDP to be around €28 bln in 2020, these €140 mln generate a 0,50% national target. In addition, it implies a 5,53% yearly increase on R&D expenditures. The National Target will be reviewed in 2014.

4. III KEY PRIORITIES AND MEASURES

A National Strategy for Research and Innovation 2012-2015 is in its final stage of preparation. In order to overcome the bottlenecks of the research and innovation sector, it is intended to focus the national strategy on the following pillars:

1. Increase of research human capital: Emphasis will be attached on efforts to encourage young people to enter the research market, as well as to attract foreign researchers to perform activities in Cyprus. Concerning young researchers, it is imperative to promote the research career in schools and universities, which will grow the number of PhD students. A basic prerequisite to achieve this is the increase of the demand for PhD students, which will mainly derive from new opportunities in enterprises as well as from long-term research positions in Research Centres and Research Institutes.

With regard to overseas researchers it is intended to focus on Cypriot researchers working abroad as well as on researchers from third countries, who are seeking to perform research activities in an adjustable and highly reliable research environment, in the area of the Middle East and North Africa.

2. Strengthen the Scientific Base: The strengthening of the scientific base would be channelled through the enhancement of both the existing physical research infrastructures, as well as through the development of new infrastructures, aiming to create critical mass of researchers in specific scientific fields. In 2011, 4 new multi beneficiary research infrastructure programs were chosen by Research Promotion Foundation in the fields of Technology, Biological Sciences, ICT as well as Chemistry and are currently under contract negotiations.

3. Promote International Cooperation: Due to the small size of the research community of Cyprus and the relatively short history of the country in R&D and innovation achievements, the cooperation and networking with foreign researchers and researcher institutions have - been given primary importance. Apart from attracting foreign researchers in Cyprus, emphasis will be maintained on promoting the participation in various European programmes for RTD and innovation. In addition, it is envisaged to focus and invest, both financially and in terms of human capital, on a small number of bilateral international agreements in science and technology. Particularly, in 2011 an agreement between the Government of Cyprus and the Government of the State of Israel in industrial research and development was signed.

4. Introduce innovation in the public sector

The potential for innovation in the public sector is high, due to the large size of the sector, the variety of services provided and of the procedures entailed. Introducing innovations, both technological and non-technological ones, will aim to improve the quality of the services provided as well as the efficiency and effectiveness of procedures. Thus, in line with the efforts to introduce innovation in the public sector, a new financial tool (a competitive scheme) has been prepared and is pending final approval. The scheme is addressed to SMEs, especially innovative SMEs that show expenses in research, that aim to develop and produce innovative products and services that can satisfy public organizations needs and can be competitive in the open market. The scheme will also aim to provide some guidance to the public organizations for proceeding to a pre-commercial procurement with the SMEs. The scheme covers only 50% of the expenses and the enterprises contribute from their own resources the remaining 50%.

5. Promote research and innovation in enterprises

It is important for businesses to be informed on the various forms of innovation other than technological innovation, including innovation in design, in processing, in organisational reform, in public procurement etc. The public pre-commercial procurement will create the demand for innovation that has to be matched by increased activity in research in order to be effective. In addition, it is believed that a market driven research will encourage more enterprises to get involved in R&D activities, due to more tangible benefits produced.

In 2011, the guidelines and objectives of a **new innovative entrepreneurship policy** have been approved by the Minister of Commerce, Industry and Tourism. Moreover, the tools and programs are in preparation to address the policy objectives which are: assistance to innovative business to access finance, improvement of the environment for innovation, encouragement of business involvement in European Institutions, dealing with innovation as well as to increase infrastructure for innovation and competitiveness.

6. Prioritisation of research fields: Due to the limited availability of resources, in terms of physical, human and financial capital, it is worthwhile considering focusing research activities on a small number of research fields. The selection of fields, following the European paradigm, should be based on societal challenges at national and European level, such as environment, climate change, health, energy etc. These fields could be combined with ICT, which is the highest R&D performing sector in Cyprus. An important tool in this respect is the participation of Cyprus in relevant European programmes, such as Joint Programming Initiatives, European Innovation Partnerships etc.

7. Exploitation of innovative ideas and launching them in the market: Measures will be taken to provide financial support to entrepreneurs for developing their ideas into products/services and placing them in the market, and for patenting their ideas in a manageable way with less cost. In this respect, it is important to review and reconsider the implementation of measures such as the incubators scheme, a scheme for the development of new high-tech companies, development of a local Business Angels network etc.

8. Encourage the participation of society in innovation activities: Measures will be taken to encourage the participation of society in innovation, through a number of successful national innovation competitions supported by the Federation of Industrialists and the University of Cyprus, in cooperation with the Ministry of Commerce, Industry and Tourism. Building on this success, the Ministry of Commerce, Industry and Tourism is planning to develop a scheme to support innovation competitions that will be developed and managed by other organizations like Universities, Enterprise Associations, Association of Incubators and others.

5

EDUCATION

SMART
GROWTH

5. EDUCATION

National target

- **Reduce the dropout rate to 10% by 2020 from 11,9% in 2009**
Dropped to 11,2% in 2011 compared to 12,6% in 2010
- **Increase the share of the population aged 30-34 having completed tertiary education to at least 46% by 2020 from 44,7% in 2009**
Reached 45,8% in 2011 compared to 45,1% in 2010

Guideline 8: “Developing a skilled workforce responding to labor market needs promoting job quality and lifelong learning”

Guideline 9: “Improving the performance of education and training systems at all levels and increasing participation in tertiary education”

CSR No. 5: Take further steps, within the reforms planned for the vocational education and training system to match education outcomes to labour market needs better, by including setting up a post secondary vocational education and training institute.

5.1 CURRENT SITUATION

Education in Cyprus is considered as a major investment towards progress in the socioeconomic, as well as the cultural domain, in the long and the short-term. Public expenditure on education, even though previously considered high by international standards, has reached the 8,1% of GDP with an additional private expenditure estimated to about 3% of GDP. To this end a comprehensive Reform of the Educational System was adopted in 2007 and is being systematically implemented.

For the Government of the Republic of Cyprus, the implementation of the Educational Reform is considered to be a major priority. The main objective of the reform continues to be the creation of a democratic and student-focused education system that includes all students irrespective of social, racial or ethnic background, gender, physical or mental ability. This upgraded system will offer high quality education to all, by assisting students to maximize their potential and acquire all necessary skills, abilities and attitudes to enable them to become active citizens by:

- improving the equity of the educational system, encouraging lifelong learning, from early childhood education, to pre-primary and primary education, secondary general and secondary technical and vocational education
- reinforcing the content of education and training and upgrading the infrastructure with an emphasis on cultivating lifelong competences from the early years of compulsory education
- implementing several EU policies, deriving from various recommendations (e.g. equity and efficiency, key competences, intercultural competences and dialogue, schools for the 21st

century, quality of teachers' education, strengthening the links between general education and vocational education and training, social competences and initiatives).

Educational Challenges/bottlenecks: Education is a fundamental human right and a public good which should be guaranteed for everyone, under equal conditions. However, during times of economic crisis and rising unemployment, education policies are unavoidably in the centre of attention. Education concerns all stages of life, from pre-school to higher and adult education, and it takes place in different settings, formal, non-formal and informal.

The global economic crisis has provided the opportunity for Cyprus to pause and reflect on its education system; the way it was funded and its priorities. It is in the context of the aforementioned reflection and in relation to the CSRs No. 5 that collective efforts have been shifted towards developing a better functioning education and training system which can address the issue of unemployment, especially among the young generation and simultaneously protect against social injustices.

The most important challenges include the following:

1. restructuring the educational system and modernising and upgrading the curriculum for all public schools (from Pre-primary to Upper Secondary Education)
2. facilitating the integration of students at risk to the school system
3. upgrading Vocational Education and Training
4. strengthening the links between vocational education, training and the labour market
5. expanding the modernization of the higher education system and
6. promoting transnational mobility.

5.II KEY PRIORITIES AND MEASURES

A. The Implementation Framework of the Educational Reform

In order to meet the national target of reducing the rate of early school leavers by 2020, a series of priority measures which aim to facilitate the integration of students at risk, increase the attractiveness of technical vocational education and training and increase participation in Higher Education, have been introduced. More detailed information regarding the measures of the Educational Reform that have been implemented since 2007 and contribute towards achieving the national targets, is presented below:

1. Create a Center for Educational Research and Evaluation: A centre with the mission to conduct research on educational issues (educational policy, programmes, books, training etc.) and the continuous evaluation of the entire educational system and individual innovations, involving among others, large international scale studies (e.g. PISA, PIAAC, TALIS).

Pre-Primary Education: For the expansion of equal educational opportunities, free compulsory pre-primary education in the public sector was introduced for all children a year before attending primary school.

2. Introduction of the all-day compulsory primary school: Since school year 2009-2010, a new operative framework for the institution was applied based on the conclusions and recommendations of the Independent External Evaluation Committee appointed by the Ministry of Education and culture which is the competent authority.

Reduction of the number of students per class: The measure of reducing the number of students in each class from 30 to 25, for all grades from pre-school until Lyceum has been completed.

Multicultural Education: A comprehensive policy for the integration of foreign speaking students in the educational system was modified, by organising intensive learning courses for the greek language, publishing a welcome guide into various foreign languages and training teachers.

3. Founding New Universities/Changing the setting of Higher Education: The founding of new universities, consequently resulting in the increase of the number of places for university studies in Cyprus has dramatically altered the setting of higher education. In the area of public tertiary education the following progress has been achieved:

- 2006 operation of the Open University of Cyprus,
- 2007 operation of the Technological University of Cyprus

The University of Cyprus has extended its operation with the enactment of the Department of Law and the Department of Biology, whereas a decision for the founding of a Medical School has been taken. The Medical School will accept its first students in September 2013.

Additionally, the founding of the Rehabilitation Science School at the Technological University of Cyprus constituted an important breakthrough.

The evaluation of the applications and the final official approval for the operation of four private Universities was granted in January, 2012 (Frederick University, European University, University of Nicosia and Neapolis University). Last but not least, a license for the operation of a Cyprus Campus was granted to the University of Central Lancashire, UK. An important social measure is the implementation of the student assistance package, targeted at specific student population as determined by socioeconomic criteria, for undergraduate students in public and private universities in Cyprus, undergraduate students in public tertiary educational institutions, and undergraduate students studying either in private or public universities abroad.

A significant improvement is the amendment of the legislation of Private Universities operating in Cyprus to allow the Minister of Education and Culture to control any increase in tuition fees which are imposed by private universities every year, to therefore protect students and their families from excessive increases.

4. Upgrading of the Pre-service Training Programmes: The Pre-Service Training Programme for Secondary Education Teachers was upgraded and reassigned to the University of Cyprus as of 2007, thus implementing one of the key recommendations of the Committee of the Educational Reform.

5. Induction Training Programme for Newly Appointed Teachers: The implementation of the induction training programme for newly appointed teachers started since 2010, by training the teachers-mentors and the newly appointed teachers.

6. Evaluation of educators and educational work: A comprehensive proposal for the evaluation of educational work and educators was discussed thoroughly with all trade unions. The Ministry of Education and Culture has received authorisation from the Council of Ministers and the Ministry of Finance to conduct a dialogue with the unions in terms of the financial aspect of the proposal, which is being currently in process.

7. Dealing with students' antisocial behaviour: A comprehensive policy has been adopted. As part of its implementation, the institution of the "Form Teacher" has expanded to include more duties, the Educational Priority Zones have been institutionalised and extended both quantitatively and qualitatively, the number of Educational Psychologists has increased, the operation of Career Counselling and Education Service Offices in all towns during one afternoon for the general public has been established, the Open School institution has been expanded, the Committee of Direct Intervention and the National Observatory for School Violence have been established by the Ministry of Education and Culture.

8. Development of new curricula: The ambitious effort for the modernisation of the content of education with the development of new curricula from Pre-Primary to Primary and Lower Secondary Education was achieved with the participation of over 50 academics and 350 appointed teachers. During the 50 years since the establishment of the Republic, this is the first time a single unified curriculum has been developed.

The new curriculum refers to the learning environment, the teaching methods, the instructional means, the indicators of success, the evaluation methods and extends in other ways such as the relation between the school and the family. The main innovation of the new curriculum lays in the fact that it proposes a shift from a knowledge-focused curriculum to a curriculum that places emphasis on three aspects: (a) the acquisition of an appropriate and coherent body of knowledge that is selected under strictly defined criteria (b) the fostering of the qualities of a democratic citizen and (c) the development of specific skills, key competences, that are increasingly required in the 21st century. In essence, the emphasis is shifted from simply providing learning opportunities to the outcome of the educational process in order to ensure that every child learns and develops knowledge and skills to the greatest extent possible. The teacher, on the other hand, is provided with the freedom to adjust the curriculum and teaching methods so as to achieve that goal. For the smoother introduction of the new curriculum, a teacher training programme has been launched which will gradually engage every teacher.

9. Establishing and operating Post Secondary Institutes for Technical and Vocational Education and Training (PSITVE): The establishment of Post Secondary Institutes for Technical and Vocational Education and Training will offer learners, at an affordable cost, programmes at an intermediate level, between upper secondary and tertiary education, complementary to the programmes offered by the private colleges. It is envisaged that by September 2012 at least one PSIVET will be operating at each district.

B. Restructuring the educational system and modernising and upgrading the curriculum for all public schools (from Pre-primary to Upper Secondary Education, including Vocational Training)

The main objective is to improve the openness and relevance of the education and training systems through the introduction of a new curriculum that will focus on the development of new skills and key competences. The quantitative targets for this measure include the full implementation of curricula to all public schools of Pre-Primary, Primary and Low Secondary Education by September 2016 and the development of a new curriculum based on the restructuring of Upper Secondary and Secondary Technical and Vocational Education by 2015.

1. A new National Curriculum for all public schools of Pre-Primary, Primary and Lower Secondary Education has been designed, developed and is currently being applied. The aim is to develop key competences and new skills. It was implemented in September 2011 by the Ministry of Education and Culture with an estimated budget of €1,5 mln per year (2011-2016).

2. Production of education materials for each subject area (printed and digital) for supporting the New National Curriculum. It was implemented in September 2011. The responsible authorities are the Curriculum Committees for each respective subject area and the Curriculum Development Unit of the Pedagogical Institute (PI). This measure is included in the annual budget for the implementation of the National Curriculum with a budget of €1,5 mln per year (2011-2016).

3. Teacher training: the aim is the continuous professional development of all teachers. It was implemented in September 2011 with the pre-service training programme of the candidates for appointment of teachers in lower and upper secondary education, in-service training for the implementation of the new curriculum and an in-service course for newly promoted Head-teachers. The competent authority for this measure is the Ministry of Education and Culture and the Pedagogical Institute. The estimated budget for the pre-service training is €15,114,548 (co-funded by the ESF at 85%) and for the in-service training €5,704,685 (co-funded by the ESF at 85%).

4. Revision of timetables for Pre-Primary, Primary and Lower Secondary (time allocated at each instructional subject area of the curriculum): The aim is to provide for individualised instruction and consolidation time, based on the philosophy of the new Curriculum. The competent authorities are the Ministry of Education and Culture and Teacher Unions. The measure is included in the annual budget for the implementation of the new Curriculum for €1,5 mln per year (2011-2016).

5. Restructuring Upper Secondary and Secondary Technical and Vocational Education: A proposal for the upgrading of Technical Vocational Schools to Technological Lyceums will be examined under this action. The aim is to facilitate the transfer of students between general education and VET by developing the infrastructure of Technical Schools and by introducing modern technology in the STVE curriculum. The competent authority is the Ministry of Education and Culture and the measure is included in the annual budget for the implementation of the National Curriculum.

C. Facilitating the integration of students at risk to the school system

The measures referred hereafter envisage to facilitate school enrollment and school success as well as to effectively address any issues of antisocial and delinquent behavior factors that contribute to early school leaving phenomena. The quantitative target for these measures concerns the percentage of the total student population enrolled in an educational establishment belonging to a Zone of Educational Priority, by raising the enrollment ratio to 15%.

1. Continue, enhance and strengthen schemes and services such as the Zones of Educational Priority, psychological support, career counseling, special induction programmes for migrants and “support hours” such as student tutoring and mentoring programmes. The aim is to enhance the retention of students in schools. In the programming period 2007-2015 a programme against early school leaving, school failure, delinquency and anti-social behaviour in ZEP is being implemented. The competent authority is the Ministry of Education and Culture whereas the estimated budget for ZEP is €10,775,638 (co-funded by the ESF at 85%). An additional amount of €7,600,000 involves education related programmes and actions and this amount is expected to increase by €1,500,000 as a result of the implementation of the new curriculum.

2. Early identification of literacy problems to accomplish the goal of reducing school failure and dropout rates. Migrant students’ assessments for early diagnosis will also be included. The competent authorities are the Ministry of Education and Culture and an Ad hoc Expert Committee. A steering committee to form the action plan that promotes identification practices in the educational system was set up in February 2011. The estimated budget is €7,6 mln under the education related programmes and actions which is expected to increase by €1,5 mln as a result of the implementation of the new curriculum.

3. In 2012-2020 there will be **in-service training** of teachers of pre-primary and primary education on early identification diagnosis during the first three years of primary school and use of specific research tools for evaluation purposes.

4. Establishing a Committee of direct intervention to address the problem of violent, delinquent and antisocial behaviour: The competent authority is the Ministry of Education and Culture and for the programming period 2007-2015 a programme against early school leaving, school failure, delinquency and anti-social behaviour in schools will be running.

5. Establishing reception classes, offer support services and special induction programmes for adult migrants, asylum seekers and refugees to accomplish the goal of reducing school failure and dropout rates among the migrant student population. The competent authorities are the Ministry of Education and Culture and the Ministry of Interior and for the programming period 2007-2015 a programme against early school leaving, school failure, delinquency and anti-social behaviour in schools will be running. The estimated budget is €3,249,246 (co-funded by the ESF at 70%).

D. Upgrading Vocational Education and Training

The measures presented here aim to improve the quality and attractiveness of the education and training systems. They include actions other than the restructure of Upper Secondary and Secondary Technical and Vocational Education and are focused on expanding the quality of education and the opportunities presented to the students of Technical and Vocational Schools. The quantitative targets include raising the student population of Technical and Vocational Education.

1. Improving the quality and attractiveness of the education and training systems with the aim to develop the infrastructure of Technical Schools and introduce modern technology and new areas of study in the STVE curricula. In 2016 the Ministry of Education and Culture's proposal for restructuring Upper Secondary Technical and Vocational Education will be developed and finalised. The measure is included in the annual budget for the implementation of the National Curriculum and the competent authority is the Ministry of Education and Culture.

2. Extending and coordinating Educational and Career Counselling Services to help students from diverse social backgrounds and with different learning abilities: in March 2012 a proposal for the establishment of a National Board for lifelong guidance was forwarded to the Council of Ministers for approval. The estimated budget is €100,000 for establishing mechanisms for lifelong guidance. The competent authorities are the Ministry of Education and Culture and the Ministry of Labour and Social Insurance.

3. EU tools for the validation of acquired skills such as the European Qualification Framework (EQF) linked to the National Qualifications Framework (NQF) and the European Credit Transfer System (ECTVET): the aim is to design, develop and implement a national policy regarding the application and use of EU tools as to the validation of skills. In May 2012 a proposal for the establishment of a National Qualifications Framework will be introduced. The implementation of the NQF is expected by September 2012 and the referencing of NQF to EQF is expected by October 2012. The responsible authorities are the Ministry of Education and Culture, the Ministry of Labour and Social Insurance and the Human Resource Development Authority. The estimated budget is €200,000 per year (possibility for EU funding is currently being examined).

4. Providing alternative pathways to young persons and upgrading the Apprenticeship System in order to increase the number of SMEs participating in the Apprenticeship System. It is an ongoing measure with an estimated budget of €19 mln (co-funded by the ESF at 85%). The competent authorities are the Ministry of Education and Culture, the Ministry of Labour and Social Insurance and the Cyprus Productivity Centre.

5. Involvement of all stakeholders by promoting cooperation and coordination of their actions so as to provide all necessary information to all members and a strategic plan for improving and strengthening the quality of provided services. The aim is to monitor the transition of VET graduates to the labour market and further education and training by using national monitoring systems. This is an ongoing measure and the competent authorities are the

Ministry of Education and Culture, the Ministry of Labour and Social Insurance and the Human Resource Development Authority.

E. Strengthening the links between vocational education, training and the labour market

All efforts are currently shifted in the creation of an intermediate level of education, between upper secondary and tertiary, which will offer to learners at an affordable cost, education and training programmes complementary to the ones offered by Private Colleges. The quantitative target is the operation of at least one Post Secondary Institute for Technical and Vocational Education and Training (PSITVE) in all districts by 2012 and the enrollment of the total of 260 students in the first year of their operation.

1. Establishment of Post Secondary Institutes for Technical and Vocational Education and Training (PSITVE): the Council of Ministers approved the establishment of PSITVE and it is expected to enroll the first students and operate at least one PSITVE in each district by September 2012. The responsible authority is the Ministry of Education and Culture and the estimated budget is €4,411,696 (co-funded by the ESF at 85%).

2. Systematic collection of data to strengthen the efforts towards better and systematic collection of data that will include Vocational Education and Training related skills and anticipation. This is an ongoing measure with responsible authorities being the Ministry of Education and Culture, the Ministry of Labour and Social Insurance, the Human Resource Development Authority and the Cyprus Productivity Centre.

F. Expanding and modernising the higher education system

In order to be able to increase the number of students attending Higher Education, the Ministry of Education and Culture, other competent ministries, such as the Ministry of Finance and the Ministry of Labour and Social Insurance, High Education Institutions, businesses, local industries and the labour market are enhancing their cooperation towards the development of an action plan for reinforcing the links between Higher Education and the labour market. The quantitative targets include the increase at 20-22% of the students attending programmes of study related to science and technology by 2020.

1. Increase the capacity of universities and enhance Quality Assurance in order to increase the number of students attending programmes of study related to science and technology. An official operational license to four private universities was granted in February 2012 while in the same month the Cyprus Campus of the University of Central Lancashire was established. The competent authorities are the Ministry of Education and Culture, the High Education Institutions, Business and Local Industry.

2. Establish a strong student welfare system so as to enhance equity and widen access to higher education. This is an ongoing measure promoted by the Ministry of Education and Culture and the High Education Institutions. The estimated budget is €12,000,000 per year.

G. Promoting transnational mobility

This measure has a strong element on geographical mobility by encouraging all students and adults to actively participate in EU mobility programmes for education, training or employment placements in enterprises abroad, as well as the promotion of lifelong learning. The quantitative target is none other than the increase of the number of participants.

Lifelong Learning: The comprehensive Lifelong Learning Strategy for Cyprus covers the period 2007-2013 and is steadily being implemented with the lifelong learning rate reaching 7,7% in 2010 compared to 7,8% in 2009. The Strategy is available in the following website: www.planning.gov.cy (currently in Greek version, summary in English).

1. Increase participation in EU programmes such as the Lifelong Learning Programme (LLP) to increase the number of participants. This is an ongoing measure and is covered under the Cyprus LLP budget. The competent authorities are the Ministry of Education and Culture and the Foundation for the Management of European Lifelong Learning Programmes.

2. Promote the mobility of students, educators, staff, apprentices and researchers, young people to increase the number of participating schools. This is an ongoing measure and is covered under the Cyprus LLP budget. The competent authorities are the Ministry of Education and Culture, the Foundation for the Management of European Lifelong Learning Programmes and the Cyprus Youth Board.

H. Youth on the Move

The “Youth on the Move” initiative aims to improve young people’s education and employability by promoting the value of study and work experience abroad and offering opportunities for young people to do so. It is one of the seven flagship initiatives of Europe 2020.

1. A three day event was organised in the framework of the International Educational Fair as part of the European campaign for the promotion of “Youth on the Move”. This awareness campaign took place in 2012 and the budget for it was covered entirely by the European Commission.

2. Promotion of the creation of synergies between all stakeholders (governmental, semi-governmental and non-governmental agencies) for communicating to the public the importance of vocational training as well as studying and working abroad, in order to improve the job prospects of young people. The aim is to promote cooperation in all areas and is an ongoing measure. The estimated budget is €100,000 annually for organising awareness campaigns and actions.

6

DIGITAL SOCIETY

SMART
GROWTH

6. DIGITAL SOCIETY

Guideline 4: “Optimising support for research, development and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy”

6.1 CURRENT SITUATION

It is being recognized that the use of Information and Communication Technologies (ICT) plays a key enabling role to achieve smart, sustainable and inclusive economy and society. The use of ICT in all vital sectors of the economy of Cyprus like education, health, tourism, transport and generally in the exercise of every business activity, is of paramount importance to the development of Cyprus into a regional service centre and to the attraction of foreign investments. The use of ICT is a catalyst to the increase of productivity and economic growth. It has direct impact on the increase of GDP, the creation of new high-value jobs, the modernization and the increase of productivity of the public sector, the increase of transparency and the promotion of democracy and culture.

Figure 6.1: Indicators of the Digital Agenda Scoreboard

	EU27 (2010)	Cyprus (2010)	Cyprus ranking
Broadband			
Broadband Penetration (% of population)	25,7%	23,3%	14
% of households with a broadband connection	60,8%	50,7%	22
% of enterprises with broadband access	84,1%	84,5%	16
Internet Usage			
% of population who are regular internet users	53,1%	40,3%	25
e-Government indicators			
% of population using e-Government services	41,2%	25,4%	23
% of enterprises using e-Government services	75,7%	73,7%	22

Yet, to reap the benefits of digitalisation Cyprus needs to exert greater efforts, since it still ranks low in most information society indicators, compared to the rest of EU27, even though significant progress has been made in broadband coverage. However as of the beginning of 2012, the incumbent has expanded its DSL network covering the whole Cyprus with broadband network offering at least 2Mbps.

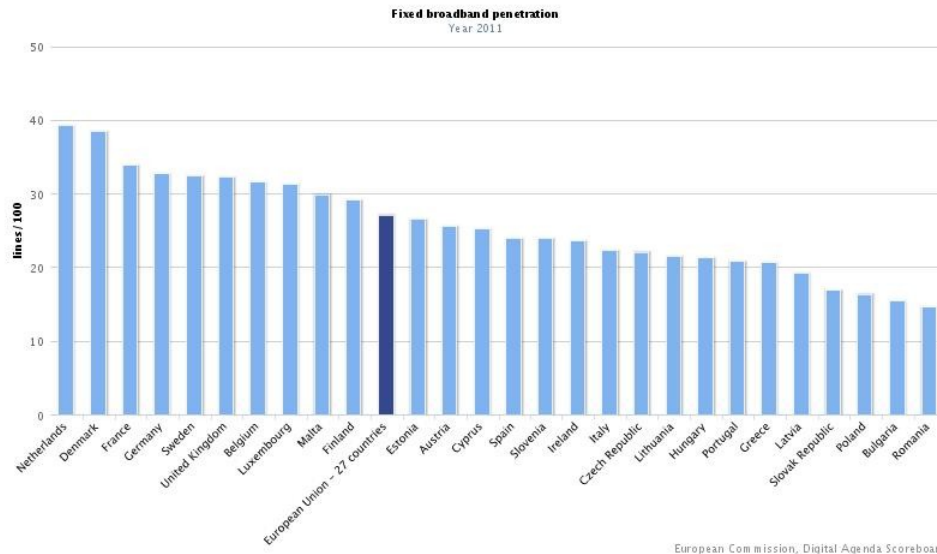
Bottlenecks:

The basic bottlenecks, that have to be tackled, relate to limited competition and technology choices, due mainly to the small market size as well as to limited supply of services, as summarised below:

1. Broadband growth, speed and price: Fixed broadband penetration in Cyprus still stands below the EU average (see Figure 6.2 below, year 2011) and the incumbent still maintains its

strong share in the broadband market. Additionally, the median monthly cost for data download between 2Mbps and 4Mbps is higher in Cyprus than the EU average. On the other hand, it should be noted that the majority of fixed broadband lines (93.1% lines, year 2011) are in the range of 2-10 Mbps, which is above the EU average (88% lines, year 2011).

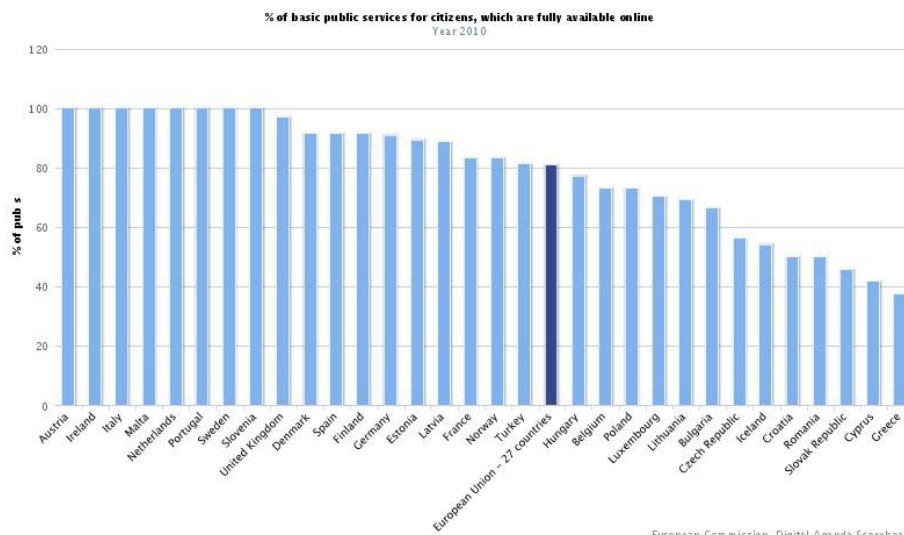
Figure 6.2: Digital Agenda Scoreboard Broadband Penetration (year 2011)



European Commission, Digital Agenda Scoreboard

2. Usage of eGovernment Services: The supply of e-government services in Cyprus is still below average compared to EU-27 (see figure 6.3 below 2010). Furthermore, the use of e-government services is also very low compared to the EU-27 average. Therefore Cyprus should continue to promote further the supply of e-government services, but emphasis should be placed on increasing the demand of e-government services

Figure 6.3: Digital Agenda Scoreboard - % of basic services for citizens which are fully available online (year 2010)



European Commission, Digital Agenda Scoreboard

3. Online Commerce and eTransactions: The use of ICT and the usage of basic internet applications and electronic transactions from the enterprises in Cyprus are also below the EU-27 average; therefore Cyprus should focus on actions and measures to promote electronic commerce and electronic transactions on both the supply and demand sides.

6.II NATIONAL TARGETS

To promote ICT and tackle the bottlenecks, the Department of Electronic Communications, (DEC) with the guidance of the Advisory Committee for Information Society, has developed a comprehensive plan for the development of information society in Cyprus entitled “Digital Strategy for Cyprus”. The Strategy promotes the use of ICT in all sectors of the economy and society in order to gain all the benefits mentioned above (for details see the National Priorities and Key Measures below). On 8th February 2012 the Digital Strategy for Cyprus was approved by the Council of Ministers, which included a comprehensive set of actions that have to be taken to put Cyprus well into the digital society.

Cyprus has set the following national targets based on the Digital Agenda for Europe, namely:

- By 2013, all households and businesses will have access to the Internet with at least 2Mbps.
- By 2013, 70% of the enterprises will have access to the Internet with at least 20Mbps.
- By 2020 all households and businesses will have access to the Internet with at least 30 Mbps.
- By 2020 50% or more of the households and businesses will have access to the Internet with at least 100 Mbps.

Cyprus has adopted a market-based national broadband approach to achieve the above targets. Market forces will be encouraged to invest in broadband infrastructures by providing the right incentives. Public investments can be used only in areas where there is a market failure and they should be carefully targeted, so that they are not deterrent to private investments.

The first target of all households and businesses to have access to the Internet with at least 2Mbps has already been achieved.

6.III KEY PRIORITIES AND MEASURES

The Digital Strategy for Cyprus, that has been approved by the Council of Ministers on 8 February 2012, is a comprehensive plan for the period 2012-2020 and adopts a holistic approach for the development of information society in Cyprus. The stated overall vision of the Digital Strategy for Cyprus is: "information and communication technologies to support the development and the competitiveness of the economy, and citizen participation in the social, cultural and political domains".

The Digital Strategy for Cyprus will help Cyprus to overcome the crisis and will contribute towards promoting economic growth, increasing the competitiveness of the private sector and

modernizing the public sector. The following objectives, measures and actions are included. The Digital Strategy for Cyprus can be found in www.mcw.gov.cy/dec/Announcements.

A. Connect Cyprus

It is necessary to connect the whole of Cyprus with high speed networks, so that all citizens, businesses and public bodies have access to information society services and benefit from the use of ICT. This objective also includes measures for promoting competition in electronic communications, in order to create various infrastructures offering high quality and high speed electronic services to all citizens, at affordable prices. It also includes measures to ensure the security of infrastructures and information.

1. Promote a stable regulatory framework by adopting new amendments of the electronic communications framework by mid 2012 and improving the existing framework for the rollout of fixed infrastructures in 2013 and of wireless infrastructure by the end of 2012, respectively. OCECPR has already issued two relevant Orders and plans to implement a GIS project to map the electronic communications networks (€100.000 for the year 2012 and €150.000 for the year 2013). Also, an analysis of the broadband access market is expected by July 2012 and partnerships or cooperation of various players in electronic communications are promoted by the second quarter of 2012, so that the total investments are cost effective and thus feasible. The OCECPR is conducting a public consultation on the document entitled “Regulation strategies on the development of new generation broadband infrastructure (NGA) in Cyprus”.

2. A plan for licensing radio frequencies designated for electronic communications services is prepared that will include provisions related to technology neutrality, avoidance of spectrum hoarding, etc, in line with the Radio Spectrum Policy Programme. It is expected to be completed by the end of 2012.

3. Promote competition and decrease broadband prices after evaluating consumers’ trends in 2011 (demand and pricing of broadband access products) by the fourth quarter of 2012, reviewing the cost of the end-to-end wholesale cost components for the provision of broadband services at the retail level and imposing appropriate regulatory measures to reduce costs and thus retail prices of broadband services. For the year 2012, the budget of this measure is €50.000. Furthermore, the market observatory for the period 2011-2013 will be extended to include a map of the infrastructure, a map of broadband coverage, a “catalog” of the available broadband products and a map of the use of the available broadband products. This measure is expected to end by the fourth quarter of 2012 with an estimated cost of €50,000.

4. Establish Fiber to the Home network (FTTH) by adopting the regulatory framework for the installation and operation of FTTH network by the second quarter of 2012, promoting the consultations between operators in order to define the type of the FTTH network and the timetable of its implementation. And evaluate the possibility of subsidizing wiring within customer premises.

5. Regarding Network and information security, the Department of Information Technology Services and the Cyprus Research and Academic Networks will take all the

necessary actions and procedures (training, acquisition of software etc.) in order to make the Cyprus Government CERT fully functional. Also, the scope of the two CERTs will be expanded in order to cover the business community, a strategy for the critical information infrastructure protection (CIIP) will be developed by the second quarter of 2012, awareness campaign on security issues will be organized by 2013 and safe internet programs for children will be promoted

B. Modernize public administration and provide public electronic services

The Government through the use of ICT aims to become smart, sustainable and innovative, more effective and efficient and friendlier to citizens and businesses. By using ICT for its internal functioning, the Government aims to become paperless and therefore decrease bureaucracy and cost and increase civil servant productivity. Furthermore, by providing public services electronically, better public services will be offered to businesses and citizens and reduce business's cost, through measures such as:

1. The government **Next Generation Network** (NGN) will be designed and built and the academic and research network will be further developed.

2. Targeting a **Paperless Government** and promoting **e-Government Services** by:

- (a) installing the web-enabled version of the **Office Automation System** (eOAS) in all government departments by the end of 2012. Currently, the process of changing the roll out model is under implementation and the initially estimated cost (estimated in 1999) of €48 mln is expected to be significantly less. eOAS has been recently introduced to a number of Ministries and Departments and it is planned that within the following years it will cover the whole public sector.
- (b) revising the **Information Systems Strategy** (ISS) (estimated cost of €360.000),
- (c) developing the **Government Secure Gateway** (estimated cost of €7.500.000 + VAT) and the **Central Government Data Warehouse** (estimated cost of €9.500.000) by 2012 and 2015, respectively, and **Human Resource Management System**
- (d) setting up the **Help Desk System** (estimated cost of €3.000.000), the **e-filing** system for online registration of companies and the online payments to Government (**epayments**),
- (e) expanding the **Point of Single Contact** (PSC),
- (f) giving **incentives to citizens to use the available e-government** services
- (g) defining the basic public services that cannot be offered online and remove any existing obstacles, e.g amendment of legislations in order to enable the online provision of these services.
- (h) developing more public **e-Services** based on the citizens and businesses needs, that will ensure social inclusion including vulnerable groups.
- (i) developing cross-borders, interoperable e-government services based on the European Interoperability Framework.
- (j) providing access to citizens to their personal data.
- (k) publishing **Information of the Public Sector** (PSI).
- (l) developing tools to promote **e-Democracy**
- (m) consolidating the several datacenters of the government into 3-4 major datacenters (Data Consolidation).

- (n) setting up and operating a **call center for citizens** and businesses to inform them about the services offered by the government. (More details for this action in Chapter 8 under “Improving the efficiency of the public sector”).
- (o) establishing more **Citizen Service Centers (CSCs)** all over the island. (More details for this action in Chapter 8 under “Improving the efficiency of the public sector”).
- (p) reviewing and amending the procedures of the public sector to achieve effective e-government.
- (q) establish an Advisory Committee to advise the Minister of Finance on e-government issues.

3. Promote Electronic Local Authorities by establishing a centralized information management system that will be used to serve all municipalities, setting up and operating a call center for citizens to inform them about the services offered by the Municipalities, installing in public places a number of computers with fast internet access taking into account the vulnerable groups, giving incentives to businesses and citizens to use the available online services and using social networks to increase the participation and involvement of citizens.

4. Promoting e-Health by installing and operating the Integrated Health Care Information System in all hospitals, including drug management system and telemedicine, that will cover the key elements of the hospital procedures, in order to control both quality of service to patients and hospital cost. , Create regional health networks to exchange information between all health care providers. Also, an Internet portal will be created to provide private physicians access to patients’ electronic health records, an Ambient Assisted Living (AAL) program will be developed, by firstly introducing it on a pilot basis, to a group of elder people that live in a remote area.

5. Issuing an e-ID for every citizen that will include personal identity data and passport (biometric) data and store advanced certificate for the creation of qualified signatures and other data. Also, legal framework for electronic signatures (**e-signatures**) will be implemented by the end of 2012.

6. Promoting cultural heritage by preparing a comprehensive strategic plan, digitizing the major objects of the Cyprus museum and exhibitions that will be organized during the Cyprus EU presidency by the end of 2012, expanding the digitization of the objects of the Cyprus museum and link them with the respective archeological sites by the end of 2013 and developing a 3D digital museum.

7. Promote tourism by preparing a strategic plan, setting up and operating a call center (single number) for tourists and tourism partners since the end of 2011 with a cost of €500.000, promoting tourist attractions through social networks and creating an online tourism observatory through which tourism partners and the general public will be informed on the latest developments by 2013 (estimated cost €190.000).

8. Creating a Knowledge park (Smart City) that will be comprised of the art facilities (e.g telecoms infrastructure and smart buildings) to accommodate knowledge-based companies. The government will offer the land (accompanied by terms to be agreed) and a strategic investor will implement the park. Incentives will be offered to the strategic investor as well as to the companies that will be accommodated in the park project. A call for expression of interest by

potential strategic investors will take place and depending on the outcomes, government will proceed accordingly. Government will have no other cost except for the land.

C. Inclusion of all (including vulnerable groups) into digital Cyprus

1. Promoting **digital literacy** by implementing co-financed projects entitled “e-skills for all” and “Digital Citizen” which will offer very basic **e-skills** for the digital illiterate. The first project has already been implemented since June 2010. Other programs that will be promote digital literacy are the Cyprus Business Portal and **e-Learning** programs for public servants.

2. Installing in public places a number of computers with **fast internet access** taking into account the vulnerable groups in order to enable citizens to transact electronically and installing **free wi-fi access** in selected public places.

D. Education and Learning

1. Promote the **e-Education** by using ICT as a dynamic tool aiming at the upgrade, the enrichment and the reform of the educational process. Some of the measures to achieve this target are:

- (a) enrich all public schools with datacenter with high speed physical and logical connections,
- (b) complete the structure cabling in all schools by 2013, increase the number of personal computers (PC) in each school, in order to achieve one PC per student; install computers, multimedia labs and interactive whiteboards in every school and expand the implementation of the Learning Management System (DIAS) in all secondary and technical schools. This platform was launched on a pilot basis in 7 schools in April 2009.
- (c) develop digital Educational Content for the majority of primary and secondary schools.
- (d) create distance learning applications.
- (e) computerize the educational system and the new system will be interfaced with the Learning Management System (DIAS).
- (f) Further train teachers to further integrate ICT in the learning process.
- (g) Develop interactive learning centers.
- (h) Evaluate students’ e-skills and take measures to improve them.
- (i) Upgrade the infrastructure of the public tertiary education (**e-University**). Three projects have been approved regarding the three State Universities: the University of Cyprus, the Cyprus University of Technology and the Open University of Cyprus. The projects aim to upgrade and develop the technological infrastructure that will provide the tools for integrated, automated and quality services for students, academic and administrative personnel. The project will be co-financed by the ERD.

E. Digital Entrepreneurship

1. Promote **Digital Entrepreneurship** to help businesses use ICT extensively to support their functioning, in order to increase their productivity and become more competitive in domestic and international markets. Moreover, research and innovation in the ICT sector will also be

promoted, in order to increase public and private spending on ICT, research and development. Some of the measures to achieve this objective are:

- (a) Promote further the electronic commerce program “Epihirite Diadiktiaka”. The directive WCAG 2.0 will be taken into account in the development of the websites so that they are also accessible by vulnerable groups.
- (b) Introduce new programs for the financial support of companies, to use ICT in their internal procedures and for the provision of customer services (**e-Business**) and new subsidy program for SMEs, to develop innovative ICT products or services.
- (c) Introduce a program for government bodies to enter into pre-commercial procurement agreements with innovation and research organizations.
- (d) Give incentives to businesses to use public electronic services and implement e-Invoicing and **e-Receipt** and use environmentally friendly technology and equipment and implement green policies and practices.
- (e) Develop policies to assist the participation of Cypriot ICT businesses in governmental projects.
- (f) Establish an annual ICT forum in order for ICT companies and DITS to get together and discuss issues for **e-government**.
- (g) Establish an Advisory Committee of experts to define the framework for doing business in cyberspace and a Working Group to develop a strategic plan to promote the export of ICT services.
- (h) Establish a mechanism to attract EU funds and develop subsidy programs (e.g in the context of CEF) to promote digital entrepreneurship.

F. ICT for the environment

Encourage the economic institutions of Cyprus, including the government, to use technologies and equipment or implement policies and practices that are environmentally friendly both in production cycles and operations. Furthermore, expand the use of ICT to confront the most pressing problems of the economy like water supply, public transport etc.

1. Promote a **National Strategy for the Use of Intelligent Transport Systems (ITS)**, by promoting the cooperation between government’s departments that are involved in the management of the road traffic and associated incidents, by signing Service Level Agreements (SLA), establishing an open electronic platform to be used by all stakeholders (private and public sector) to exchange information and promote their cooperation for the development of ITS
2. Introduce further the telemetry systems in water management and implement a pilot project to replace 3000 domestic and commercial standard meters with smart electricity and water meters.
3. Adoption of **tele-working framework**.
4. Introduce a comprehensive communication plan to promote the Digital Strategy, raise awareness about the benefits of using ICT and promote the existing e-government services and digital literacy.

5. Vessels Traffic Monitoring and Information System: The Ministry of Communications and Works and the Department of Merchant Shipping attach particular attention to maritime safety and security. The Department of Merchant Shipping operates on a '24hour' basis a Vessel Traffic Monitoring and Information System, which provides valuable information about maritime traffic in the Eastern Mediterranean, leading to the reduction of marine casualties, illegal immigrants' traffic and improvement of the measures for the protection of the marine environment.

7

CLIMATE, ENERGY
AND MOBILITY

SUSTAINABLE
GROWTH

7. CLIMATE, ENERGY AND MOBILITY

National target:

- Achieve an increase of 14,3% (463 ktoe) in energy savings in the projected primary energy consumption of the year 2020
Has reached 3,6% in 2010 (comparative data from 2009 is not available)
- Reduce greenhouse gas emissions by 21% in the installations included in the Emissions Trading System (ETS) and by 5% for the sectors that are not included in the ETS (transport, waste, agriculture) by 2020
Applicable as of 2013
- Increase of the contribution of Renewable Energy Sources (RES) to 13% of the total energy consumption by the year 2020
Has reached 5,8% in 2010 from 4,8% in 2009

Guideline 5: “Improving Resource Efficiency and reducing greenhouse gases”

CSR No. 7: Increase the diversity of the energy mix and the expansion of renewable energy sources and establish, by 2012, a water management plan and a price-setting scheme reflecting cost efficiency and equity.

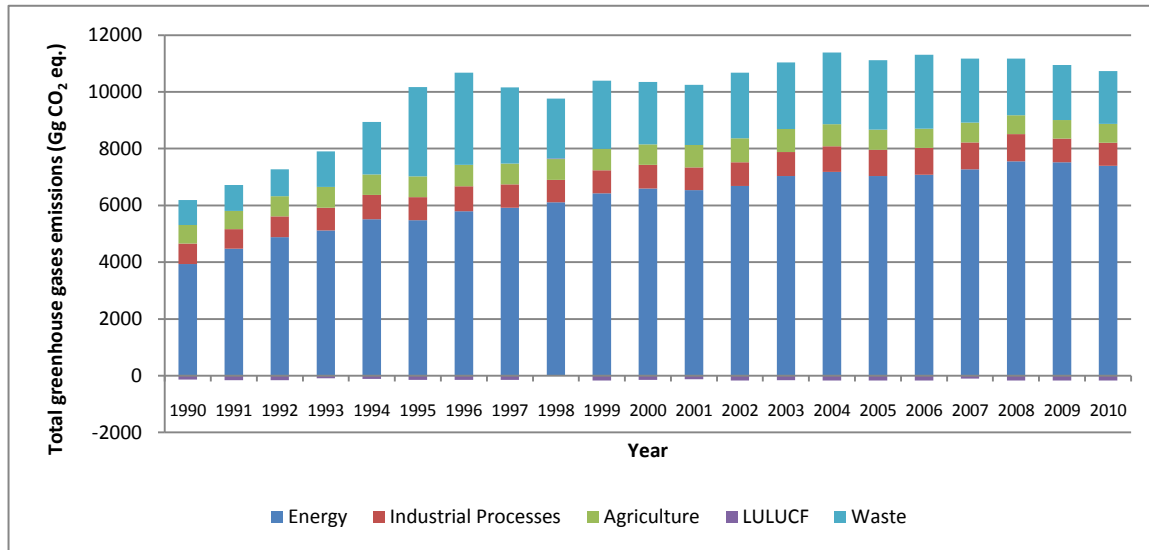
7.1 CURRENT SITUATION

Cyprus has set the increase of energy efficiency, in connection with addressing the impacts from climate change, as one of its top priorities given that the country is already experiencing adverse impacts. Reduction of precipitation have led to the need to turn to desalination, in order to meet the drinking water needs; increases in temperature led to increased use of heating and cooling devices, all resulting to an aggravation of the already high emissions of the country. In addition, the rates of energy consumption have been further increased in the last decade, due to high rates of economic and social growth and the high influx of tourists.

1. REDUCTION OF GREENHOUSE EMISSIONS

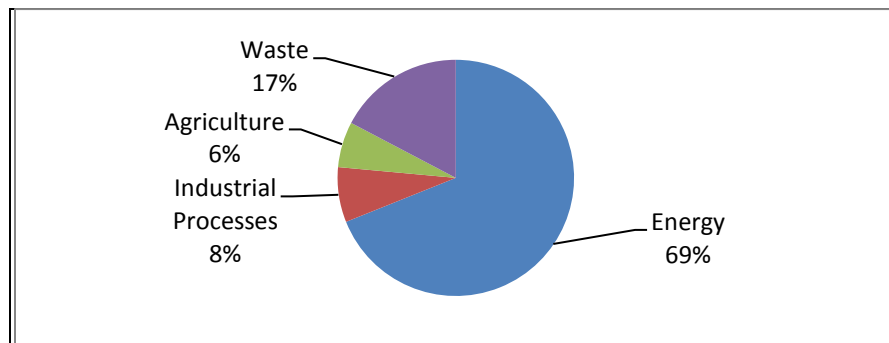
Cyprus does not have any greenhouse gas emission reduction, or limitation obligations under the Kyoto Protocol, or under Decision 2002/358/EC for the commitment period of 2008-2012, since Cyprus was not a Member State of the European Union at the time. Yet, with the new climate and energy package of the EU, Cyprus has been assigned national targets and has the obligation to take measures to achieve them. The most recent annual greenhouse gases inventory, prepared in March 2012, reveals that in 2010, GHG emissions (without LULUCF) amounted to approximately 11000 Gg CO₂ eq., showing an increase of almost 75% compared to 1990. However, since 2008 an annual decrease of 4% in overall emissions is noticed to which all sectors have contributed.

Figure 7.1: Trend in the emissions by sector between 1990 and 2010



The main source of greenhouse gases is energy (including transport) accounting for 69% of emissions in 2010 of total GHG emissions (without LULUCF) and increased by approximately 88% compared to 1990 levels. However, after 2009 the increase of contribution of the renewable energy sources, to the energy balance of the country, has caused an additional reduction in emissions. Emissions from energy reduced by 1% between 2008 and 2009, and further 3% between 2009 and 2010. The introduction of natural gas for energy will have the most significant reduction in the total emissions. Of course envisaged measures for the improvement of public transport are also expected to decrease emissions by moderating the high use of private cars.

Figure 7.2: Relative contribution of activity sectors to total GHG emissions in 2010 excluding LULUCF



Another important source of greenhouse gases, is Waste Management which accounted to 17,3% of the total emissions with the notable increase of about 111% from 1990. Even though recycling has increased considerably during the recent years, there is a large increase in greenhouse gases emissions, caused by the increasing waste production trend. The envisaged landfills will ameliorate the problem. Emissions from Industrial processes in 2010 accounted for 7,5% of the total emissions and increased by approximately 11% compared to 1990 levels. Due to the recession however, emissions of this sector in 2010 decreased by 3% compared to 2009. Finally Agriculture accounted for 6,2% of total emissions in 2010. The Land Use and Forestry sector

was a net sink of greenhouse gases during the period 1990 – 2010 offsetting about 1,5% of the total national emissions, attributed mainly to the prohibition of felling in 2002 and the expansion of the afforestation programmes.

2. DIVERSIFICATION OF THE ENERGY MIX AND ENERGY EFFICIENCY

The rates of energy consumption have been relatively high in the last decade, due to high rates of economic and social growth and the high influx of tourists. During the decade 1999-2009, the final energy and electricity consumption increased by 2,2% and 6,8% at an average annual basis respectively, while during the same period the GDP showed an average annual increase of 3,7%. Due to the climate conditions and the fact that Cyprus is a tourist destination, energy demand in summer doubles compared to that in winter

Hydrocarbon Exploration: Exploration for oil and gas offshore the Republic of Cyprus is in an ongoing phase. A considerable amount of geophysical data which are available, the stable business environment and the attractive terms (zero taxation on revenues from offshore hydrocarbon exploitation) offered make Cyprus highly preferable for hydrocarbon exploration.

The Council of Ministers is responsible for granting licences for prospection, exploration and exploitation of hydrocarbons. Applications for exploration and exploitation licences are accepted during licensing rounds. At present, an Exploration License for Block No 12 has been granted to Noble Energy International Ltd on the 24th of October 2008. On the 28th of December 2011 the company announced a natural gas discovery indicating an estimated gross resource range of 5 to 8 trillion cubic feet (Tcf), with a gross mean of 7 Tcf. The Cyprus Block 12 field covers approximately 40 square miles and will require additional appraisal drilling prior to development.

On February 11th 2012, the Republic of Cyprus announced the second licensing round offshore Cyprus concerning the authorisation for hydrocarbon exploration in Blocks 1-11 and 13 of the Republics' Exclusive Economic Zone.

Electricity Market liberalization: To comply with Cyprus' commitment to the EU, the proportion of the **liberalized electricity market** increased from 35% to 65% from 1/1/2009, so eligible consumers (those who can choose their supplier) are all non-domestic consumers. In a second stage, which starts from the 1st of January 2014, the market of electricity in Cyprus will be fully liberalized. The main objective of the liberalization is to provide competitive prices and improved services to all electricity consumers.

The **data** submitted to this report refer to the year 2010. The data for energy balance for 2011 are evaluated and will be available soon. However, due to a tragic accident that occurred in the Naval Basis at Mari area which resulted in destroying the largest power station of EAC, the company's sales of electricity were reduced by 4,2%. Many electricity consumers that are also self producers of electricity, that have installed RES system for electricity production or power generators, using conventional fuels for use only for emergency purposes, set their systems in operation.

Bottlenecks:

Given the strain already imposed on public finances, the implementation of the relevant environment projects for the achievement of the 20-20-20 targets is considered to be a challenge for the island’s economy. Some projects, like the establishment of infrastructure for the sound management of solid and liquid waste, according to the country’s obligation towards the EU, should be completed by 2013 with partial financing by the Structural Funds. For the rest of the projects a study is envisaged to assess the total cost of compliance. Indicatively it is mentioned that, just to comply with the RES target, as analysed in the respective National Plan (NREAP) for the years 2010-2020, the cost is estimated to be around €1,3 bln.

Apart from cost constraints, Cyprus faces also other obstacles, as for production of bio fuels, due to the limited suitable agricultural land, water scarcity and high dependence on imports to satisfy the indicative and mandatory targets, which are imported at a very high cost that is much higher than that of imported oil.

Figure 7.3: Cost of Energy Imports

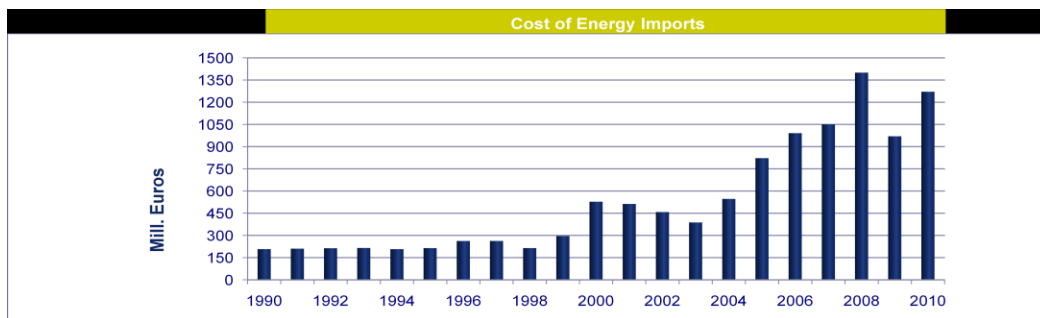
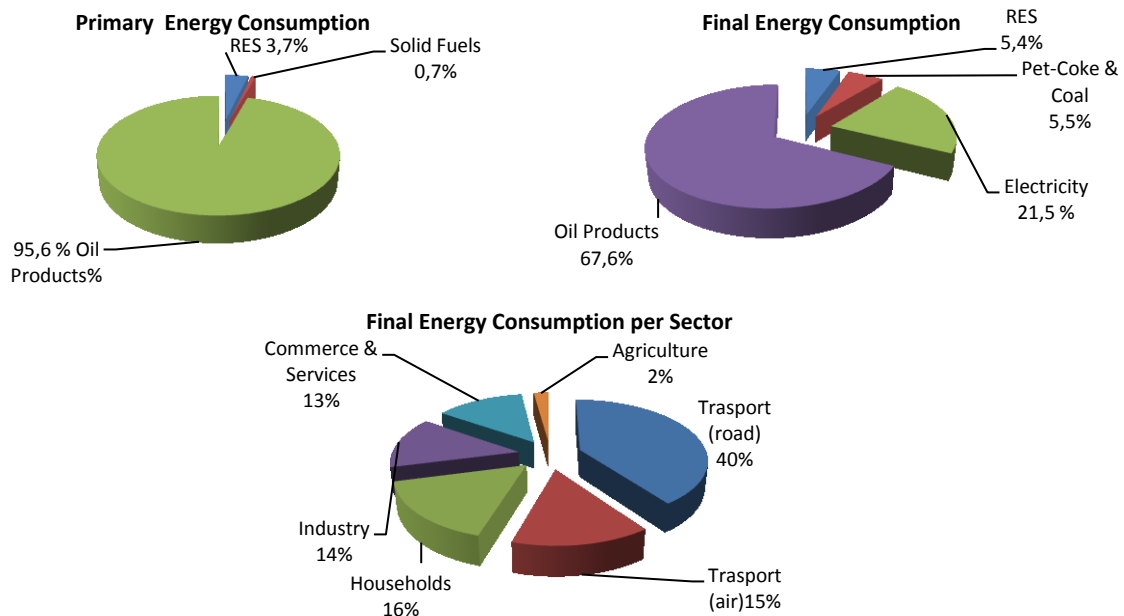


Figure 7.4: Energy Consumption by Sector



Cyprus has set energy efficiency as a top priority, since it is heavily dependent on imported oil for its energy supply (95,9% in 2010 in primary energy consumption) has a small and isolated system, without interconnections to other networks. The transport sector in Cyprus absorbs 55% of the final energy consumption (40% road and 15% air). This is mainly due to the limited infrastructure and use of public transport. Air transport is the only means of public transport connecting Cyprus to the rest of the world. In 2011, oil imports accounted for 7% of GDP compared to 6% in 2010.

7.II NATIONAL TARGETS

Energy Efficiency: Based on the results of national energy models, that assessed the projected primary energy consumption for the year 2020, **the national potential on energy saving on national primary consumption could reach 14,3% (463 ktoe)** compared to the national business as usual scenario (business as usual scenario anticipates that in 2020 primary energy consumption will reach 3219 ktoe). However, it is considered essential to clarify that for Cyprus, the introduction of natural gas in power generation is considered as a key energy efficiency measure and not as a business as usual situation. Otherwise, the national saving potential on national primary consumption for 2020 would not exceed the 6% (192ktoe).

Greenhouse Gases Emissions: Cyprus does not have any greenhouse gas emission reduction or limitation obligations under the Kyoto Protocol or under Decision 2002/358/EC for the commitment period of 2008-2012. Yet, with the new climate and energy package of the EU, Cyprus has been allocated the target of 5% reduction for the sectors that are not included in EU Emissions Trading System, ETS (transport, waste, agriculture etc). In addition, the installations that are part of the ETS, each has its own target of reduction for CO₂ for the periods 2008-2012 and 2013-2020.

The expected trend in emissions after 2010 (Figure 7.5) reveals that additional measures need to be taken to reduce emissions below the level required by the Decision 406/2009/EC (5% reduction in the non-ETS sectors by 2020 compared to 2005).

Renewable Energy Sources (RES): Cyprus is committed to increase the contribution of RES to the gross final energy consumption to 13% by 2020. To achieve the above target, Cyprus has to follow an indicative trajectory which includes increase of the RES contribution to the gross final consumption to 4,92% by 2012, 5,93% by 2014, 7,45% by 2016, 9,47% by 2018 and finally 13% by 2020. Cyprus has already exceeded the first indicative target for the period 2011-2012 since the contribution of RES to the gross final energy consumption in 2010 was 5,8%. Moreover, Cyprus has to increase the share of energy from renewable sources to the final consumption of energy in all forms of transport in 2020 to 10%. In 2010 the share of energy from renewable sources to the final consumption of energy in all forms of transport was 2%.

7.III KEY PRIORITIES AND MEASURES

A. Integrate the energy market

1. **Implementation of the 3rd internal market energy package:** All the necessary measures are being taken in order to transpose the provisions of the two Directives (2009/73/EC and 2009/72/EC) to the national law. Both draft transposition bills have been prepared and are currently at the final stage of consultation.

B. Promote energy efficiency

1. **Energy efficiency improvement in the transformation sector with the introduction of natural gas and the combined cycle technology in power generation:** It has been decided to introduce natural gas as a fuel for power generation purposes. Pending final political decisions, natural gas could potentially come from the recently discovered gas deposit offshore Cyprus; first gas is anticipated by 2016. The development of the local gas transmission/distribution network has been granted a €10 mln funding under the European Economic Programme for Recovery (EEPR). The total investment is anticipated to be around €60-70 mln. In addition, following a 1st step of an Open Season procedure to assess the local market demand for natural gas, a 2nd step has then been carried out by the Public Natural Gas Company (DEFA) with a view to contacting potentially interested end-users in order to further determine the natural gas demand.

2. **Implementation of energy performance of buildings directive:** The transposition of the recast of EPBD (Directive 2010/31/EC) in the national legislation by the 9th July 2012 will set more ambitious targets in improving the energy efficiency in new and existing buildings. The implementation of stringent minimum requirements is expected by 2013. In order to exploit the full potential of energy saving in the building sector, the subsidy scheme for the building sector is being revised. Seminars are organised for the candidate Accredited Experts and the computational program SBEMcy, which is used for the issue of Energy Performance Certificate (EPC) is given to the interested parties free of charge.

3. **Implementation of the 2nd National Energy Efficiency Action Plan (NEEAP):** The Energy Service prepared and submitted to the European Commission the second National Energy Efficiency Action Plan (NEEAP), in compliance to the requirements of Directive 2006/32/EC covering the period up to 2016. The national intermediate indicative energy saving target for 2010 amounts to 60,000 tons of oil equivalent (toe), while for 2016 the target is 185,000 (toe) or 10% compared with the average final energy consumption for the period 2001-2005. Based on the evaluation of the measures implemented by the end of 2010, Cyprus meets the intermediate indicative target of 2010, as the savings achieved was 65,729 (toe), while for the year 2016, the savings resulting from the measures and policies that have been taken/adopted so far, are estimated to reach 190,751 (toe). With the 2nd NEEAP, Cyprus submitted also the National Action Plan for Primary Energy Saving by 2020. For Cyprus, this indicative target amounts to 463,000 toe and it can be achieved by the implementation of additional measures / policies

beyond those implemented / adopted until 2010. Explicit timetables with the estimated contribution of each measure for achieving 2020 energy efficiency target as well as their contribution to 2016 target are presented in the context of 2nd NEEAP. These new measures are estimate to contribute 83,828 toe to the target of 2016 and 192,303 toe to the target of 2020.

4. Exploitation of the economic potential for combined heat and power technology (CHP) in compliance with Directive 2004/8/EC and specification of the sectors where co-generation can be applied with an economically efficient way: In October 2011 Cyprus submitted to the European Commission a national study assessing the progress of high efficiency CHP up to 2010. Based on the results of the study, in 2010 the primary energy savings achieved from the operation of CHP units in Cyprus was about 0.077PJ. Additional measures have been set for the promotion of CHP in the context of the 2nd NEEAP, with estimated cost €16,2 mln.

6. Energy Audits and Effective Operation of Energy Service Companies (ESCOs): A set of Regulations and ministerial orders have been prepared for implementing an energy audit scheme, including a Technical Guide to be followed by the energy auditors, expected to start operating in Cyprus in 2012. In addition, draft regulations have been prepared for regulating the operation on Energy Service Companies (ESCOs), as well as a draft ministerial order providing guidelines on energy performance contracting between ESCOs and public authorities. The guidelines are expected to be adopted by the end of 2012, after undergoing public consultation.

7. Energy Efficiency in Public Buildings: According to the law, all new buildings have to have an Energy Performance Certificate of at least B Class. However, some new public buildings have been designed to achieve A Class certificate in order to fulfil an exemplary role. One of them is the new meeting hall of the presidential palace which will have high thermal insulation, high efficiency heating and cooling systems and photovoltaics. In parallel to this project, part of the old building of the presidential palace will be insulated and its old mechanical equipment for heating and cooling will be replaced with new and high efficiency equipment. The project is expected to be completed by the end of May 2012.

C. Promote the utilisation of RES and Energy Conservation

1. Implementation of the National Renewable Energy Action Plan (NREAP): The NREAP was submitted to the European Commission in July 2010 and sets the national targets for the share of energy from renewable sources consumed in transport, electricity and heating/cooling in 2020 and describes adequate measures to be taken to achieve those national targets. The NREAP takes also into account the effects of other policy measures relating to energy efficiency on the final consumption of energy. According to the NREAP the distribution of RES electricity production between 2011-2012 is expected to come mainly from wind power (3,27%), biomass (0,87%) and photovoltaic systems (0,28%). Three wind parks of total capacity of 133,5MW have already been installed, while four other wind parks of total capacity 30MW, have already signed the subsidy agreement and the constructing works have began. By the end of 2012 approximately 85 wind power generators are expected to be installed in several parts of Cyprus, with a total capacity of 165 MW. Moreover, regarding the electricity production from biomass, twelve units of 8,6MW total capacity have already been installed and three more units of a total capacity 10MW have been approved and are expected to operate by the end of 2012 early 2013. Finally,

photovoltaic systems of 10,5 MW have been installed so far and more are expected. The total budget for the implementation of NREAP for the years 2010-2020 is estimated to be around €1,3 bln.

2. Support Schemes for the promotion of the utilisation of RES and Energy Conservation: The schemes provide financial incentives in the form of governmental grants or/and subsidy for the materialisation of investments in the field of Energy Conservation (EC) and the promotion of the utilization of RES. It is financed through a Fund specifically allocated for this purpose, deriving its revenue from a levy of 0,5 eurocent/KWh on the consumption of electricity. The new support schemes cover investments regarding utilisation of RES for electricity production, utilisation of RES for heating/cooling, energy efficient technologies, cogeneration of heat and power and investments under three different schemes. The total budget of the RES FUND for the implementation of the support schemes 2010-2020 is estimated to be €454 mln.

3. Introduction of a new legislation for the utilisation of RES in order to enforce the provisions of the Directive 2009/28/EC on the promotion of the use of energy from renewable sources and the subsequent repeal of the existing national law 33(I)/2003. The Energy Service of the Ministry of Commerce, Industry and Tourism (MCIT) is taking all necessary measures to fully transpose the provisions of the new Directive within 2012.

4. Accelerating the Implementation of RES investments via accelerating the whole procedure for the submission and evaluation of the applications and the securing of the necessary licenses and permits through “One Stop Shop” and a Ministerial Committee, set up to examine problems and promote RES Investment

5. Subsidy scheme measures for the promotion of emissions reduction: All suppliers of automotive fuels in Cyprus are obliged to mix 2,4% of biofuels into the conventional fuel based on their energy content. In addition, the new taxation policy for cars exists, which provides low registration fees and road tax for electric & hybrid cars and cars with low CO₂ emissions. The excise duty for vehicles, also takes in consideration the CO₂ emissions and the engine capacity of the vehicle.

D. Reduction of greenhouse gases emissions

The most important measures implemented for the reduction of emissions, are associated with energy production and efficiency. To be more specific, the import of natural gas, the increase of the share of renewable energy sources and the increase in energy efficiency are the most significant measures. The implementation of these measures has started, and the impact on the emissions is obvious from 2010, when the first large wind farm operated in Cyprus (82 MW installed capacity). However, significant is the contribution of measures that have to be implemented for transport: transport currently contributes almost 30% to the total emissions of the country, which corresponds to approximately 60% to the non-ETS emissions. Changes in transport towards low emissions transport are very slow, and need significant political decisions to be implemented and considerable infrastructure changes in all major cities of the island. In the

sectors of waste and agriculture on the other hand, due to the improvement in implementation of important legislations, there is a steady and gradual reduction in emissions.

In the latest report submitted to the European Commission for the implementation of Decision 280/2004/EC, two scenarios are analysed, the “with measures” and “with additional measures” for the years 2010, 2015 and 2020. The measures relate to the areas of energy (most importantly natural gas, renewable energy sources and energy efficiency), transport, waste management and agriculture. The impact of each scenario is schematically depicted in Figure 7.5 (below).

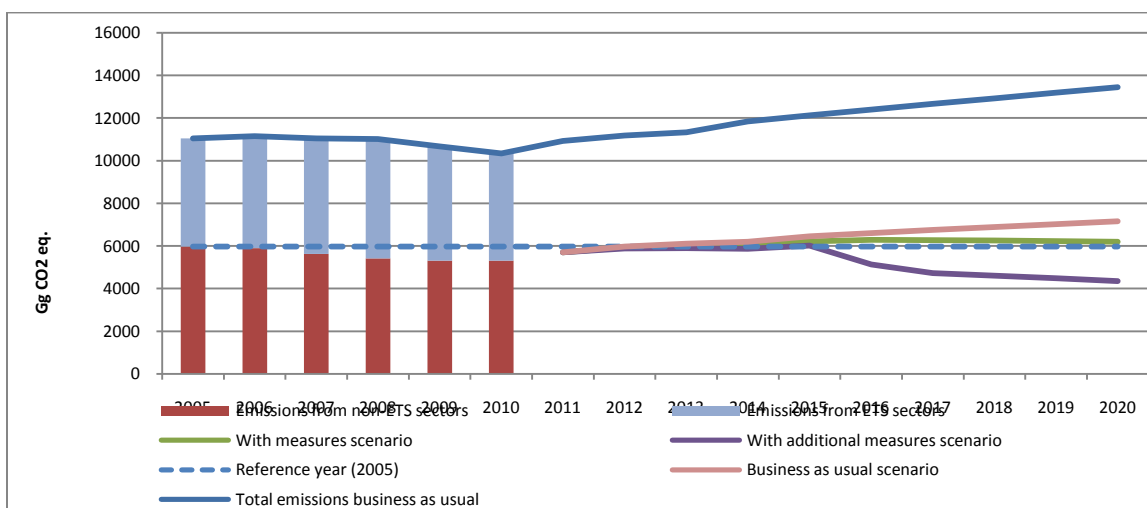
The expected emission reductions of the main policies in 2020 according to the report if the measures already in place are fully implemented are as follows:

- Introduction of natural gas: 2500 Gg CO₂ eq.
- Increase of renewable energy sources: 800 Gg CO₂ eq.
- Improvement of energy efficiency: 850 Gg CO₂ eq.
- Transport related measures: 300 Gg CO₂ eq.
- Waste management related measures: 400 Gg CO₂ eq.
- Promotion of anaerobic digestion for the management of agricultural waste: 60 Gg CO₂ eq.

The above measures can contribute a reduction of almost 5000 Gg CO₂ eq. in 2020 while if additional measures are implemented, the reduction of emissions in 2020 can reach 7000 Gg CO₂ eq.

A basic prerequisite for the achievement of the 5% reduction of emissions by 2020, is the creation of the necessary legislative framework. This has to include the allocation of responsibility for implementation, design, implementation, assessment of implementation of measures and revision of unsuccessful measures. Currently Cyprus has no legislation associated to climate change other than the ratification laws of the UNFCCC and the Kyoto Protocol and the ETS law.

Figure 7.5: Expected trend in emissions after 2010 until 2020 for non-ETS sectors, according to three scenarios: Business as usual, with measures and with additional measures



E. National Adaptation Plan

Cyprus is already experiencing the main impacts of climate change which are associated with increase in temperature and reduction of precipitation. Several studies have already been completed, including (a) combating desertification, (b) the future of agriculture in Cyprus, (c) the effects of reduced irrigation, increased sunlight and temperature on specific crops, (d) the impact of climate change on the forests of Cyprus (in progress), (e) design and implementation of a rehabilitation plan to rainfall levels to cover the water needs (in progress). Based on these studies a National Adaptation Plan is currently being developed in a phased approach, with the aim to pave the way for preparing a comprehensive adaptation strategy to be implemented starting as of 2013.

The development of the Cyprus Strategy for Adaptation to Climate Change has commenced at the end of 2011, with the financial support of the Life+ project CYPADAPT for which the beneficiary is the Department of Environment, of the Ministry of Agriculture, Natural Resources and Environment, the authority responsible for climate change, in the Republic of Cyprus.

F. Mobility: Public transport

1. A modern and efficient public transport scheme: Public Transport services are of very low quality, thus covering only 2% of total daily trips, resulting to extensive use of private cars (85% of trips) with extensive increased cost to the economy and increased emissions. Therefore, the Government decided to introduce a new Public Transport Programme with the aim to increase the use of public transport to at least 10% by 2012. Thus, on the 5th of July 2010 the new bus companies, one per district of Cyprus, commenced their operations offering better service with longer hours, more frequent and shorter itineraries as well as new bus routes. The new companies are able to operate all urban and rural routes in all districts (as well as some cross-district routes that will be agreed), but also have the obligation to finance the renewal of their bus fleet within two years. Since the adoption of the scheme in July 2010, 255 new buses have been introduced into the system increasing the total number of buses to 1003. That means that the renewal of the fleet is approximately 25%. In addition, the number of people using the public transport has increased by 56,7% between the second semester of 2010 (July-December 5.629.719 trips were recorded) and that of 2011 (when the number of trips reached 8.822.917). In 2011 the number of trips reached 14.350.466 in total.

2. Trans-European Network Study: A feasibility study will examine the possibilities of introducing two light rail services in Cyprus for connecting Nicosia to Limassol and Limassol Port, via Limassol centre and for connecting Nicosia to Larnaca Airport and Larnaca city. The study, which is part of the Trans European Networks in Cyprus, has started in 2011 and is expected to be completed by the end of the second semester of 2012.

8

COMPETITIVENESS

SUSTAINABLE
GROWTH

8. COMPETITIVENESS

National Targets:

- The promotion of Cyprus as an attractive regional centre for the provision of high value added services, including in the financial, legal, health and education sectors
- Strengthening the productivity of the economy so that the total labour productivity reaches the EU27 average
- Reduction of the administrative burden on national legislation by 20% by 2012
- Restructuring of the economy towards innovation

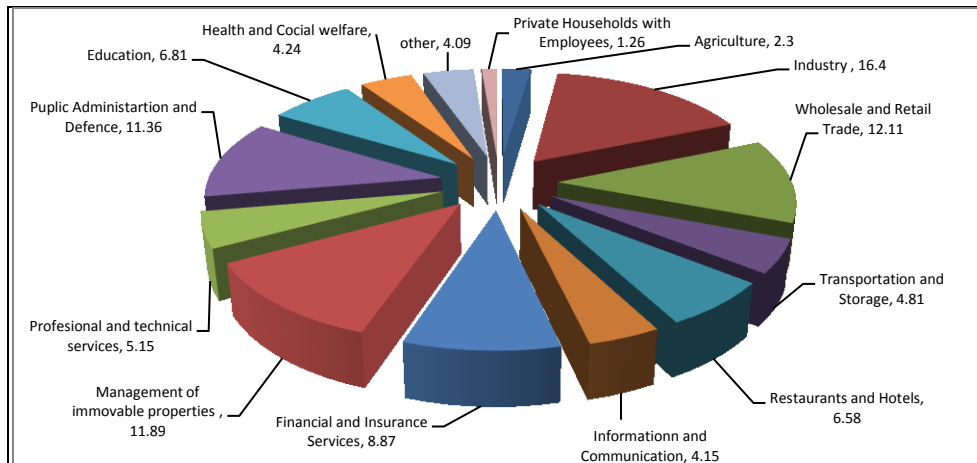
Guideline 6: “Improving the business and consumer environment and modernising the industrial base in order to ensure the full functioning of the internal market”

CSR No.6: Abolish remaining obstacles to the establishment and free provision of services in sector specific legislation by October 2011 in order to create more opportunities for growth and jobs in the services sector.

8.1 CURRENT SITUATION

Strengthening the competitiveness of the economy is a basic prerequisite for economic growth and for the promotion of Cyprus into a regional service centre. According to the Global Competitiveness Index of the World Economic Forum, in 2011-2012, Cyprus ranked 47th among 142 countries internationally. The economy is mainly service oriented with the tertiary sector comprising 80% of GDP, the secondary sector 8% and the primary only 2%. However, in terms of employment the primary sector absorbs 7,5%, the secondary 20% and the tertiary 72,5% of the labour force.

Figure 8.1: Distribution of Value GDP, 2011



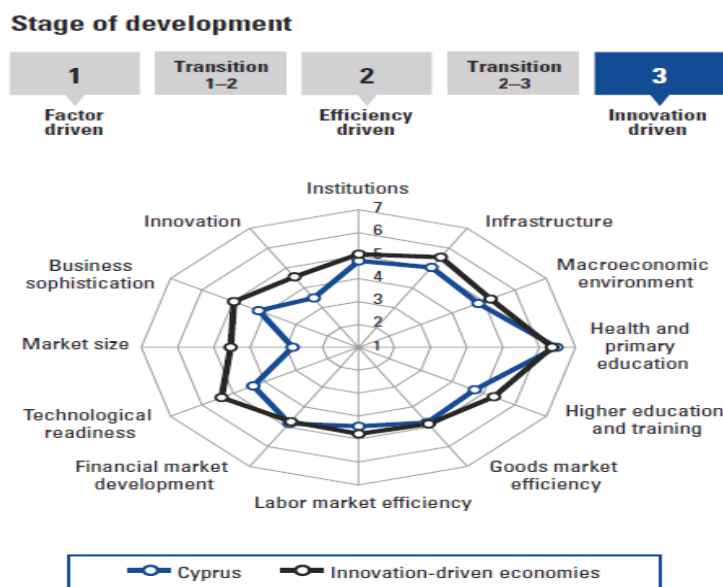
With respect to the **business environment**, Cyprus is in the 32nd position (among 142 countries) according to the Global Competitiveness Index for the Basic Requirements including institutions, infrastructure, macroeconomic environment, health and primary education. Further, Cyprus according to the World Bank's 2012 Doing Business Report is in the 40th position this year instead of the 49th last year, as regards its global competitiveness. Finally, it is worth mentioning that in the Global Competitiveness Index, Cyprus is included in the innovation driven economies

In addition, the business environment has been improved due to the operation of the One Stop Shop and the simplification of procedures for setting up a company. In the One Stop Shop, interested parties can **set up a company within 3-4 days**. The setting up includes the registration of the Company, the registration to the VAT and to the Income Tax and the application for the issuance of residence and work permits. In addition it is worth mentioning the maintenance of a stable favorable tax system.

Significant improvement is expected with the transposition of the **Late Payment Directive** to the National Law, which is expected to be adopted by the Parliament by September 2012. The Draft Legislation provides that public authorities have to pay, each and every invoice for the acquirement of goods and services, within 30 days and the paying period for the transactions between enterprises should not exceed the period of 60 days. The adoption of the legislations is expected to improve the cash flow conditions for enterprises.

In respect to the business environment in Cyprus, there have been some substantial improvements by introducing a **new tonnage tax system in the shipping sector** and further by working on increasing Cyprus' appeal as a fund domicile. As a result, both the financial (investment funds) and the shipping sectors have been witnessing a growing interest in activity and interest.

Figure 8.2:



Source: Global Competitiveness Report 2011-2012

Cyprus has increased its transposition backlog and did not manage to meet the set target of 1% transposition deficit compared to previous successful rate of 1% in 2008. Yet, Cyprus has the lowest rate of incorrectly transposed directives (best compliance deficit) for 2011.

Another important bottleneck to growth and the competitive position of Cyprus is **the small market size** due to the island character of the economy that leads to comparatively limited competition and non-competitive pricing practices in certain sectors. The increased transportation costs of imports tend to raise the prices of locally produced commodities as well.

8.II KEY PRIORITIES AND MEASURES

A number of measures are promoted to increase the competitiveness of both the private and the public sector and tackle the bottlenecks, in line with the priorities set by the 2012 Annual Growth Survey.

A. Improving the Competitiveness of the private sector and restructuring the economy

2012 Annual Growth Survey Priority: Measures for the restoration of normal lending to the economy

1. National Guarantee Fund for SMEs: The setting of the Cyprus National Guarantee Fund for Small and Medium Enterprises (“CYNGF for SMEs”) is an initiative developed jointly by the EIF, the EIB and the Ministry of Finance. The purpose of the CYNGF is to facilitate SME’s access to finance, through the provision of guarantees to SME loans, thereby stimulating growth, encouraging innovation and entrepreneurship and enhancing job creation in Cyprus. In February 2012 a joint technical mission of the EIB and EIF visited Cyprus to review the progress of CYNGF’s establishment, identify potential issues and contact a market assessment with the main banking institutions in Cyprus regarding the need for an SME guarantee scheme. Currently, all three parties are in the final stage of evaluating the results from the market assessment. There is a strong will and support from the Cypriot authorities for implementing the scheme until summer.

2. JEREMIE Initiative: In order to improve SMEs access to finance, a total budget of €20 mln from the EU Structural Funds was allocated for the implementation of the JEREMIE initiative for SMEs in Cyprus. Through an agreement signed with the European Investment Fund (EIF) in April 2009, two products have been designed, the “Funded Risk Sharing Product” (FRSP) and the “First Loss Portfolio Guarantee Product” (FLPG), with the aim to offer new loans to SMEs with lower interest rates, longer loan repayment and grace periods and potentially lower collateral requirements. Calls for Expression of Interest have been already completed for both products.

The first Call resulted in an Operational Agreement between the EIF and the Bank of Cyprus (BoC), which was signed in September 2010, followed by the launching of the FRSP in the market in January 2011. Based on this Agreement new loans of €20 mln, up to €100,000 per enterprise, are been provided to Micro and Small enterprises in Cyprus with the co-financing of

the JEREMIE funds (€10 mln) and the BoC's own resources (€10 mln). Up to 29 February 2012, the BoC has approved 112 loans under this product, for a total committed principal amount of more than €15 mln, out of which around €9,1 mln have been disbursed to eligible SMEs, with repayments of principal and interest already taking place.

With regards to the 2nd product (FLPG), on the 18th of April 2011 EIF signed two more Operational Agreements with the BoC, whereby JEREMIE Holding Fund would provide guarantee to two new SME loan portfolios that will be created by BoC. Portfolio A will comprise eligible loans to start-ups and newly established micro and small enterprises while Portfolio B will comprise eligible loans of Micro and Small enterprises with business history of more than 36 months. Given the coverage provided by JEREMIE resources of €8 mln (covering up to 50% of potential losses on a loan-by-loan basis, and up to 31%-33% on a portfolio basis), BoC bank has been committed to provide new loans of around €50 mln to the SMEs in Cyprus, especially start-ups (€35 mln to Portfolio A), with significantly improved collateral requirements. The FLPG was launched in the market by mid-October 2011 and up to the 29th February 2012 the BoC has approved 8 loans for a total committed principal amount of €450.000, out of which €250.000 have been disbursed to eligible SMEs under both Portfolios A and B.

Slow progressing under JEREMIE financial instruments is indicative of the deteriorating economic conditions in Cyprus, as a result of the global economic crisis, and the consequent uncertainty over business activity which resulted in a shift from borrowing for investment and expansion to almost exclusively borrowing for working capital needs (i.e. to address day to day operating expenses). New provisions under Commission Regulation (EU) 1236/2011 are expected to provide new incentives and, in line with additional publicity measures undertaken by the BoC in 2012, to effectively increase demand for JEREMIE products.

B. Measures to promote growth, increase employment and competitiveness

1. Scheme for grants to strengthen the competitiveness of SMEs in the manufacturing sector: The scheme aims at the financial support of the companies in the manufacturing sector in order to upgrade their technology and to promote innovation. The total budget is €23 mln for the programming period 2007-2013 (co-financed by Structural Funds (85%) and the Republic of Cyprus (15%). By the end of 2011, €11,5 mln have been granted to 197 eligible applicants. The remaining funds will be allocated among applicants whose applications have already been approved or are currently under evaluation. In addition, 230 new job positions have been created and 9 new manufacturing entities have been established.

2. Schemes for the enhancement of women and youth entrepreneurship: (schemes analysed in Chapter 9 "Employment and Skills").

3. Promotion of Innovation: Measures analysed under Chapter 4 "Innovation" comprise (i) the Scheme for the Promotion of Innovation, (ii) a Policy for Innovative Entrepreneurship, (iii) activities promoting the establishment of technological platforms.

4. Subsidy scheme to facilitate the shift from low productivity jobs to high productivity jobs: (See Chapter 9 "Employment and Skills").

5. Grant scheme for the modernisation of units for the manufacturing and trading of agricultural and forestry products: The scheme aims at the financial support of enterprises operating in the sectors of manufacturing and trading of agricultural and forestry products, in order to invest in new machinery/equipment and the transfer of know-how. The scheme aims at the creation of new and viable SMEs, as well as the creation of new jobs especially in rural areas. The scheme is co-financed by the European Agricultural Fund by 50%. The total budget for the programming period 2007-13 is €24 mln. By the end of 2011, €5,8 mln have been granted to 73 eligible applicants. The remaining funds will be allocated among applicants whose applications have already been approved or are currently under evaluation. In addition, 116 new job positions have been created.

6. Attracting Increased Foreign Investment: The Government in its effort to promote Cyprus as an attractive international investment centre, created the Cyprus Investment and Promotion Agency (CIPA), which contributes to the promotion of Cyprus as an international investment and business centre. The Agency also places Cyprus on the international business radar screen as a competitive regional hub in a wide range of sectors, thereby facilitating foreign investments in these sectors.

The promotion by CIPA of large scale integrated development projects contributes to the positive investment climate of the country and generates investment interest. CIPA also promotes the Digital Strategy for Cyprus 2011-2020 to foreign investors for the attraction of investment in Information and Communication Technologies. The Organization also works closely with the Network of Academic Institutions in Cyprus enabling the collaboration between foreign investors and Academia for joint R&D projects and the recruitment of University graduates in Cyprus. CIPA through its worldwide network of partnering organizations actively promotes for foreign investment Renewable Energy projects, thus helping Cyprus to reach the EU climate targets.

7. Competition and Consumer Protection Service: Its main objective is the protection of consumers' health, safety and economic interests, by creating a competitive environment throughout the domestic market. This objective is normally achieved through effective enforcement and redress, the monitoring of consumer markets and the education of consumers, through the provision to the consumers of all the necessary information in order to exercise their rights, including their right of choice. Additionally, the Service operates a toll free telephone line, through which the consumers can receive information with regard to their rights and submit complaints for further investigation. The Service also continues the campaign on the "Price Observatory" (firstly launched in 2007) of basic consumer products, in an effort to safeguard conditions of healthy, effective and efficient competition between retailers and protect consumers' rights through price transparency. Additionally, the Service hosts the following European Networks: Internal Market Information System (IMI), SOLVIT, RAPEX and European Consumer Centre Cyprus (ECC Cyprus).

C. Improving the Tourist Product

The **tourism sector** continues to constitute an important component of GDP, accounting to 10% of GDP in 2011, even though losing in importance, compared to the 20% share in 2000. After reaching a plateau during the period 2006-2008 with 2,4 mln tourist arrivals per year, it recorded double-digit losses (-11%) in 2009, as a direct result of the worldwide financial crisis. The

rebound in tourist arrivals started in 2010, registering a slow return to growth with arrivals increasing by 1,5%, which was followed in 2011 by a more significant increase of 10%. Similarly, tourism receipts were also affected with the 2009 figures showing a 17% decrease. The final results for 2010 indicate a 4% upturn, followed by a 13% increase in 2011, due to the political upheaval of competing destinations in the region.

As a tourist destination, Cyprus has to address weaknesses which relate to delays in the implementation of large-scale projects, ageing of the tourist product, increasing operational costs and employment of non-native speakers, lack of strong brand image and aggressive competition from competitive East Mediterranean destinations, which are not bound by EU state aid restrictions, thus being in a position to influence organized tourist traffic to the area. At the same time, the fast pace with which the changes in the external environment are evolving such as the climatic changes, the attraction of foreign investments, the increasing bargaining power of the tour operators, the competitive position of destinations with the same product offer, seasonality, constitute the main factors that have been taken into account, when finalizing the Tourism Strategy for the period 2011-2015.

1. Tourism Strategy 2011-2015: It aims at the enrichment, upgrading, modernization, and enhancement of the tourist-product and services, within the scope of sustainable tourism development. It focuses on marketing, product development and quality-value added and is in line with the directions of the Commission Communication 352/2010, and its four axes in particular. Emphasis is given on (a) shaping-up a multi-dimensional tourist offer, (b) actions towards increasing accessibility and the use of electronic marketing, (c) enhancing the regional dimension by redefining the role of the regional tourism bodies, (d) maximising the potential for funding opportunities from EU structural and other funds for tourism actions. 2011 has been the 1st year of its implementation. Most of the actions were of a preparatory nature and have been executed. Budget constraints are envisaged to slow down the pace of implementation in 2012.

D. Improving the Efficiency of the Public sector : *Priority of the 2012 annual growth Survey*

The performance of the **Public Sector** is a decisive factor in influencing the overall operation of the socio-economic system. Public administration reform is a key instrument to effectively face key challenges that arise as a result of technological developments, changing perceptions, increasing expectations of citizens and businesses and the need to be more cost-efficient, in the midst of the economic crisis.

The public sector in Cyprus attracts highly competent and well educated personnel with a wide range of experiences. It is noteworthy that, almost 62% of the civil servants hold at least a tertiary education certificate, whilst 38.4% of civil servants are university graduates². However, the major challenges relate to retaining and enhancing the professional quality of the public service, to minimize bureaucracy and to strengthen its administrative capacity in delivering concrete results. Public sector needs to increase its efficiency and effectiveness, via adopting strategies and techniques that will contribute to better formulate, implement and evaluate policies in its area of competence, as well as provide high quality services to citizens and businesses. The Public Administration and Personnel Department (PAPD) has set new priorities which are

² data from the Public Service Commission Report of 2010

concentrated in two major strategic axes; improving the operation of the public administration and the quality of services offered, and improving the management of human resources in public administration.

1. Re-organisation of public sector organisations and re-engineering/ simplification of their procedures: This is an EU funded project with a budget of approximately €2.2 mln, for strengthening the administrative capacity of the public sector which involves 5 different Departments, which deal, on a daily basis, with citizens and businesses: Public Administration and Personnel Department, Town Planning and Housing Department, Lands and Surveys Department, District Administrations and Labour Department. The project entails a number of studies that will be undertaken by private sector consultants, through the public procurement process. These studies involves measures which relate to the re-organisation of the departments (expected to end in August 2012), re-engineering and simplification of their procedures (expected to start in the first semester of 2012), introduction of benchmarking methodologies through which department's performance will be compared to other similar organizations in the EU (expected to start in the first semester of 2012) and implementation of Quality Management Tools.

2. Training programme for the development of skills for strategic leadership: The objective of the project is to enhance the strategy, leadership and management capacity of the Cypriot Civil Service through the provision of learning activities and support/coaching for the implementation of practical work-based projects involving real improvement in the work situation. The project which has a budget of €3.118.498 commenced in October 2009 and is expected to be fully completed by December 2015.

3. Citizen Service Centres : Further expansion of the institution of Citizen Service Centres (one-stop-shops) and improvement of their operation: Strategic plan for the establishment and operation of Citizen Service Centres (CSCs), fully utilizing ICT to provide multiple services from one point of contact/ location, based on the one-stop shop principle. There are seven CSCs operating in the island that offer more than 70 different services under one roof. Based on 2011 data, on average 3.138 services are offered to citizens on a daily basis and receive approximately 1.194 calls per day (20% increase compare to 2010).

4. Contact Centre for the Public Administration: Establishment and operation of a Contact Centre for the Public Administration, that will ensure the provision of consistent and comprehensive information to citizens and businesses, over the phone, by fax and by e-mail, that relate to the competences of different public sector agencies/ organisations e.g. when, how and where the citizen can apply for specific services or benefits. This is an approximately €800.000 budgeted project, co-financed by the European Social Fund (85%) and aims at the direct provision of information to citizens, businesses using various means, to the improvement of the quality of services and reduction of administrative burdens to citizens and businesses, so as to achieve uniform implementation. Recording and standardization of approximately 500 procedures has already been done. The competition for the setting up and operation of a Contact Centre will be procured within the first quarter of 2012 and it is expected to operate during the first quarter of 2013 and receive approximately 2.000 calls on a daily basis.

5. Better Regulation: Better Regulation (BR) promotes the reduction of bureaucracy by simplifying legislation and complex government procedures and has as main objective the modernization and the effective operation of public sector. A National Action Plan has been set

and is under operation as from 2007 and is reviewed at regular intervals, by the Central Specialized Unit (CSU) for the Improvement of BR in the Ministry of Finance, which works closely with liaison officers from all Ministries / Services.

Cyprus has **set 20% as its national target for reduction of AB** in the national legislation, as it derives from its commitment to the European Commission. For achieving this target, the Ministry of Finance in November 2009 started a pilot programme for the Reduction of Administrative Burdens in all legislation of the Republic from 1960 to 2007. The project was completed in April 2011. Eight national priority areas were identified, through a series of meetings with the private and the public sector based on specific criteria: Department of Civil Registry and Migration (including legislation for foreign workers under the Employment Division of the Department of Labor Alien Labor), Department of Agriculture, Department of Inland Revenue, Department of Registrar of Companies and Official Receiver, Department of Social Insurance, Department of Environment, VAT Service, and Department of Tourism. The Department of Town Planning could not be included since delays were caused by procedures and not by the law so it is restructured under another project. A number of reduction proposals have been submitted in each national priority area, which aims at reduction of the need for citizens' physical presence at governmental departments, through the promotion of electronic government, the simplification of tax return forms, the reduction of the obligatory period that businesses must maintain records for tax purposes, simplification of the procedures for the examination of applications and reduction of the frequency for submitting VAT returns.

In addition a horizontal reduction proposal was also submitted, concerning the promotion of the use of all existing electronic systems of the Public Service. The implementation of all reduction proposals has started, in cooperation with the relevant governmental departments. With the implementation of all proposals a 22% reduction of AB (€155.4 mln), will be achieved which corresponds to about 1% of national GDP.

6. Electronic Public procurement: The Government introduced the e-procurement system (e-PS) which is a user friendly, secure and interoperable web-based application, concentrating all Public Procurement opportunities in the Republic of Cyprus into one website. The e-PS constitutes a total solution for the implementation of electronic procedures in conducting public procurement competitions covering all processes and phases of the procurement process. It is administered and supported by the Public Procurement Directorate of the Treasury of the Republic of Cyprus. The e-PS promotes the participation of SMEs in Public Procurement through simplification and reduction of administrative burden and facilitates the participation of foreign economic operators, as it tackles interoperability issues. **The e-PS has ranked Cyprus 1st in the area of pre-awarding electronically**, amongst the 27 EU Member states, in accordance to Benchmark Measurement studies conducted on behalf of the European Commission for 2009 and 2010, and for this reason, in 2011, the e-procurement system was awarded the Cyprus Innovation Award by the Cyprus Employers and Industrialists Federation (OEB). Furthermore the Framework Agreements were introduced as a tool in the context of Collaborative Procurement functions with the aim to match the needs of the public purchasers with what the market has to offer, in order to achieve a win-win result. The end target is to make quality solutions available to satisfy the needs of the buyers, ensuring that the best value is obtained for the money spent. Sustainable public procurement is also promoted through the revision of the National Action Plan for **Green Public Procurement**, which was initially adopted in 2007. Its main aim is to include environmental considerations in the public procurements so as to boost the consumption of green products and services.

E. Implementation of Services Directive

1. Transposition of the Directive into national law: Cyprus adopted in 2010 a horizontal law to implement the Services Directive. By mid- March 2012, a significant number of sector-specific amending laws and regulations have been adopted by the House of Representatives, whilst a certain number of bills are pending before the House for adoption and a few are undergoing the final stage of legal vetting by the Law Office of the Republic. In particular, amending legislation concerning the discriminatory treatment of construction companies from other member states, amending legislation for car rentals and legislation eliminating bans on architects and engineers exercising their profession as legal persons are before the House of Representatives pending for adoption, whilst the amending legislation on tourism services is ready for submission to the House. Overall, about two thirds of amending legislation have so far either been already approved by the House of Representatives or are pending before the House for adoption.

2. Point of Single Contact (PSC): Within the scope of harmonization with the Services Directive, the Ministry of Commerce, Industry, and Tourism has established the Point of Single Contact (PSC Cyprus) in order to facilitate the establishment of businesses in the services sector and the cross border provision of services within the internal market.

The PSC Cyprus Portal (www.businessincyprus.gov.cy) provides comprehensive information regarding the administrative procedures and formalities required for the access to, and exercise of, service activities that fall within the scope of the Services Directive, including the horizontal procedures and formalities for setting up of a business in the Republic of Cyprus, such as income tax registration, VAT registration, Social security registration, registration of Companies, information on the economic and business environment, direct links to the Points of Single Contacts in Europe, and information regarding service recipients.

In parallel, through the PSC Cyprus Portal, online submission of application forms as well as tracking of ongoing administrative procedures is provided to registered users for some procedures and formalities related to the establishment of a business, such as Taxpayer's Registration or Social Insurance Scheme Registration, to the access to and exercise of service activities, such as the operation of a catering establishment or the engineering science practise, and to the temporary provision of services across border, such as the temporary provision of veterinarian services.

Notably, during 2011 the PSC Cyprus Portal received approximately 31.000 visits and 20.000 unique visitors, showing an increase in the range of 150% in the 2nd semester of 2011 compared to the 2nd semester of 2010.

F. Promotion of the concept of Corporate Social Responsibility (CSR)

Various steps are being made in the context of the promotion of **Corporate Social Responsibility (CSR)** in an effort to encourage the business sector and the public sector to undertake more actions towards achieving the targets on climate change, improving the working conditions of employees, providing high quality work and increasing trust among consumers.

With the aim to promote CSR in a concerted way, the Government has secured the services of Consultants in December 2011, in order to prepare a National Action Plan which must be submitted by July 2012. Consultants have been invited to propose actives that will help to promote CSR in both the private but also the public sector, including awareness raising, and **encouraging accountability**. To increase awareness a CSR network is promoted in cooperation with social partners. Already, the Excellence Awards is an annual scheme directed towards businesses of all sizes, aiming to promote equal opportunities in the workplace and work-life balance. Similarly, the **awards of businesses** established by the Government are granted on a bi-annual basis to enterprises that promote environmental protection and sustainable development in general.

9

EMPLOYMENT
AND SKILLS

INCLUSIVE
GROWTH

9. EMPLOYMENT AND SKILLS

National target:

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

Dropped to 73,8% in 2011 compared to 75,4% in 2010

Guideline 7: “Increasing labour market participation and reducing structural unemployment”

Guideline 8: “Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning”

CSR No. 5: Take further steps, within the reforms planned for the vocational education and training system to match education outcomes to labour market needs better, by including setting up a post secondary vocational education and training institute.

9.1 CURRENT SITUATION

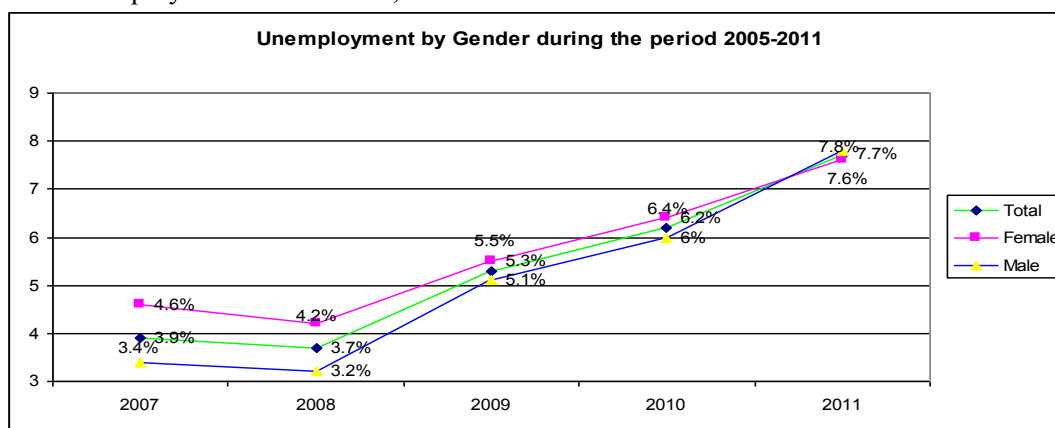
Until the end of 2008 and for over three decades Cyprus had enjoyed a GDP growth averaging around 4%, while in 2009, GDP contracted by 1,7% since the outbreak of the financial crisis, ,, in 2010 expanded by a mere 1%, in 2011 attained just 0,5% (estimation) while the forecast for 2012 is 0,2%. Consequently, in the period 2010 - 2011 there has been a further deterioration in the labour market attributed to the persistent economic downturn and contraction of economic activity.

These developments have led to substantial increase in unemployment, which is a new and unfamiliar phenomenon for the country that has traditionally enjoyed conditions of almost full employment. The unemployment rate³ between 2009 and 2010 increased from 5,3% to 6,2% (yearly average) whereas in 2011 rose to 7,7%. Based on EUROSTAT’s latest monthly seasonally adjusted forecasts, in February 2012 the Cyprus unemployment rate stood at 9,7% while the EU27 unemployment rate was 10,2%. The EU27 yearly average was 9% in 2009, and 9,7% in both 2010 and 2011.

The number of Cypriots in 2010 constituted 70,6% of the total number of the unemployed persons, while EU nationals represented 20,2% and others 9,2%. During the year 2011, Cypriots constituted 71,7% of the total number of the unemployed persons, EU nationals the 22,8% and third country nationals the 5,5%. In 2011, the unemployment rate of Cypriots was 7,1% (1,6 p.p. increase from 2010), for EU nationals was 12,9% (3 p.p. increase since 2010) and for others 5% (1,7 p.p. decrease since 2010).

³ Labour Force Survey data

Figure 9.1: Unemployment Rate Trends, 2007-2011

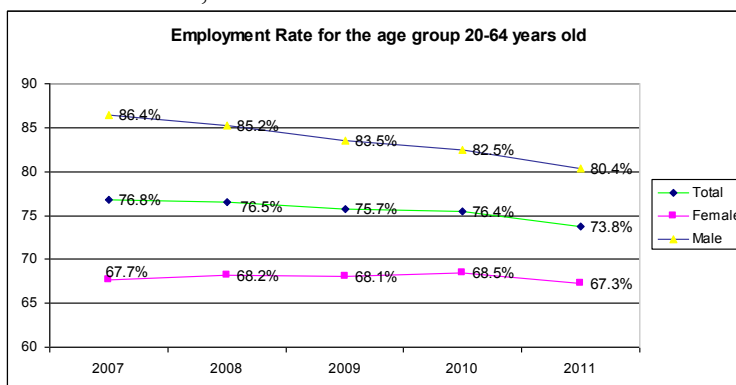


Employment growth followed the timid economic recovery of the past two years and resulted in a decrease of employment rate, from 75,4% in 2010 to 73,8% in 2011 (for the age group 20-64 years). According to the distribution of employment by sector, in 2011 the highest number of employed persons was concentrated in services with 74,7% in total employment, whereas industry followed with 21,4% and agriculture with only 3,9%.

During 2009, the first year of the recession, more male than female workers lost their jobs, given that the economic downturn affected primarily male-dominated occupations, namely, construction, real estate and tourism. The same phenomenon appeared in 2011 with a smaller difference (0.2 p.p.) between male and female unemployment, while the respective employment rates were 80,4% and 66,3% (age group of 20-64 years).

The population of the age group 15-24 is 92.634 (yearly average for 2011), out of which 52.273 are not available or not seeking employment, mainly because they are in education. Youth unemployment (age group 15-24 years) increased dramatically, from 16,7% in 2010 to 22,4% in 2011 (yearly averages). The respective employment rate for the above age group went down from 33,8% in 2010 to 29,3% in 2011.

Figure 9.2: Employment Rate Trends, 2007-2011



Cypriots⁴ represent 78,4% of total employment (a 1,1 p.p. decrease since 2010), EU nationals represent 12,9% of total employment (a 0,8 p.p. increase since 2010) and third country nationals 8,7% (0,3 p.p. decrease since 2010). The majority of non-Cypriots in employment are either in low skilled or unskilled occupations, while the majority of third country nationals are employed as domestic workers (in private households).

As regards the duration of unemployment, 56,9% of the unemployed were looking for a job for a period of less than six months, 22,2% for a period of 6-11 months, while 20,9% were looking for a job for 12 months and more (LFS, yearly averages 2011).

Observations with respect to immigration and Employment

1. The decrease of the employment rate is somehow connected to the large recent influx of workers from abroad:

There is no accurate data that supports the linkage between the decrease of the employment rate and the influx of foreign workers. However, during the last five years a decrease in the employment of Cypriot nationals and an increase in the employment of EU and third country nationals has been observed, which changed the composition of the labour force. Specifically, during the period 2007-2011 the number of Cypriot workers decreased from 324.121 to 294.322, whereas the number of foreign workers increased from 53.827 to 81.231 persons. This phenomenon has been associated to a certain extent with undeclared and illegal work. Since the latter cannot and it is not captured in national statistics it affects negatively the employment rate.

The evidence on a large number of illegal and/or undeclared workers employed in Cyprus comes mainly from two sources:

- The inspection mechanism put in place for fighting undeclared and illegal work: During the period 2009-2011 inspections were carried out for 7.500 employers, who employed 25.000 employees, out of which 11.286 (45%) were EU nationals and 2.674 (11%) were third country nationals. 26% of the 25.000 employees were undeclared. Out of the 11.286 EU nationals, 32% were undeclared and out of the 2.674 third country nationals, 53% were illegal.
- The PES District Offices – since the beginning of the economic crisis a large number of EU citizens was register at the PES offices. A significant proportion of these was working undeclared during the previous years. Specifically, during 2011, every month around 1.000 new persons were registered at PES as newcomers, out of which one third were EU nationals. The majority of the latter group is persons who were previously employed but were working undeclared so no previous record of employment was available.

⁴ Labour Force Survey (yearly averages of 2011)

2. Possible link between the recent increase of immigration and the displacement of domestic workers

Figure 9.3 below demonstrates that during the period 2008 -2011, a decreasing trend is observed among Cypriot employees while the exact opposite can be observed among EU national. The net effect of these trends is demonstrated in Figure 9.4.

Figure 9.3: Number of employed per year

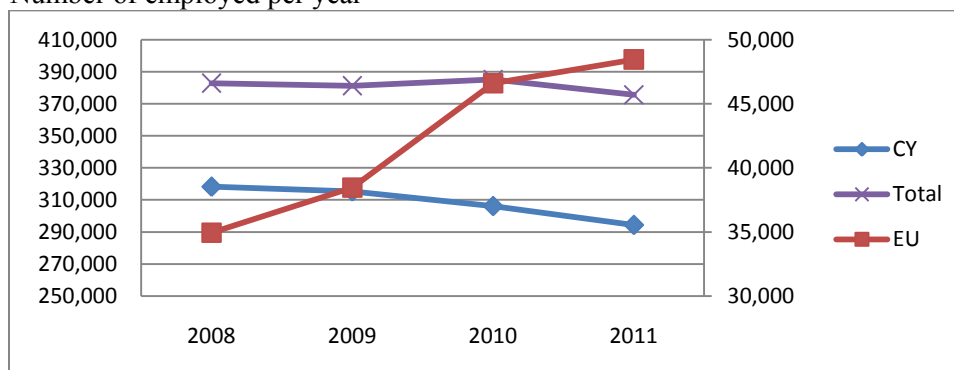
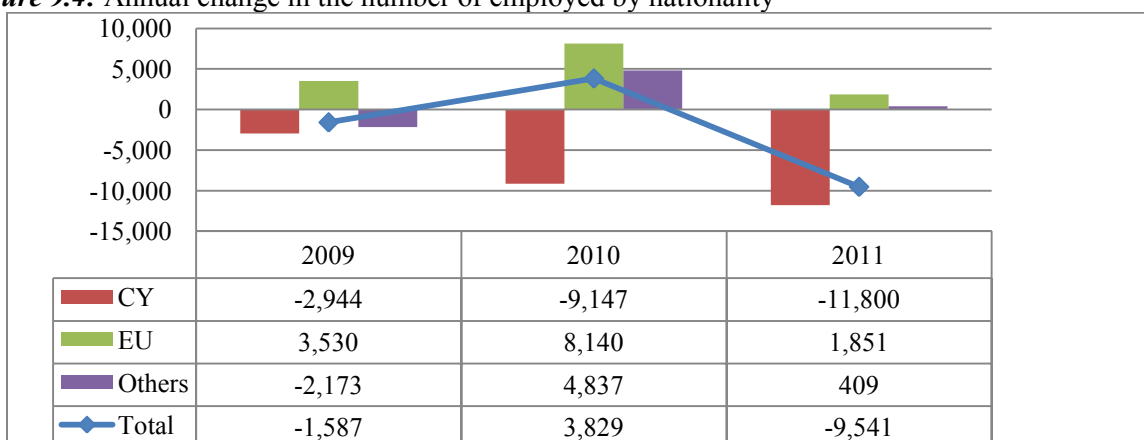


Figure 9.4: Annual change in the number of employed by nationality



As it can be seen in Figure 9.4 above, in 2009 the number of overall employed decrease by 1.587 persons. This decrease is completely attributed to the decreases observed in the numbers of Cypriot workers and others (2.944 and 2.173 persons respectively) since the number of EU nationals increased (by 3.530 persons). At the same time, the total number of unemployed in Cyprus increased by 6.802 persons, out of which 4.679 were Cypriots.

The displacement of Cypriot workers is even more evident in 2010, as while the total number of employed persons increased by 3,892 persons, the number of Cypriots decreased by 9,147 persons, while the number of foreign workers (EU and others) increased by 12.977 persons (8.140 and 4.837 persons respectively). Again, at the same time, the total number of unemployed in Cyprus increased by 4.047 persons, out of which 2.372 were Cypriots.

A similar picture is also evident in 2011. While the total number of employed decreased by 9.541 persons, the number of foreign workers increased by 2.260 persons (Cypriots decreased by 11.800 persons). At the same time both the number of unemployed Cypriots and the number of EU nationals increased (see Table 9.1), while the number of other slightly decreased. These data combined lead to the following conclusions:

1. Cypriots and EU nationals who have been working in Cyprus for some time are being replaced by new EU nationals
2. Possibly EU nationals started to also replace third country nationals (others)

Table 9.1: Annual change in the number of unemployed by nationality

	2009	2010	2011
CY	4,679	2,372	4,654
EU	1,135	1,514	2,048
Others	987	162	-605
Total	6,802	4,047	6,098

Bottlenecks:

1. Labour Market Participation

- (a) Labour market participation is still considered to be low, given the challenge of ageing population. Increasing female labour market participation in order to achieve the national employment target seems to be a feasible solution.
- (b) Factors that discourage women's labour market involvement include gender inequality of pay and persistent occupational gender segregation. Gender stereotypes and traditional attitudes regarding the roles of women and men in the family and society impose obstacles to the increase of labour supply.
- (c) Youth unemployment and long term unemployment continue to pose a major challenge despite the fact that various measures have been promoted to address the problem. The contraction of economic activity due to the persistent economic crisis resulted in the increase of long-term unemployment (12 months and more) from 20,4% in 2010 to 20,9% in 2011. Youth unemployment is particularly alarming since it has increased from 16,7% in 2010 to 22,4% in 2011 (age group 15-24 years old).

2. Work-Life Balance

- (a) Insufficient provision of high quality and affordable care facilities for children and other family dependents hinders labour market participation, especially for women. The cost of childcare in relation to average wages is relatively high. The recently restructured public transport needs more time in order to increase the number of routes offered to the public.

- (b) The number of people using flexible forms of employment is still very low compared to European averages and consists mainly of women, despite the efforts for promoting flexible forms of employment that started during the previous programming period 2004-2006 and continue during the current programming period.

3. Active Labour Market Policies

- (a) Despite the efforts for increasing the capacity of the Public Employment Services (buying services), the vast rise in unemployment together with budget austerity measures have affected the ability to respond timely to the needs of the unemployed.
- (b) The small size and segmentation of the labour market constitutes an obstacle to the introduction and/or prioritisation of cost effective activation measures.
- (c) The measures taken for reconciling the budget, limit the available resources for financing additional growth measures which are expected to fuel employment.

4. Skills supply and productivity/education and training systems

- (a) The intensity of the recession and consequent job reallocation has further intensified the polarisation of jobs by destroying medium-paid jobs in manufacturing and construction. At the same time, educational and skills profiles tend to become more demanding, thus compromising the chances of reemployment and access to well-paid jobs for lower skilled people who lost their jobs during the recession.
- (b) Although there are well-developed and flexible structures for providing training, the small size of the labour market, the limited mobility of the labour force together with the highly diversified economy, limit the possibility for the provision of adequate and cost effective training opportunities.
- (c) The employment of low skilled or unskilled workers for almost two decades, originally from third countries and more recently from EU Member States, has resulted in the delay of the modernisation of the local enterprises (use of advanced technologies and new/innovative working methods, and diversification to highly added value activities) and in maintaining low-skilled jobs. Non-Cypriots amount to 21,6% of the labour force. The massive influx of foreign workers, especially in the sectors of hotels and restaurants, construction and manufacturing, had a dampening effect on wages and kept productivity in the relevant sectors low while work became less attractive for national workforce. The employment of foreign workers is often associated with undeclared and/or illegal employment.
- (d) Cyprus is the third country in the world in terms of tertiary education graduates relative to its population. Yet, the economy, due to the above described situation, does not create sufficient high-skilled jobs for university graduates and at the same time the island suffers from brain-drain (at an estimated rate of 20%).
- (e) Unattractive working conditions and stereotypes lead to avoidance of certain occupations, such as technical and care-related, hence the low attractiveness of technical and vocational education.

9.II KEY PRIORITIES AND MEASURES

1. KEY PRIORITIES

1A. Increase labour market participation

Promote the improvement, in terms of quality and quantity, of the job matching, job searching and career guidance services for achieving rational use of the labour force and combating segmentation, facilitating at the same time the participation of specific groups such as the young, the long-term unemployed and the female labour force, the low-skilled and the disadvantaged groups in the labour market and utilising education and training as a major tool for matching the economy's needs.

In order to strengthen the participation of women in the labour market, the issue of balancing work and family life is being addressed, including a scheme providing support to women to re-enter the labour market (see Chapter 10 "Fighting Poverty").

Improve management of immigration and asylum issues through a comprehensive immigration and asylum policy, including the integration of legal immigrants into the society while bearing in mind the small size of the local labour market and the volatility that such small size entails and aiming to keep admission inflows to numbers and volumes corresponding to the country's employment needs and reception capacity. Combat illegal and undeclared work associated with the large inflows of third country nationals and asylum seekers by strengthening prevention and inspection mechanisms.

1B. Exploit job creation possibilities

Enhance the competitiveness of enterprises, improve their adaptability and increase their productivity as a means of creating more and better jobs. Exploit the potential of the economy for green jobs, white jobs and knowledge-based services, not only for the purpose of increasing general demand, but also for creating high-skilled jobs for the utilisation of the highly-qualified indigenous labour force.

Encourage entrepreneurship as a means of creating more and better jobs, and contributing to the diversification of the economy.

Combat illegal work as a means of creating jobs.

1C. Improve the education and training systems

Restructure the education system to enable it to respond more effectively to the changing work environment, improve the attractiveness of technical education and reduce the number of early school leavers. Strengthen the link between the education and training systems with labour market needs and facilitate the adaptation of the labour force skills to the labour

market needs, within the lifelong learning strategy, in order to match supply and demand more effectively (see also Chapter 5 “Education”).

1D. Make work more attractive

Address all forms of discrimination in the labour market, and specifically the gender pay gap, through comprehensive measures for tackling, in an integrated way, social, occupational and educational causes that underlie this gap and relevant discrimination. Pay also attention to the working environment, including the improved operation of health and safety committees at the workplace.

Tackle unfair competition between national and member state workers by combating undeclared work.

2. KEY MEASURES

2A. Measures in response to the economic recession

For tackling the consequences of the economic recession, new measures or modification of existing ones were introduced with a three year time frame of implementation, 2009-2011 aiming at:

1. Promotion of job retention, job creation and employability improvement of the unemployed, through training. Among the measures implemented, the following were included:

- (a) A subsidised employment scheme for the unemployed, concluded by the end of June 2011 which facilitated the employment of 1984 unemployed persons out of which 1131 were subsidized by the scheme, although the initial target was 850 persons.
- (b) A subsidised employment scheme for the disadvantaged was concluded by the end of 2011. The scheme facilitated the employment of 1.419 unemployed persons out of which 864 were subsidised by the scheme. The initial target was 750 persons. This particular scheme had been adapted twice on the basis of the developments in the labour market developments to facilitate the employment of the young, the older workers and the long-term unemployed.

Both schemes with a total budget of €15 mln were co-funded by the ESF.

2. A Company Incentive Project for the enhancement of employment of the unemployed with a total budget of €8 mln, co-funded by the ESF aiming primarily to job retention and secondly to job creation.

3. A Job placement and training of unemployed Cypriots and EU nationals to fill vacancies and/or replace labour from third countries which facilitated the participation of 683 unemployed

in 2011 with total expenditure of €3,2 mln. The implementation of this scheme has been extended for 2012 and has been modified in order to target the long-term unemployed.

4. Training programmes for upgrading the skills of the unemployed which facilitated the participation of 854 persons with total expenditure of €0,5 mln. The implementation of this scheme has been extended for 2012.

5. In company/on the job training programmes for the prevention of layoffs which in 2011, facilitated the training of 3.336 employees with a total expenditure of €0,44 mln. The scheme is ongoing.

6. Further enhancement and modernisation of Public Employment Services (PES). Actions will be promoted towards strengthening PES administrative and technical capacity, improving the monitoring of developments in the labour market and upgrading the quality of services provided by private employment agencies. It also includes actions to strengthen the individualised guidance services offered to the unemployed as a response to the negative impact of the economic crisis. The implementation period is 2010-2015 with a total expenditure of €6,9 mln co-funded by the ESF (85%).

2B. Measures for the promotion of Youth employment

1. Job placement and training of young unemployed tertiary education graduates: An existed scheme being implemented on an ongoing basis, which has been modified to respond to the current situation in the labour market and has been identified as a best practise. The scheme facilitated the placement in 2011 of 544 young graduates with a total expenditure of €4,6 mln.

2. Accelerated initial training of newcomers and other unemployed people, targeting mainly the young. During 2011, 392 persons had participated in the scheme with a total expenditure of €1,1 mln.

3. New modern Apprenticeship scheme with a total budget of €16,4 mln to be co-funded by the ESF. The preparatory work has been concluded and the 1st year of the core Apprenticeship will be launched in September/October 2012.

4. Subsidy scheme for the promotion of employment and in company training of Apprenticeship System Students with a total budget of €4,5 mln of which 85% will be co-funded by the ESF. The scheme was launched in July 2010 and subsequent calls for application are foreseen every year.

5. Scheme for the enhancement of Youth Entrepreneurship with a total budget of €6 mln, allocated already to 153 new enterprises which are all at the stage of implementation. The scheme is co-funded by ESF (85%).

6. In addition to the above measures which are in line with the priorities set in the AGS of 2012 and the guidelines of the Youth Opportunities Initiative, a new subsidised employment scheme, targeting the young and the long term unemployed will be launched on the 4th of May 2012. The

scheme which has been formulated in consultation with the social partners has already been approved by the Council of Ministers. The scheme will have a budget of €8 mln and 80% of it will be co-funded by the ESF.

2C. Measures for the attainment of the National EU 2020 headline target for employment

These measures have a timeframe of implementation of five years, 2010-2014 and are expected to have a direct effect on the effort to reach the national employment target. They are listed under two of the key policy areas identified, namely «Increase Market Participation» and «Exploitation of Job Creation» and include training measures for enhancing the employability of the targeted population and/or measures for directly or indirectly creating new jobs. The total budget for these measures reaches €33.350.000 out of which €20.667.500 will be co-funded by the ESF.

1. Training measures

- (a) Improve the employability of economically inactive women and of unemployed persons, through offering opportunities for participation in training activities and work experience, targeting 2.275 inactive women and 3.300 unemployed with a total budget of €12 mln.

During 2011, 552 inactive women and 855 unemployed participated in both schemes with a total expenditure of €3,1 mln.

- (b) Improve the employability of 1.300 persons belonging to vulnerable groups through the development of their social skills and activate them to join the labour force. The actual expenditure was €2,9 mln in 2011.

2. Job Creation Measures

- (a) Attract people in the labour market through the promotion of flexible forms of employment. The total budget of €3 mln allocated to the scheme has been allocated to projects funded under the scheme facilitating the employment of 270 people.
- (b) Scheme for the enhancement of women's entrepreneurship with a total budget of €5 mln, which have been allocated to 134 new enterprises/ projects which are all at the stage of implementation. The scheme is co-funded by the ESF (85%). A similar scheme targeting the Youth has been described under the respective section above.
- (c) Scheme for facilitating the shift from low productivity to high productivity jobs with a total amount of approved subsidies €2,7 mln, has already been allocated to 43 projects.
- (d) Two projects for improving the productivity of SMEs and enhancing the competitiveness of micro enterprises with a total budget of €4,55 mln, out of which €3,87 will be drawn from the ESF. With a total expenditure of €807.000 in 2011, 206 SMEs and 267 micro enterprises have participated in the two schemes respectively.
- (e) Within the framework of reconciling family and work life, subsidised social care services aim to attract 1.200 women in the labour force. The budget allocated is €3,4 mln co-funded by the ESF. For 2012, the amount of €0,5 mln has been budgeted.

- (f) Combat undeclared and illegal work through the enhancement of Inspection mechanisms. The Cyprus Government proceeded in 2009 to the creation of four groups of inspectors for duties regarding undeclared and illegal work. Until now 8000 employers have been inspected and 26000 employees. The 25% of employees is found to be undeclared. Furthermore lately a modification to Social Insurance Law provides for the employer's obligation to inform the Ministry of Labour & Social Insurance about new recruitments before the beginning of employment. Given the extend of undeclared work, further measures are also discussed and certain proposals are expected to be approved by the Council of Ministers. Mainly undeclared work in construction sites for public works we will be more thoroughly inspected. "
- (g) New Scheme for the Enhancement of Entrepreneurial Innovation: this scheme provides for financial aid (grant scheme) to SMEs that will introduce to the market and/or the public sector innovative products and services. These SMEs can be developed either by themselves or by cooperating with other SMEs (especially innovative R&D SMEs) or Applied Research Centers. The measure has been submitted to the Planning bureau, and the other authorities for approval. It has been approved by the General Accountant, the Ministry of Agriculture and Environment, the Ministry of Labour and the Commissioner of Public Aid. It is pending approval of the Planning bureau. The measure will be implemented by call of proposals in 2012 and in 2013 though the projects will end at 2015. The budget for the Scheme is €4 mln (co-funded by the ERDF at 80%) and the aim is to grant 40-50 enterprises (also see Chapter 8: "Competitiveness", Improving the competitiveness of the private sector and restructuring the economy).

2D. Measures in response to Country Specific Recommendations:

CSR No. 5: Take further steps, within the reforms planned for the vocational education and training system to match education outcomes to labour market needs better, by including setting up a post secondary vocational education and training institute.

1. **Post Secondary Institutes of Vocational Education and Training (PSITVE)** are envisaged to be established by 2012 in order to increase the number of people attending Technical Vocational Education so as to decrease skills mismatch. Estimated Budget for the establishment of PSIVET is €4,4 mln, co-funded at 85% by the ESF.
2. **Restructuring the education system and modernising the content of education** by modernising and upgrading the curriculum for all public schools (from pre-primary to upper secondary education. The estimated budget for the implementation of the new curriculum is €1,5 mln per year (2011-2016), and the estimated budget of the Pre-service Training of Candidates for Appointment Teachers of Low and Upper Secondary Education is €15.1 mln co-funded by the ESF (85%). The estimated budget of the In Service Training is €5,7 mln co-funded by the ESF (85%). The general target is to reduce the rate of early school leavers to 10% by 2020 [for measures (1), (2) and (3) below, (also see Chapter 5: "Education").
3. **Measures facilitating the integration of students at risk in the school system** with a total budget of €21,6 mln co-funded by the ESF (85%). The measures include the Programme for

targeting Early School Leaving, Young Delinquency and Antisocial behaviour as well as Special Induction Programmes for Migrants.

4. Upgrading Vocational Education and Training measure which responds to the policy objectives for increasing the attractiveness of Technical and Vocational Education and matching the specialisations offered with the current needs of the labour market. The implementation period is 2012-2015 with no estimated budget at present. The national target is the establishment of an interdisciplinary Career Counseling Service as regards to vocational guidance for the wider public, as well as the establishment of a National Forum for Career Guidance.

5. The implementation of the second phase of the establishment and operation of a **Vocational Qualifications System (VQF)**, which covers the period 2007-2015, the development of 80 new standards in priority occupations at various levels, is envisaged and opportunities for access are expected to be provided to employees, unemployed and economically inactive persons. 7.000 persons will benefit from the system during the period 2007-2015 with a total budget of €7,5 mln, co-funded by the ESF (85%).

6. A new scheme entitled «**Scheme for the support of Infrastructure and Systems for the Development of Human Resources**» aims to develop centres providing services to enterprises, cooperation amongst them, development of training infrastructures and common technologies. The estimated budget for 2011 is €400,000.

7. Introduction of a system for the **assessment and certification of training providers** including trainers. The project is expected to be completed in 5 stages over a period of 36 months with a budget of €212.000 for 2011.

8. Scheme for the **promotion of innovation in training and development of the human resources** which aims to encourage enterprises and organisations to prepare and implement proposals that will include research and development of innovative ideas. The budget for 2011 was €500,000.

9. Other measures such as the **New Apprenticeship Scheme** have been described under other headings above.

2E. Measures for tackling the rest of the identified Bottlenecks

1. Knowledge of the anticipated needs of the economy in terms of employment and training needs through a series of annual and ad hoc studies and surveys, such as the surveys for the identification of technical and vocational training needs of enterprises, the attractiveness of Vocational Education and Training (VET) in Cyprus, the study for the identification of the skill needs of the economy, the long-term employment forecast and the study on the anticipation of green skills needs.

Taking into account the results of the later study, a special action plan has been developed with the aim of promoting green skills in the Cyprus economy.

2. Improve Attractiveness of Work/Gender Equality: Reducing gender pay gap through the promotion of a broad mix of measures which include specialised training programmes for equal pay inspectors, the establishment of a Gender Equality Certification Body, as well as measures for eliminating occupational and sectoral segregation, such as interventions in education issues, campaigns for raising awareness on equal pay, training programmes for trade unions and employers associations, and development of manuals, guides and codes of practice for managers and human resource professionals.

The above activities are laid down in the implementation of the “Gender Equality Action Plan” covering the period 2007-2013. The set target is to reduce by 2015 the gender pay gap by 5 p.p., down to 18% from 23% where it stood in 2009.

3. Immigration policies: Implementation of the Immigration Strategy which has been formulated aiming to regulate legal immigration on the basis of the National Employment Strategy and the labour market needs in general, to integrate legal immigrants into the society under conditions of increased social cohesion, to combat irregular immigration and illegal and undeclared employment, to provide international protection to people in need and at the same time combat the abuse of the national asylum system, to combat trafficking and to guarantee human rights and dignity for all members of society and fight racism and xenophobia.

Implementation of the action plan for the integration of third country nationals, adopted in 2010 -2012 on the basis of the abovementioned strategy, which includes actions in a number of sectors of everyday life, such as education, vocational training, learning of the Greek language, health, information and more.

In its effort to implement the measures and actions dictated by the above strategy, the country will make use of the ESF, the Refugee and the Integration Fund expecting to draw annually from the funds the amount of €8,5 mln.

10

FIGHTING POVERTY

INCLUSIVE
GROWTH

10. FIGHTING POVERTY

National target:

Reduce the number of people at risk of poverty and social exclusion by 27.000 people or decrease the percentage of people at risk of poverty and social exclusion from 22,2% in 2008 to 19,3% by 2020.

Increased from 22,2% (176.000 people) in 2009 to 24% (191.000 people) in 2010

Guideline 10: “Promoting social inclusion and combating poverty”

10.1 CURRENT SITUATION

From 2009 to 2010, an increase in overall indicators has been noticed⁵, especially as regards children and particularly children between the ages 6-15, and adults aged 25-49. At the same time, older people’s overall performance has noted an improvement. While the people living in low work intensity households has not shown any variance in the 2010 EUSILC results, the working people’s disposable income has not moved up at the same pace as that of the elderly people (65+).

Having in mind that the data for the at risk of poverty rate refers to 2009 economic year and that the economic crisis had been more prominent in Cyprus during 2010 and 2011, we can assume that the increase in social insurance contributions (a measure introduced in 2009 for the sustainability of the pension system), has contributed to the reduction of the rate of increase of working people’s incomes. However, material deprivation results are based on 2010 data and we can assume that they are showing a clearer picture of people’s fear for the consequences of the crisis.

More specifically, the 2010 EUSILC analysis shows that Cyprus exhibits quite considerable high percentages in especially two material deprivation items: holidays and inability to face unexpected expenses with results reaching more than 40%. Furthermore, more than 20% of the population declare unable to keep the house adequately warm⁶ and around 19% of the population have great difficulty in making ends meet⁷, with single parents exhibiting the highest results in all the above items and second highest are families with 3+ children.

Next year might also not look so promising as it will portray the 2010 situation where according to the Labour Force Survey, the unemployment rate between 2008 and 2010 rose from 3,7% to 6,2% (yearly average) whereas in 2011, the yearly average stood at 7,7%. Based on EUROSTAT latest monthly seasonally adjusted forecast in February 2012 the Cyprus unemployment rate

⁵ At risk of poverty or social exclusion has increased from 22,2% in 2009 to 24% in 2010. The at risk of poverty rate increased from 16,2% in 2009 to 17% in 2010, The number of people living in severe material deprivation has increased from 7.9% in 2009 to 9.1% in 2010. The number of people living in zero or low work intensity households remained the same.

⁶ This item is included in the list of items which comprise the EU2020 severe material deprivation indicator

⁷ This item is not included in the list of items which comprise the EU2020 severe material deprivation indicator

stood at 9,7%, while the EU27 unemployment rate was at 10,2%. The substantial increase in unemployment was a new and unfamiliar phenomenon for the country, which traditionally enjoyed conditions of almost full employment. The overall employment rate fell from 75,4% in 2010 to 73,1% in the third quarter of 2011 (for the age group 20-64 years). Furthermore, youth unemployment followed the European trend and increased significantly, from 16,7% in 2010 to 22,3% in the third quarter of 2011 (for the age group 15-24 years). The respective employment rate for the above age group went down from 33,8% in 2010 to 27,8% in the third quarter of 2011.

Cyprus actions towards combating poverty and social exclusion of the population follow a comprehensive and long-term approach, which is interrelated with the other EU2020 targets and is complementary to the measures presented in the Strategy for Social Inclusion of the Roma, and more specifically with the financial and economic policies, employment and education, energy etc. In this Chapter we will highlight the main measures affecting poverty and social exclusion directly, providing an overview of the progress in our commitments presented in last year's NRP. It must be noted that the impact of the measures below, which started after 2010 will be shown in the 2011 EUSILC and after.

10.II KEY PRIORITIES AND MEASURES

A. Persons aged 65+

1. Income support: In order to minimise the effects of poverty among this age group, Cyprus will continue to provide income support to pensioners whose income is below the poverty line. The number of beneficiaries increased from 53.000 in 2010 to 60.000 during 2011 and this measure has already had an impact on the risk of poverty and social exclusion of older people and will continue to have an impact in the following years.

2. Easter Grant to pensioners with low income: This is a one off payment addressed to pensioners' household whose total annual income is below €13,000. Eligible households are granted with a supplementary benefit depending on the number of pensioners in the household and will also be provided in 2012.

3. Health and long-term care services: Due to the challenges faced by the social care systems, because of the ageing population and longevity, a consultation for reforming long-term care provision commenced in 2011 and will continue during 2012. The reform aims to address service provision, as well as means for financial support of its users and the revision of the existing framework of quality standards for social care.

B. Children experiencing poverty and social exclusion

1. Child benefit: This Scheme was reformed in 2012 in order to accommodate income criteria. Extended families with three or more children receive proportionally higher benefit per child compared to families with one or two children. Families with gross annual income less than

€39,000 are eligible for supplementary family benefit. In 2011, 106.000 families with 196.000 children benefited from the scheme.

2. Subsidisation of social care services within the framework of family and employment reconciliation: The measure was officially launched and announced by the press in February 2012 concerning the reimbursement of part of the cost of care services for children, older people and persons with disabilities. The aim is twofold: to motivate economically inactive or unemployed women to enter the labour market and to minimise the burden of care cost for women who (re)enter the labour market. Women who find a job may apply for a subsidy for the cost of care services for their family dependants for a period of up to 18 months. The benefit is **€260** (maximum amount) monthly, for childcare, and **€200** (maximum amount) monthly for the care of older persons or persons with disabilities. This measure is co-funded by the ESF.

3. Education: Conditions of poverty can lead to low education achievement and subsequently the lack of employment opportunities. Early identification of learning difficulties, promotion of integration programmes for migrants as well as promotion of programmes for vocational education are among the priorities (also see Chapter 5: “Education”). Also, in 2012, the main scheme for granting Student grants has been changed to include income criteria, where most vulnerable people receive a larger grant.

C. Working poor

1. Revision of Minimum Wage: An Order was issued on April 1 each year, which specifies the minimum wage to be provided on a monthly basis and applies for a number of specific occupations, including clerks, shop assistants, and security guards. For 2011, the Order provided for an increase in the minimum wage which reached €855 upon recruitment and €909 after six months of employment, compared to €835 and €887 respectively for 2010.

2. Compensatory Measures to the 5% VAT imposition on foods and medicine adopted in 2011: working households with low incomes and long-term unemployed persons and Public Assistance Recipients: The two Schemes were completed in November 2011. From the Compensatory Measures for working households with low incomes and long-term unemployed persons, 15.881 households benefited and the total cost amounted to €6,018,350. Out of the 15.881 successful applications, 3.292 beneficiaries belong to the long-term unemployed category, and 12.589 belong to the category of workers with low incomes. Furthermore, 15.810 public assistance recipients benefited from the corresponding scheme and the total cost amounted to another €3,260,376. An evaluation of the two schemes is currently under preparation in order to explore how they can be further enhanced into perhaps a more long-term policy.

3. Actions for reducing the gender pay gap: The Project is co-funded by the ESF and consists of a broad mix of measures, and includes among others:

- (a) Theoretical as well as on-the-job training of Officers and Inspectors regarding the enforcement of equal pay and equal treatment in employment legislation.
- (b) Establishment of a gender equality Certification Body which will evaluate enterprises as regards the incorporation or the application of a best practise of equal treatment and/or equal pay principles in their working environment.

- (c) Measures for eliminating occupational and sectoral segregation, which include interventions in education issues, e.g. specialised training programmes for careers advice professionals and as well as for 10.000 primary and secondary education teachers.
- (d) Campaigns for raising awareness on equal pay.

D. Unemployed and inactive population (employable people)

1. Scheme for providing incentives for hiring disadvantaged individuals in the private sector and local authorities: The Scheme encourages employers to recruit disadvantaged individuals by providing financial aid of 65% of the annual wage cost with a maximum amount of €13,000 per person per year for the first 12 months of employment. So far, 1.419 unemployed persons have found jobs with the assistance of the scheme, out of which 864 were subsidised.

2. Scheme providing incentives for employment of the unemployed in the private sector (Measure in response to the crisis): The Scheme had greater success than planned, as 1.984 unemployed persons found jobs with the assistance of the scheme in comparison to the initial quantitative target which was 1.200 persons.

3. Incentives Scheme for attracting people in the labour market through flexible forms of employment: Applications from companies reached 398 while applications from individuals seeking work reached 1.295. Job placements through the scheme reached 350.

4. Work and Social Activation of People in Vulnerable Groups through the Development of Social Skills and Other Actions: The Project is co-funded by the ESF and commenced at the beginning of 2012. It involves active measures concerning the work and social activation of 1.300 people in vulnerable groups through the development of social skills and other actions, such as:

- (a) Training of people belonging to vulnerable groups in social skills and assisting them with activation measures to seek employment through the PES.
- (b) For people who are further away from the labour market facing a higher risk of exclusion, “street work” programmes will be provided, which will be run by 12 local authorities in cooperation with non-governmental organisations. Local authorities will be subsidised for the salary of the professional who will be hired to help persons of the target group become more active members in their communities, join the social skills training course offered by the Social Welfare Services and, eventually, enter the workforce.

5. Establishing Post-Secondary Institutes for Technical and Vocational Education and Training (PSITVE): The establishment of PSITVE will offer learners at an affordable cost, programmes at an intermediate level, between upper secondary and tertiary education, complementary to the programs offered by private colleges. The aim of the measure is taking further steps within the reforms for the vocational education and training system, to match education outcomes to labour market needs and enhancing youth employability. The measure will be co-funded by the ESF.

E. Other vulnerable groups of the population experiencing poverty and social exclusion

1. Comprehensive Housing Scheme: Changes have been made to the Comprehensive Housing Scheme (CHS), by increasing the loans and aid provided to the beneficiaries of the Scheme. In early 2012, income criteria were introduced for the regional policy of the CHS.

2. Reform of the Public Assistance: The aim of the Reform is to act as an “ultimate safety net” to protect the fundamental human right to a decent standard of living as a barrier against poverty and social exclusion. The proposed changes shall redirect the focus of Public Assistance provisions to those people who are most vulnerable, and avoid the dysfunctions and distortions of the past. The amount of Assistance given to beneficiaries will be based on their household income, age of the applicant, and other criteria. It also aims to encourage and (re)activate people who are able to work to (re)join the labour market.

The final draft of the new Law is being discussed and will be advanced for consultation with the Advisory Forum⁸. It is expected that the new Law will be adopted within the first semester of 2012.

3. Labour market integration of Persons with Disabilities:

- (a) The development of a System for the Assessment of Disability and Functioning is in progress. Through this system people with disabilities will have a credible and reliable assessment in order to document the necessary interventions (including training and employment) for their social inclusion. All preliminary studies have been completed and the pilot introduction is about to begin.
- (b) Financial aid is provided to employers who employ people with disabilities to cover partial cost of wages, adapting premises, adapting or acquiring equipment, or acquiring and validating software for use by workers with disabilities, where the beneficiary provides sheltered employment, the costs of constructing, installing or expanding the establishment concerned, and any costs of administration and transport which result directly from the employment of disabled workers. So far, 90 unemployed persons with disabilities have found jobs through this Scheme.
- (c) Other measures underway aiming to decrease the unemployment of persons with disabilities include the setting up of an Organisation for the Vocational Training and Employment of Persons with Disabilities and the promotion of equal opportunities of employment through the adoption of the Law on the “Recruitment of Persons with Disabilities in the Wider Public Sector”. During 2010, 287 people with disabilities were recruited in the field of Educational Services. During 2011, the Multidisciplinary Committee evaluated 157 applications, resulting to 46 people being recruited in the public sector.
- (d) As regards people with mental health problems, the MERA programme, which is linked to the project “Establishment of National Network of Vocational and Psychosocial Rehabilitation Services and Programmes”, continues to provide specialised vocational

⁸ A Body formed for consultation of major policies and comprises of NGOs and social partners.

rehabilitation in order to facilitate their integration in the labour market, as well as support to individuals while they are at work in order to safeguard their adjustment. Currently, there are two Vocational Rehabilitation Units (VRU) established in Nicosia and Limassol, and by the end of June 2012, another VRU is expected to be established in Larnaca. During the same period, the programme for housing rehabilitation is going to be launched. The target is to establish six half-way homes in the communities for people from the target groups who may need more autonomous and dignified housing conditions. So far, 350 people have been referred to the VRUs, and 80 people have been included in the labour market.

4. Integration of Migrants: An Advisory Committee was appointed by the Council of Ministers in which the Ministries of Interior, Labour, Health and Education are represented, along with the Office of the Commissioner of Administration, the Union of Municipalities, the Trade Unions and NGOs, to monitor, evaluate and assess the implementation of the National Action Plan 2010-2012 for the Integration of Third Country Nationals legally residing in Cyprus.

Furthermore, with regards to the education of immigrants and providing them with the tools to communicate in Greek, free language lessons are offered and certifications are awarded at different levels. Currently there are 6.078 beneficiaries, 432 groups and 196 trainers. The scheme is co-funded by the ESF.

5. Keep the house adequately warm - Grant scheme for thermal insulation for houses:

(a) In 2011 the support scheme provided financial support only for existing households and additionally, eligibility is subject to the annual income of the applicants as follows:

In 2011 eligible for subsidy were:

- i. Single persons whose annual gross income is equal or lower than €13,000 per year.
- ii. Single persons who have serious health problems whose annual gross income is equal or lower than €21,500 per year.
- iii. Single persons with one child whose annual gross income is equal or lower than €20,000 per year (extended by €2,000 for each additional child).
- iv. Families whose annual gross income is equal or lower than €22,000 per year (extended by €2,000 for each additional child).
- v. Disabled persons or families with a disabled member whose annual gross income is equal or lower than €33,000 euro per year.

(b) In 2011, the heating allowance which was given to public assistance recipients amounted to €3,051,519. The amount of the allowance depended on the number of household members and the household's specificities and other problems (e.g. if there are any disabled members etc).

(c) Through the Scheme for financial assistance for the provision of technical means and aid, the Department for Social Inclusion of Persons with Disabilities subsidises the purchase of air conditions to ensure the improvement of the quality of life of persons with disabilities.

6. Energy: Application of Public Service Obligations to the EAC for the protection of Vulnerable Consumers: The Minister of Commerce, Industry and Tourism, sets Public Service Obligations on the Electricity Authority of Cyprus (EAC) in order to provide electricity in lower

tariff for large families and consumers with disadvantages. Also, a new amendment of the Law regulating the electricity market is being prepared which among others provides that for vulnerable consumers, including consumers at the state of energy poverty (which will be determined by the Minister of Commerce, Industry and Tourism), the supplier shall not terminate the supply of electricity at critical periods.

Changes in social policy since 2011 NRP and key measures for 2012

In times of financial hardship, the government decided to insert means-tested criteria to the child benefit provision (based on income and assets).

With the reform of the Child Benefit provision, the amount of benefit to families with low to medium gross income, which is up to €49,000, has remained intact in relation to 2011. Above that threshold, the benefit decreases gradually according to the level of family income. The benefit is distributed to around 100.000 families and the budget for 2012 is almost €120 mln.

An additional benefit is awarded to single parent families as from January 1, 2012 that live on their own with a dependant child or children.

11

HORIZONTAL AND
METHODOLOGICAL
ISSUES



11. HORIZONTAL AND METHODOLOGICAL ISSUES

The National Reform Programme (NRP) of Cyprus presents the structural reforms for growth and social cohesion under eight priority chapters, one for each flagship initiative of the Strategy EU2020 and one on macro- structural changes. The rationale for including the two additional chapters on Digital Society and on Competitiveness is their great significance to achieving the EU2020 overall goals in Cyprus and the fact that, all of these priorities are interconnected and they have all been identified in the Communication of 3rd March 2010 (COM (2010)/2020) as crucial for the achievement of smart, green growth without inequalities.

I. PUBLIC CONSULTATION

The NRP has been prepared in collaboration with all pertinent Ministries and in consultation with social partners and political parties. On the 5th of April 2012 a public consultation was held with all stakeholders (political actors, social partners and civil society), where an outline of the NRP was presented and the participants were asked to come forward with any comments and recommendations for potential new measures or priority areas for the final NRP. Some general comments raised were the following:

- Growth should be the main keystone for the achievement of national targets, through the implementation of the budget and the expansion of public spending towards productive sectors of the economy, such as education services, health services and modern flexible industrial units.
- The national target of employment should be kept high, thus any increase of the retirement age will lead moving away from the achievement of the target.
- The national target of R&D should be maintained and should be socially oriented, providing benefits to the society as a whole and not only to businesses' competitiveness. Also, incentives that will be given to businesses for investing in research should contribute to public interest and increase employment.
- The national target of climate and energy is well defined given the characteristics of the economy.
- The national target of education should be achieved through the implementation of educational reform, which should be relevant to the needs of the labour market.
- Disagreement with the target for the reduction of people at risk of poverty from 22 to 20%, as this is considered to be a non ambitious one. A target of around 14-15% would have been more appropriate.
- The restoration of funding from banking sector should be pursued and especially funding to SMEs, so as to secure better rates and terms of financing. Reinforcing financial stability does not only concern the sustainability of the banking sector, but also the sustainability of households and businesses.
- Primary goal should be to adequately address unemployment, especially the unemployment of young scientists.

- It is important to maintain taxation independence of MS and taxation policy should be designed according to the special conditions of the MS. Any shift of taxation away from labour towards other sources may be detrimental for the sustainability of the national social security fund, encroaching employees rights for social security.
- NRP should pursue a more ambitious policy for social cohesion, to address more closely the impact of economic crisis. Health, education and social policy are key tools to enhance the social cohesion. Therefore, specific objectives for implementation need to be set in 2012, corresponding with a commitment to reducing youth unemployment.
- The enhancement of the tourist product, the increase of productivity, the modernization and upgrading of public services and the promotion of the green economy should be promoted.
- There is agreement with the measures promoted in the field of labor, such as upgrading of unemployed women's and higher education graduates' skills.
- Even if there is reference in the NRP for the employment of illegal foreigners, there is no comprehensive strategy for addressing this.
- The modernization of the system of labour relations should be promoted with regard the new characteristics of the economy after Cyprus had joined EU and the import of EU citizens in the local market.
- Cyprus has reached the target for the share of population aged 30-34 having completed tertiary education, thus relevant targets should be set to utilize these graduates.
- In the NRP, it must be submitted a timetable for the implementation of the National Health Insurance System.
- Intensification of efforts to implement development projects that create new jobs
- Develop and implement policies to reduce lending rates
- Simplification of inspections to combat undeclared and illegal employment

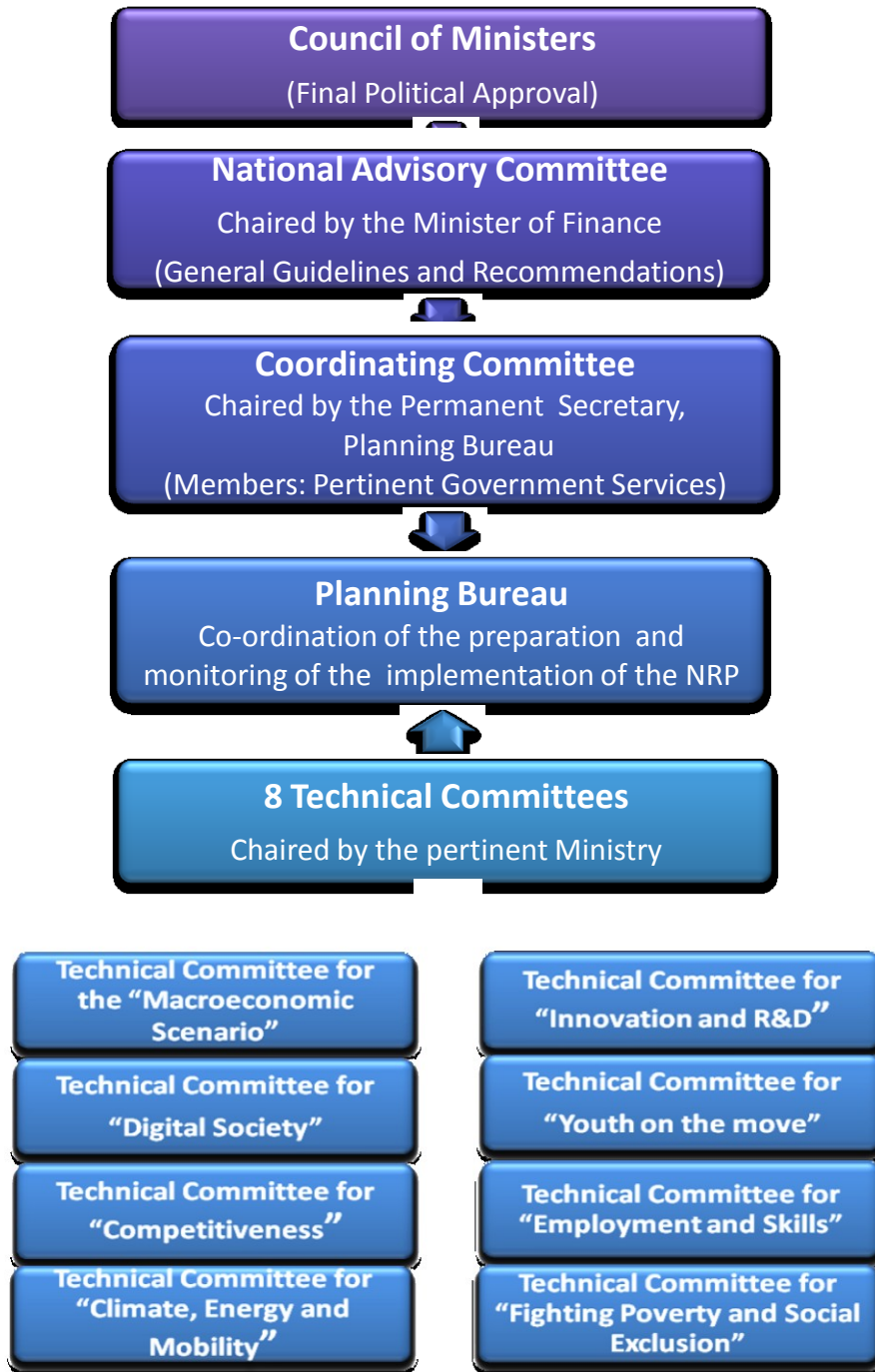
All submitted contributions have also been posted on the web-side of the Planning Bureau.

II. MONITORING MECHANISMS

The monitoring structure has been set up with a view to better coordinate the preparation and implementation of the NRP for EU2020. In this structure all stakeholders are involved in order to maintain ownership and ensure the efficient implementation of the measures outlined in the Programme (see Figure 10 below).

There are eight **Technical Committees** responsible for every main chapter/priority of the NRP, coordinated by the Planning Bureau. The Ministry chairing the particular technical committee is responsible for the formulation and implementation of the policy, for coordinating all other services involved and holding discussions with social partners for the preparation of the specific policy chapter.

MONITORING MECHANISM FOR THE EU2020 STRATEGY



The **Coordinating Committee** is chaired by the Permanent Secretary of the Planning Bureau, in his capacity as National Coordinator at the technical level and is composed of the chairpersons of the Technical Committees whereas, representatives of the involved Ministries also participate. Its role is to advise the National Coordinator on the preparation and implementation of the NRP, to review progress and contribute towards preparing the reports/meetings with the EU.

Co-ordination by the Planning Bureau: The Planning Bureau, operating under the Minister of Finance who is the National Coordinator at the political level, has the overall co-ordination for the preparation and implementation of the NRP and of the contacts with the EU. It also monitors the on-going progress and coordinates the submission of reports to the EU, after appropriate political approval. It organizes public consultations with social partners on the overall priorities and progress, informs the Parliament and promotes publicity through the media, in order that the NRP will incorporate the proposals of social partners and ownership be enhanced.

For the more efficient monitoring of the implementation of the NRP, measurable indices are being prepared to allow for the better evaluation of progress. On the basis of the LAF methodology (Lisbon Assessment Framework), the Planning Bureau monitors progress through the analysis of several indicators.

Furthermore, better alignment of the NRP with the Stability and Convergence Programme is promoted for better coordination of the policies and more effective implementation of the reforms.

The **National Advisory Committee** is chaired by the Minister of Finance, as the Political National Coordinator and is comprised of representatives of employers associations, trade unions, NGO's representatives of local authorities and other organised groups as well as political parties. The members of the National Advisory Committee are informed by the Minister of Finance, about twice a year, on EU2020 Strategy issues and provide comments and recommendations with respect to the proposed policy and measures.

III. STRUCTURAL FUNDS AND EU2020 STRATEGY

The contribution of the EU funds towards achieving the aims of the Lisbon Strategy and of the EU2020 is considerable, given that about 60% of the funds allocated to Cyprus have been earmarked for the Strategy's priorities. Overall, the whole process of absorbing the EU funds within specific deadlines, contributes to the timely implementation of programmes promoting the EU2020 Agenda.

1. Cohesion Policy: Programming Period 2007-2013

The overall development strategy of Cyprus for the period 2007-2013 is incorporated in the Strategic Development Plan (SDP) 2007-2013, adopted by the Republic of Cyprus in 2007, which sets out medium-term strategic objectives, with analysis of priority actions and measures, both those that will be co-financed by European funds in the framework of the EU Cohesion Policy and other EU Policies and those that will be entirely financed by the national budget. The main objective of the SDP 2007-2013 is the sustainable economic development in a context of social cohesion. The National Strategic Reference Framework (NSRF) 2007-2013, which

includes that part of the country's development strategy that will be co-financed by the EU Structural Funds (SF) and the Cohesion Fund during the period 2007-2013, contributes towards this way through its general strategic objective of "achieving real convergence with the EU through high rates of sustainable economic growth", which comes upon three separate but interrelated specific strategic objectives, namely (i) enhancing competitiveness, (ii) achieving full and quality employment and embed social cohesion and (iii) promoting sustainable development.

The NSRF is co-financed with a sum of €612,4 mln from the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF) of EU, and it's being implemented through two Operational Programmes (OP), namely:

- OP "Sustainable Development and Competitiveness" (OP SDC), co-financed by the ERDF and the Cohesion Fund.
- OP "Employment, Human Capital and Social Cohesion" (OP EHSCS), co-financed by the ESF.

Moreover, for the objective "European Territorial Cooperation", €28 mln have been allocated to Cyprus by ERDF for joint actions that will be co-financed at a trans-national level.

The NSRF for the Cohesion Policy 2007-2013 and consequently the Programmes mentioned above were formulated in order for their strategies and priorities to contribute to the maximum possible extent, to the objectives of the NRP 2005-2008 for the Lisbon Strategy. Despite the fact that Cyprus is not bound, according to Article 9(3) of Regulation 1083/2006, to participate in the earmarking process, the indicative allocation of EU contribution that corresponds to earmarked categories of intervention is estimated to around 60% for the period 2007-2013.

In the following sections, more information is given on the priorities and objectives of each Programme, their progress of implementation as well as their contribution to the objectives of the Lisbon Strategy through the earmarking process. Additionally, Table 5 below presents the coherence between the NRP 2011-2013 and the OPs implemented in Cyprus within the framework of the EU Cohesion Policy, through some indicative co-financed measures.

2. OP "Sustainable Development and Competitiveness, 2007-2013"

The Strategic Objective of the Programme is "the Improvement of the Competitiveness of the Economy within Conditions of Sustainable Development". This Strategic Objective aims at addressing the development weaknesses, by exploiting the country's comparative advantages mainly in the areas of entrepreneurship, tourism, environment and transport and will be pursued through three interrelated General Objectives which are:

- Improving the attractiveness of the country, through the creation and upgrading of basic infrastructure.
- Promoting the knowledge society and innovation and improving the productive environment.
- Creating sustainable communities in urban and rural areas.

The strategic and general objectives of the Programme will be achieved through five Priority Axes, related to:

1. Basic Infrastructure in the Environment and Energy Sectors.

2. Basic Transport Infrastructure.
3. Knowledge Economy and Innovation.
4. Productive Environment.
5. Revitalisation of Urban and Rural Areas.

3. OP “Employment, Human Capital and Social Cohesion, 2007-2013”

The Strategic Objective of the Programme is the “Full and quality employment, development of human capital and the strengthening of social cohesion and equal opportunities conditions”. The Strategic Objective of the Programme aims at developing human capital and facing the structural weaknesses of the labour market, focusing on upgrading the skills of targeted population groups and promoting them in employment. This Strategic Objective will be pursued through two General Objectives which are:

- Improvement of Human Capital and Increase of the Adaptability of the Private and Public Sector.
- Attracting and Maintaining More People in the Labour Market and Reinforcement of Social Inclusion.

The strategic and general objectives of the Programme will be achieved through two Priority Axes, related to the:

1. Development of Human Capital and Adaptability.
2. Expansion of Labour Market and Social Cohesion.

4. Progress in the Implementation of the Operational Programmes

Since the beginning of the current programming period and by the end of December 2011, all necessary actions were taken in order to ensure the timely and smooth implementation of the OPs and the approval of projects with added value to achieve the targets and goals set in the OPs.

More specifically, the following actions were undertaken:

- (i) The OPs were fully activated with the publication of all scheduled calls for proposals and committed with the approval of projects with a total budget that exceeds the OPs budget ..
- (ii) By the end of **December 2011, about 3.420 projects** with a total budget (eligible public expenditure) of €830 mln have been approved, corresponding to 113% of the OPs total budget.
- (iii) The Managing Authority issued all necessary detailed guidelines to ensure the correctness of operations and sound financial management. All procedures have been computerised and the Management Information System is fully operational since September 2009. Moreover, intensive training and workshops are organised by the Managing Authority to enhance the administrative capacity of all involved Authorities on a continuous basis and a help desk has been set up to support all authorities involved in the management of the OPs.

The projects already selected within the framework of the OPs contribute to a great extent to the priorities and objectives of the NRP. Below, the last column of Table 4 presents the funds

already committed to projects under earmarked categories of expenditure. The total committed expenditure up to the end of December 2011 corresponds to 63,1% of the total community contribution of the OPs. More, specifically, the broader categories of earmarked codes are as follows:

Table 11.1: Earmarked Categories of Expenditure

Category	Community Contribution (€)	Contributing Operational Programme	Share of Category to total Community allocation (%)	Funds already committed (€)
Research and Technological Development, Innovation and Entrepreneurship	121.800.000	OP SDC	19,9	74.924.010
Information Society	15.300.000	OP SDC	2,5	19.148.429
Transport	51.109.484	OP SDC	8,3	132.950.364
Energy	5.950.000	OP SDC	1,0	5.222.561
Environmental Protection and Risk Prevention	45.870.000	OP SDC	7,5	43.544.574
Increasing the adaptability of workers and firms, enterprises and entrepreneurs	11.050.000	OP EHCSC	1,8	13.660.282
Improving access to employment and sustainability	21.258.419	OP EHCSC	3,4	22.285.955
Improving the social inclusion of less-favoured persons	13.670.000	OP EHCSC	2,2	15.795.571
Improving Human Capital	69.943.025	OP EHCSC / OP SDC	11,4	48.609.960
Investment in Social Infrastructure	9.670.000	OP SDC	1,6	10.198.768
Total Community financial allocation		612.434992	100%	
Total Community financial allocation to earmarked categories (Programming stage)		365.620.928	59,7%	
Projects approved		386.340.474	63,1%	

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