



EUROPE 2020
CYPRUS NATIONAL REFORM PROGRAMME 2017

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1. INTRODUCTION

The Cyprus economy has emerged from a profound economic crisis and is now on a recovery path, recording positive, broadly based growth since 2015. The Government remains strongly committed to continuing the implementation of reforms and policies in order to tackle the remaining challenges. The aim is to safeguard continued fiscal consolidation, financial stability, as well as structural and institutional reforms for the enhancement of competitiveness and investment, with the ultimate objective of achieving smart, sustainable and inclusive growth, in line with the goals of the Europe 2020 Strategy.

Having exited the Economic Adjustment Programme since March 2016 and having returned to the normal European Semester process, Cyprus hereby submits the National Reform Programme (NRP) for 2017. The NRP records the progress and on-going work and outlines planned actions, in order to address the economy's key policy challenges, reflecting the priorities of the Government's Action Plan for Growth and placing emphasis on the challenges identified in the European Commission's Country Report on Cyprus published in February 2017.

In this context, the NRP reports on progress and plans across the 5 Country Specific Recommendations (CSRs) received in 2016, which identify policy areas on which reform efforts should remain focused in the next 12-18 months. Cyprus' 2016 Country Specific Recommendations covered the following areas:

- Public Finances and Fiscal Governance; Public Administration and Local Government Reforms.
- Insolvency and Foreclosure Frameworks, Title Deeds and Court System Reforms.
- Private Indebtedness.
- Investment, Action Plan for Growth, Privatisation, Regulation and Access to Finance.
- Public Employment Services and outreach to the non-registered unemployed; Health Care Reform.

The NRP also reports on additional structural and institutional reform measures derived from the Government's reform strategy, with emphasis on important for growth sectors such as tourism and shipping.

The NRP furthermore reports on progress towards Cyprus's Europe 2020 targets across the five headline targets, in the areas of Employment, Research and Development, Climate Change and Energy, Education, and Poverty Reduction, and highlights the main policy measures aiming at achieving these targets.

The Government's Strategy in relation to the utilisation of the European Union Funds is also presented and, finally, the approach as regards stakeholder engagement is outlined.

2. MACROECONOMIC CONTEXT AND SCENARIO

This year's NRP has been prepared in the context of a still challenging, but, at the same time, stabilised domestic economic environment. For the second consecutive year, the Cyprus economy exhibited robust economic growth which reached 2.8% in 2016. The positive developments have been acknowledged by Rating Agencies, leading to the upgrading of the economy and allowing Cyprus to access international capital markets with improved borrowing conditions.

Economic growth in 2016 was broadly-based, driven by very strong tourism performance, improved labour market conditions and gradual recovery of investment. In particular, tourist arrivals in 2016 reached a record number exhibiting a growth rate of about 20% vis-à-vis 2015. The resilience of the professional services sector, was also a positive factor. On the expenditure side, the main growth driver was private consumption, with positive contribution from net exports and investment.

In the banking sector, the confidence has been gradually returning, as exhibited by the increase in total deposits of about 6% in 2016 compared to the year before. Emergency Liquidity Assistance was fully repaid in January 2017, which is another sign of improving conditions.

However, despite the serious efforts undertaken by the banks' management to restructure loans that are not performing and the various initiatives undertaken by the Government (new insolvency and foreclosure Laws, sale of loans Law etc.), their level is still very high, hindering the channelling of credit to the economy. Closely related with the problem of non-performing loans is the issue of household and corporate indebtedness, which hamper the ability to undertake new investments.

In the labour market, conditions have been gradually improving, with the unemployment rate falling to around 13.0% of the labour force and employment increasing by around 2.7% in 2016. However, long-term unemployment and youth unemployment remain at still very high levels, although youth unemployment has been on a downward trend since the 2nd half of 2013.

The inflation rate, as measured by the Harmonised Index of Consumer Prices (HICP), was negative for a third consecutive year (-1,2%) in 2016, mainly reflecting the significant decrease of international oil prices and the subsequent drop in domestic prices of energy products. Core inflation in 2016 was also negative, of the magnitude of -0.7%.

Coming to the economic prospects of the Cyprus economy, these are expected to continue improving. With the restructuring of the banking system and the expected gradual alleviation of the problem of non-performing loans, growth is expected to remain robust.

In addition, the correction of fiscal imbalances and the attainment of a close to balance position, enables the adoption of a neutral fiscal policy stance, providing a positive contribution to the economy through the free operation of automatic stabilizers.

Moreover, significant new investments are in the pipeline (marinas, casino etc.), which are considered as key for the island's economy, having a positive impact on its growth potential. Furthermore, given the rebounding of the economy, disposable incomes are expected to further improve, providing boost to consumption and investment, as well as providing room for

addressing the problem of non performing loans. The Action Plan for Growth including the new National Strategy for Tourism are also expected to contribute in maintaining the growth momentum.

Despite possible negative developments related with the exchange rate of the euro against the sterling (as a by-product of the future negotiations between UK and EU), the tourism sector is expected to remain strong.

Given the positive general economic environment, unemployment is expected to continue its declining path.

Based on the above, the growth rate of the economy in 2017 is expected to reach around 2.9% in real terms.

HICP is projected to increase by around 1.1% in 2017, mainly due to the expected rise of energy prices and the picking up of private demand.

The unemployment rate is expected to fall further and average at around 11.5% in 2017.

Downside risks to the above baseline scenario, include slower than envisaged reduction in NPLs and possible worsening in external demand for services associated with the decision of the UK to exit the EU. Moreover, the Cypriot economy could be affected by further deterioration in EU-Russia relations (with which the Cyprus economy has very close ties), as well as from negative developments related with the Greek economy.

Upside risks include the faster than anticipated acceleration of restructuring of NPLs (and the subsequent increase of new lending to the economy) and positive developments related with the exploration of new gas fields in the Cyprus Exclusive Economic Zone.

3. REFORMS AND OTHER MEASURES RELATED TO COUNTRY SPECIFIC RECOMMENDATIONS

3.1. Public Finances and Fiscal Governance, Public Administration and Local Government Reforms

Recommendation 1

Following the correction of the excessive deficit, respect the medium-term budgetary objective in 2016 and in 2017. By the end of 2016, adopt a binding mechanism containing the growth rate of the compensation of public employees. By the end of 2016, adopt the horizontal reform of the public administration and the law on the governance of state-owned entities, and implement the reform of local governments. By the end of 2016, adopt the secondary legislation to complete the new budgetary framework.

3.1.1. Medium-term Budgetary Objective in 2016 and in 2017

The nominal budget balance in 2017 is projected at a surplus of 0.4 percent of GDP, remaining unchanged compared to the outcome of 2016. The nominal fiscal projection of 2017 is influenced by cyclical developments as the economy normalises following the emergence from a severe financial crisis. Beyond these developments the 2017 Budget forecast is also influenced by ad hoc measures both on the revenue as well as the expenditure side.

On the expenditure side, measures containing the rate of growth of expenditure have been promoted and include the collective agreement between the Government and public sector unions which introduces a control mechanism limiting the overall growth in the wage bill in the public and broader public sector below the growth of nominal GDP, as well as, the Government Bill submitted to Parliament which provides for the indefinite suspension of recruitment of new personnel in the public sector and the introduction for a mechanism regulating specific exceptions.

On the revenue side, the recent fiscal overperformance absorbs any impact from the termination of the temporary tax measure on private and public sector emoluments amounting to 0.4 percentage points of GDP, which was introduced for the period 2011-2016, and the residual abolition of the Immoveable Property Tax amounting to about 0.1 percentage points of GDP.

In structural terms, the balance in 2016 is estimated to have registered a surplus of 1.2 percent of GDP, overachieving the medium-term budgetary objective of 2016 by the same magnitude in percentage points of GDP. In 2017, as the output gap nears closing based on the commonly agreed methodology, the structural balance is projected to decline and meet the medium-term objective of a balanced budget. The latter development ensures the respect of the rules of the Stability and Growth Pact and more precisely the respect of the medium-term objective of Cyprus both in 2016 and 2017.

The authorities remain committed to continue respecting the Stability and Growth Pact rules and will continue to monitor fiscal developments in that respect. In case of deviation, the authorities stand ready to adopt the absolutely necessary corrective measures.

3.1.2. Horizontal Reforms – Public Administration

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

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

Following an independent external review for the Public Service reform on horizontal issues, reform actions were promoted by the Cyprus Government, after consultation with the interested parties and five draft Laws were prepared which were approved by the Council of Ministers in August 2015, and submitted for approval to the House of Representatives (HoR), first in September 2015 and again in August 2016 with some additional amendments. The new legislation aims at introducing the following reform measures:

- New provisions for evaluation and selection of candidates for filling promotion posts in the public service. Indicatively:
 - a new category of posts, the "Interdepartmental Promotion" post, is introduced, in order to strengthen/encourage mobility;
 - written exams are introduced;
 - the selection will be based on certain criteria which include the written examination mark, the relevant qualifications (over and above the required), the years of relevant experience (over and above the required), the performance appraisal evaluation (for posts up to Senior Officer Level) and the recommendation of the Head of the Department.
- A new performance appraisal system for civil servants:
 - includes criteria tailored to the level of responsibility required by the position;
 - is consistent with the identification of areas for development for each employee;
 - will be used for promotion purposes up to Senior Officer Level.
- New provisions for the Public Service Commission aiming at enhancing the operational framework and transparency of the Service.
- New mechanism ensuring that any increase to the wage bill (through salaries annual increments, general increases and COLA), will be based on the fiscal conditions and the percentage changes in nominal Gross Domestic Product.

- Abolition of the oral examination conducted by the Public Service Commission for filling posts of non-scientific staff.
- In addition, in order to achieve more efficient use of staff of both the Public Service and the employees of State Owned Organisations, a draft law has been prepared, which regulates the staff mobility between the Public Service and State Owned Organisations and between State Owned Organisations.

The relevant Bills were discussed in several meetings in the HoR during 2016. However the Plenary rejected 5 out of the 6 Bills. The Deputy Minister is currently engaged in talks with political parties and other stakeholders in a new effort to reach consensus on these. A revised set of Bills has been drafted and will be submitted to the Law Office for legal vetting.

The sixth Bill, regarding mobility between the Public Service and State Owned Organizations, was returned for further discussion at HoR Committee level. The respective discussions have been concluded and the Bill will be put forward to the Plenary for voting within the following period.

The control mechanism mentioned earlier ensuring that any increase to the wage Bill (through salaries annual increments, general increases and COLA), will be based on the fiscal conditions and the percentage changes in nominal Gross Domestic Product, is implemented in the civil service and in the broader public sector with Agreements that the Government signed with the main trade unions representing the employees (i.e. PASYDY, SEK and PEO) for the years 2017 and 2018.

3.1.3. Governance of State-Owned Entities

The draft law on SOEs aims to improve their corporate governance and ensure a more effective monitoring of their functioning. The Bill was submitted to the HoR in April 2015.

3.1.4. Local Government Reform

The Council of Ministers approved the draft laws concerning the implementation of the Local Government Reform, which were submitted to the HoR in July 2015 and the discussions started before the Interior Committee. During the discussions, several amendments were made, in order to reach consent between the Political Parties and the Union of Cyprus Municipalities and the Union of Cyprus Communities. The final document that is under discussion before the Interior Committee is the outcome of a dialogue between all the stakeholders. Following the Parliamentary Elections that took place in May 2016, the discussions on the draft laws were resumed in September 2016.

The Local Government Reform affects the delivery of vital local public services and plays an important role in the process of issuing title deeds. The reform particularly aims at making the issuing of building permits and certificates more efficient. It also addresses the current gaps in local government financial reporting, by establishing a common accounting and reporting framework. According to the proposed draft legislation, 5 District Clusters will be established, that will take on: (a) planning and building permits, (b) water boards and sewage boards and (c) waste management, while on the local level, clusters for specific services will be established between local authorities (municipalities and/or communities) for garbage collection, technical

services etc.).

Furthermore, the Government has proposed to the HoR the gradual decrease on the number of Municipalities, from 30 to 22, in the next three years of the implementation of the reform. The Government has also prepared a roadmap for the implementation of the Local Government Reform, which was submitted to the HoR at the beginning of 2017.

In this context, the HoR has recently asked for a report, explaining the criteria and the conditions by which the Government has proposed the decrease in the number of municipalities and has also asked for the drafting of all the Regulations that originate from the said draft laws.

The revised target for the approval of the draft laws by the HoR, is set for June 2017.

3.1.5. New Budgetary Framework

The Umbrella Law entitled 'Fiscal Responsibility and Budget System Law' (FRBSL) was enacted on 13/2/2014. All provisions of the FRBSL law were implemented, with the exception of the Articles that are referred to the FRBSL Regulations. The FRBSL Regulations have been enacted on 21/10/2016 and will be implemented effectively as of 1/1/2018.

3.2. Insolvency and Foreclosure Frameworks, Title Deeds and Court System Reforms

Recommendation 2

By June 2017, eliminate impediments to the full implementation of the insolvency and foreclosure frameworks and ensure adequate resources for the Insolvency Service. Ensure reliable and swift systems for the issuance of title deeds and the transfer of immovable property rights. Increase the efficiency and capacity of the court system. Reform the civil procedure law.

3.2.1. Insolvency and Foreclosure Frameworks

The Minister of Energy, Commerce, Industry and Tourism, has assigned to the Bankruptcy and Liquidation Section to execute the duties of Insolvency Service (ISC). The Ministry of Energy, Commerce, Industry and Tourism (MECIT) will take all the appropriate actions in order to ensure the full functioning of the Insolvency Service and the full implementation of the Insolvency Regime.

To this end, MECIT has appointed 10 casual officers on definite contracts for the Bankruptcy and Liquidation Section in order to contribute both to the reduction of the backlog and the implementation of the Insolvency Framework.

The first round of the strategic workshops run by MECIT with the personnel of the Bankruptcy and Liquidation Section were concluded and the primary actions that needed to be taken for the evolvement of the Bankruptcy and Liquidation Section into the Insolvency Service under MECIT were identified and recorded into an Action Plan. The major actions included in the Action Plan are:

- Business Process Reengineering of the B&L Section, in order to identify the new organisational structure and the needs in personnel, IT infrastructure and infrastructure in general.
- A training programme for the Insolvency Practitioners (IP) will be deployed in line with the licensing and monitoring requirements of the profession of the IPs.
- Establishment of a fully automated case management system that will be able to provide statistics in accordance with the Directive of the European Parliament and the Council on preventive restructurings and Second Chance amending Directive 2012/30//EU.
- Establishment of mechanisms that will update all the procedures that result from the Insolvency Regime such as the new Reasonable Standards of Living Expenses.

A working group coordinated by MECIT and comprised of officers from MOF and MOI and the Central Bank has been established to assess the first experiences of the private sector and debt restructuring and Foreclosure Framework. This will design and implement an Action Plan to correct any deficiencies regarding the monitoring of the Insolvency and Foreclosure Frameworks.

The working group is currently assessing the profile of the non-performing loans in respect of the Insolvency Framework in order to identify the areas that need to take corrective measures to ensure the effective implementation of the insolvency procedures.

According to the Register of Licensed Insolvency Practitioners (IP) that is available on the web page of the Insolvency Service, at the moment, there are 276 Licensed IPs. The Examination Board for the Insolvency Practitioners that was appointed by the Minister conducts Examination for IPs, at least once a year.

With regard to the implementation of the Insolvency Framework, the Insolvency Service Cyprus (ISC) has received, as of end of March 2017, 1127 Debt Relief Order (DRO) applications (process for relief from debts up to €25.000). The ISC has so far rejected 127 DRO applications and referred to the District Courts for final approval a further 159. Of these, the Courts have so far rejected just two DRO applications and issued 131 DROs. As concerns the Personal Repayment Plans (PRP), the ISC has received 57 applications so far and filed to the District Courts for the issuance of Protection Certificate 20 of these. The Courts issued 18 such Protection Certificates as of today. Further, 2 PRPs have been approved by the Creditors, yet 4 were rejected. Accordingly, 2 applications were filed to the Courts for confirmation of the PRPs, of which one has been confirmed so far. In addition, there were three (3) applications to the Courts for an order for Non-Consensual PRP and the Court issued all three orders for Non-Consensual PRP, which shall now be enforced obligatorily by the Creditors.

Non Consensual Personal Insolvency Arrangements aim to protect the primary residence of the debtor. The major eligibility criteria for this include specific debt of up to €350.000 and that the debtor's primary residence is mortgaged and its market price is less than €300.000.

With reference to Examinership (corporate debt restructuring), 3 applications were filed to the District Courts for temporary protection, of which one has been withdrawn by the applicant and another one has been rejected by the Court, on the grounds that the time foreseen in the Law for its filing, following the appointment of a Receiver and Manager, has expired. The other one is pending before the Court.

The Insolvency Service took the following actions for the effective implementation of the Insolvency Regime:

- All the Insolvency Procedures have been streamlined and are functional but in some areas processes need to be more efficient.
- Development of a Protocol of co-operation between all stakeholders (banks, relevant government departments) of the Insolvency Regime.
- Technical Assistance training of the ISC staff by the Insolvency Service of another member state.
- Basic IT Systems have been developed for DRO, PIA and Examinership which are connected with the Courts.
- 8960 bankrupts were discharged from bankruptcy.
- Promotion of the Insolvency Regime Laws and mechanisms for restructuring by utilizing various media and other means.
- Development of various guides and booklets in printed and electronic form which are circulated and also found on the ISC's website.
- Preparation of statistics for all ISC activities published on the ISC's website.
- Connection of the Insolvency Service with the Government Data Warehouse for carrying searches.

- Assessment of the current IT Infrastructure in order to deploy the IT systems to facilitate the Interconnection of Insolvency Registers with the other member states, according to the Insolvency Proceedings Regulation 2015/848 of EU - end date: June 2018.
- Development by the ISC of the standard forms according to the Insolvency Proceedings Regulation 2015/848 - end date: June 2018.
- Development by the ISC of the “Questions and Answers” for the various insolvency procedures available for the purpose of the “European E-Justice Portal” as provided by the Insolvency Proceedings Regulation 2015/848 - end date: June 2017.
- Liquidation (Winding up Rules) are currently being drafted by the Insolvency Service in cooperation with an external expert, to be concluded once the final outcome of the development of the standard forms according to the Insolvency Proceedings Regulation 2015/848 is known.
- Development of an “Interactive Tool” by the Insolvency Service and the Central Bank of Cyprus to help debtors to estimate their capacity for restructuring their personal debts - end date: June 2017.
- Development by the ISC and the Central Bank of Cyprus of a “Citizen’s/Debtors Guide” which will include all the procedures/tools/mechanisms available for restructuring personal loans i.e. Arrears Management Directive of the Central Bank, Mediation Procedure by the Financial Ombudsman/Commissioner, Personal Insolvency Arrangements, and also information regarding the Foreclosure Law procedures. This “Citizen’s/Debtors Guide” will accommodate the Interactive Tool - end date: June 2017.
- Introduction of the E-Oasis Office Automation System which is an electronic filing and Document Management System - end date: June 2017.
- Establishment of basic statistical tools - end date: June 2017.
- Preparation of a booklet as a guide for viable businesses under distress for restructuring and reorganising under the Examinership Mechanism as a means to rescue business and promote sustainable growth, investment and save jobs.
- Promotion of the Examinership Mechanism with various Stakeholders and especially in cooperation with the Cyprus Employers and Industrialist Organisation and the Cyprus Chamber of Commerce and Industry.
- Addressing effectively the issue of accumulated workload and resolving bankruptcies and liquidations procedures more efficiently by enforcing and promoting the procedure for the appointment of Insolvency Practitioners as trustees of the bankrupts’ estate or liquidators of companies in insolvency, with the support and collaboration of the Cyprus Association of Banks and its members.

3.2.2. Issuance of Title Deeds

Acknowledging that reliable and swift systems for the issuance of title deeds and the transfer of immovable property rights are key for addressing challenges faced in the economy including in the property market as well as in the financial sector the authorities are in the process of improving the effectiveness of the overall framework. Steps have been undertaken regarding the issuance of title deeds through, inter alia, the streamlining of the overall legal framework that relate to the processes for the application and the issuance of planning and building permits.

Regarding the issue of planning and building permits and certificates, a contract was signed in September 2016 by the Ministry of Interior (MOI) for a technical assistance project through SRSS.

The first mission of the project took place between in November 2016, where the external experts had consultations with all major stakeholders involved in the procedures (Planning and Building Control Authorities, Union of Local Authorities, other Governmental Authorities, Associations of Professional Bodies e.g. architects and engineers, Developers Associations, Associations of Industry, Contractors Associations etc.). The presentation of the Final Report, including the suggestions for streamlining of the process for application and for the issuance of planning and building permits, and the procedures for assessing the compliance with the regulatory requirements and with the building and planning permit, is planned for June 2017. The technical assistance project will be concluded in July 2017.

In addition, during June 2016, MOI issued a new Ministerial Decree for the unauthorized works in residential developments in order to tackle the main problems, by giving detailed instructions for each problem, intending to accelerate the issuance of the Certificates and minimizing the issuance of certificates of unauthorized works by the Building Control Authorities (BCAs). For providing guidance and clarifications about the implementation of the Decree, on 24 February 2017 a meeting with all District Administrations of MOI and the Director of Department of Land & Surveys (DLS) took place. MOI visited a small number of Local Authorities for having meetings for the same purpose and is planning a general meeting for all Local Authorities.

It is also noted that since September 2016, DLS has proceeded with the identification of all the cases that involve developments, where the owners did not follow the procedure of issuing the titles deeds. For all those cases, DLS started the procedure of the compulsory update of the registration. Today, DLS covered all the cases that involve trapped buyers and completed more than 65% of the surveying process. It is estimated that soon the surveying of all the developments will be completed.

3.2.3. Transfer of Immovable Property Rights

In order to ensure effective transfer of property titles at all times, the Cypriot authorities have enacted the Transfer and Mortgage Law 9/65 as amended by L.139(I)/2015 (Trapped Buyers Law), which is designed to protect the “Trapped Buyers”, namely those who have submitted their sale contracts at the Lands Registry up until 31st December 2014 (legacy cases), by releasing the Property from the developer's obligations to their lenders. Furthermore, the authorities have committed to promote legislation to deal with non-legacy and new property transactions. Currently consultation is taking place with the stakeholders in order to promote amendments to the relevant Laws (the Sale of Immovable Property (Specific Performance) Law L. 81 (i)/2011 and the Law for trapped buyers Law 139(I)/2015) in order to tackle the issue.

3.2.4. Court System

Acknowledging the importance of having a well functioning judicial system with strong contract enforcement, the authorities are progressing with a holistic approach to modernise justice. More specifically a series of measures are being promoted aimed at reengineering the overall framework inter alia through improving its administration and expediting the delivery of justice. The envisioned reform is based on 4 pillars:

- court reform,
- amendment of civil procedures,

- introduction of an e-justice system, and
- training of judges.

The reforms under the above pillars include the following measures:

- A significant strengthening of the District Courts in judicial personnel took place during the last three years. The judges were increased in total by 15, either through securing exemption of vacant judicial posts from the general freezing of posts in the public sector and filling thereof, or with the creation of new posts, to meet the increased needs due to the economic crisis. (The judicial posts in the newly set Administrative Court are not included in the above mentioned 15 posts).
- Establishment of the Administrative Court which is operational since 1.1.2016. The Administrative Court has taken on board all first instance administrative resources, thus discharging the Supreme Court of this task and enabling it to carry out more expeditiously its second instance jurisdiction (appeals). A study concerning mediation will be assigned to experts by the MJPO. The study will, among other issues, pertain to the accreditation of mediators, their qualifications, their training, their disciplinary supervision, the dissemination of information to the general public. The study will also include concrete suggestions for the amendment of the law as needed.
- A committee has been set up by two judges of the Supreme Court to examine and prepare a report for the establishment of a Commercial Court. The Commercial Court is to be established by the end of 2017.
- A Bill was prepared by the MJPO amending the Courts of Justice Law by filtering the right of filing an appeal in civil cases as regards interlocutory decisions during the proceedings. The Bill is now before the HoR and more specifically under examination by the Legal Committee (the Bill has already been discussed three times).
- The possibility of increasing the current very low fees, which will help reduce frivolous or manifestly unfounded appeals, is currently under examination.
- The setting up of a court administration/management information system for the courts (e-justice) has been initiated. The said system will essentially result in the computerization of all administrative processes between legal and physical persons and the courts' administration as well as all processes within the courts' procedures. This is anticipated to result in a smoother, swifter and effective functioning of the courts. The procurement of the system has been initiated and it is anticipated that the system will become operational by Q3 2018.
- A training School for the lifelong training of judges is currently being set up in the Supreme Court. It is envisaged to be in place by mid 2018.
- The Supreme Court had requested the assistance of the Structural Reform Support Service (SRSS) for setting up the process to conduct and implement a functional review in terms of Courts Reform in the Republic of Cyprus. Meetings have been held between the SRSS and

the experts that have been appointed and the Supreme Court and other stakeholders to this effect. The said experts will prepare a report on the reform of the judicial system.

3.2.5. Civil Procedure Law

A Bill was prepared by the MJPO with amendments to the Civil Procedure Law, so as to strengthen the legal framework for the enforcement of judgments. The Bill includes provisions reinforcing the execution of writs of seizure of movable property and the expediency and effectiveness of garnishee proceedings. This Bill is under legal vetting by the Legal Service of the Republic.

Specifically, the Bill includes the provision of additional powers to the bailiffs (enforcement agents) with the aim to effectively trace property belonging to the debtor, which can be allocated for execution. For the purpose of enforcement of seizure and sale of movable property, the enforcement agents have access to Departments and Services of the government/civil service, in order to be informed in relation to any entry/information in the registers kept by these Departments and agencies which concerns the debtor. Furthermore the Bill provides for the establishment of a criminal offense in case of moving property which belongs to the debtor and was found and was marked by the enforcement agent, the deletion of unnecessary interim application by the creditor, the shifting of the burden of proof on the debtor in case he claims that he has not any bank account, by the creation of an obligation to him to submit relevant certificates, and finally the ability of the creditor to have access to information relating to the debtor.

3.3. Private Indebtedness and Availability of Information

Recommendation 3

By the end of 2016, take additional measures to ensure a decline in non-performing loans and accurate valuations of collateral for provisioning purposes. Increase the range of information available for creditors and enhance the information currently provided to make the credit registry fully effective.

3.3.1. Non – Performing Loans

The tools applied to facilitate the decline in NPLs are already in place and these are:

- Centralized Arrears Management Systems and dedicated Recovery Units have been established throughout the banking sector.
- Foreclosure and Insolvency Frameworks, which introduce the right incentives for all stakeholders, including creditors and debtors, to negotiate a settlement of liabilities. They also create a safety net for vulnerable groups directly affected by the crisis.
- The Financial Ombudsman who provides mediation assistance to troubled borrowers facing difficulties repaying their loans.
- Enactment of the Sale of Loans Law which facilitates credit institutions to sell loan portfolios.
- Code of Conduct by Central Bank of Cyprus for Arrears Management in order to assist the loan restructuring procedure of the banks. In terms of supervisory measures, the CBC directives provide for the handling of NPLs in terms of measurement, management and provisioning. Also the CBC has enhanced the supervisory reporting on NPLs and debt restructuring in order to monitor progress closely and take action for banks that do not show sufficient progress.
- The enactment of the Financial Leasing Law of 2016, the purpose of which is the creation of a new legal framework for the development of financial leasing, with adequate supervision and strict conditions, which provide businesses and citizens with alternative ways of funding, and help to reduce non-performing loans by converting such loans into leasing contracts.

Moreover, the High Level Group on NPLs has issued guidance that went through the process of consultation, which ended in November 2016. Once it is approved and issued by the ECB it will be adopted by the CBC. The guidance covers all aspects on NPLs, including valuations of collateral. Finally, concerning banks with very high proportions of NPLs, the SSM required the submission of NPL resolution plans by 31 March 2017 which will be monitored for each individual bank.

Additional legislation is expected to come into force in 2017, to facilitate loan securitisation and the swift transfer of title deeds to contribute towards the asset recovery process.

3.3.2. Credit Registry

The CBC is at the final stage of amending/revising the relevant Directive for the Operation of a System or a Mechanism for the Exchange, Collection and Provision of Data of 2015.

The main proposed changes are targeted on:

- Enhancing the dataset with more information regarding demographic data for both private individuals and legal entities (e.g. place of birth, residence type, LEI, ESA Code, Tax Id etc.) and also information regarding the loan account (write-offs, write downs etc.).
- Developing a credit score system for private individuals using existing information as well as information that will be submitted under the new Directive. [The development of this system has already been assigned to mechanism ARTEMIS].
- Banks will also be submitting and receiving data for closed accounts. [i.e. accounts with zero balance that were repaid either by regular payments, due to loan from other bank, due to write-off, due to restructuring/opening new account, due to termination/legal account opening etc.]

The CBC is considering ways to expand the reporting counterparties to include leasing companies, loan acquiring companies and loan securitization vehicles. Since this change requires relevant amendment of the Banking Law and since no such entities have been licensed by the CBC yet, the above expansion will be incorporated in the revised Directive at a later stage.

3.4. Investment, Action Plan for Growth, Privatisation Regulation and Access to Finance

Recommendation 4

Remove impediments to investment, in particular by implementing the action plan for growth, pursuing the privatisation plan and strengthening the national regulatory authorities. Take measures to increase access to finance for small and medium-sized enterprises.

3.4.1. Removing Impediments to Investment – Action Plan for Growth

The **Action Plan for Growth** which was prepared by the Presidency's Unit for Administrative Reform and approved by the Council of Ministers in February 2015 and again, as updated, in November 2016, includes around 70 targeted actions with specific timeframes with the aim of enhancing the competitiveness of the economy, increasing productivity and unlocking the country's investment potential.

The priorities set out in the Action Plan for Growth, which are the basis for our policy and spending decisions, are closely aligned to the targets of Europe 2020, for smart, sustainable and inclusive growth. Particular emphasis is placed on horizontal, cross sectoral measures, which aim at removing bottlenecks and improving the overall business environment, encouraging investment and entrepreneurship and promoting smart regulation, process re-engineering and e-governance, as well as promotion of measures to improve the competitiveness of priority sectors such as tourism, shipping and research and innovation, which are key drivers of growth.

In sections (a)-(h) below, some key actions included in the Action Plan for Growth, more relevant to removing impediments and facilitating investment and the progress in their implementation are presented:

(a) Law for Facilitating Investment

Creating an environment that facilitates Investments, mainly through the simplification of procedures and developing an effective, stable and transparent regulatory framework is a priority for the Government. A study was carried out for the formulation of a facilitating legislative framework and the establishment of a fast track mechanism for major investments.

Based on the conclusions of the report, the legal experts prepared the first draft of the legislation. Following the Government's decision for the creation of a Deputy Ministry for Growth and Competitiveness, it was subsequently decided to amend substantially the proposed legislation. A revised draft legislation, after an elaborated round of consultations, was sent in September 2016 to the Law Office for legal vetting. The new procedural and legal framework on the strategic investment, including the set-up of a fast track mechanism, is expected to be put in place within 2017.

(b) Deputy Ministry for Growth and Competitiveness

A draft legislation for the creation of a Deputy Ministry for Growth and Competitiveness was approved by the Council of Ministers in December 2016 reflecting the Government emphasis on

growth enhancing reforms, and is currently being discussed at the HoR relevant Committee. The Cyprus Investment Promotion Agency (CIPA) is envisaged to be the executive arm of the Deputy Ministry, dealing with investors.

(c) Promoting Entrepreneurship and SME Competitiveness

• National Policy Statement for the Strengthening of the Entrepreneurial Ecosystem

The adoption of the "National Policy Statement for the strengthening of the Entrepreneurial Ecosystem" by the Council of Ministers in December 2015, which was a measure included in the Action Plan for Growth, established a comprehensive policy framework and a targeted action plan for the development of the entrepreneurial ecosystem in Cyprus. The aim is to contribute to the country's economic growth, by providing the appropriate conditions for the successful development of business initiatives, ensuring the creation of added value for the whole economy and to promote and support entrepreneurship by further developing and strengthening the existing business ecosystem. The Policy Statement recognizes the need to implement 75 actions in the following five key priority pillars in order to boost entrepreneurship and improve the business environment:

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

In order to safeguard the successful implementation of the actions defined in the Policy Statement a Steering Committee is operating, chaired by the Permanent Secretary of MECIT and with the participation of the competent public authorities, as well as stakeholder's representatives with the view to monitor and assess the progress in the implementation of the actions promoted under the Policy Statement. Furthermore, a project manager has been appointed for each and every action included in the Policy Statement.

The first Annual Progress Report for 2016 has been prepared which indicates that 45% of the actions have already been implemented while 39% of the actions have shown progress. Major measures implemented in 2016 includes the following:

- **Participation to Global Entrepreneurship Monitor (GEM):** In 2016, Cyprus participated for the first time in the GEM. The goal of the GEM lies in making high quality international research data on entrepreneurial activity available to a wide audience across the world. The first GEM report for Cyprus is expected to assist both the Government and the stakeholders to better understand the entrepreneurial ecosystem and, therefore, to design policy measures based on the needs of the enterprises.
- **Review of Income Tax Law to give tax incentives for investing in innovative SMEs – Start-ups:** in December 2016, the HoR approved a revision of the Income Tax Law aiming to give incentives to private investors in order to invest in startup and innovative companies. More specifically, the incentive provides exemption of the investment from the investor's taxable income (up to a maximum amount of 50% of taxable income) with a

maximum deduction of up to €150,000 per year as well as the right of allocation and distribution of the discount in a 5 year period.

- **Launching of a “Cyprus Startup Visa” programme:** The "Cyprus Startup Visa" programme allows talented entrepreneurs from third countries, individuals or in a team, to live and work in Cyprus in order to establish/operate/develop a startup with a high growth potential. The programme's goal is the creation of new jobs, the promotion of innovation and research, the development of the business ecosystem and consequently the economic development of the country. The programme will operate on a pilot basis for two years and up to 150 visas will be issued.
- **Advice for Small Businesses Facility:** The Government is proceeding in cooperation with EBRD for the operation of a scheme for the provision of consultancy, mentoring and training to SMEs for capacity building. The overall objective of the Facility is to enhance the competitiveness of SMEs across a broad range of sectors in Cyprus.

Work is currently focusing on promoting the implementation of the 2017 work plan set under the Policy Statement. Below are some of the key actions of this year's plan:

- Setting up and operation of the “Startup Ambassadors Programme”.
- Setting up a Technology Transfer Center to facilitate the commercialization innovative products arising as a result of applied research.
- Developing the legal framework to allow transfer of know-how from state universities (e.g. creation of spin offs).
- Developing and operating a grant scheme for the promotion of clusters.
- Applying concrete actions for the promotion of e-commerce.
- Designing a new digital business platform/portal to reflect the modern needs of the enterprises.
- Creating the legal framework for crowdfunding.
- Simplification of procedures of important government departments though the implementation of the Better Regulation Action Plan.

Some of the above measures are already in progress while others are expected to be implemented by the competent authorities within the following months. It is noted that some of the activities under the framework of the Policy Statement also fall under the scope of areas that are presented in the sections that follow.

- **Grant schemes for enhancing SMEs' competitiveness**

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

Some of the main measures promoted by MECIT are:

- **Entrepreneurship – Women and the Youth:** Women and the youth remain two very important target groups which the Government supports through two Grant Schemes (Scheme for the enhancement of Youth Entrepreneurship and Scheme for the enhancement of Female Entrepreneurship) specially designed to encourage business development. The aim is to develop, support and encourage the entrepreneurship of women between the ages of 18-55 and young people between the ages of 20-40 who wish to establish an enterprise in any economic activity (manufacturing, e-commerce, services and tourism) except in the traditional commerce sector.

Particular emphasis is given in the use of new technologies, the use of innovative methods of production and promotion of products and services, the development of entrepreneurship in the environmental sector and generally in the promotion of modern entrepreneurial activities aiming at the creation of dynamic, promising and competitive enterprises.

For the programming period 2014-2020 a total amount of € 15,3 million will be allocated to successful applicants. The 1st call for both schemes was announced in February 2015 and by the end of 2016 113 women were approved for the Scheme of Female Entrepreneurship, whereas 287 young people were approved under Youth Entrepreneurship, for a grant amount of €3.75m and €10m respectively.

In addition, the Youth Board of Cyprus is currently designing a youth entrepreneurship programme which aims at developing and reinforcing young people's entrepreneurial skills through education and practical training, through a special network of mentors. The target group of the Entrepreneurship Development Programme are young people aged 15 – 29 and more specifically young people Not in Education, Employment or Training (NEETs). The programme has a budget of € 300,000 and will be financed by European Structural Funds. It is expected to start in September 2017.

Moreover, the Youth Board of Cyprus in collaboration with the Municipality of Larnaca is designing a new innovative "makerspace" following the successful examples of other countries. Peer learning is at the core of the makerspace mentality, therefore this will provide the physical space and technological equipment such as 3D printers, software, craft as well as hardware supplies, tools etc. to young people to enable them to create, invent, explore, share and thus ultimately learn. The Makerspace aspires to become a creative hub where young people will develop their IT and design skills but at the same time their social and entrepreneurial skills.

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

The first provides grants to SMEs in the Manufacturing Sector and other specific economic activities, in order to upgrade their technology and to promote innovation. The total budget is €18 mln for 2014-2020 (85% co-financed by the European Regional Development Fund), €14 mln of which are expected to be utilized under the first Call of 2015. Proposals for a total amount of around €38 mln (corresponding to more than €80 mln new investments) were submitted under this Call. By the end of 2016, 127 enterprises were approved for the amount of €4.3 mln (corresponding to more than €8.7 mln investments). The next Call is

expected during the second half of 2017.

The second scheme provides for the creation and upgrading of Manufacturing and Trading Units of Agricultural Products (50% co-financed by the European Agricultural Fund for Rural Development). The total budget for the period 2014-2020 is €15 mln. The scheme was announced by a first call in April 2016 whereby 224 applications were received and are under evaluation. An amount of €10 million will be allocated to successful applicants of the first call.

The third scheme provides economic support in the form of grants, aiming to improve and enhance competitiveness of SME's specifically in the wine industry. This measure is included in the National Support Program for the wine sector and is fully financed by European funds. The total budget for the period 2014-2018 is €8 mln. A total amount of €4,1m was allocated up until October 2016 for the benefit of 24 wineries.

- **Business Innovation - Innovative products/Services Scheme:** The Government, acknowledging that the production of innovative products and services, especially in high value added sectors, can lead to the strengthening of the economy's competitiveness and resilience against external developments, while facilitating access to international markets, will promote the targeted use of resources of ESIF for Innovation, within the priorities set through the Smart Specialization Strategy.

MECIT announced a grant scheme, for the development of new innovative products and services, with a total reserved amount of €10 mln for 2014-2020. The scheme encourages young people and new enterprises, especially start-ups, to turn to innovation in order to access the markets more easily. Moreover, it encourages cooperation of enterprises with research centres and universities as well as among themselves, in order to enhance science based entrepreneurship and widen the range of possible innovative products/services integrated in the value chain. The applications received showed that the cooperation between universities and enterprises is increasing since 15 % of the applications included at least one university in the team. Four universities and 262 enterprises have applied for 224 projects, 99 of which have been selected for funding, 50 in the category of Start-ups and 49 in the category of established enterprises.

- **Clusters:** Clusters are regarded as effective platforms to increase productivity and enhance the competitiveness of businesses, and funding schemes for their formation could help SMEs to improve their performance, to adopt appropriate technology, to increase their turnover and export performance.

A new scheme is currently under development which provides for creating, developing, supporting and promoting business clusters through partnership/cooperation of competing or complementary units in order to enable them to develop strategic partnerships and achieve economies of scale. MECIT intends to announce its first call during 2017, in the context of the €3,5 mln allocation made for the whole 2014-2020 period.

- **Internationalisation of enterprises:** Two additional small scale schemes are operated by MECIT with the view to improve the internationalisation potentials of the Cypriot enterprises: (i) Scheme for Cypriot exporters of services and land development companies, to participate in specialized fairs and exhibitions abroad, (ii) Scheme for Cypriot SMEs

involved in the processing and marketing of industrial products, to participate privately in exhibitions and trade fairs that take place in the Single Market (except Cyprus) and in Third Countries.

- **Facilitation of the participation to the Grant Schemes operated by MECIT**

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

- **Electronic submission and management of schemes:** As part of the overall effort to reduce bureaucracy and increase productivity, MECIT has decided to proceed with the automation of submission, evaluation and management of all state aid schemes. The aim is to set up an integrated system for the efficient administration of the Ministry's funding schemes, and to form the basis of gradual expansion based on the initially designed integration-master-plan (Ariadne and web-services to facilitate communication with the rest of governmental info systems). It is expected to commence in 2017.
- **Mechanism for the facilitation of access to loan financing:** Some enterprises while being eligible for grants, do not proceed with their investment projects due to difficulties in securing their own financial contribution. To accommodate this, MECIT agreed with the Association of Commercial Banks that the Commercial Banks will positively examine loan application for investment proposals that have already secured an approval for grant.

(d) E-Commerce

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

The main actions undertaken relate to the following:

- Conducting a study on ecommerce to evaluate the Cyprus e-commerce market and encourage the use of e-commerce locally from the perspective of businesses and citizens.
- Designing a funding scheme for promoting the growth of electronic commerce based on the findings of the study.
- A Conference on the "Legal Framework of Electronic Commerce" aiming to provide the legal requirements for e-commerce and also present tools available to businesses so that they may expand their activities and benefit from new technological opportunities by investing in the use of e-commerce.
- Consultations with main stakeholders on developing Regulations within the legal framework on e-commerce. The Regulations were forwarded to the Law Office for legal vetting.

(e) Improving the Regulatory Environment

In order to combat bureaucracy and improve law making, an Action Plan was approved by the Council of Ministers in October 2015 with the aim to identify existing burdensome procedures and promote simplifications in as many public services procedures which relate to and affect the setting up and operation of business activity in the country as possible, in combination with the promotion of e-Government measures where feasible. The Better Regulation Action Plan which is under implementation consists of 3 Priority Axes, namely:

- Simplification of procedures and legislation and reduction of administrative burden.
- Better law making and impact assessment of new legislation.
- Embedding the culture and enhancing relevant skills in relation to Better regulation.

Regarding the first Priority Axis, actions of reform and simplification are already underway by several Departments, such as:

- The Department of the Registrar of Companies and Official Receiver where relevant secondary legislation streamlining procedures and relevant forms are under public consultation.
- The Tax Department, where the development of an e-service is in progress after the forms/procedures for registering a new business regarding VAT and Income Tax for acquiring a Tax Identification Number have been consolidated.
- The Department of Civil Registry and Migration where the final report of the study for measuring administrative burden and identifying suggestions was submitted recently.
- The regulatory framework for tourism, where a study was completed in 2015 which examined the factors hampering competition and provided recommendations for the simplification of procedures. Bills of the new regulatory framework have already been sent to the Legal Service for legal vetting (see section 4.6).
- The Social Insurance Services, where simplifications of a number of procedures are under way.
- Construction permits (a technical assistance project is carried out for revision and simplification of the regulatory framework of the Planning and Building permits, to be completed in July 2017 – see section 3.2.2.).
- Environmental permits - a technical assistance project is carried out for a legal framework that integrates permitting across the main environmental regimes and a single unit to carry out environmental inspections, to be completed in December 2017.
- The streamlined legislation for European Impact Assessment (EIA) is under legal vetting.

Under the second Priority Axis, measures are also undertaken for improving regulatory quality, such as:

- The Council of Ministers approved in September 2016 a new Impact Assessment mechanism that entered into force on the 1st January 2017. The undertaking of SME Test is included in this, as part of the overall Impact Assessment Mechanism, with a view to taking into consideration all possible impacts, especially on SMEs, when drafting a new legislation. The intention is to examine mitigation measures for small and micro enterprises, taking into consideration the structure of the business environment in

Cyprus. The SME Envoy Cyprus will be carrying a qualitative assessment test on every new legislation that has an impact on SMEs.

- The 2011 Consultation Guide was revised with particular emphasis on consultation results and is now followed by all government Departments.
- Fully elaborated new Guidelines for legal drafting and harmonizing national legislation have been prepared.
- The Government is providing specialised training (workshops on legal drafting and workshops on the new impact assessment mechanism) for relevant officers in the Ministries.
- A Memorandum of Understanding will enter into force soon between the Government and the Cyprus Bar Association for a Cyprus Legal Portal that will provide easy access to several topics and links of primary interest to the public and enterprises with a special interest in Legal matters.

Lastly, under the third Priority Axis, a technical committee has been formed consisting of liaison officers of the Ministries on Better Regulation that discusses and promotes specific measures for the enhancement of better regulation culture in the Government.

Further to the above and in light of the necessity of modernizing the Law Office of the Republic, a study visit by the latter to a corresponding service of a member state with a largely similar legal system to that of Cyprus, a request for technical assistance from the SRSS was submitted in October 2016. The ever increasing work load of the Office in conjunction with basic operational and management constraints render the need for the reform of the Law Office urgent, in order to upgrade its capabilities and increase the efficiency and effectiveness of its service. Within this context, external experts from another member state will undertake the Functional Review of the Law Office and essentially, examine aspects relating to the Office's operations and organisational structure. Following a scoping mission by the experts and SRSS in February 2017, in Nicosia, once the Law Office, the expert's team and the SRSS agree upon the terms of reference, the experts will commence the Functional Review.

(f) Digital Strategy

The Digital Strategy of Cyprus for 2012-2020 adopts a holistic approach for the development of Information Society in Cyprus. The Department of Electronic Communications of the Ministry of Transport, Communications and Works (MTCW) as the competent authority for the Digital Strategy has the overall responsibility for the promotion of the 16 initiatives which comprise the actions of the Digital Single Market (DSM) Strategy adopted by the European Commission in May 2015. Top priorities are the enhancement of use of digital technologies, the improvement of the citizens' access to information and culture, the improvement of job opportunities and the promotion of modern and open e-Government.

The Digital Strategy Group (in replacement of the Advisory Committee of the Information Society) has the responsibility for the continuous enrichment of the Digital Strategy of Cyprus, taking into consideration recommendations from the private and public sector, for coordinating the actions and achieving synergies of the National Digital Strategy.

The Action Plan for implementing the Digital Strategy of Cyprus for 2015-2017 includes the most prioritised actions of the Digital Strategy and the most significant objectives and progress are as follows:

i. Connect Cyprus

The focus is to promote the achievement of the broadband targets of 2020. All three mobile operators provide high speed mobile broadband access (4G). During 2016 the Department of Electronic Communications authorised additional frequency bands (800/2600 MHz), which will allow the current mobile operators to further enhance their networks in terms of speed, capacity, quality of service and 4G coverage.

In May 2016 the “Cyprus Broadband Plan” was published. It refers to the policy and objectives for the development of broadband electronic networks as well as the actions that should be implemented in order to achieve the objectives.

In parallel, the Office of the Commissioner of Electronic Communications Regulations and Post (OCECPR) has elaborated the study “Broadband Acceleration Study for Cyprus” funded by EBRD. According to this study the operators’ plans regarding the deployment of NGA broadband networks are considered as adequate. Therefore, the recommended course of action is to allow the Market (operators and providers) to develop their own networks without any public intervention.

ii. Modern and open e-Government - Improved Citizens’ Service

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

In this context, the e-Government Strategy has been prepared for the period 2014-2020 which applies to all government organizations.

The e-Government Board (in replacement of the Executive Computerization Board) with membership at the highest level, has the responsibility to approve e-Government actions, monitor their progress, give solutions on significant problems that affect the implementation of e-gov actions and take political decisions regarding e-Government. The Department of Information Technology Services, Ministry of Finance is the responsible body for the implementation of the e-Government actions, whilst the Unit for Administrative Reform of the Presidency has the responsibility to coordinate the promotion of e-Government in the Public Sector, to accelerate the implementation of horizontal actions of the e-Government strategy and to support the e-Government Board.

The major strategic interventions are the following:

- The full exploitation and extension of Government Gateway Portal - ARIADNI, aiming to create a jointed-up Government. An Action Plan for the years 2016-2017 with new public eServices in ARIADNI has been approved and many of them are currently under development. Within 2016 the following eServices were completed: Information on the status of requests for various government organisations; Individual tax information for citizens and businesses; Application for participation in written examination for police vacant post; Official printing of various government certifications.

ARIADNI has also been enriched with information related to governmental procedures and

services that are provided to both citizens and businesses. Users can now find a full set of information for each governmental procedure including its description, relevant legislation, required certifications, fees, etc. The government procedures are categorised by sectors.

- eID Project: The provision of qualified electronic signatures and high assurance level of electronic identification is under development. It is expected to be completed in 2018 and the eID will be offered to citizens.
- Electronic Office Automation System (eOASIS): The roll out of eOASIS (electronic management of the official documents of the Public Service) throughout the Government will be completed in 2018.
- Unified Communication Network: The creation of unified communication network for the Public Services is under development. The competition has been announced.
- e-Justice: The Integrated Information System that will computerize the Justice sector supporting the automation of all processes of Courts (e-Justice) is under development.
- Town Planning & Housing Information System: Aims to upgrade and improve the relevant services and reduce bureaucratic procedures has almost been completed.
- Integrated Health Information System (e-health): An integrated Health Information System will be rolled out to all public hospitals and health centers. The proposal has been submitted to e-Government Board for approval.
- The Call Centre of the Citizen Service Centres (CSCs) started its operation as of 2/3/2015, through a single 4-digit number which citizens can call in order to obtain information with respect to approximately 90 services (e.g. relating to the preconditions that must be met so as to qualify for submitting an application, required documents, fees charged etc.). Through the Call Center, citizens can also submit applications for 18 services related to the issuing of specific documents/licenses/certificates etc. The Call Centre handles on average a total of approximately 1.275 calls on a daily basis.

Moreover, the Government plans to create a unified Call Centre for the whole Government, which will be operated by an external operator (outsourced), using the same number. This will replace the above mentioned call centre for the CSCs and it will be a communication centre that will accept applications from multiple communication channels (telephone, SMS, email). It will provide information on the procedures for all the services that the public sector offers to citizens/businesses, on the status of requests and on the contact details of all government bodies (e.g. phones, postal addresses, URLs, etc.). The unified Call Centre is expected to start its operation by the end of 2017.

- It is noted that the Citizen Service Centres (CSCs/one-stop-shops) were established all over Cyprus, with the aim to provide multiple services from one point of contact/location, in the framework of upgrading the quality of services offered to citizens. Acting as an alternative channel for dealing with public agencies/organisations, CSCs offer more than 90 different services from a number of governmental organisations. The network currently comprises of 8 CSCs in total (6 in urban areas and 2 in rural areas). The aim is to establish 6 more

CSCs in the period 2017-2018. During 2016 the eight CSCs have provided a total of approximately 860.000 services to citizens who have visited them, whilst 315.000 citizens received information over the phone. The CSCs offer on average a total of 3.475 services on a daily basis.

iii. Digital Entrepreneurship

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

iv. Digital Skills

The digital skills gap in the EU also reflects the current situation in Cyprus. In fact based on the latest statistics, Cyprus has one of the lowest percentages of regular Internet users in the EU (70%) while 26% of the Cypriot population has never used the internet and thus cannot contribute to the digital economy. Additionally, only 43% of the population has at least basic levels of digital skills, whereas only 2.4% of the total labour force in Cyprus is a qualified ICT Specialist (compared to EU average 3.8%).

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

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

- The Human Resource Development Authority of Cyprus (HRDA) promotes continuously the acquisition of digital skills through various actions, that improve and update the knowledge and skills of companies' employees on ICT issues which include among others single-company and multi-company training programmes.
- The Cyprus Pedagogical Institute is implementing a number of ICT actions promoting the training of school teachers and other executives at various levels. The ICT lesson is included in the curriculum of all schools for all students at all levels.
- The Cyprus Academy of Public Administration (CAPA) has completed the "Digital Ambassadors Training" project (co-funded EU project for the Local Authorities) which offered training to 155 digital ambassadors from 155 distinct communities/rural municipalities. CAPA continued to train Digital Ambassadors following completion of this project and has so far trained around 45 additional ambassadors.
- CAPA in cooperation with the Presidency's Administrative Reform Unit are running a new project to identify and evaluate the needs of the civil servants on eSkills. After the

assessment of the needs on eSkills, training programs will be designed to meet civil servants needs.

- ICT classes are provided to the general public, through the Adult Education Centres within the framework of providing lifelong learning opportunities.
- The Department of Electronic Communications launched a tender (January 2017) for an awareness campaign to inform citizens and businesses about the benefits of using ICT and Internet, in order to built-up the necessary trust.

v. National Plan for the Coalition for Digital Jobs

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

More than 40 stakeholders, including companies from the ICT and ICT-related sector, relevant public departments, and other education providers have notified their commitment to support and promote this effort. In January 2016 the Council of Ministers approved the creation of the National Coalition for Digital Jobs as well as the establishment of a coordination Committee, under the supervision of the Digital Champion, with the participation of the Department of Electronic Communications.

In order to deliver direct and tangible results with a positive impact in promoting ICT skills, Cyprus Coalition decided to continue by implementing actions of priority. Priority actions for 2016 to 2019 include the introduction of certification of European Computer Driving License (ECDL) free of charge, on a voluntary basis to students of lower secondary education in public and private schools, as well as to soldiers and unemployed people, provision of training programmes to people with disabilities and conducting a series of awareness activities in ICT in collaboration with our stakeholders.

Actions of priority have been approved by the Council of Ministers in August of 2016. The Council has authorised the Ministry of Education and Culture (MOEC), Ministry of Transport, Communications and Works (MTCW), Ministry of Labour, Welfare and Social Insurance (MLWSI) and Ministry of Defence (MOD) to deliver results.

(g) Tourism

Tourism has been a major driver for growth and a major pillar for the recovery of the economy following the 2013 crisis. Nevertheless, acknowledging that tourism is faced with structural weaknesses hampering its competitiveness, the Government proceeded with an assessment of its governance structure, its regulatory environment and the undertaking of a study for the formulation of a new national strategy for the sector. The implementation of a new national tourism strategy in conjunction with the establishment of a dedicated deputy ministry for tourism (relevant Bill before the HoR) and the simplification of the regulatory environment is expected to have both a direct impact on private and public investment in the sector, as well as

an indirect effect through the enhancement of the competitiveness of the sector, and therefore its profitability, making an important contribution towards the improvement of the investment environment.

All the above measures are elaborated in section 4.6.

(h) Competitiveness Report

The emphasis placed by the Government on enhancing the economy's competitiveness and productivity, reflected in all actions (a)-(g) above, also necessitates the introduction of a mechanism for the systematic monitoring of the performance of Cyprus in relation to international competitiveness benchmarks. The incorporation of the monitoring of international indicators into the national policy framework will facilitate the design of the appropriate actions and policies. For this reason, a decision was taken for the annual preparation and publication of a Competitiveness Report, which will provide an analytical tool for the comprehensive assessment of Cyprus' performance, facilitate the dialogue between public and private sectors, as well as contribute to setting the agenda for reforms aiming at competitiveness improvements.

A proposal on the Outline (structure and indicators selected) of a Competitiveness Report has been prepared and a data base with the data for the indicators to be included in the Report has been compiled. The first Report is expected to be prepared by external experts through technical assistance from the SRSS.

3.4.2. National Regulatory Authorities

Cyprus Energy Regulatory Authority's (CERA) budget for the year 2017 has been approved by the HoR at the end of February. This Budget includes three new posts, one of which is a post of a Director for the CERA's Office. In addition, the HoR has approved the filling of two posts of permanent personnel and CERA will proceed with all the necessary procedures for the filling of these two positions.

Moreover, The budget of the Office of the Commissioner of Electronic Communications and Postal Regulation (OECCPR) for the year 2017 has also been approved by the HoR, including 2 new posts of scientific staff and increasing the staff from 14 to 16 people.

In addition, in the 2017 budget 7 new posts for the Commission for the Protection of Competition have been included and approved, enhancing significantly the capacity of the Authority.

3.4.3. Privatisation Plan

a) Limassol Port

The Limassol Port Privatisation Plan is being implemented. The concession for the commercialisation of the port is in three parts: container terminal, multi-purpose terminal and marine services. The signing of the Concession Agreements with the successful bidders took place in April 2016. The transition period of 9 months, during which the Cyprus Ports Authority continued to operate the Port while the private operators undertook the required activities for a

smooth transition, ended in January 2017, with the takeover of the three concessions taking place on 29 January 2017.

b) Larnaca Port

The implementation of the Privatisation Plan for the Larnaca Port is under way. An open call for the expression of interest for the development of the Larnaca Marina and Port was published in November 2016. The deadline for the expression of interest was March 2017, following which, the candidates to be preselected will be invited to submit tenders.

c) Cyprus Telecommunications Authority (“CYTA”)

No consensus has been reached at the level of the HoR for the privatization of CYTA. However, a draft legislation bill and regulations amending the Telecommunications Service Law and the relevant regulations have been prepared, with the aim to implement the transfer of CYTA's commercial operations to a 100% state-owned limited liability company. The draft bill and regulations took into consideration (a) the views of the political parties as expressed during the process held, at HoR Committee level, for the evaluation of the initial governmental proposal for CYTA and (b) the views of CYTA trade unions as expressed in the Joint Advisory Committee.

The draft legislation bill and draft regulations were sent to CYTA trade unions as well as to the Chairwoman of CYTA's Board of Directors and are centered around the following main pillars: (a) ownership and control are retained by the State, (b) the current employment status and the rights of the employees are being fully protected while there is no provision for the employees to be transferred to other departments of the public service, (c) inclusion of a provision that, even under the scenario that the majority of the members of CYTA's Board of Directors are appointed by a strategic partner and not by the State (while ownership is retained by the State), the consent of the State representatives on the Board of Directors (or the State in the case of Shareholders Meeting) will be required for any matters related to the employment of persons currently employed by CYTA.

The proposed structure safeguards the public interest as well as the employees' rights while, in parallel, maintains the possibility for the attraction of a strategic partner/investor through equity participation and management control of the company, which is considered necessary in order to maintain the company's value and its business prospects.

d) Cyprus Stock Exchange (“CSE”)

In September 2016 the Privatization Unit (PU) launched a tender for the appointment of an advisor that will be mandated to perform, among others, the following key tasks:

- Prepare a strategic plan for the CSE.
- Subject to the decision(s) of the Inter-ministerial Committee for Privatisations and/or the Council of Ministers on the basis of the strategic plan, execute the relevant transaction.

However, the tender for the appointment of an advisor has been cancelled. Following the written consent obtained from the Finance Committee of the HoR in February 2017 and subject to a relevant approval from the Inter-ministerial Committee for Privatisations (“IMC”), the PU will proceed with launching a tender for the appointment of an advisor that will be mandated solely to prepare a strategic plan for the CSE and managing the execution of the contract.

e) Licensing of the National Lottery's activities

The tender procedure for the appointment of a consortium of advisors that will assist and advise on the private sector participation in the National Lottery, was concluded in early May 2016.

In October 2016, the advisors submitted the results of their preparatory work, analysis and recommendations as regards the most beneficial option for the State. Based on these results, the Council of Ministers (CoM), in November 2016, approved the licensing of the National Lottery's activities to a private investor/operator for 15 years, as the privatisation method.

In December 2016, the IMC approved the Privatisation Strategy Report prepared by the advisors, which analyses the privatisation and tender process to be followed for the selection of a reputable investor/operator.

f) Development of the Troodos Area

The tender procedure for the appointment of a consortium of advisors that will assist and advise on (i) the long term development of the wider area of Troodos' mountain, and (ii) the private sector participation in specific real estate assets in Troodos, through either a long-term lease and/or licence and/or right to use/exploit them, was concluded in early September 2016.

In December 2016, the advisors undertook a series of meetings with various stakeholders and have submitted their Draft Report on the specific proposals for the long term development of the Troodos area. Based on the advisors' engagement schedule, the results of their preparatory work, analysis and recommendations for the exploitation of the specific real estate assets with private sector participation is planned to be submitted by May 2017.

g) Real Estate Assets

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

h) Licensing of Cyprus Airways logos and trademarks

The formal international tender procedure managed and executed by the PU for the award of the exclusive license to use/exploit the Cyprus Airways Logos & Trademarks for the operation of a flights schedule out of the Republic of Cyprus was completed in July 2016. The outcome of this procedure was the selection of Charlie Airlines Ltd (a subsidiary of Russian Air carrier S7) as the preferred party and the signing of the License Agreement. The agreement provides Charlie Airlines Ltd the right to use the Cyprus Airways Logos & Trademarks for a period of 10 years for a consideration of €2,04 million.

3.4.4. Access to finance for small and medium-sized enterprises

It was decided to set up a Committee, presided by the MOF with the participation of the Directorate General for European Programmes, Coordination and Development (DGEPCD) and

MECIT, tasked with addressing any co-ordination issues. The various funding programmes/schemes currently in place/under discussion are described below.

a. Grant Schemes and Loans by Financial Intermediaries (traditional financing)

• Programmes co-funded by European Structural and Investment Funds (ESIF) 2014-2020

Initial planning for the programming period 2014-2020 included support of the SMEs either through direct Grants or Financial Instruments.

- **Grant Schemes:** A number of grant schemes are available to SMEs under the Operational Programmes (OP) co-funded by the ESIF 2014-2020. Under the OP co-funded by the ERDF, approximately €63 mln will be made available aiming at the enhancement of youth and women entrepreneurship, the strengthening of SMEs' competitiveness, the internationalisation of SMEs, the development of business clusters, the reinforcement of digital entrepreneurship, as well as the upgrading and enrichment of the tourist product. Approximately €18 mln will be allocated to enterprises for improving the energy efficiency of their premises and around €30 mln will be made available through several schemes geared towards enhancing business innovation and technology transfer. During 2015 and 2016, a number of calls were announced for the majority of the aforementioned schemes for a total amount of approximately €53 mln and the relevant authorities are now at the stage of completing evaluations of the proposals submitted. At present, an amount of €27 mln has been committed to approved proposals, which counts for around 585 eligible beneficiaries.

More detailed information with regards to some of these schemes can be found under section 3.4.1.

- **Financial Instruments - Ex Ante Assessment:** The implementation of the JEREMIE Initiative in Cyprus started in 2011 and by end 2015 when the eligibility period for new loans expired, an amount of €39,5 mln of new loans was disbursed to 519 eligible SMEs, with the support of around €18 mln from the ERDF.

One of the strategic objectives that emerged was to widen the scope of the ESI funds towards the benefit of SMEs. Under this objective, the Operational Programme "Competitiveness and Sustainable Growth" funded by ERDF and the Cohesion Fund (CF) has placed significant importance on the use of financial instruments and has allocated preliminarily, under Priority Axis 1 - *Enhancing the Competitiveness of the Economy and Specific Objective 1.1.3 - Promotion of the Development of New Entrepreneurial Activity*, an indicative amount of 19 million. In addition to the said amount the Managing Authority is exploring ways to increase the allocation to financial instruments in order to reach a total amount of €40mn considering the additional amounts allocated to Cyprus through the MFF Review and the results of the on-going Ex ante assessment.

The whole amount to be dedicated towards the financing of SMEs through financial instruments that will be designed and adopted after the finalisation of the ex-ante assessment which is, according to the Common Provisions Regulation, a prerequisite before the implementation of any form of financial engineering.

The ex-ante assessment has already started with the interim report due by April and the final Report to be expected by June 2017. This is being undertaken by the EIB. Based on the findings (i.e. financing gap) and recommendations of this study, new financial instruments will be designed and promoted with the support of ESIF.

- **Programmes funded by other EU or international sources**

- **EU Competitive Programmes (e.g. COSME, Horizon):** It is estimated that Cyprus has the potential to absorb around €250-€300 mln during the 2014-2020 period from participation in the EU competitive programmes. A significant allocation from these resources is expected to be directed towards the entrepreneurial community, mainly through participation in initiatives under Horizon 2020 and the COSME Programme. Several information and promotion events are undertaken by the competent Authorities (DG EPCD, MECIT, Research Promotion Foundation - RPF) in order to enhance participation of national beneficiaries in these programmes. In addition, with the view to providing complementary support, financial support is committed from the budget, where appropriate and based on relevant assessment, in line with relevant policies and objectives promoted at national level.

During the 1st quarter of 2017, DG EPCD and MECIT have launched a new initiative aiming to encourage participation of potential intermediaries (financial institutions, investment funds /networks, insurance companies etc.) in funding initiatives supported by EU Competitive Programmes (Cyprus was, until recently, the only Member State that had not exploited any of the relevant financial instruments). A positive development towards this direction was the recent agreement signed between the EIB and a commercial bank, with the aim to support small innovative enterprises through the H2020 InnovFin mechanism (see below). More banks are now expressing interest to be further informed and potentially participate in Lending and Guarantee Facilities offered under Horizon 2020 COSME, Erasmus+, LIFE etc. The Government is currently assessing the response to the above initiative mainly from the banking sector and business angels and plans to proceed, in cooperation with the EIB, to appropriately targeted and customized discussions with all interested bodies during Q2 2017.

- **The European Bank for Reconstruction and Development (EBRD):** The EBRD Resident Office in Cyprus completed its first project in 2014 with the Bank's participation in the capital of the Bank of Cyprus with the amount of €107,5 mln. In 2015 a 5.4% equity stake was acquired in Hellenic Bank amounting to an investment of €20 mln in new shares. EBRD stepped up its support for Cypriot exporters and importers with a €20 mln, €50 mln and €20 mln trade facility to three commercial banks under the EBRD's Trade Facilitation Programme (TFP) for a three year period. Through the facility, the EBRD will issue guarantees in favour of international commercial banks covering the political and commercial payment risk of the transactions undertaken by the three banks. In addition, these banks will also benefit from the EBRD's technical cooperation projects in trade finance.

In 2015 EBRD also agreed to grant a US\$ 11.4 million loan to a leading ship management company headquartered in Cyprus, to support the expansion of Interorient fleet under management through a series of investments to enhance the

company's capacity to increase its client base. EBRD in June, 2016 also granted a €10 mln non-recourse debt financing for the construction, development and operation of five solar photovoltaic parks of total capacity 11.9 MWp.

The cumulative investments of EBRD in Cyprus since the opening of Nicosia office after 2 years amount to €200 million.

- **European Fund for Strategic Investments (EFSI):** The competent authorities have provided information to the private and public sector on the funding opportunities provided through the EFSI and have facilitated the preparation of projects, where necessary, through the speeding up of decisions relating to the public sector. A list of projects / schemes has been prepared following consultation with stakeholders of the private and public sector which cover, inter alia, energy, including the Renewable Energy Sector (RES), Energy Efficiency, Ports and Marinas, Information and Communications Technologies and Research and Innovation. Project promoters, have also been in direct consultation with EIB. Information on EFSI was also provided to the banking sector through direct meetings with EIB competent services.

On 23 December, 2016, the European Investment Fund (EIF) and one commercial bank have signed the first EFSI agreement which will provide €10 mln to innovative SMEs. Under this agreement, the said bank will provide attractive loans to innovative SMEs and mid-caps over the next two years. EIF's guarantee is provided under the "EU InnovFin Finance for Innovators" initiative, under Horizon 2020.

Within the next few months additional financing agreements under the framework of "InnovFin" and EFSI are expected to be signed in Cyprus.

Furthermore, EIB is in direct consultation with KODAP (Appraisal Stage) to finalize the financing of Phase I of the construction of the new Strategic Oil Reserve Terminal in Cyprus. EIB has appraised in Q1 2017 the "KODAP STRATEGIC OIL RESERVES STORAGE" with approval to be expected in Q2 2017 after the promoter provides the Environmental Impact Assessment (EIA) study. The build-up of the Oil Tank facilities is expected to start during 2017.

- **Programmes funded or supported (guaranteed) by National Resources**

- **The Cyprus Entrepreneurship Fund (CYPEF):** The aim of the fund is to facilitate access to finance for SMEs through financial instruments in the form of risk sharing loans with favourable financing terms. The initial capital of €100 mln, acquired by the Government through a loan from the EIB will be matched by equal contributions from selected financial intermediaries (commercial banks), raising the total amount available to SMEs to €200 mln. CYPEF is being managed and operated by the European Investment Fund (EIF), in the context of a mandate agreement with Cyprus. DG EPCD is tasked with ensuring the compliance of the CYPEF's activity with the provisions of the agreement. The maximum loan for each firm is €1,5 mln. One financial intermediary participates, at present, with a contribution of €60 mln. For the full deployment of the targeted loan portfolio (of €200 mln) there is good prospect for the participation of one more bank, in 2017, with a contribution of around €10 mln. To this end a consultation procedure between EIF and the interested Bank is in progress.

During the first half of 2016, 78 new loans were approved and € 24.9m (CYPEF contribution € 12.4m) were disbursed. Since the beginning of the offered product to the Cypriot business sector, 100 SMEs have applied and were approved for CYPEF loans, amounting to € 33.4m (CYPEF contribution € 16.7m).

- **EIB direct lending / Government Guarantee Scheme:** Under this Scheme an initial allocation of €300 mln to Cypriot Banks for the conclusion of Loan Agreements with EIB for the financing of SMEs and Mid-Caps in Cyprus, was approved by the Council of Ministers in 2014 which also approved in 2015, the increase of the said Government Guarantee Scheme from €300 mln to €500 mln. In November 2016 the Council of Ministers further increased the Scheme from €500 to €750 million, which is expected to be highly beneficial for the Cyprus economy. So far, a total of ten banks signed Loan Agreements with the EIB amounting to €615 mln in total.

Until the end of 2016 around €220 mln were allocated by the selected banks, 240 beneficiaries (SMEs, Mid-Caps) benefited and 43% of the total amount of the signed Loan Agreements utilized by the selected banks.

- **Business loans (up to €25,000) for young qualified professionals:** total budget of €5 mln for 2016. Four loans were approved and a total amount of €91.000 was disbursed to eligible beneficiaries. The total budget for 2017 is €5 mln.
- **Subsidization of interest rates of business loans:** the scheme is implemented since May 2014 and up to December 2016, 105 eligible enterprises were supported with an allocation of approximately €150,000 (national budget) subsidizing interest for approximately €5 mln new (bank) loans made available to the beneficiaries.

The last two of the measures above are two special measures for the support of entrepreneurship promoted under the “Scheme for the restoration of prewar solvency of owners of immovable property in the occupied area or of inaccessible immovable property”¹ (operated by the Central Agency for Equal Distribution of Burdens).

- **Grant Schemes** – two additional small scale schemes (i.e. with budget up to €100,000) are operated by MECIT with the view to improve the internationalisation potential of the Cypriot enterprises.

b. Alternative Forms of Financing

As mentioned earlier, a National Policy Statement on the Enhancement of the Entrepreneurial Ecosystem in Cyprus was formulated after intensive consultations with all the stakeholders, especially the business community (including start-ups), and approved by the Council of Ministers in December 2015. The Statement indicates the need for developing alternative forms of financing, given the significantly limited access that high risk enterprises (including innovative

¹ These measures are addressed to a limited number of beneficiaries but still quite significant in relation to the small size of the population and in particular of the business community in Cyprus. Indicatively, more than 20,000 applications are submitted on an annual basis by student loan beneficiaries (potential new entrepreneurs). According to companies statistics there are approximately 11,000 new registrations on an annual basis (average for 2013-15).

SMEs) face when it comes to traditional loan funding by the banking sector, and accordingly promotes relevant actions to be implemented by 2020.

- **Equity / Investment Funds / VC funding**

The MOF has put as a priority the setting up of a modern and competitive legal and regulatory framework regarding the industry of collective investment schemes in Cyprus based on European and international best practice. From 2010 onwards with the help of specialized external legal advisors, the Cyprus Securities and Exchange Commission (CySEC), as well as the industry, the regulatory framework has been developed with the enactment of three separate laws and respective secondary legislation that form the legal nexus for collective investment schemes. These are a) the Open Ended Undertakings for Collective Investment (UCI) Law of 2012 (UCITS Law) b) the Alternative Investment Fund Managers Law of 2013-(AIFM Law) and c) The Alternative Investment Funds Law of 2014 - (AIF Law).

Through the initiative of the Cyprus Investment Funds Association (CIFA) a multinational law firm, was employed in 2015 for a) reviewing Cyprus' legal and regulatory framework on collective schemes and suggest changes that would make it cutting edge and b) promoting Cyprus as a funds international player through their international contact and influence. The Firm's suggested recommendations were analysed by the MOF and CySEC. Out of this work and the discussions that ensued with the industry, draft laws have been drawn up which introduce new features for the collective investment schemes in Cyprus which are expected to further modernize the framework and bring it in line with the best European ones. These features include:

- The introduction of registered funds, whose supervision will be done through the fund managers.
- The introduction of licensed and regulated mini-managers, for the fund managers below the European Directive thresholds.
- The introduction of limited partnerships with legal personality as an alternative investment fund vehicle.

Currently the consultation process has been completed and the MOF expects that the final bills will soon be submitted to the Council of Ministers for approval and subsequently to the HoR for enactment.

- **Business Angels (BA) funding**

Currently there is only one BA network operating in Cyprus, the *Cyprus Business Angels Network* (CyBAN). During 3 years of operations, CyBAN comprises of 45 investors who have invested in 7 innovative enterprises an amount of approximately €3,6 mln. It is estimated that an amount of around €40mln is available for further investments via the BA network. In response to a new Government's initiative for further promoting the participation of Cypriot bodies in EU Competitive Programmes, the CYBAN has expressed special interest to be further informed and potentially participate as intermediary under H2020 and COSME equity facilities.

- **Crowdfunding**

The MOF, in cooperation with CySEC and in consultation with the private sector, is currently exploring the potential of and the risks to promoting and facilitating the development of crowdfunding. Based on preliminary assessments, there seems to be a need for a regulatory reform to be undertaken in order for this sector to become operational while at the same time, ensuring appropriate investor protection.

- **Incubators & Accelerators**

There are various initiatives undertaken mainly by the private sector in relation to the development and operation of such supporting programmes for enterprises. Most of them result from partnerships developed between academic institutions, big consulting firms, bank institutions and others, often in the context of the corporate social responsibility. These, relatively small-scale initiatives, serve a fairly small number of enterprises mainly through consulting and mentoring services while the direct funding invested through these programmes (i.e. early stage / seed financing) is rather limited.

c. Other measures for enhancing SMEs access to finance

- **Tax incentives for investing in innovative SMEs**

As mentioned above, a new amending law was approved in December 2016 that gives incentives to individuals to invest in innovative SMEs including start-ups. The measure was promoted in the context of the Policy Statement on the Enhancement of the Entrepreneurial Ecosystem in Cyprus. The new law provisions are expected to significantly contribute to enhanced access to finance (mainly equity funding) for new and innovative enterprises which face increased difficulties accessing bank lending due to the high risk of their operations.

3.5. Public Employment Services and Health Care Reform

Recommendation 5

Enhance the capacity of the public employment services and their provision to the long-term unemployed; improve outreach to the non-registered unemployed. Adopt legislation for a hospital reform and advance with the planned implementation of universal health care coverage.

3.5.1. Enhancement of the Capacity of the Public Employment Services (PES) and their Provision to the Long-term Unemployed

The actions regarding the project “Further Enhancement and Modernization of PES 2014-2020” include the following: staff employment (employment counsellors), training of employment counsellors, training of PES officers, enhancement of the PES Candidate Placement System (CPS), youth activation campaign, improvement of the PES administrative and technical capacity (labour market short term analysis model, opinion survey).

In 2016, within the framework of the Enhancement and Modernization of Public Employment Services, the process for the strengthening of the PES operation by staffing with Employment Counsellors has been initiated and the launching of the call is expected to take place in the first half of 2017. Additionally the PES Employment Counsellors have been retrained on the counselling process for vulnerable groups while a special training project is planned to be designed and implemented for the whole staff of PES in 2017.

Furthermore, the Department of Labour is implementing a new project establishing co-operation of Public Employment Services (PES) with Licensed Private Employment Agencies (PrEAs). In its context, a “job Placement Voucher” will be issued by the Employment Counsellors of the PES to registered unemployed persons. The Voucher will be presented to PrEAs participating in the project for services offered regarding job placement.

As regards the computerized system of the PES, the upgrading of the Candidates Placement computerized System is planned to be designed and implemented within 2017.

3.5.2. Improvement of outreach to the non-registered unemployed

The MLWSI promotes the reduction of youth labour market detachment through outreach strategies and partnerships (with the implementation of a national information campaign to raise awareness on decent work for young people and the support provided by labour market institutions including through the National Youth Guarantee) as part of the measures covered under the NAP for Youth Employment during the years 2015-2017.

Among the schemes which have been initiated/implemented during the period under review (2016) is the Scheme targeting Persons Not in Education, Employment, or Training (NEETS) 15-24 years old, which includes outreach activities to attract non-registered NEETS followed up by provision of career counselling.

In addition, the Youth Board of Cyprus in collaboration with the MLWSI, has successfully applied and will run a project under the EASI Programme “Information Sharing and outreach activities to young people about the Youth Guarantee”. The project has a budget of €350.000 and aims to activate young people of diverse backgrounds, lead them to the Public Employment Services and enable them to actively search for a job, training or internship opportunity, taking advantage of the existing Youth Guarantee schemes.

Furthermore, in the context of Schemes Facilitating the Creation of New Jobs (Wage Subsidies Schemes), the Department of Labour, during 2016, promoted the following six schemes to help the employers hire unemployed persons:

- Scheme Providing Incentives for the Employment of Unemployed People over 50 years old.
- Scheme Providing Incentives for the Employment of Persons with Chronic Diseases.
- Scheme Providing Incentives for the Employment of Persons with Disabilities.
- Incentive Scheme for the Employment of Recipients of Guaranteed Minimum Income (GMI) in conjunction with the completion of three months practical training.
- Scheme for the Employment of the Unemployed for Providing Care Services to Disabled Persons.
- Scheme for Job Placement of Young Unemployed Graduates of tertiary education, with less than one year of experience.

As regards the provision of Training Programs, in addition to the above, during 2016, the HRDA promoted the following scheme:

- Scheme for the job placement of unemployed young tertiary education graduates for the acquisition of work experience in enterprises/organizations.

3.5.3. Hospital Reform – Universal Health Care Coverage

(a) Hospital Autonomization

Regarding Hospital Autonomization, the draft “Law on the establishment of Public Hospitals Organisation of 2016” was approved by the Council of Ministers in October 2016 and was submitted to the HoR. In November 2016, the Minister of Health presented the draft legislation to the Parliament’s Health Committee, where the discussions are still continued.

Regarding the expected timelines, if there are no undue delays at the level of the Parliament, the implementation of Hospital Autonomisation is expected to begin at the latest by June 2017.

The core implementation steps and deadlines following the adoption of the Bill are the following:

- Appointment of the hierarchy of the Organisation:
 - Board of Directors within 4 months.
 - Management Teams of the various directorates within 10 months.
- Amendment of the legislation indirectly related to the Bill, within 6 months.
- Staffing with permanent public servants, not permanent public servants and the “new staff” of the Organization, within 12 months.

- Initiation of the transfer of the Procurement and Supplies of Pharmaceuticals to the Procurement and Supplies Directorate of the Ministry of Health the first trimester of 2017 and based on an already prepared action plan, completion within 90 days. Transfer to the Organisation once financial autonomisation of the Directorates of the Organisation is achieved (2018).
- Costing and preparation of shadow budget with the assistance of an expert by 3rd trimester of 2017. Financial autonomisation of the various Directorates of the Organisation 2018.
- Restructuring of Public Primary Health Care, end of 2017.
- Upgrading the services provided by the public health facilities with the assistance of experts (First phase to be completed by end 2019).

Regulations on employment issues will be submitted to the Council of Ministries beginning in April 2017 and subsequently to the HoR.

As regards the financing:

The function of the Organisation, as a public legal entity is subject to the provisions of the Financial Framework and Fiscal Responsibility Law and the relevant laws governing the operation of public organizations.

- Until the enactment of the National Health System, the Organisation's budget will be covered by Government subsidy which is in the current Ministry of Health in accordance with the guidelines and parameters set out in the current Strategic Framework for Fiscal Policy. After the implementation of the National Health System (NHS), the Organisation will have the responsibility to manage its own budget that must be balanced. The State will contribute to the financing of the Organisation's activities for Services not covered by the National Health System, and any funding will be always under the Control of State Aid Law and its relevant provisions.
- The revenues of the Organisation will come from the health care services provided, by educational and research programs, as well as grants, co-financing of programs and /or donations.

(b) Universal Health Care Coverage

The proposed NHI System promotes universal health care coverage, addressing the existing inequalities of health care coverage amongst the population.

The draft NHIS Bill has been submitted to the HoR and its article by article examination by the Health Committee has commenced in November 2016. Once the examination by the Health Committee is completed, the NHIS Bill will be submitted to the plenary for voting. The Bill calls for the full implementation of NHIS by June 2020.

The proposed design of the NHS would entitle access to care for the whole population and significantly reduce current high out-of-pocket payments. The Bill also envisages implementing the NHS on the basis of a single-payer system, funded by payroll contributions from the state, employers and employees. Even though no budgetary shortfalls are anticipated due to hard

global budget, any shortfalls are expected to be covered by the building-up of financial buffers. The timelines for NHS implementation will particularly depend on the duration of parliamentary discussions

The Health Insurance Organisation's IT tender, was awarded and the contract with the successful Tendered was signed in March 2017. The IT system is expected to be fully developed 18 months after the contract's signature.

With regards to the NHIS Bill, indicative timelines for its implementation are the following:

1/1/2019:

- Appointment of the Advisory Committee for Medicinal Products by the Ministerial Council, for preparation of pharmaceutical products positive list and medical devices positive list.
- Appointment of the Drug Compensation Advisory Committee by the Board of Directors of the Health Insurance Organisation, to advise on the compensation of pharmaceutical products and medical devices.

1/3/2019:

- Obligation to pay contributions for the NHIS System.
- Appointment of the Supervisory Commissioner.
- Establishment of Audit Committee.

1/6/2019:

- Implementation of Phase I of NHIS - Outpatient health care (Family Doctor, Outpatient Specialists, Drugs, Laboratories, House visits by FDs and Outpatient Specialists).

1/6/2020:

Full Implementation of NHIS:

- Health care provision by the NHIS.
- Provision of health care services abroad.

4. ADDITIONAL STRUCTURAL MEASURES AND POLICY RESPONSES TO MAJOR ECONOMIC AND STRUCTURAL CHALLENGES

This chapter includes additional structural and institutional reform measures on non-CSR policy priorities, in areas that are important for growth, which are also part of the overall government reform strategy at national level.

4.1. Labour

In addition to the measures presented under chapter 3, the following actions are noted:

(a) Cost of Living Allowance

With regard to the cost of living allowance (COLA), progress was made for its application both in the public and the private sector. With regard to the latter sector, social partners started discussing the issue aiming to adopt a new agreement on wage indexation. It is noted that the application of the previous system of indexation was suspended until the end of 2016. After the suspension ended, the application of the previously used wage indexation would have led to a nominal reduction in wages, given that the inflation during 2016 was negative. However, the MLWSI successfully urged the social partners to maintain the suspension of the indexation system until the social partners will reach a new agreement. Negotiations on private sector's COLA began in October 2016 and they are still going on. With regard to the public and semi-public sector, including the semi-governmental organisations, collective agreements have been signed with the labour unions pegging payroll to growth (see section 3.1.2).

(b) Combating Undeclared Work

The Government has set the tackling of undeclared work among its major priorities. Modifications to the Social Insurance Law have been recently submitted to the HoR for adoption. In particular, the main amendments include the increase of the amount of fines, and the introduction of an electronic declaration of commencement of employment. It is expected to be forwarded to the Plenary for voting in May 2017.

In addition, a new Law providing for the creation of an Inspection Body will be forwarded for approval during the next months. The Inspection Body will be responsible not only for tackling undeclared work but also for making inspections regarding the implementation of almost 20 Laws of the MLWSI, such as, minimum wage, protection of wages, organisation of working time, etc. The Government expects that productivity and quality in the field of inspections will be increased by the operation of the new Inspection Body.

(c) Human Resource Development

Human resources in Cyprus are characterised by a high level of educational attainment and there is a strong cultural trend among Cypriots in favour of general secondary education followed by higher education. The Human Resource Development Authority (HRDA) provides annual estimates for the number of persons required for specific occupations and the needs for specific skills. On the basis of these estimates, suggestions are put forward for the implementation of training programmes. In this respect, the views of social partners and other

stakeholders are collected and analysed.

In 2016, the HRDA conducted a specific study on the identification of blue skills in the Cyprus economy. This study examines and analyses the blue economy and blue occupations of Cyprus and identifies blue skill needs in the Cyprus economy for the period 2016-26, focusing on maritime, shipping, fishing and maritime and coastal tourism occupations. The study provides forecasts for employment demand and leads to suggestions aiming for the timely and planned satisfaction of Cyprus's blue economy needs in the areas of employment and human resource development, education and training.

In order to improve the skills of the workforce in Cyprus, the HRDA implements a variety of measures, which include the provision of training opportunities and job placements for the unemployed, the provision of training opportunities for the employed and the development and implementation of a System of Vocational Qualifications. The main measures as well as the studies evaluating their impact are briefly described below:

- **HRDA ESF co-funded projects during the 2014-20 programming period**

- Scheme for Job Placement of Unemployed Young Tertiary Education Graduates less than 35 years old with limited work experience for the Acquisition of Work Experience in Enterprises/Organisations (2015).
- Scheme for Job Placement of Young Unemployed Graduates less than 25 years old of Lower Secondary, Upper Secondary and Post-Secondary Education for the Acquisition of Work Experience in Enterprises/Organisations of up to 2 years.
- System of Vocational Qualifications: The System continues during the programming period 2014-2020, with a budget of €8,5m. It is foreseen that 80 new Standards will be developed, the existing 72 Standards will be revised and around 10.000 certificates will be awarded.

- **HRDA Non-ESF projects**

- Contribution to the Integration of Unemployed and Inactive into Employment:**

- Scheme for the Employment and Training of Tertiary Education Graduates less than 30 years old, to secure a suitable job and acquire work experience and specialised knowledge and skills, while at the same time strengthening enterprises and organisations through the employment and training of qualified persons.
- Scheme for the Training of the Long-term Unemployed in Enterprises/Organisations which offers opportunities to the long-term unemployed to enter/re-enter employment with the parallel acquisition of the necessary knowledge and skills.
- Training Programmes for the Unemployed who are registered with the Public Employment Services (PES) in training programmes for specific occupations/ themes that the HRDA defines after consultation.
- Multi-Company Training Programmes for the Unemployed. The encouragement and subsidisation of the participation of the unemployed who are registered with the PES in this category of programmes started to be implemented in 2015.

Promotion of Lifelong Learning and continuous training of the Employed

- Single-Company Training Programmes in Cyprus aiming at providing incentives to employers to design and organise in-company training programmes, in order to meet the specific needs of the enterprise for the effective utilisation of its personnel.
- Single-Company Training Programmes Abroad aiming at providing incentives to employers to participate with their personnel to training programmes abroad in order to acquire specialised knowledge and skills in areas related to the introduction of innovation, new technology and technical know-how.
- Multi-Company Training Programmes aiming at providing continuing training for meeting the training needs of employees through their participation in training programmes implemented by public or private training institutions and organisations.
- High-priority multi-company training programmes aiming at providing continuing training to meet the training needs of the employees through participation in training programmes in specific high-priority issues.
- Trade Union Officials Continuing Training Programmes aiming at covering the training needs of trade union officials.

• HRDA Evaluation of the impact of Schemes

- The HRDA has in place a comprehensive system for evaluating the impact of its activities which was designed by independent external consultants and on a continuous basis conducts evaluation studies regarding the impact on the participants of its Schemes. All studies include field research through telephone interviews with a statistically representative sample of all participants.
- The evaluation studies, which were completed in 2016, covered the participants in the Scheme for the Employment and Training of Tertiary Education Graduates (2015) and the participants in the Scheme for the Job placement of Unemployed Young Tertiary Education Graduates for the Acquisition of Work Experience in Enterprises/Organisations (2014).
- According to the results of the first study, the Scheme for the Employment and Training of Tertiary Education Graduates had a very profound effect on employability since the vast majority of the participants (90,2%) were employed, approximately 8 months after completing their participation. Almost 8 in 10 (78,5%) of the participants, continue to work in the same enterprise/organisation that they were employed by during their participation in the Scheme.
- Results of the second study show that the Scheme for the Job placement of Unemployed Young Tertiary Education Graduates for the Acquisition of Work Experience in Enterprises/Organisations significantly improved the employability of the human resources given that half of the participants (50,2%) were employed at the time of the field research, approximately 8 months after the completion of their participation. The employment rate was higher for the persons who were placed in enterprises/organisations in the private sector (56,5%) and in those with 250 employees or more (63,1%). Approximately 1 in 4 (23,7%) of the participants in the Scheme who are employed, continue to work in the enterprise/organisation of their placement.

4.2. Education

Education entails horizontal policy elements, affecting the growth prospects of all economic sectors and the strengthening of social cohesion. Increasing the skills, knowledge, capability and flexibility of the workforce are critical for responding to labour market needs and increasing the ability of all economic sectors to achieve their potential for growth. The efforts to enhance the quality and accessibility of education are reflected in the following strategic goals of the MOEC, included in the Ministry's Strategic Plan 2017-2019:

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

The key reforms currently undertaken by the Ministry are:

- A bill amending the relevant legislation aiming at a new more effective system for the recruitment of teachers was adopted on 9th of July 2015. Through the new process, teachers will be appointed based on a) examination results, b) extra qualifications and c) teaching experience. The first entrance examinations are planned for Autumn 2017.
- New school timetables and reformed curricula started being implemented since September 2015. The curricula were restructured based on adequacy and success indicators. The introduction of these indicators will support the teachers in implementing the curriculum in a more efficient way.
- An ongoing social dialogue is taking place between the Ministry and all stakeholders, regarding the submission of a final proposal, which will introduce a new Evaluation System for Teachers and School Work.
- A new Professional Learning System was introduced on a pilot basis in 2015 through the Pedagogical Institute (PI), for teachers of all levels, which provides for the professional learning of all teachers in a systematic way and on a needs assessment basis, either of the school or the individual teacher. For the current school year 2016-2017, in addition to the systematic programme that is offered by the PI, all schools were asked to develop and implement an Action Plan for the professional learning of their teachers, with flexibility to choose from the various activities offered by the PI, other bodies or the school staff.

Actions in some of the priority areas are presented below:

(a) Improvement of Skills Provision

An on-going effort for the enhancement of the quality, attractiveness and relevance of Vocational Education and Training is in place. The comprehensive "Strategic Plan for the System of Technical and Vocational Education and Training 2015-2020", approved by the Council of Ministers in 2015, includes measures and actions that cover all the public Vocational Education Training (VET) programmes offered, namely: (i) Secondary Technical and Vocational Education (STVE), (ii) the Evening Technical Schools (second chance schools), (iii) the Apprenticeship Scheme, (iv) the Afternoon and Evening Classes of Technical Schools, and (v) the Post-

Secondary Institutes of VET (PSIVET).

- **Reform and upgrading of Secondary Technical and Vocational Education (STVE)**

- The following measures, aiming at the improvement of the quality of STVE and the acquisition of skills and competences required by the labour market are currently being implemented: Further enhancement of the cooperation between STVE and Industry in order to promote practical training (industrial placement) of STVE pupils in Industry; Upgrading of the programme of industrial placements in order to increase the percentage of time STVE pupils spend in industry for their practical training (as of school year 2016-2017); Reform of the fields of study and specialisations offered by STVE in order to become more attractive and relevant to labour market needs, taking into account the suggestions of stakeholders (as of the school year 2016-2017); Reform of the existing curricula for the STVE specialisations that are offered by Technical Schools and Evening Technical Schools (as of school year 2016-17 for the first year of studies).
- The reformed curricula are oriented towards learning outcomes and based on Learning Modules and the European Credit System for Vocational Education and Training (ECVET) units; Organisation of information campaigns regarding the prospects for employment offered by STVE.

- **Reform and upgrading of Evening Technical Schools**

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

The review of the fields of study and specialisations offered by STVE and of the curricula mentioned above also cover the programmes of the Evening Technical Schools. The modularisation of the programmes will offer adult pupils the opportunity to study and work on a part time basis at the same time.

It is noted that an Evening Technical School has been established on the premises of the Central Prisons in Nicosia, aiming to offer prisoners a real opportunity to re-integrate into society, through the provision of high quality vocational education and training that will enable them to obtain a qualification at upper secondary level.

- **Reform and upgrading of the Apprenticeship Scheme**

A comprehensive Proposal for the Upgrade of the Apprenticeship Scheme by MOEC, following consultation with the members of the Apprenticeship Board, which includes representatives of the Employers and Employees was approved by the Council of Ministers in August 2015. In its context, the following measures, for the improvement of the quality of

the Apprenticeship Scheme and the enhancement of its relevance to labour market needs, are currently being implemented:

Preparatory Apprenticeship: Operation of two classes, to cater for the needs of pupils with different academic backgrounds and levels of maturity and development of criteria for the assessment of pupils, in cooperation with the Career Counselling and Educational Services. Pupils under 15 years are given the opportunity to return to the first cycle of lower secondary education (Gymnasium).

Core Apprenticeship: Further enhancement of the cooperation between Apprenticeship Scheme programmes and the industry for the promotion of practical training of apprentices, following consultations with the Employers Organisations. Furthermore, the programmes offered by the Apprenticeship Scheme have been connected with the programmes offered by the Evening Technical Schools, so that graduates of the former will be entitled to attend the latter with part of their education and training being recognized, thereby enabling them to complete upper secondary education in one or two years instead of four. Additionally, training of trainers, teachers and counsellors is being promoted. Finally, the development of about forty specialisations, which will be offered on the basis of the apprentices' demand and labour market needs, will make the Apprenticeship Scheme more flexible.

- **Reform and upgrading of the Evening Classes of Technical Schools**

Evening Classes of Technical Schools are being offered in the form of one-year programmes leading to the acquisition of a certificate, or three-year programmes leading to the acquisition of a leaving certificate equivalent to that awarded to graduates of Technical Schools (STVE) as far as the technical component is concerned. Their objective is to offer continuing vocational education and training to employed or unemployed adults in order to be able to respond more effectively to labour market demand. One of the measures put forward is the modularization of the programmes offered and their connection to the programmes offered by the Evening Technical Schools.

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

PSIVET began their operation in 2012, offering secondary education graduates and young adults the opportunity for further education and training. The programmes offered were especially designed, after consultation with the social partners and stakeholders, to respond to the needs of emerging economic sectors and to be relevant to labour market needs.

Amongst the top priorities of the MOEC is the classification of the PSIVET programmes at Level 5 of International Standard Classification of Education (ISCED – first stage of Tertiary Education). To this end, the recommendations of a special study for the recognition of the PSIVET as a Public School of Tertiary Vocational Education and Training was approved by the Council of Ministers in April 2016. Following this, the Department of STVE prepared and submitted to the Cyprus Agency of Quality Assurance and Accreditation of Higher

Education, in the course of 2016, applications for the evaluation and accreditation of the PSIVET premises and programmes. The evaluation is currently underway.

(b) Improving the quality of Secondary General Education

- Taking on the challenge of a low educational attainment performance in basic skills, as reported in international surveys, the MOEC has put on track a series of important policy measures such as:
 - New comprehensive school regulations were approved by the HoR early 2017, which aim to meliorate student engagement, to enhance the cooperation among schools and parents/guardians in favour of student's attainment, to facilitate the introduction of formative assessments at school base, to improve the code of conduct for pupils, etc.
 - A comprehensive proposal for a new student evaluation system has been prepared which pinpoints to the need for using formative assessment methodologies. The educational curricula have been revised to incorporate success and adequacy learning indicators.
- As elaborated under section 3.4.1., acknowledging the fact that Cypriots lag behind in basic digital skills as compared to the EU average, the MOEC in coalition with the Electronic Communications Department and the Digital Champion, is offering all students of lower secondary schools, the opportunity to be trained and approved for the international certification ECDL, free of charge in the context of the National Coalition for Digital Jobs.
- Lifelong learning and Second Chance Schools: Second Chance Secondary schools, or Evening schools are undergoing a modernization process. An ad-hoc experts' committee submitted in January 2017 a comprehensive proposal for their reform in terms of timetables, curricula, regulations as well as in relation to the broader philosophy of these institutions, following a thorough review of relevant literature. An action plan will be the next step, putting forward the recommendations of the committee, starting from the next school year.

The State Institutes for Further Education (SIFE) provide opportunities for lifelong learning. Starting from the current school year, SIFE provides free of charge the opportunity to unemployed persons as well as soldiers to be trained and approved in relation to basic digital skills through the acquisition of the ECDL certificate.

(c) Counselling for NEETs

The Career Counselling and Education Services in Secondary Education shall be enhanced so as to offer more targeted guidance to people between the ages 15 to 24. A project supported by ESF and the Youth Employment Initiative (YEI) will contribute significantly towards this endeavor by expanding the outreach of counselling services to NEETs and help them to reflect on their capabilities and be given options for either employment or further education and training.

In addition, the Youth Information Centres of the Youth Board of Cyprus offer specialised studying and career counselling services to high school and university students as well as to

young NEETs, aged 12-35. More recently free career counselling services are also being offered to young soldiers.

(d) Multicultural Education

MOEC has recently designed an upgraded Multicultural Education, aiming at the smooth integration of pupils from diverse ethnic backgrounds into the educational system of Cyprus and action plans have been prepared for its implementation. Particular emphasis is placed on democratisation, by cultivating respect for the dignity and uniqueness of each individual; respect for the opinion of the majority; creating opportunities for active participation in the decision-making process; providing equal opportunities in all aspects of school life; encouraging cooperation and responsibility.

4.3. Health

Besides the measures recommended under CSR 5, additional actions addressing other challenges faced by the system and accompanying the reform measures are the following:

(a) Reorganization of Primary Healthcare

The MOH is proceeding with the re-organisation and upgrading of public primary health care, for which a detailed restructuring plan has been prepared. This entails clustering small healthcare facilities, extending opening hours, standardizing procedures and improving synergies and coordination with ambulance services and community care centers. It is expected to be completed by end-2017. Currently, the responsible Department of Medical and Public Health Services is in the process of piloting the plan at two rural areas. During the second stage of the reform, extending the opening hours of the urban health care centers in Nicosia is being considered. A formal referral system from primary to specialised and hospital care for the public sector will be introduced as part of these reforms. A universal formal referral is going to be introduced through NHS

(b) Implementation of the Rollout of a new Integrated Health Care Information System (IHCIS) to all public hospitals (IHCIS)

This will be achieved through an open tender and its implementation will be “as a service” with outsourcing through a Service Level Agreement that will cover software, hardware, human resources. The expected timeline for project completion is 30/08/2019.

(c) Introduction of a Strategic Plan 2017-2019

This is directly connected with the Ministry’s Activity Based Budget in order to strategically program its activities. Outcome KPIs have been determined as part of the Strategy’s evaluation.

(d) Health Workforce Planning

Currently data is collected by the Medical Council and other related Councils, as well as the Cyprus Statistics Department and MOH, which is currently in the process of introducing an electronic system into its Services and Departments in order to forecast the needs of medical and nursing/paramedical personnel. Also the establishment of the Medical School in Cyprus is expected to provide a better indication of the needs and shortages in the coming years.

(e) Addressing the Existence of Waiting Times in Accessing Healthcare Services

MOH has proceeded with the implementation of the **Voucher system** since 2015, the main objectives of which are:

- Cooperation between public-private sector for services not offered in public hospitals.
- Upgrading of the quality of health services offered to patients.
- Enhancing transparency.
- Ensuring the right of patients to decide on the Medical Centre/doctor of their choice.
- Improving access to healthcare.
- Address waiting times of certain healthcare services.

The voucher project is based on two schemes: a) within the framework of the Scheme for the Provision of Financial Assistance for Healthcare Services not offered in the Public Sector and b) a Program based on a Council of Ministers decision aimed at reducing waiting lists in public hospitals. With the voucher process 1281 persons have benefited in 2016. Furthermore, with the Program aimed at reducing waiting lists, 11239 patients have been referred for treatment/examinations/tests to the private sector to skip waiting list in public hospitals in 2016. The process involves beneficiaries who are entitled to public healthcare benefits.

The voucher programs so far have been successful in achieving their objectives, increasing utilization, and improving quality, facilitating greater transparency, improving patients' choice and should therefore be considered as a mechanism for further improvement of the existing health system. The voucher system which is implemented under the provisions of the Scheme is an ongoing process that will be continued and enhanced in the future. In addition, the reintroduction of the second Program aimed at reducing waiting lists in public hospitals came into force in March 2017, after a relevant Decision by the Council of Ministers, which will be run until the end of 2017.

(f) Measures on Provision and Availability of Pharmaceuticals

Since there is no universal coverage, many citizens are not covered for pharmaceutical products and have to pay directly out of pocket. In 2014, Cyprus had the lowest public (Government) coverage of outpatient medicinal goods in the EU (18.7% compared to 70.1% in the EU). In addition, prescribing habits of doctors are not well monitored, often presenting difficulties for the authorities following up on current recommendations for the rational use of medicines. In order to combat polypharmacy within the public sector, the authorities are implementing prescribing protocols in order to achieve cost-effective use of medicines. Cyprus has high levels of antibiotic consumption and in addition to implementing the national strategy for antimicrobial resistance, introducing e-prescription tools and the electronic implementation of prescribing protocols would increase efficiency. Furthermore, the authorities have announced plans to develop an autonomous medicines organisation seeking to improve the regulatory sector for pharmaceuticals and promote and ensure the safe use of medicines more efficiently. The draft legislative frame is expected to be prepared by mid-2017. The introduction of the NHS is expected to combat radically the above inefficiencies

(g) Expected Impact of the Reforms

The adoption of the two Bills currently before the HoR and the rational implementation of the reforms is expected to restrict the challenges² the public health care sector is facing by enhancing the managerial capacity and productivity in public hospitals, putting IT systems in place, improving data collection, strengthening human resources strategy and ensuring equal competition between private and public health providers. Furthermore, NHIS could mitigate health inflation, drugs overuse and restrict unneeded medical examinations through a more cost efficient referral framework fostered by NHIS IT system.

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

4.4. Energy

(a) Electricity Sector

- **State of play regarding the reform of the electricity market**

The Cyprus Transmission System Operator (TSOC) has submitted the English version of his proposal regarding the amended Trade and Settlement Rules (TSRs) for the Electricity Market to the Cyprus Energy Regulatory Authority (CERA) in December 2016. The TSOC will hold a third meeting of the TSR Advisory Committee in order to review the Greek translation of the TSRs.

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

CERA, via its Regulatory Decisions 01/2017 and 02/2017, has set an obligatory timeline for the operation of the competitive electricity market by July 2019 and issued instructions to the Transmission System Owner to make available all necessary resources to the TSOC by April 2017 required for the operation of the electricity market.

The budget bill of the TSOC for 2017 foresees a number of 23 personnel, out of a total 78, to be allocated to the operation of the electricity market.

CERA decided the partial approval of the proposed amendments, by the TSO, of the Transmission and Distribution Rules and their revision in the new Version 4.0.1. The revised Transmission and Distribution Rules were published by the Cyprus TSO on 21 October 2016,

² European Commission "Joint Report on Health Care and Long-Term care systems & Fiscal Sustainability", volume 2, October, 2016.

after the approval by CERA.

CERA, by issuing a Regulatory Decision, decided to implement the provisions on the prohibition of abusive practices affecting wholesale energy markets, which are in accordance with the rules applicable in financial markets and with the proper functioning of those wholesale energy markets, while taking into account their specific characteristics. This Regulatory Decision applies without prejudice to the Directives 2003/6/EC and 2004/39/EC, and the application of European Law regarding competition practices covered by Regulation (EU) No. 1227/2011.

CERA has issued on the 17 March 2017 a Draft Regulatory Decision for the Transitional Regulation before the operation of the new electricity market rules on the basis of bilateral contracts between producers and suppliers. The Draft Regulatory Decision is on Public Consultation until 18 April 2017. The Transitional Regulation is expected to become operational on the 1st September 2017.

- **EAC Unbundling**

On the basis of the results of a study contacted by independent Consultants for examining and evaluating the various options regarding the future ownership status of the Electricity Authority of Cyprus (EAC), and in line with the 3rd Energy Package, the Council of Ministers adopted on 11th of January 2016 a Decision 'in principle' for the Ownership Unbundling of the EAC into two public entities, one for the monopolistic activity (networks) and the other for the competitive activity (generation & supply) as conducted by the EAC in its present form.

In the meantime, it was decided that EAC shall apply internal accounting and functional unbundling in conformance to the related Regulatory Decisions 02/2014, 03/2014 and 04/2014 for an amount of time decided by CERA. EAC has submitted to CERA its unbundled accounts for years 2014 and 2015. CERA is currently reviewing EAC's internal functional unbundling.

According to CERA in order to meet the minimum requirements for electricity market operation, a precondition for the operation of the competitive electricity market is the independence of the TSOC (who also acts as the Market Operator) from the vertically integrated EAC. To this end, the Regulator and the Government are carrying out consultations with major relevant stakeholders. Upon conclusion of the consultations, a proposal will be submitted to the Council of Ministers for approval of the main principles and roadmap for the independence of the TSOC from the vertically integrated EAC.

- (b) Natural Gas Sector**

The Council of Ministers, at its meeting on 22/6/2016, decided to approve the import of Liquefied Natural Gas (LNG) to Cyprus the soonest possible and in a manner leading to the commencement of natural gas supply by the year 2020. For the purpose of implementing the above Decision, the Minister of Energy, Commerce, Industry & Tourism has given a mandate to DEFA to execute, by the end of February 2017, a relevant Study for the most appropriate process, and related infrastructure, for LNG imports, storage processing and regasification, in an onshore or offshore unit, as well as for the infrastructure necessary for the inland transportation and distribution of gas. The study would also include a time-plan according to which the necessary primary common elements (1st phase) of the inland natural gas network infrastructure must be designed for completion, in order to make possible the use of natural gas

by the main power generation station at Vassilico, once supply commences. The Study has been completed timely and DEFA has submitted the results of the Study on 3/3/2017 to the MECIT. At this stage the results of the Study are under examination and evaluation.

Promotion of the Cyprus electricity network interconnection

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

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

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

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

(c) Hydrocarbons

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

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

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

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

Common Interest (PCI). The results of the pre-FEED of the “East-Med” pipeline have demonstrated the technical feasibility and commercial viability of the proposed pipeline.

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

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

Also, the Republic of Cyprus announced on the 24th of March 2016 the commencement of the 3rd Licensing Round concerning the granting of hydrocarbon exploration licenses for Blocks 6, 8 and 10 in its Exclusive Economic Zone. The Blocks that have been selected for licensing comprise, on one hand, of areas which are largely unexplored and, on the other hand, have been interpreted to contain carbonate structures, as is the case of the “Zohr” discovery offshore Egypt. The deadline for application submission was the 22nd of July 2016. The Minister of Energy, Commerce, Industry and Tourism is currently at the final stages of negotiating the terms of the Exploration and Production Sharing Contracts with the selected applicants. It is anticipated that the Exploration and Production Sharing Contracts for Blocks 6, 8 and 10 will be signed by April 2017.

(d) Sovereign Wealth Fund (SWF)

The Legislative framework governing the establishment and functioning of a Sovereign Wealth Fund, which will manage the various types of public revenues from Hydrocarbons Operations, has been submitted to the HoR of the Republic of Cyprus and it is expected to be approved in April 2017.

4.5. New Industrial Policy

The Government aiming to deliver on the European Commission’s Digital Single Market Strategy 2014-2020, the “Digitising European Industry” Initiative and on its ambition to strengthen the industrial sector’s input to the country’s GDP, is currently formulating an integrated National Industrial Strategy in its overall role in boosting the Cyprus’ economy, aiming at re-industrialisation through particular emphasis on digitization. The intention of the Government is to substantially enhance the overall effort by facilitating, supporting, completing, and connecting both existing and new European and national initiatives towards this direction, by both the private sector and the state; and integrate them under a “one banner” national strategy for industry, and an action plan incorporating concrete policies, measures and actions with an aim to modernize and digitize industry.

The enhancement of digital and industrial skills, integration of key enabling technologies, investment in research, development and innovation and upgrading business and industrial models are means that will be utilised for the development of highly competitive, high value-added, innovative products and services. The Vision is to establish a robust, intelligent and technologically developed industry, which will contribute greatly to the development and competitiveness of the economy, to the increase in industry’s productivity, to innovation,

exports and growth.

4.6. Tourism Sector

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

Aiming at the enhancement of the sector's prospects and its contribution to growth is focused, the Government is working in parallel in three fronts: elaborating a new national tourism strategy; addressing regulatory inefficiencies and enhancing governance.

Recognizing the need for the establishment of an upgraded strategic approach and the in-depth treatment of the structural problems that hamper competitiveness, MECIT, in cooperation with the Presidency of the Republic have acquired external consultancy services for conducting a study for the development of a comprehensive National Tourism Strategy for the period to 2030. The aim of the study was to provide recommendations for improving the performance and revenue yield of the tourism sector and establishing a sustainable tourism model, by improving the competitiveness of the industry, developing an enriched and diversified tourism product and a strong tourism brand, expanding and diversifying tourism markets, and alleviating the seasonality problem. The study was submitted by the external consultants at the end of 2016.

The core recommendations of the study include, indicatively, the following: Cyprus should adopt a premium tourism strategy, aiming for higher spending tourists rather than maximising tourists' arrivals. Such an approach is considered on balance more appropriate from a financial and social perspective. Cyprus should also aim to become an all year destination, building on its comparative advantage of an exceptional climate throughout the year. The study identifies priority markets on which marketing efforts should focus, in order to reduce Cyprus' dependency on a small number of source markets as well as product segments and experiences that should be built/enhanced and quality improvements required in order to be able to address the needs of the premium model tourists. In addition, the study identifies 22 initiatives that must be promoted in order to achieve the objectives of the strategy in areas such as planning and development, marketing and seasonality, enhancement of competitiveness, developing new and improved tourist experiences, governance and tourism management framework.

The recommendations of the study are currently under examination by the Project Management Team and following consultation with relevant government departments a proposal for the tourism strategy will be submitted to the Council of Ministers for approval.

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

More specifically and with regards to the institutional framework affecting tourism' businesses, mapping and assessing of all detailed provisions of laws firstly took place. This led to the identification of all aggravating and outdated conditions included in Cyprus' existing tourism' legal system. Following discussions and consultations with relevant stakeholders and government departments, decisions were made regarding the content of Cyprus' revised legal framework on "Doing Business" in the Tourism sector. These decisions which now are reflected in the new, proposed regulatory framework include streamlining of procedures, process reengineering, in some cases complete abolition of procedures or parts of them so as to eliminate responsibility overlapping and duplication previously detected. All these changes lead towards the reduction of administrative burden for both the private and the public sector.

Core changes reflecting the above-mentioned outcomes, indicatively include the following: on the basis of the new licensing system, for both recreational centers and hotels / accommodation facilities, operation license renewal will occur every three (3) years and not every year or every two (2) years respectively, as today's system requires. The licenses renewal will be possible to occur on-line and in a very short time. No longer will inspections be a prerequisite for renewing these licenses. Emphasis will be given on health and safety issues and not so much on infrastructure's obligatory technical requirements, which also numerically-wise are downgraded. All inspections will be able to occur at any given time, and these will be held in order to confirm that all relevant certificates that relate mainly to health and safety issues of the examined premises are in force. Complicated and multi-level categorization of recreational centers is abolished and only two major categories are kept. Regarding hotels/tourist accommodation facilities, classification approval will no longer act as a prerequisite for operating authorization. Furthermore, provisions have been included in the legislation so that in the future, hotels' performance ranking procedure will be undertaken by appropriately accredited private bodies and since the Government's efforts are all seeking into enhancing the quality of Cyprus' tourist product, the "mystery shopper" tool, during classification procedures will be adopted.

Draft legislation for the new regulatory framework (Laws on Hotels and Tourist Accommodation Facilities and on Recreation Centers) have already been prepared by the Presidency. The Bills were examined by government departments (the MECIT, Cyprus Tourism Organisation etc.) and the stakeholders from the private sector who once again expressed their views. The Presidency has forwarded the draft legislation to the Legal Service for legal vetting, following which, these will be submitted to the HoR for discussion. Upon approval, the new system will be able to take effect immediately, especially for new facilities. Regarding existing facilities, special care is being taken into the new legislative framework so that existing licenses that are currently into force on the basis of the soon to be old system, will be regarded as valid for two years.

As regards the governance of the sector, a Bill for the creation of a dedicated Deputy Ministry for Tourism has been submitted to the HoR.

4.7. Air Connectivity

The Government of Cyprus maintains a firm policy of open skies as adopted by a relevant decision of the Council of Ministers in May 2014. Based on this, it aims to continue liberalising through Air Service Agreements and MOU's that Cyprus has signed with third countries through ongoing bilateral negotiations. The goal is, wherever possible, to lift any restrictions in terms of the number of designated airlines, frequencies, types of aircraft operated, cargo flights and the

operation of charter flights. Cyprus is also willing to offer, on reciprocal basis, 5th freedom traffic rights between third countries and European destinations via Cyprus. In addition, the Government in cooperation with Hermes Airports, the operator of Larnaka and Pafos airports, has introduced a number of very attractive incentive schemes available to all airlines which reward air carriers for growth, operation on new routes or year-round operations. Finally, the Department of Civil Aviation is currently examining applications for Air Operators' Certificates of new, locally registered airlines that can enhance Cyprus' connectivity even further, provided they fulfill all the regulatory requirements and acquire a Commercial License. Already two such airlines have been approved and have commenced operations, whilst two more applications are under examination. Additionally, three air carriers with a European Union licence have established a base in Cyprus.

4.8. Shipping Industry

The sustainable growth of Cyprus shipping is of high importance as it offers enormous political, economic and social benefits to the country. Cyprus has a more than 50 years of success course in merchant shipping, initially by establishing the Cyprus ship register which now ranks 11th in the world and 3rd in the European Union and by ultimately building a maritime cluster consisting of third party ship management companies and other related shipping services. Through the years Cyprus has managed to develop its merchant shipping to contribute to the economic development of the Republic of Cyprus. Shipping is today a vital sector of the Cyprus economy, representing around 6-7 % of the country's GDP.

However, in the recent years, the competitiveness of the Cyprus flag was negatively affected, as the cumulative result of a number of factors, such as the illegal Turkish embargo against Cyprus shipping, the development of competitive ship registers (both within and outside the European Union) and the requirements imposed on ships flying the Cyprus flag under the provisions of the European Union Acquis.

MECIT together with the Department of Merchant Shipping (DMS), recognizing the weaknesses and problems faced by the Cyprus shipping, have conducted a study in 2015 on the preparation of a national strategy for shipping in order to strengthen the competitiveness of the flag and the Cyprus Shipping. The study was instrumental in shaping the strategic objective of enhancing further the competitiveness of Cyprus Merchant Shipping and strengthening Maritime Safety.

The main activities included in the said strategic objective are the following:

- The revision of the national policy framework and adoption of measures to further develop the Cyprus ship registry and the maritime cluster in Cyprus.
- The effective implementation of duties as flag State, port State and coastal State.
- Modernization of the legal framework.
- Restructuring of the DMS.

Following the conclusion in 2015-2016 of the functional review of the DMS and the respective recommendations on governance matters, a study was conducted in 2016 and concluded in March 2017 for the in depth examination of the restructuring of the DMS. The study recommends the transformation of the DMS into a Deputy Ministry for Shipping, proposing also a relevant restructuring plan. The ultimate purpose of a Deputy Ministry for Shipping will be to achieve the above mentioned strategic objective and implement its main four activities.

Currently, work is underway for the establishment of a Deputy Ministry for Shipping. A relevant draft Bill was submitted to the House of Representatives in November 2016 and is currently examined by the Parliamentary Committee of Finance. Further developments for the establishment of a Deputy Ministry for Shipping are anticipated within 2017-2018.

4.9. Corruption

(a) National Strategy Against Corruption

The Council of Ministers on 9 September 2015, decided the drawing up of a **National Strategy against Corruption**. For this purpose, a Committee was set up under the coordination of the MJPO, which has advanced in the preparation of the National Strategy.

The Committee, in the preparation of the Strategy has taken into account the provisions of relevant International Conventions on Corruption which Cyprus has ratified, the recommendations by GRECO, the European Commission and the United Nations, as well as the good practices of other countries, existing laws and the outcomes of consultations with stakeholders from the public and private sector.

The draft of the National Strategy Against Corruption has been provided to the Ad-Hoc Ministerial Committee (consisting of the Ministers of Justice and Public Order (Chairman), Education and Culture, Interior and Finance with the participation of the Deputy Minister to the President and a representative of the Law Office of the Republic).

(b) Whistleblowers legislation

The draft law on whistleblowers is in final consultation with the Attorney General of the Republic and will be soon submitted to the Council of Ministers for approval and then to the HoR for its enactment into law.

5. PROGRESS TOWARDS NATIONAL EUROPE 2020 TARGETS

The table below presents the progress as regards the national targets:

EU HEADLINE & NATIONAL TARGETS	EU TARGET	CYPRUS TARGET	CYPRUS 2015	CYPRUS 2016	EU 28 2015 (Eurostat data)
Employment rate (20-64 years old)	75%	75-77%	67.9%	68,6% ³	70.1%
Reduce poverty and social exclusion	20mln	19.3% or 27.000	28.9%	n.a.	23.7%
Decrease early school leavers to	10%	10%	5.2%	7.7%	11%
Increase tertiary educational attainment	40%	46%	54.5%	53.4%	38.7%
R&D (% of GDP)	3%	0.50%	0.46% ^p	n.a.	2.03% ^p
CO ² emission (non-ETS)	-20% (c.t. 1990)	-5% (c.t. to 2005)	-9.6% (c.t. to 2005)	n.a.	n.a. for 2013: -9.6% ^p (c.t. to 2005)
Renewable energy	20%	13%	9.43%	n.a.	16.7%
Energy efficiency	1.483 Mtoe	2.2 Mtoe	2.2 Mtoe	n.a.	1.529

e = estimated, c.t.= compared to, p = provisional data, n.a. = not available

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

The employment rate has improved further in 2016 based on the data applicable for the first three quarters. The poverty rate has shown an increase in 2015 compared to 2014. Both indicators still deviate significantly from the respective national targets. Despite some deterioration of the two education indicators in 2016 vis a vis 2015, both overperform considerably in relation to the national targets. The R&D ratio to GDP is expected to record a small decrease in 2015 according to provisional data. The energy efficiency indicator for 2015 already achieved the national target and the renewable energy indicator for 2015 continuing its upward trend. As regards the greenhouse gas emissions indicator, in the non-ETS sectors (EU Emission Trading System- ETS), a decrease of the amount of 9.6% was observed in 2015 (provisional data), compared to 2005, exceeding significantly the national target.

A more detailed account of developments as regards the national targets as well as related policies follow:

³ first three quarters mean.

5.1. Employment National Target⁴

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

- Increased to 68,6% in 2016 compared to 67.9% in 2015.

Employment – unemployment situation

In the first three quarters of 2016 the employment rate stood at 68.6% indicating an improvement compared to 67.9% in 2015. As regards the sectoral distribution of employment, services continued to account for the biggest percentage of employed persons in 2016 with 79.3% compared to 79,8% in 2015, whereas industry accounted for 16.9% compared to 16,2% in 2015 and agriculture for 3.8% compared to 4% in 2015.

Unemployment which had increased significantly because of the economic crisis, started to decrease in 2015, reaching 14.9%, while in 2016 it decreased further to 13%. In 2016, male unemployment rate decreased to 12,7% compared to 15,0% in 2015, while female unemployment was 13,4% in 2016 compared to 14,8% in 2015.

Long term unemployment which had been increasing over the past few years, in 2016 showed a decline reaching 5.7% compared to 6.8% in 2015. The share of young people neither in employment nor in education and training (NEETs) has decreased. It amounted to 15,2% in 2015 (age group 15-24) compared to 17% in 2014. The MLWSI in cooperation with MOEC and the Youth Board of Cyprus has initiated efforts to identify and reach out to non-registered unemployed young people identified as NEETs.

The unemployment rate for young people (15-24 years), which rose dramatically during the economic crisis, fell to 28.9% in 2016 compared to 32.8% in 2015. The respective employment rate for this age group increased to 26% in 2016 compared to 25.3% in 2015.

During 2016 several measures have been implemented in order to tackle unemployment and increase labour market participation. The measures aimed to facilitate the creation of new jobs (mainly through subsidised employment schemes), the acquisition of work experience (for improving the employability of the unemployed), to address the skills mismatch, to promote entrepreneurship, to address all unemployed as well as long term and youth unemployed, and PES enhancement. The measures introduced were targeted to specific groups of unemployed such as the young, the long-term unemployed and the vulnerable in general.

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

The challenge of youth unemployment is tackled through the National Action Plan for Youth (NAPFY). The Youth Guarantee is a major part of the NAPFY, more specifically addressing NEETS 15 – 24 years of age.

The NAPFY has a total budget of €47,2 mln financed mostly from the ESF (€29,2 mln), the Youth Employment Initiative (YEI) (€11,6 mln) but also from the ERDF (€3,1 mln) and national funds

⁴ 2016 figures refer to the mean of the first three quarters.

(€3,3 mln). It encompasses a Youth Guarantee Implementation Plan (YGIP) to which funds of €37,6 mln have been allocated. It includes measures for an early intervention in the form of a Youth Guarantee (YG) to prevent school leavers and newly unemployed individuals in the younger cohort (ages 15-24) from falling into long-term unemployment and inactivity traps. To date, over 1,700 young people have been supported under YEI-financed measures, of whom 443 are in employment, education and training.

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

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

Among the schemes which have been initiated/implemented during 2016 are the following:

- Scheme providing incentives for the employment of unemployed young people up to 25 years old.
- Scheme targeting NEETS 15-24 years old, which includes outreach activities to attract non-registered NEETS followed up by provision of career counselling.
- Scheme for the job placement of young unemployed graduates of lower secondary, upper secondary and post-secondary education of up to two years for the acquisition of work experience in enterprises/organizations.
- An Entrepreneurship Development Program as a career option for young people. The aim is to provide information, training, advisory and mentoring services for youth up to 29, interested to establish youth-led enterprises.

It is worth mentioning that the results of an evaluation study regarding the effectiveness of the YG scheme titled “Scheme for the job placement of young unemployed graduates of lower secondary, upper secondary and post-secondary education of up to two years for the acquisition of work experience in enterprises/organizations” implemented in the previous year showed that approximately 1 in 3 (32,7%) of the participants in the Scheme were employed approximately 4 months after the completion of their participation.

b) Schemes Facilitating the Creation of New Jobs (Wage Subsidies Schemes)

The Department of Labour, during 2016, promoted the following six schemes to help the employers hire unemployed persons:

- Scheme Providing Incentives for the Employment of Unemployed People over 50 years old.
- Scheme Providing Incentives for the Employment of Persons with Chronic Diseases.
- Scheme Providing Incentives for the Employment of Persons with Disabilities.
- Incentive Scheme for the Employment of Recipients of GMI Guaranteed Minimum Income in conjunction with the completion of three months practical training.
- Scheme for the Employment of the Unemployed for Providing Care Services to Disabled Persons.
- Scheme for Job Placement of Young Unemployed Graduates of tertiary education, with less than one year of experience.

c) Training Programs

In 2016, long term unemployed continue to be a priority group for the Human Resource Development Authority (HRDA). Long-Term unemployed can participate in the HRDA Multi-Company Training Programmes as of 1/1/2016. Multi-company initial training programs include a large number of various courses in different fields. This scheme will give opportunities to the long term unemployed to participate in training programmes implemented by Certified Vocational Training Centres.

In addition, during 2016, the HRDA promoted the following scheme:

- Scheme for the job placement of unemployed young tertiary education graduates for the acquisition of work experience in enterprises/organizations.

More information on the training programmes) is provided under section 4.1

d) Monitoring and Evaluation of the Implementation of Active Labour Market Policy Measures (ALMPs)

The effectiveness of the ALPMs in addressing labour market needs is under evaluation on a scheme by scheme basis once the scheme is completed.

The Human Resource Development Authority prepared external evaluations for the schemes that were completed and funded by ESF.

A new ALMPs automated monitoring and evaluation system is at the final stage of development and it is expected to be operational in 2017.

5.2. Poverty National Target

“Reduce the number of people-at-risk-of-poverty and social exclusion by 27.000 people or decrease the percentage from 23,3% in 2008 to 19,3% by 2020”.

- Increased from 27,4% in 2014 to 28,9% in 2015.

The at-risk-of poverty or social exclusion rate^[1] (AROPE), in comparison to 2014, increased by 1.5pp (from 27.4% to 28.9%) in 2015. The analysis of the AROPE sub-indicators, shows an increasing trend in the share of people living in very low work intensity (VLWI) households, reflecting the high levels of unemployment in Cyprus. In particular, the VLWI has increased by 1.2pp in 2015 (2015: 10.9%; 2014: 9.7%; 2011: 4.9%). The AROP (after social transfers), i.e. monetary poverty, increased from 14.4% in 2014 to 16.2% in 2015, while the SMD indicator remained at the same levels (15.3% in 2014; 15.4 in 2015). The number of working poor witnessed also an increase of 1.3pp from 2014 (2014: 7.8%; 2015: 9.1%). The AROPE for children (0-17) grew to 28.9% in 2015, while on the other hand the AROPE for the elderly (65+) decreased to 20.8% in 2015 from 27.2% in 2014. The mean equivalised disposal income (in euro) of a household decreased from €18.418 in 2014 to €16.944 in 2015. Simultaneously, the poverty threshold (for 1 person household, in euro) decreased further reaching €8.276 in 2015, compared to €8.640 in 2014. Based on the available data it can be argued that the decrease in the income of the population and the high unemployment rates are the main reasons behind the deterioration of the poverty figures in Cyprus. It needs to also be borne in mind that the available data of the EU SILC 2015 refer to the income year of 2014, a period reflecting the negative effects of the crisis with the worsening of the labour market conditions and the decrease in the income of the population.

(a) Reform of the Social Welfare System

A major reform as regards the governance of Social Long Term Care (LTC^[1]) came with the introduction of the Guaranteed Minimum Income (GMI) in July 2014 and subsequently with the Decree “Guaranteed Minimum Income and in General the Social Benefits” (Emergency Needs and Care Needs)” of 2014, which was revised in 2015 (353/2015) and 2016 (162/2016). The Decree (162/2016) incorporates the Scheme for the subsidization of care which includes the following types of care: (a) home care, (b) institutional care, (c) day care and (d) respite care. The Decree also covers the child care needs of GMI recipients. The Service responsible for the benefit provision to GMI recipients for their care needs is the Welfare Benefits Administration Service, while the Social Welfare Services are responsible for assessing the care needs of the GMI recipients based on specialized evaluation tools, the service delivery and the monitoring of the provided care.

• Guaranteed Minimum Income

The Council of Ministers adopted, in November 2014, the National Strategy on Social Policy for the period 2014-2020. The Strategy sets the main policy guidance for the period 2014-2020 providing a comprehensive approach to the challenges faced. It addresses the

^[1] This rate refers to the union of the 3 indicators: at-risk-of-poverty (AROP) or/and, people living in conditions of severe material deprivation (SMD) and /or people living in low work intensity households (VLWI).

^[1] Long-term care is a shared responsibility of the MLWSI (social LTC) and the MOH (geriatric/health LTC).

promotion of children's welfare, the reform of the welfare system, active inclusion, long-term care and effective governance. More specific information on the measures included in the Strategy is provided in the National Social Report submitted to the EU's Social Protection Committee.

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

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

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

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

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

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

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

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

Further to the existing measures implemented in Cyprus addressing child poverty, the Government decided to devote the EU funding provided through the Fund of European Aid to the Most Deprived (FEAD) on efforts to combat child deprivation and poverty. In particular, two actions are promoted, the first being the provision of breakfast at schools for deprived children and the second is the provision of basic material assistance to newborn babies of deprived families.

Cyprus, as other European Member States, witnessed an increase in the number of unaccompanied minors. Within the framework of establishing effective measures for the protection and care of the unaccompanied minors arriving in the Republic of Cyprus, a series of measures has been developed with the involvement of NGOs.

The provision of accessible, affordable and quality social care programmes at local level (i.e. child care services, long-term social care services to the elderly and persons with disabilities, counselling services) is a key priority of the Government. In this direction, the MLWSI as competent authority, is implementing the State Aid Scheme, under the Regulation 360/2012, for the provision of services of general economic interest where NGOs and Local Authorities may receive state aid based on certain criteria for the development and functioning of quality social care programmes. In 2016, 163 organisations received state aid for the operation of 252 social care programmes with a total budget of approximately 7 ml euros. Furthermore, the Social Welfare Services of the Ministry, as the competent authority for the inspection of the minimum quality standards of care structures, have determined in 2016 terms and conditions for the operation of home carers, pending the drafting of a new law on home cares.

In 2016, a co-funded project started for the implementation of a National Roma Platform, covering a period of 12 months, aiming at the promotion of dialogue on Roma issues among relevant stakeholders and the Roma population.

5.3. Education National Targets

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

- *Increased to 7.7% in 2016 compared to 5.2% in 2015.*

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

- *Decreased to 53.4% in 2016 compared to 54.5% in 2015.*

(a) Early School Leaving

Despite some deterioration in 2016 compared to 2015, the early school leaving rate which was 7.7% in 2016, continued to exceed its national target of 10%. The various measures promoted in relation to the quality upgrade of the educational system's human resources (recruitment of teachers, evaluation, training), upgrading of the content and effectiveness of the secondary and technical and vocational education described in section 4.2 have been contributing to the over-performance in relation to this target.

In addition to these, a targeted project entitled "Actions for social and school inclusion", continuing the good practice of the "Zones of Educational Priority" (ZEP), has been launched. The project tackles issues of low performance, delinquency and early school leaving, in primary and secondary education, through assertive actions. The project will contribute to the alleviation of inequalities in the participating school units.

(b) Tertiary Education

Despite a small decrease compared to 2015, Cyprus continued to over-achieve this target and it had one of the highest rates of Tertiary Education attainment at 53.4% in 2016. However efforts are made to improve the quality of Tertiary Education and to strengthen its link with the labour market.

A new Law for the establishment of the Cyprus Agency of Quality Assurance and Accreditation in Higher Education, approved by the HoR in July 2015, provides for a quality assurance framework for Higher Education, within which, institutions will be driven to enhance quality and develop an internal quality culture. The Agency started operations and has already examined 125 new programmes of study of private tertiary education institutions and universities. It is expected that the Agency will examine up to 115 new programmes of study until the end of 2017.

The University of Cyprus together with a number of other universities initiated an effort to develop liaison offices for interconnecting academia with the labour market. The effort was funded by EU funds and gradually all public and private universities were involved and liaison offices have been established in all universities. A second EU funded project has recently been approved, which is a continuation of the first project, aiming for the placement of students in the work market as a part of their studies in all universities.

In an effort to improve the quality and to modernize the public universities funding system, the MOEC intends to prepare and adopt a performance-based funding system. The whole effort is to turn funding into a results-oriented, rather than resources-oriented procedure. There is a shift towards more diversification of funding and soliciting of more private funding, especially for research and industrial application. Moreover, the funding must be based on performance indicators in order to clearly measure the relationship between resources invested (inputs) and results obtained, both economic and social (outputs).

Over the last years MOEC has promoted the offer of vocational programmes of study in the private institutions of Higher Education. It also developed the Post Secondary Institutes of Vocational Education and Training (PSIVET) which offer selected higher education programmes of study focusing on the work market needs. Both activities aim to reduce unemployment between higher education graduates, support the work market and

productivity growth.

5.4. R&D National Target

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

- *Decreased to 0.46% in 2015⁵, compared to 0.48% in 2014.*

Investment in Research and Development as a percentage of GDP amounted to 0.43% in 2012, 0.46% in 2013, 0.48% in 2014 and 0.46% in 2015 (€80.4, mln provisional data).

The above developments reflect on the one hand the fact that in recent years severe austerity was imposed in the context of the macroeconomic adjustment programme, affecting spending on Research and Innovation. On the other hand, they reflect the particularities of Cyprus, which were also taken into consideration in setting the level of the national target at 50% Of GDP, such as the size of the research community and the very small size of Cypriot companies and their low participation and expenditure on R&D and innovation. It is noted that businesses performed around 17% of the Gross expenditure on R&D in 2014.

The following measures recently promoted by the Government (presented in more detail in section 3.4), are expected to result in the increase of R&D in the private sector: (a) the tax incentives adopted in December 2016 and granted to private investors for investments in startup and innovative firms, which include in the eligibility criteria the requirement that research and development costs should represent at least 10% of the companies operating costs in the last 3 years and (b) the recently launched “Cyprus Startup Visa” programme, which allows talented entrepreneurs from third countries to set up and operate startups with high growth potential, which aims inter alia at the promotion of research and innovation

At the same time, efforts are pursued to increase the effectiveness of public expenditures for R&D and Innovation. This can be achieved through the Smart Specialisation Strategy, which was approved by the Council of Ministers in March 2015 and includes an extensive analysis of the national R&I priorities. Its effective implementation will maximise the knowledge based development potential of the Cyprus economy through targeted support to Research and Innovation, leading to greater competitiveness.

The Smart Specialisation Strategy for Research and Innovation (S3Cy), approved by the Council of Ministers in March 2015, includes an extensive analysis of the national R&I priorities with the aim of maximising the knowledge based development potential of the Cyprus economy through targeted support to the sectors where Cyprus has a competitive advantage. The S3Cy includes an Action Plan, to be implemented over the period 2016–2020, with measures amounting to approximately €144 mln (co-financed through ESIF and national funds), which will be mainly allocated through competitive calls by the Research Promotion Foundation, MECIT, the Ministry of Agriculture, Rural Development and Environment (MARDE) and the University of Cyprus. The majority of the programmes included therein seek to stimulate the involvement of the private sector in Research and Innovation activities. They also seek the strengthening of the link between academic and research communities with the business sector as well as fostering

⁵ Provisional data.

better utilisation of research results. Additionally, most of the programmes targeting private sector are designed to support and leverage private funding in RTD activities. Up to today, the Research Promotion Foundation and the MECIT have proceeded with the announcement of 16 relevant calls of the value of €69.9 mln.

The progress of the implementation of S3Cy is monitored by the relevant National Monitoring and Evaluation Committee. The said Committee is also responsible for the evaluation of the effectiveness of its Action Plan and the submission of relevant recommendations.

Furthermore, the Research Promotion Foundation is planning the establishment of a Central Technology Transfer Office (TTO) in order to provide support to the academic and research institutions in Cyprus in relation to the protection and exploitation of their research results and intellectual property. The Central Technology Transfer Office will be complemented by Units within the major academic and research institutions, which will undertake basic technology transfer activities and facilitate the communication between the institutions and the Central TTO. A Business Plan was prepared by external experts and will be put into stakeholders' consultation. The legal framework and the functioning of the technology transfer centre will be examined and finally decided by the Government. Currently, a legal study is being carried out regarding the legal framework of the development of the CTTO, to be hosted by the RPF.

At European level, Cyprus follows closely all efforts towards the implementation of the European Research Area (ERA). At national level, an ERA Roadmap is under preparation, which is expected to be finalized by the end of April 2017.

5.5. Climate and Energy National Targets

5.5.1. Reduction of GHG emissions

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

- Reduced by 6.5% (non-ETS emissions) in 2014 and 9.6% in 2015

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

(a) Mitigation

The Government's primary focus for securing compliance with EU legislation in the period to 2020 is domestic mitigation. The draft Low-Carbon Development Strategy that was prepared in 2015 by the ad-hoc committee that was established for this purpose needs to be re-designed on the basis of the adopted Climate Package for 2030.

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

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

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

(b) Adaptation

The impacts of climate change are expected to intensify over the coming decades and the Cypriot economy needs to implement appropriate measures to enable adaptation to climate change. The National Adaptation Strategy, which will be partially financed by the Cohesion Fund, has been prepared by the Department of Environment in 2015. The MARDE, in cooperation with all stakeholders, has concluded the national risk assessment in relation to climate change. The relevant study has been elaborated and linked to the National Adaptation Strategy. The completed Strategy and Assessment is currently in the process of adoption by the competent authority.

(c) Circular Economy

The transition to a circular economy through necessary actions and sound environmental management of waste constitutes a major challenge for all the member states, in order to create a new and sustainable economy for Europe with opportunities for research, innovation, employment and effective use of resources through proper designing and production of products and management of waste.

Through relative policies, measures and specific actions designed to meet the national greenhouse gas emission and waste targets and increase energy and resource efficiency, Cyprus already implements and supports the transition towards a more resource efficient, low carbon, circular economy. This transition relies on the appropriate combination of regulatory measures, economic market instruments and voluntary tools, educational and capacity building programmes, awareness campaigns, and other initiatives and incentives. Using these instruments, each step of the life cycle of a product is approached in a more sustainable way. New, innovative and cleaner production processes and technologies that will increase resource efficiency, minimize pollution and enhance treatment of waste according to the waste management hierarchy will be promoted. Focus will be given mainly on proper product design and on the prevention and separation of waste at source for high quality recycling, facilitating in

this way the reuse of waste as a resource in the production cycle. This also contributes to the strengthening of the market for greener, more efficient and durable products. Cyprus also targets production and consumption patterns and the provision of services through the active promotion of voluntary environmental tools and product labeling schemes, and in particular the Eco-Management and Audit Scheme (EMAS) and the ECOLABEL, coupled with an enhanced green public procurement as a means of boosting the market for green products and services.

The Green Economy Action Plan will be finalized in 2017 with the approval of the Council of Ministers. The Plan will include measures for all key sectors, such as agriculture, water resources, biodiversity and green infrastructure, forests, energy, transport, industry, waste management, tourism, climate change and adaptation. It will address matters of resource efficiency and environmental protection in line with economic growth through legislative and market-based instruments and the up-take of new technologies and practices. Specifically, the key parameters of the plan include investments in key natural resources and the provision of incentives to increase resource efficiency and enhance productivity. They also include the promotion of market-based tools coupled with regulatory instruments to drive investments in new processes and technologies, create opportunities for innovation and boost the market for green products and services. Another key parameter of the plan is the improved governance through a more integrated and coherent policy framework. The objective is to gradually drive the transition to a low-carbon resource efficient economy, influence market demand, and create new investment and employment opportunities.

(d) Natura 2000 Network

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

(e) Environmental Permitting and Environmental Impact Assessment

The Department of Environment is in the process of developing a new legal and institutional framework for intergraded environmental permitting and inspection system. The existing system of environmental permitting is based on four independent sectoral laws, the Water and Soil Pollution Law, the Air Pollution Law, the Waste Law, and the Industrial Emissions Law, resulting in four (4) separate environmental permit procedures. The aim is to gradually establish a single permitting system, that will reduce the number of committees and create a more flexible and open-ended scientific representation and improve the enforcement of laws and regulations. Technical Assistance has been acquired from another Member State Environmental Protection Agency for developing the new permitting system, as well as for determining the options available for the creation of a single environmental inspectorate, that will be empowered with the proper legal and institutional framework to enforce the environmental legislation in the above mentioned sectors.

As part of efforts to streamline and coordinate procedures, the Department of the Environment is also in the process of amending the current national legislation relating to environmental

impact assessment (EIA). A new legislative proposal has been prepared to transpose Directive 2014/52/EU on the assessment of the effects of certain public and private projects on the environment and to restructure the environmental impact assessment process, so as to streamline and simplify the procedures. Following extensive public consultation with all relevant stakeholders and the public, the legislative proposal has been harmonized, taking into account the views expressed, and has been submitted to the Law Office for legal vetting. It is envisaged that the bill will be approved by the HoR by the end of May 2017. The new bill strengthens the process for the evaluation of the Environmental Impact Assessment Reports, foresees significant improvements in the quality of the assessments and the subsequent monitoring of projects, and strengthens provisions for the participation of the public in the decision-making process. It introduces a screening process for projects included in Annex II of the Directive, replacing existing requirements for the preparation of a preliminary environmental impact assessment report, which will simplify the assessment process as only projects with significant environmental impacts will be subjected to assessment. It establishes joint procedures for proposed projects within Natura 2000 sites for which an Appropriate Assessment is required, and provides for the coordination of the EIA process with other permitting procedures required under environmental legislation. This is envisaged to streamline procedures and avoid the duplication of assessments.

At the same time, the Department of Environment has already proceeded to prepare revised Annexes to replace Annexes I and II of the existing EIA law (N. 140(I)/2005) concerning its scope, with respect to projects subject to an environmental impact assessment. The objective is to address the problems which currently result from the inadequate coverage of certain projects with potentially significant adverse environmental effects and the exclusion of projects which are not expected to result in significant environmental impacts. The purpose is to ensure the more effective implementation of the provisions of the EIA law and the identification of projects likely to result in significant environmental impacts, to speed up the authorization process and to increase transparency with respect to the implementation of projects with significant environmental impacts. The amended Annexes will be submitted to the Council of Ministers. These have also been included in the EIA bill, which is currently being finalized.

In 2017, the Department of Environment will complete the development of a website platform for the dissemination of information on the environmental impact assessment process of projects, plans and programmes (EIA and SEA) with the purpose of informing the public concerned and facilitating their more active participation in procedures. By enabling access to relevant documents and the submission of opinions via the website, the public has the necessary tool for the timely involvement in the planning and decision-making process and the public views can be more effectively taken into account in the consent process. Technical Assistance for the development of the platform will be provided by the Environmental Protection Agency of another Member State. Two additional online tools will also come in operation in the beginning of 2017 – a website that will provide guidance to stakeholders on the environmental assessment process, and an in-house software programme that will guide personnel in their assessment of environmental impact reports, through the use of checklists, matrices and project-specific guidance.

(f) Waste Management

Sound Waste management is a high priority and a major challenge for Cyprus, given the need for an effective management of the environmental impacts resulting from waste and for

ensuring a high level of protection of the environment and human health, as well as the achievement of the high quantitative targets set in the European Waste Directives.

Despite full harmonization of the relevant EU legislation on waste, almost 80% of the quantities of municipal waste produced is landfilled. In addition, there is an obligation to overcome the conviction of the European Court of Justice for failure to comply on time with the closure and rehabilitation of two illegal landfills (Nicosia and Limassol), in accordance with the directive, by 2009.

To address these problems, a Municipal Waste Management Plan (MWMP) and a National Waste Prevention Programme (NWPP), for the period 2015 – 2021, were approved by the Council of Ministers in November 2015. In addition, in January 2017 three other Waste Management Plans were approved by the Council of Ministers, for waste tires, used oils and other waste streams. All of the plans and the programme have been prepared in accordance with the requirements of the Waste Framework Directive (2008/98/EC), with a 6-year duration. They are based on the strict implementation of the waste management hierarchy, set national targets and clear stakeholder roles. Proposed actions and measures focus on legislation, strengthening existing and new infrastructure, public awareness, training of decision makers and financial incentives for local authorities and the private sector.

The MWMP and the NWPP form a comprehensive, integrated 6-year management strategy on municipal waste. The basic objective is to achieve by 2020 at least a 50% recycling of paper, plastic, metal and glass and by 2021 a 15% in the separate collection of the organic content of municipal waste and a 40% separate collection of municipal waste. In 2013, Cyprus had achieved a 22% recycling of recyclable waste, compared to the 50% target that must be reached by 2020.

A number of best practices are now in place for the implementation of the MWMP and NWPP. For example a project that was initiated in 2014 for the reduction and separate collection of municipal waste through recycling in hotels in certain coastal areas started its operation in 2016 and will be further expanded in 2017, with the cooperation of the local authorities. Other projects will be initiated for the promotion of “pay as you throw” systems and the prevention, minimization and separate collection of waste in remote areas.

The Department of Environment is anticipated to hold a public consultation on the draft Regulations that give to local Authorities the required powers to impose the implementation of the waste management hierarchy and related actions.

(g) Water Management

Effective water demand management is one of Cyprus’ priorities as it is a fundamental condition for the exercise and application of a sustainable water policy. To this end, various measures aiming at further improving the good practices for water consumption and reuse are being implemented by the Water Development Department of the MARDE.

The implementation of the Water Framework Directive 2000/60/EC (WFD), which aims at protecting and improving the status of waters, is also a priority. At the same time, it is important to strengthen the resilience of the aquatic ecosystem, in order to adapt to climate change. In this context, the 2nd River Basin Management Plan (RBMP) and Programme of Measures were adopted on 7 October 2016. A Drought Management Plan has also been adopted. The 1st Flood

Risk Management Plan, which has been developed in coordination with the 2nd RBMP has also been concluded and adopted on 12 December 2016.

In the field of waste water, the priority is the full implementation of the Urban Waste Water Treatment Directive. Based on the National Implementation Program (NIP 2014) and the 9th Reporting Report with reference date 31 December 2014, Cyprus reported 57 agglomerations greater than or equal to 2.000 population equivalent (p.e.) with a generated load of 995.000 p.e. Compliance with the requirements of Article 3 (connection to collective system or individual and other appropriate systems), Article 4 (secondary treatment) and Article 5 (more stringent treatment) of the Directive is 65%, 85.6% and 85.3% respectively. Full compliance is expected to be met by 2027.

Particular importance is also given to the implementation of other relevant Directives, as well as to the relevant national legislation for the protection, monitoring and management of water resources. To this end, relevant European Directives are being transposed into national legislation. The Directive 2013/39/EU as regards priority substances in the field of water policy was adopted in November 2015, Commission Directive 2014/101/EU amending Directive 2000/60/EC in September 2015 and Commission Directive 2014/80/EU amending Annex II to Directive 2006/118/EC on the protection of groundwater against pollution and deterioration in June 2016.

Water scarcity has always been a major challenge for Cyprus, which is among the EU Member States with the least available water per capita.

Like other Mediterranean countries, Cyprus has a semi-arid climate and limited water resources which depend mainly on rainfall. However, rainfall is unevenly distributed with considerable regional variations, water resources are scarce and expensive to exploit and droughts occur frequently.

Climate change is already affecting Cyprus in a number of ways. Statistical analysis reveals a stepped drop of precipitation in Cyprus in the early 70's, which persists, while climate models for this region also predict a rise in temperature and an increase in the intensity and frequency of extreme drought events. These conditions, coupled with increased water demands, mainly due to population growth, are worsening the water scarcity problem on the island.

In order to address the problem and improve the reliability of the water sources for domestic and irrigation uses, the optimum use of non-conventional water resources, such as desalination and recycling is being promoted. In particular, with the completion of all desalination units, except the Paphos desalination plant which is planned for the near future, the potable water dependency of the large urban, suburban and tourist centers on rainfall has been eliminated. Furthermore, two domestic water supply projects are also in progress. The Vasilikos to Western Nicosia Conveyor Water Supply Project, which is co-financed by the European Investment Bank and the Kokkinokremmos Water Supply Project.

Recycled water is a growing and stable resource and increasing quantities of tertiary treated urban wastewater under strict quality standards and controls are used for irrigation and recharge of aquifers, to manage sea water intrusion or for later abstraction for irrigation use. The use of recycled water is expected to increase the supply of water for irrigation, ensure protection against drought and contribute in the water balance, enabling the best allocation of

available water resources for all uses. Two projects are under way, the Anthoupolis Water Reuse Scheme, which is funded by the European Agricultural Fund for Rural Development and the Larnaca Water Reuse Scheme, which is funded by the Cohesion Fund.

In the framework of the efforts to control groundwater abstraction several measures have been taken. For example, each new licence issued prescribes a maximum abstraction quantity and includes the compulsory condition to install a water meter, which is monitored by the Government. All new licenses issued are registered.

Regarding the water pricing policy, incentive water pricing based on metering, volumetric pricing and rising block tariffs has been in place for many years now. Furthermore, the Pricing and Cost Recovery of Water Services Regulations (128/2014) harmonized the existing water pricing policy with Article 9 of the Water Framework Directive and set the legal framework for the inclusion of the environmental and resource costs into water pricing. The new water tariffs that include environmental and resource costs for the supply of water from the Government Water Works, as well as for the abstraction of water from groundwater aquifers, have been approved by the Council of Ministers in December 2016 (Regulations 48/2017).

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

(h) Transport Sector

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

It is worth noting that, as a result of the measures adopted with respect to the legislation on excise taxes and Annual Circulation Tax on cars, Cyprus recorded the second largest annual relative and absolute CO² emission reductions in newly registered cars (comparison 2013 – 2014) between the EU 28 and it has the third largest relative and annual CO² emission reductions in newly registered cars from 2010. Also, Cyprus, met the 2015 target for the average CO² emissions from newly registered cars from year 2014⁶.

The Department of Electrical and Mechanical Services and MECIT are preparing a National Policy Framework for the development of the market as regards alternative fuels in the transport sector and the deployment of the relevant infrastructure which includes evaluation of the current situation and future development of the market in terms of alternative fuels in the transport sector and related policy decisions.

⁶ see EEA Technical Report 16/2015 “Monitoring CO² emissions from new passenger cars and vans in 2014 (esp. fig. 3.6 and fig. 3.7, pp. 21 – 22) – <http://www.eea.europa.eu/publications/monitoring-emissions-cars-and-vans>).

The Electricity Authority of Cyprus has deployed by the end of 2016 a total of 16 recharging stations accessible to the public. Furthermore the Department of Electrical and Mechanical Services is studying the installation of a number of charging stations in specific areas, to be decided, in order to expand the current network of charging points.

5.6 Energy Efficiency

Achieve an increase of 14.5% (375 ktoe) in energy savings in the projected primary energy consumption of the year 2020, by comparing the national scenarios for energy efficiency⁷. The national indicative target for energy efficiency is also expressed in achieving primary energy consumption of 2.2 Mtoe at the year 2020.

- Primary energy consumption remained at 2.2 Mtoe in 2015, as in 2014 and 2013⁸.

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

Even though the current level of primary energy consumption (2.2 Mtoe in 2015, 2014 and in 2013) is in line with the national 2020 target (with a slight increase of less than 2% between 2014 and 2015), additional efforts are being made in order to keep the primary energy consumption at the same level or to minimise its increase, in anticipation of GDP increases due to the foreseen economic development in the coming years. The progress towards achieving the national energy efficiency target is being annually monitored by the MECIT. The report for the progress achieved by the end of 2015 is currently under preparation and it will be submitted to the European Commission by the end of April 2017, in compliance with the requirements of Directive 2012/27/EE for Energy Efficiency.

An assessment of the progress can be made by examining the Energy Intensity Index (EII), which is determined as the ratio of primary energy consumption over GDP. EII provides a good indication on how energy efficient is the economy (In the case of Cyprus the index was 128 Kgoe/1000Euro in 2014 and 2015)⁹. This reflects the improvements already achieved in the field of energy efficiency.

⁷ A national baseline scenario and a national energy efficiency scenario had been compared. Both scenarios were executed in 2014.

⁸ Source of Data: Eurostat, Last update: 27.02.2017

⁹ Source of Data: Eurostat, Last update: 27.02.2017

As far as policies, measures and activities for reaching 2020 targets are concerned, Cyprus aims to achieve its energy efficiency target through the implementation of an array of measures which include regulatory changes, provision of financial incentives as well as emphasizing on horizontal issues such as consumer knowledge and information, enhancement of the role of the private sector's financial institutions, as well as encouraging research and technological development. The most important measures currently in place in order to promote energy efficiency are:

- Setting of minimum energy performance requirements for new buildings, buildings that undergo major renovation and building elements that are retrofitted.
- Issue of Energy Performance Certificates (EPC) for new buildings and for buildings that are sold or rented.
- Frequent inspection of large air conditioning systems and central heating systems with boiler.
- Implementation of legislation that defines the technical requirements that a NZEB has to fulfil.
- Implementation of legislative framework for the promotion of combined heat and power and high efficiency in heating and cooling.
- Implementation of legislative framework for energy efficiency (e.g.: i) setting obligations for energy efficiency in the public sector, ii) obligations for energy efficiency in metering and billing, transformation, transmission and distribution, iii) obligations for energy audits and for energy savings measures at end use etc.).
- Implementation of legislative framework for regulating the market for energy auditing in buildings, industries and transport and the operation of Energy Service Companies (ESCOs).
- Implementation of legislative framework for placing on the market energy related products. (e.g.: i) obligations for manufacturers, 75labelling75d representatives, importers, suppliers, dealers ii) market surveillance) and in particular regarding their minimum energy efficiency standards (Ecodesign requirements) and labelling (Energy Label, Energy Star, Labelling of Tyres).
- Implementation of energy efficiency measures in the buildings occupied and used by the central Government including deep renovations, utilizing EU Structural and Investment Funds of the period 2014-2020.
- Operation of financing schemes for energy upgrade of existing households and buildings of enterprises, utilizing EU Structural and Investment Funds of the period 2014-2020.
- Implementation of projects on energy efficiency in street lighting, utilizing national funds.
- Implementation of pilot projects for high efficient heat and power generation, utilizing EU Structural and Investment Funds of the period 2014-2020.
- Implementation of pilot projects for energy efficiency in public buildings and street lighting utilizing ESCOs and energy performance contracting.
- Implementation of pilot projects for energy efficiency in public buildings in the framework of the competitive EU Programs.
- Implementation of measures in the transport sector, utilizing EU Structural and Investment Funds of the period 2014-2020.
- Implementation of projects for installing smart meters.
- Provision of information and training to the public sector aiming to change habits in energy use.
- Certification of professionals in the field of energy efficiency.

- Provision of information/education to energy professionals and final consumers on energy efficiency.
- VAT reduction from 19% to 5% for major refurbishments of buildings.
- Increase of building factor for new buildings and buildings that are renovated if they achieve an A energy class and at least 25% contribution from RES.
- Design and implementation of a national energy efficiency campaign for promoting energy efficiency investments, with priority to the investments that significantly contribute in achieving the national 2020 energy efficiency target.
- Enhanced cooperation with financing institutions (for increasing allocation of funds for financing energy efficiency investments).

For the renovation of buildings that are used by the central Government a working group has been set by MECIT and the MTCW.

For the period 2014 – 2020, EU financing of €20 million has been secured for upgrading the energy efficiency of public buildings. As regards the upgrading of the energy efficiency in existing buildings of the private sector, the support scheme “Save – Upgrade” is the main financial tool. It is co-financed by EU Structural and Investment Funds and it targets deep renovation of households and buildings used or owned by small and medium size enterprises. The scheme promotes simultaneously all policy objectives i.e.:

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

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

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

MECIT has identified areas where studies are needed for ensuring that the national energy efficiency potential in all sectors of the economy has been well identified and that it will be cost-effectively exploited by 2020. It has also identified the need for establishing an energy efficiency strategy after 2020. For this purpose, and with Technical Assistance provided by the Structural Reform Support Service for Cyprus, a set of studies have been prepared and some others are

under preparation, aiming to assist Cyprus in achieving its 2020 energy efficiency target, to prepare its national strategy for energy efficiency for the post 2020 period, and to develop and implement new legislative, financial and awareness raising measures to boost the uptake of energy efficiency measures by 2020 and beyond.

5.7 Renewable Energy Sources (RES)

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

- Increased to 9.4% in 2015 compared to 8.99% in 2014

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

Regarding the specific target of 10% RES in transport under Article 3(4) of Directive 2009/28/EC, Cyprus has reached 2.43%. It is noted that the methodology for calculating the target for transport is different from the methodology provided based on Article 3(1) of the Directive. In the framework of establishing a National Strategy to promote alternative fuels in transport to achieve the 10% target of renewable energy in transport by 2020 and the various environmental objectives, a national action framework is being prepared in cooperation with other competent authorities in order to promote environmentally friendly technologies, alternative fuels and ultimately the necessary infrastructure needed.

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

In addition to the above study, the results of the JRC and KTH studies carried out in 2016, will be exploited to overcome and tackle technical and non-technical issues related to the further penetration of renewable energy and provide insights on how to overcome technical constraints in the most cost optimum way.

With the implementation of the National Action Plan for Renewable Energy Sources (RES) and the measures taken by the Government, the Republic of Cyprus succeeded in increasing the share of RES in the total final consumption to 9.4% in 2015. With this rate, Cyprus has achieved the intermediate National Action Plan target for renewables in 2015, which is 9%. The average indicative progress for the biennium 2015-2016 is 7.45%. As regards the 10% target of RES in transport, the rate reached is 2.59%.

Based on the EAC data, the following systems were installed by the end of 2016:

- approximately 85 MW of photovoltaic systems.
- total of 157.5 MW from five wind farms.
- total of 10.4 MW from 14 biomass plants.

As regards the policies, measures and activities for reaching 2020 targets, during the second half of 2015 two amendments of the Promotion and Encouragement of the Use of Renewable Energy Sources Law 2013 [N.112 (I) / 2013] came into force.

The first amendment concerns the imposition of temporary green fee on consumers and renewable energy producers for the purposes of maintaining the RES Fund, while the second amendment concerns the improvement of the regulations governing the function of the certification schemes for RES installers of small-scale biomass boilers and stoves, solar photovoltaics and solar thermal systems, shallow geothermal systems and heat pumps. It should be noted that, the green levy was recently increased for the consumers paying an additional tax of 1 eurocents per kWh consumed, as from 1.1.2017 (current levy is 0.5 eurocents per kWh).

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

- Announcement of the support scheme: “Solar Energy for All” which provides: (a) the installation of Net-metering photovoltaic systems with capacity up to 5KW connected to the grid for all consumers (residential and non-residential) and (b) the self-generation systems with capacity up to 10.000 kW for commercial and industrial consumers. Further measures were investigated in 2016, some of which are expected to be implemented in 2017, in order to cover biomass/biogas units.
- A support scheme for the replacement of old solar domestic hot water heating systems.
- Implementation of the national framework in transport sector with all relevant stakeholders.
- Certification of professionals in the field of renewable energy sources.
- Provision of information/education to energy professionals and final consumers on renewable energy systems.
- The National Action Plan for RES for the Electricity Sector has been updated in 2016 to reflect recent developments in the RES sector.
- Political decisions had been put in place for supporting two Concentrated Solar Power plants with a total capacity of 100MW under NER300 Funding Program.

As far as energy planning is concerned, an energy planning model was developed to quantify the possible pace and benefits of renewable energy deployment given different conditions, which is an important tool for assessing future energy policies and examining different energy pathways. With the use of the above cost optimization tool, the Government will determine the optimal penetration of renewable energy for electricity supply and identify the technical and economic potential for further increasing electricity production from renewable energy.

6. UTILISATION OF EU FUNDS

A total amount of €956mln has been allocated to Cyprus for the Programming Period 2014-2020 from the European Structural and Investment Funds (ESIF), as follows:

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

For the effective utilisation of the abovementioned resources, Cyprus has prepared the Partnership Agreement (PA) which is a comprehensive strategic document. The PA aims at securing the synergy and coordination among the ESI Funds allocated to Cyprus, so as to achieve effective results that will contribute to the goals of the EU 2020 Strategy and, consequently, to growth and job creation in Cyprus. The main strategic objective of the PA is the restructuring of the economy, the preservation and creation of new jobs and the safeguarding of social cohesion. This objective will be attained through the following three funding priorities:

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

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

The funding priorities set in the PA derived from the analysis of the country's development needs and perspectives, the Country-Specific Recommendations by EC, and the national targets set in the context of the EU2020 Strategy.

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

Thematic Objective	ERDF (€mln)	ESF/YEI (€mln)	CF (€mln)	EAFRD (€mln)	EMFF (€mln)	Total (€mln)
1. Research & Innovation	70	0	0	2,27	0	72,27
2. Information and Communication Technologies (ICT)	73,5	0	0	0,32	0	73,82
3. SME Competitiveness	70	0	0	36,2	9,84	116
4. Energy	13	0	32	35,12	0,47	80,59
5. Climate Change	0	0	10	13,07	0	23,07
6. Environment	30	0	127	23	23,4	203,4
7. Transport	14,25	0	85	0	0	99,25
8. Employment	0	81	0	6,3	5,25	92,55
9. Social Inclusion and Poverty	15	27	0	13,55	0	55,55
10. Education-Life Long Learning	0	26	0	0,25	0	26,25

11. Institutional Capacity and Public Administration	0	5,06	0	0	0	5,06
Technical Assistance	6,55	1,93	15,54	2,27	0,75	27,04
TOTAL	292,3	140,99	269,5	132,4	39,71	874,9*

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

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

In addition, it is important to mention that most of the TOs selected for investment during the 2014-2020 programming period do contribute to the national targets set for EU2020 strategy, as illustrated in the table below:

Employment target	T03, T08
R&D target	T01
GHG emission reduction target	T04, T05, T06, T07
Renewable energy target	T04
Energy efficiency target	T04
Early school leaving target	T09, T010
Tertiary education target	T010
Poverty target	T09

7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The NRP has been prepared in close cooperation with all competent Ministries and other Services.

In addition, there was consultation with local authorities, social partners and other stakeholders. The comments received in the context of this consultation related mainly to the policy areas related to employment creation and poverty alleviation, competitiveness improvement, public administration and local government reform, as well as to the introduction of the national health system and the more efficient functioning of the judicial system. The respective comments were put before the responsible Ministries and where possible, changes were incorporated in the NRP.

It is further noted that stakeholder involvement is an inherent element of the procedure for the initial formulation of most policy measures and initiatives at Departmental and Ministerial level. Hence the active engagement of the parties affected has been safeguarded from the initial stages in the large majority of areas covered by the NRP such as labour, education, health, tourism, environmental issues as well as horizontal areas such as entrepreneurship, better regulation, etc.