



**EUROPE 2020
CYPRUS NATIONAL REFORM PROGRAMME 2018**

APRIL 2018

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1. INTRODUCTION

The Cyprus economy experienced robust growth in 2017 for the third consecutive year which was broadly based and supported mainly by a strong rebound in investment and also by growth in private consumption. The main economic fundamentals have improved considerably. Unemployment has declined markedly, while inflation was moderate. The favourable macroeconomic environment was supported by a continued robust fiscal performance with positive ramifications for debt sustainability, improving external imbalances and positive developments in the banking sector, even though challenges still remain.

These positive developments in the Cypriot economy were the result of prudent fiscal policy and enhanced financial stability, complemented by the implementation of wide ranging structural reforms which are reflected in the Action Plan for Growth, an overall framework for the implementation of horizontal and sectoral policies aiming at enhancing competitiveness and growth.

The main reform priorities of the Government as outlined in this National Reform Program (NRP) are focused on the key challenges identified in the 2017 Council Country Specific Recommendations¹ and the 2018 Country Report for Cyprus² published by the European Commission within the framework of the European Semester, whilst other reforms carried out in the context of the Action Plan for Growth are included as well. The NRP also reports on progress made towards meeting the five national targets of the Europe 2020 strategy. The Government's strategy in relation to the utilization of EU funds is also presented.

In summary the reform priorities aim at:

- Continuing the implementation of enhanced fiscal governance.
- Increasing the efficiency of the Public and Local Administration.
- Improving the efficiency of the Judicial System.
- Enhancing the implementation of the Insolvency and Foreclosure Frameworks.
- Reducing private indebtedness and the high level of non-performing loans.
- Boosting investment further and improving access to finance particularly for SMEs.
- Improving the labour market relevance of the educational system and the quality of Active Labour Market Policies, particularly for young people.
- Health care reform.

These reform priorities are also in line with the most pressing economic and social priorities as outlined in the Commission Annual Growth Survey³: boosting investment to increase long term growth, pursuing structural reforms for inclusive growth and implementing responsible fiscal policies.

¹ https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-specific-recommendations-commission-recommendations_-_cyprus.pdf

² <https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-cyprus-en.pdf>

³ https://ec.europa.eu/info/sites/info/files/2017-comm-690_en_0.pdf

2. MACROECONOMIC CONTEXT AND SCENARIO

This year's NRP has been prepared in the context of a still challenging, but, at the same time, normalising economy, exhibiting broad based robust economic growth reaching 3.9% in 2017, one of the highest in the EU. These positive developments have been acknowledged by Rating Agencies, leading to consecutive upgrades of the Cyprus economy, allowing Cyprus to access international capital markets at more competitive terms.

Economic growth in 2017 was driven by the strong performance in the tourism sector, further improving labour market conditions and continuous recovery of construction activity. In particular, tourist arrivals in 2017 reached a record number, exhibiting a growth rate of about 14.6% vis-à-vis 2016, the previous record year.

From the expenditure side, the economy's robust performance can be attributed mainly to a strong rebound in gross fixed capital formation and to a lesser extent to a healthy growth in private consumption, as well as some support from public consumption. Private consumption benefitted from rapidly expanding employment across most sectors and slowly rising of compensation per employee.

On the back of economic recovery, the labour market has significantly improved, even though there is still significant slack in the economy. The unemployment rate has been showing a downward trend since the second quarter of 2015, falling significantly to 11% in 2017. For 2017, employment in persons has increased by 3.4%. Youth and long-term unemployment, which constitute the main challenges in the labour market, declined to around 24.7% and 4.5% in 2017 from the peaks of around 40% and 8%, respectively. The flexibility in the labour market and the active labour market policies implemented by the Government have contributed to the downward trend of unemployment.

Wage developments follow the steady recovery of the economy, denoting an improving labour market and rising labour demand faster than supply. Wage growth, as reflected in compensation per employee, has exhibited a marginal decline of 0.7% in 2016 and for 2017 it turned marginally positive, increasing by 0.7% compared to the corresponding period in 2016.

The inflation rate, as measured by the Harmonised Index of Consumer Prices (HICP), turned positive in December 2016, after its prolonged continuous negative trend since late 2014. The price levels in 2017 exhibited an increase of 0.7%, mainly due to rising energy prices but also due to the economic recovery.

On the fiscal front, a robust fiscal performance has been continuously exhibited, meeting fiscal targets with considerable margins, thus supporting debt sustainability. General government debt came down significantly in 2017, to around 97.5% of GDP, exhibiting a decline of about 9 percentage points of GDP in relation to the year before. This positive development is due to strong economic growth, prudent fiscal performance and early repayment of part of the debt.

In the banking sector, which has taken the heaviest blow during the crisis, the level of non-performing loans has considerably declined in absolute terms, even though in percentage terms it is still very high, as deleveraging takes place at the same time. Loan provisioning has also improved substantially in 2017 and is now in line with euro area averages.

Coming to the economic prospects of the Cyprus economy, growth over the medium term is expected to remain robust, on the back of improving confidence and credit conditions, anticipated gradual reduction in non-performing loans, as well as further normalization of the labour market. 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 rebound of the economy, disposable incomes are expected to further improve, providing boost to consumption and investment. The implementation of the Action Plan for Growth and the new National Strategy for Tourism are also expected to contribute in maintaining the growth momentum.

The correction of fiscal imbalances and the attainment of budget surpluses enables the adoption of a neutral fiscal policy stance going forward, providing a positive contribution to the economy through the free operation of automatic stabilizers.

Despite possible negative developments related with the exchange rate of the euro against the sterling and the ruble, the tourism sector is expected to remain strong in the future, as momentum from other markets appears to be strong.

Given the positive general economic environment, unemployment is expected to continue its declining path, with wages and employment expected to continue growing into 2018 and 2019, supporting private consumption.

Based on the above, the growth rate of the economy in 2018 is expected to reach around 3.8% in real terms.

HICP is projected to increase at around 0.5% in 2018, 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 9.5% in 2018.

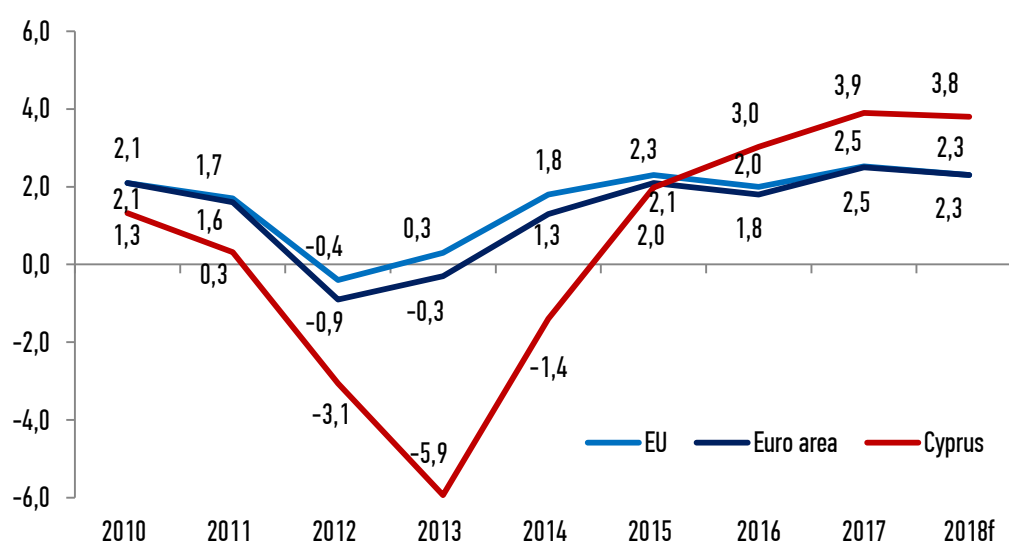
Downside risks to the above baseline scenario, include slower than envisaged reduction in NPLs and possible worsening in external demand for services associated with the decision of the UK to exit the EU.

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.

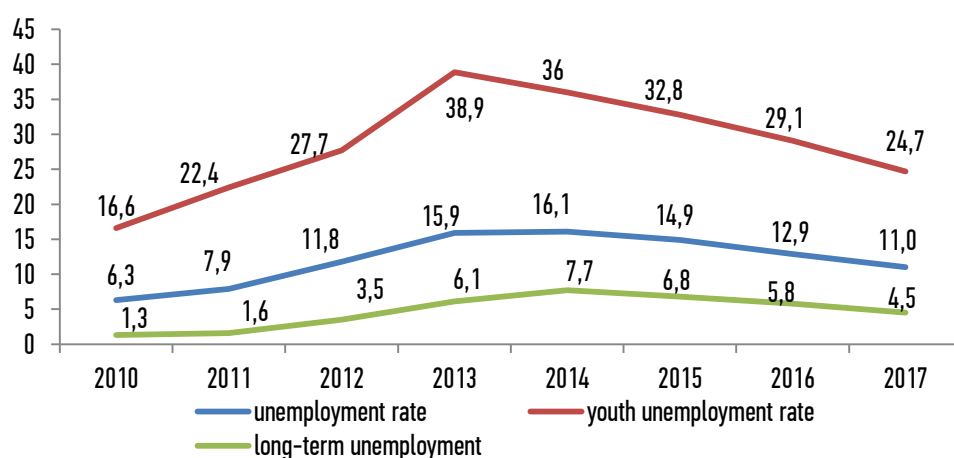
Table: Macroeconomic indicators

Indicator	2015	2016	2017	2018f
Real GDP (%)	2.0	3.4	3.9	3.8
Inflation (HICP)	-1.5	-1.2	0.7	0.5
Unemployment Rate (% of labour force)	14.9	12.9	11.0	9.5
Public Debt (% of GDP)	107.5	106.6	97.5	105.6
Nominal balance (% of GDP)	-1.3	0.3	1.8	1.7

Graph 1: Economic Growth (%)



Graph 2: Unemployment Rate (%)



3. REFORMS RELATED TO COUNTRY SPECIFIC RECOMMENDATIONS AND POLICY RESPONSES TO ECONOMIC AND STRUCTURAL CHALLENGES

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

Country Specific Recommendation 1

Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which implies to remain at its medium-term budgetary objective in 2018. Use windfall gains to accelerate the reduction of the general Government debt ratio. By end-2017, adopt key legislative reforms aiming to improve efficiency in the public sector, notably on the functioning of public administration, governance of State-owned entities and local Governments.

3.1.1. Fiscal Policy

The structural balance in 2018, as a percentage of GDP, is estimated to be in surplus of the order of 0.4% of GDP, based on output gap estimates derived from the common methodology, therefore respecting the national medium-term budgetary objective of a balanced budget.

3.1.2. General Government Debt Ratio

Windfall gains led to the accumulation of a sizeable primary surplus reaching around 5% of GDP, allowing the Government to proceed with the appropriate debt liability management, including accumulation of cash reserves and early debt repayments of €0.8 bln. This has significantly decreased the ratio of general government debt to 97.5% of GDP by the end of 2017, compared to 106.6% of GDP the year before.

3.1.3. Reforming Public Administration

Aiming at the modernisation of the Public Administration and the enhancement of its efficiency and productivity, the Government submitted to the House of Representatives (HoR) a set of bills. The bills introduce horizontal reforms relating to civil servants' mobility, the evaluation procedures for promotion, the appraisal system for civil servants, the functioning of the Public Service Commission and the containment of the wage bill.

The bill regarding mobility between the Public Service and State Owned Organisations (SOEs) as well as among SOEs was approved by the HoR in May 2017.

The four remaining bills were prepared and submitted to the HoR in September 2015 and re-submitted with some amendments in August 2016. Following rejection by the HoR, the draft bills were discussed during 2017 with the political parties and amendments were incorporated to them. Before being submitted to the HoR again,

the said bills will be discussed further within 2018 with other stakeholders in an effort to reach consensus.

The introduction of a control mechanism for the containment of the wage bill is currently under implementation in the civil service and the broader public sector through agreements that the Government signed with the main trade unions for the years 2017 and 2018. This control mechanism ensures that any increase in the wage bill will be based on the fiscal conditions and the increase in nominal GDP.

3.1.4. State Owned Enterprises

The draft law on State Owned Enterprises 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.

3.1.5. Local Government Reform

Draft laws concerning the implementation of the Local Government Reform were submitted to the HoR in July 2015. Following discussions between the Political Parties, the Union of Cyprus Municipalities and the Union of Cyprus Communities, several amendments were incorporated.

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 aims particularly 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. At 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, within the next three years. 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 April 2017, the Ministry of Interior (MOI), upon request from the HoR, submitted a report explaining the criteria and the conditions by which the Government has proposed the decrease in the number of municipalities and also the draft Regulations that emanate from the said draft laws.

3.1.6. Other Reforms to support efficiency improvement in the Public Administration

(a) Improving the regulatory framework

The Government has placed great emphasis on improving the ease of doing business via better regulation. As also noted in the Country Report for Cyprus 2018, significant

steps have been taken to improve the quality of regulation.

The Action Plan for Better Regulation under implementation consists of 3 priority axes:

- (i) Simplification of procedures and legislation and reduction of administrative burden.
- (ii) Better law making and impact assessment of new legislation.
- (iii) Embedding the culture and enhancing relevant skills in relation to Better Regulation.

The implementation of major activities of the Action Plan for Better Regulation, continued in 2017 and the implementation of measures is reflected in the 2nd Progress Report of this Action Plan, submitted to the Council of Ministers in September 2017 for monitoring purposes. Progress is recorded for reform actions that have been taken for the modernization of the Registrar of Companies and Official Receiver and of the Tax Department. The review of the regulatory framework for Tourism is progressing, as the bill and regulations regarding the operation of hotels was submitted to the HoR at the end of 2017, while draft legislation for the recreation centres has been submitted to the Law Office of the Republic for legal vetting. Recommendations and suggestions for simplifying the procedures and legislation as well as modernization of the Civil Registry and Migration Department are being prepared.

A major activity of the Action Plan implemented in 2017 was the new Impact Assessment mechanism which was put in place on the 1st January 2017, with the aim to undertake more focused and thorough impact assessments for new legislation. Specific guidelines on how to complete the relevant questionnaire have also been prepared. In this framework, an SME Test was introduced which has as its main goal the taking into consideration of all possible impacts, especially on SMEs, when drafting a new legislation. The intention is to examine the use of mitigation measures for small and micro enterprises, taking into consideration the structure of the business environment in Cyprus. To this end, 5 workshops were carried out in 2017 where about 80 Government officials were trained, from various Ministries/Services. In 2017, 39 questionnaires have been completed by several ministries. An IA report summarizing the main findings and suggestions for the way forward is currently under preparation. Moreover the intention is to continue the training program of Government officials, to further enhance the implementation of the new impact assessment framework.

Furthermore, the Government's Consultation Guide was revised with particular emphasis on consultation results which is now followed by all public officers. Efforts have been made to improve the legal drafting and vetting processes. In this respect the Government provided during 2017 specialized training (workshops on legal drafting and workshops on the new impact assessment mechanism) for relevant officers in Ministries. Moreover, fully elaborated Guidelines for legal drafting and harmonizing national legislation have been prepared. Additionally, a Memorandum of Understanding (MoU) was signed on the 5th September 2017 between the Cyprus

Government and the Cyprus Bar Association for the development of a Cyprus Legal Portal. The Portal will provide easy access to several topics and links of primary interest to the public and enterprises with a special interest in Legal matters.

(b) Moving to the digital era

As noted in the Country Report for 2018, significant challenges still exist in the digitalization of the Country. 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 are among the 16 initiatives of Digital Strategy of Cyprus. The coordination and the enrichment of the said strategy is being done by the Digital Strategy Group under the Minister of Transport, Communications and Work (MTCW) with participation from the public and private sector. Within this context, several actions are planned to be implemented in 2018.

- eGovernment

One of the major pillars of the reform in Cyprus relates to further advancing and implementing eGovernment projects, aiming at improving governance and increasing productivity and efficiency. The eGovernment Board that was established in 2015 with ministerial representation having the responsibility to approve eGovernment projects, monitor their progress, provide solutions on significant problems and take political decisions regarding eGovernment promotion has contributed substantially to this effect. In this context, enhanced co-ordination has been achieved and many strategic eGovernment interventions, have been approved by the eGovernment Board and are currently in progress. Some of them are the roll out of eOASIS (electronic management of the official documents of the Public Service) throughout the Government, the creation of Unified Communication Network for the Public Services, the Enterprise Resource Planning (ERP) System for the Public Service, the introduction of the Town Planning & Housing Information System and the creation of a unified computerisation system for the Cypriot Municipalities and for the delivery of eGovernment services. Furthermore, work has been in progress as regards the provision of qualified electronic signatures and high assurance level of electronic identification – eID Project – and the related tender is expected to be announced in 2018.

In addition, one of the most strategic projects of eGovernment is the Government Gateway Portal – ARIADNI. Ariadni provides around 90 public e-services with a full set of information for each Governmental procedure. Within 2018, about 10 new eservices are expected to be provided through Ariadni, such as on line applications for Vacant Positions in the Public Service Commission, for Child Benefit and Single Parent Benefit and for Public Assistance (GMI) as well as eservices for the Veterinary Services and the Department of Agriculture.

In the area of e-Justice regarding the digitalisation of the courts, the tendering process has started. The pilot operation of the system is expected to be launched in August 2019 whilst the system is expected to be fully operational in February 2020.

In the area of e-health an integrated Health Information System will be rolled out to all public hospitals and health centers. The tender documents are at the stage of final corrections and the Ministry has requested final approval by the eGovernment Board.

Within 2018, the Government also plans to create a Unified Call Centre. The system will accept applications from multiple communication channels (telephone, SMS, email, IVR). It will provide information on more than 500 procedures for services provided by the public sector 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 contract for the delivery of the service has been assigned to a private sector operator in March 2018 while the delivery of services is expected to start in the third quarter of 2018.

In the framework of upgrading the quality of services offered to citizens, Citizen Service Centres (CSCs/one-stop-shops) have been established, with the aim to provide multiple services from one point of contact. CSCs offer more than 90 different services from a number of governmental organisations, such as issuing of birth certificates, driving licenses, road tax licenses, social insurance contributions records etc. In addition, CSCs receive applications for the issuing of passports, identity cards and refugee identity cards, for registration in the electoral register, for grants, allowances, benefits and pensions. The network currently comprises of 8 CSCs and the aim is to establish 5 additional CSCs in the period 2018-2020.

During 2017 the 8 CSCs have provided in total over one million services to citizens who have visited them. The CSCs offer on average a total of 4.100 services on a daily basis.

As part of the overall effort made to reduce bureaucracy and increase productivity, the Ministry of Energy, Commerce, Industry and Tourism (MECIT) is proceeding with the re-engineering and electronic submission and management of all state aid schemes. A pilot implementation that commenced in December 2017 is currently in progress with the assessment of the applications that were electronically (on line) submitted for two grant schemes relating to Youth and Women Entrepreneurship, with a budget of €6 mln and €2 mln respectively. The electronic submission was completed successfully in April 2018 (537 applications for Youth and 249 for Women Entrepreneurship) and the final results of both calls are expected to be announced in six months at the latest, reducing the total time required for the evaluation of applications by 10-12 months. A number of additional grant schemes are expected to run online within 2018.

Finally the Government as of 2018 has made mandatory the electronic submission of tax declarations.

- **Connect Cyprus**

The Government, looking ahead to the future needs with high requirements on speed (bandwidth), such as high-definition video, telepresence, cloud computing, tele-medicine, e-learning, etc, has adopted the following national targets:

- By 2020, all households and enterprises will have access (coverage) to the Internet with at least 30Mbps (high speed networks).
- By 2020, 50% or more of the households and enterprises will have subscription (take-up) to the Internet with at least 100Mbps (ultra – high speed networks), for which two parameters have to be satisfied, first the adequate coverage (supply side) and second the required take-up (demand side).

The Broadband Plan of Cyprus will be updated during 2018, taking into account the existing network mapping and the telecommunications providers plans for the next three years.

- **Digital Skills**

Workshops and Training Programs will be organized for the learning of eGovernment systems and the acquisition of digital skills. The organization of these workshops, which are provided to citizens free of charge, aims to enable the general public to acquire basic digital skills. The main goal of these workshops is to benefit all citizens regardless of their place of residence, age and education. Additionally, as certification is considered as one of the most important objectives of the Digital Strategy, the introduction of ECDL certification services to the students of Secondary Education has been approved. Moreover ECDL exams will be offered free of charge to all students.

(c) Developing a new system of evaluation and selection of public investment projects

In the context of the implementation of the new public financial management framework, following the enactment of the Fiscal Responsibility and Budget System Law and of the corresponding Regulations, and according to the implementation plan approved by the Minister of Finance⁴, a new process for the evaluation and selection of public investment projects has been developed. The process will be fully operational by 2019. This involves the preparation by the line Ministries of Project Concept Notes (PCNs) and Feasibility Studies for new public investment projects considered for funding under the 2019-2021 budget, in accordance with the Guidelines of the Minister of Finance and the Manual for the pre-selection and appraisal of public investment projects. The PCNs and the feasibility studies will be submitted to the Directorate General of European Programmes Coordination and Development (DG EPCD) and the Ministry of Finance (MOF) for evaluation.

In order to improve decision making by maximizing the benefits for users and

⁴ Implementation of the new system of evaluation, selection and implementation of public investment projects in accordance with the Fiscal Responsibility and Budget Systems Law (L.20 (I) / 2014 Articles 82-89).

investors while minimizing the burden for taxpayers through the combined advantages of a solid project preparation and evaluation framework, the Cypriot Authorities have received in 2017 Technical Support from the World Bank. This consists of developing a series of tailor made quantitative and qualitative methodologies for an economic and financial analysis of Public and PPP projects⁵. In March 2018 a series of hands on trainings of the civil servants took place. Further support is planned for the first half of 2018 in setting up of the PPP unit within the Public Works Department of the Ministry of Transport Communications and Works.

(d) Strengthening the efficiency and transparency of Public Procurement

The Government took significant measures aiming at increasing the transparency, minimizing administrative burden, facilitating the participation of SMEs and preventing anti – competitive behavior in the area of Public Procurement.

A strategy for promoting Professionalisation in Public Procurement has been prepared and its implementation will proceed when additional staffing becomes available. However, each contracting authority/entity was asked to nominate three officers of their staff who will be in charge of their procurement procedures and will be provided guidance and support to the extent possible, so as to build capacity and expertise on public procurement. Guidance is provided through the Best Practice Guide and model tender documents which are currently under updating, helpdesks, trainings, quality review process for the tender documents. Through this guidance, it is recommended to the contracting authorities/entities, where applicable, to assess the most economically advantageous tender on the basis of price – quality ratio. For services, it has been made obligatory by law to apply the price – quality ratio.

In order to promote transparency, contracting authorities/entities are obliged to publish the contract notices and the contract award notices for all contracts (above and below thresholds) through the e-procurement system. The uploading of the tender documents in the system as well as the electronic submission of the tenders were also rendered compulsory.

Reports of the Evaluation Committees as well as the Minutes of the Tender Boards/Evaluation Committees have to be published by the contracting authorities/entities on their website. A Manual on Bid – Rigging has been issued with the contribution of the Treasury of the Republic and explanatory seminars on the Manual were organized. Finally the Auditor General, the Attorney General and the Accountant General have the right to be represented in the sessions of the Evaluation Committees / Tender Boards as observers and to express their views.

⁵ The methodological framework includes among others a Cost-Benefit / Cost Effectiveness Analysis and Value for Money analysis based on different filters applied along the project preparation cycle as outlined in the Fiscal Responsibility and Budget Systems Law and the Manual.

3.2. Judicial System, Insolvency and Foreclosure Frameworks, Title Deeds and Immovable Property Rights

Country Specific Recommendation 2

Increase the efficiency of the judicial system by modernising civil procedures, implementing appropriate information systems and increasing the specialisation of courts. Take additional measures to eliminate impediments to the full implementation of the insolvency and foreclosure frameworks, and to ensure reliable and swift systems for the issuance of title deeds and the transfer of immovable property rights.

3.2.1. Increasing the efficiency of the Justice System

The quality of the administration of justice is of high standards in Cyprus. However the great increase in the workload of the courts in the recent years especially due to the economic crisis and the subsequent increase in the backlog of cases in civil jurisdiction, coupled with a low level of ICT use in courts weigh on the efficiency of the justice system. The Government acknowledging the importance of efficient resolution of civil and commercial cases has put as a high priority the reform of the Justice System. The close cooperation between the Ministry of Justice and Public Order and the Supreme Court has in recent years been reinforced by a standing policy of frequent contacts between the Minister of Justice and Public Order and the President and Judges of the Supreme Court. A wide range of issues related to the operation of the courts is discussed, agreed and followed up. Measures taken in 2017 to that effect are the following:

On 21 July 2017, the Courts of Justice (amendment⁶) Law of 2017 (Law 109(I)/2017) was enacted, providing for the filtering of the right to file an appeal in civil cases as regards interlocutory decisions during the proceedings. This does not deprive a party the right to raise at the stage of the appeal against the final decision, issues relating to any interim decision.

A bill for the establishment of an Administrative Court of International Protection was prepared and submitted to the HoR on 18 January 2018. The provisions of the bill provide that the cases of international protection will be transferred to this court from the Administrative Court, allowing the latter more time to deal with all other administrative cases. The decisions of the Court will be subject to appeal before the Supreme Court for any reason concerning only a legal point.

A bill for the establishment of a Commercial Court was also prepared and, following consultation with all the competent stakeholders is now at the final stage of discussion with the Legal Service of the Republic. The provisions of the bill include which cases will fall under the jurisdiction of the Court, what will be the qualifications of the judges etc.

⁶ Amending article 25 of the Law.

Finally the Administrative Court, operational since January 2016, was strengthened with two additional judicial posts since September 2017.

E- Justice is one of the main pillars for the reform of the Justice system. A tender was launched in March 2017 to purchase an electronic Court administration system so as to digitize the operations of the Courts. Following the evaluation of the tenders, the pilot operation of the system is expected to be launched in August 2019 whilst the system is expected to be fully operational in February 2020.

A project is now running for major reforms aiming at the overall modernization of the judicial system and management of courts, through technical support. In February 2017, the Supreme Court appointed a former Judge of the Supreme Court, as the Director of Reform and Training, in order to coordinate the whole reform project. Also, a Courts' Reform Committee was established, comprising by the President of the Supreme Court (President) and 2 Judges of the Supreme Court, the President of the Judges' Association, the Director of Reform and Training, the Chief Registrar, a representative of the Ministry of Finance and of the Ministry of Justice and Public Order, and the President of the Cyprus Bar Association. The task of the experts was completed in March 2018 with the completion and delivery of the final report with their recommendations for addressing identified challenges regarding the operation in the Supreme Court and Courts of First Instance. The Government is currently analyzing the recommendations in order to proceed to the implementation phase.

In addition, Civil Procedure Rules are being reviewed and final recommendations are expected at the beginning of 2019.

The MJPO prepared a bill amending the Civil Procedure Law, so as to strengthen the legal framework for the enforcement of judgments. The provisions of the bill include measures which facilitate the execution of writs concerning the seizure of movable property. The bill is under legal vetting by the Law Office.

The MJPO assigned a study concerning mediation to experts. The study pertains, among other issues, to the accreditation of mediators, their qualifications, their training, their disciplinary supervision and the dissemination of information to the general public. The study also includes concrete suggestions for the amendment of the law as needed. The final report was completed and delivered to the MJPO at the end 2017. The Ministry requested further clarification on certain aspects of the report and these are expected to be delivered in April 2018. Following that, consultation will take place with the relevant stakeholders in order to promote the recommendations included in the study.

In addition, a study concerning the establishment of a training school for judges within the Supreme Court in Cyprus was completed in May 2017. The study was approved by the Supreme Court, and the implementation of its recommendations will now be promoted. The executive will financially support the establishment of the Training Department within the Supreme Court.

3.2.2. Improving the insolvency and foreclosure frameworks

The Minister of Energy, Commerce, Industry and Tourism (MECIT), has assigned to the Bankruptcy and Liquidation Service to execute the duties of the Insolvency Service. An Action Plan was prepared in relation to the evolution of the Bankruptcy and Liquidation Section into the Insolvency Service under MECIT. The project for the “Assessment of the current Organizational and Operational Model of the Insolvency Service”, funded by the European Bank for Reconstruction and Development (EBRD), was completed in November 2017 and the final results and suggestions are being reviewed by MECIT. The project assessed the internal and external environment of operations of the Insolvency Service, aiming to recognize areas for improvement and to suggest corrective measures for the full functioning of the Insolvency Service including adequate staffing and IT infrastructure.

A working group coordinated by MECIT and comprised of officers also from MOF, MOI and the Central Bank of Cyprus was established to assess the operation of the insolvency and Foreclosure Framework and to design and implement an Action Plan to correct any identified deficiencies.

In order to reinforce the governance of the working group and guide its work, a new Ministerial Committee comprising of the Ministers of Energy, Commerce, Industry and Tourism, Finance and Interior as well as the Governor of the Central Bank of Cyprus was established by a decision of the CoM. The decision reflects the high level political commitment for the effective implementation of the Insolvency and Foreclosure Frameworks.

SRSS will provide technical support for the assessment of the current system of Insolvency Practitioners in the areas of training, supervision and discipline to achieve a common standard of regulation and coordination between the different licensing bodies and to ensure the availability of trained and licensed Insolvency Practitioners. The project is structured in three phases and has commenced in March 2018. It is expected to be concluded within the next 18 to 22 months.

3.2.3. Improving the system of issuance of title deeds and the transfer of immovable property rights

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.

- Issuance of title deeds

Steps have been undertaken regarding the issuance of title deeds through inter alia the streamlining of the overall legal framework that relates to the processes for the application and the issuance of planning and building permits.

The SRSS has provided technical support for the reform of the regulatory framework

as regards the issue of planning and building permits and certificates. The Technical Assistance Project was completed in September 2017, and the findings and recommendations of the study were presented to the Internal Affairs Parliamentary Committee. The Ministry of Interior is evaluating the recommendations for the reform of the system and a roadmap is being established. SRSS will also provide technical support for mobilising legal expertise on the drafting of the new legislative framework.

Following the issuance of the Ministerial Decree in 2016 for unauthorised works in residential developments which aimed to accelerate the issuance of Certificates and minimise the issuance of certificates for unauthorised works by the Building Authorities, the competent Ministry has stepped up its efforts to enhance the uniform implementation of the existing legal framework by the Building Authorities, through the organisation of various meetings for the exchange of views and provision of guidance on specific issues/cases.

It is also noted that since September 2016, the Department of Land and Surveys (DLS) has proceeded with the identification of all cases that involve developments, where the owners did not follow the procedure of issuing the titles deeds. For all those cases, the DLS started the procedure of the compulsory update of the registrations. Today, the DLS has covered all the cases that involve trapped buyers and has completed more than 85% of the surveying work.

- Transfer of Immovable Property Rights

The enactment of the Transfer and Mortgage Law 9/65, as amended by L.139(I)/2015 (Trapped Buyers Law), which was 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), has led to positive progress in this area.

Notably, in relation to the Legacy cases, 15,577 applications have been filed by DLS, out of which 7,604 have separate title deeds and 7,970 have no separate title deeds. Until now, 4,118 applications have been completed and the title deed has been transferred to the buyer (54% of the applications with title deed).

Following a court ruling which declared the legacy law as unconstitutional, the Law Office has filed an appeal against this decision. In parallel, to address this issue, a draft bill amending the Transfer and Mortgage Law - Legacy Law is currently under legal vetting at the Law Office.

Furthermore, the authorities have committed to promote legislation to deal with non-legacy and new property transactions. Currently consultation is taking place with stakeholders in order to promote amendments to the relevant Laws⁷.

⁷ The Sale of Immovable Property (Specific Performance) Law L.81 (i)/2011 and the Law for trapped buyers Law 139(I)/2015).

3.3. Financial Sector – Non performing loans – Insurance Companies and Pension Funds

Country Specific Recommendation 3

Accelerate the reduction of non-performing loans by setting related quantitative and time-bound targets for banks and ensuring accurate valuation of collateral for provisioning purposes. Create the conditions for a functional secondary market for non-performing loans. Integrate and strengthen the supervision of insurance companies and pension funds.

3.3.1. Accelerating the reduction of non-performing loans

For all credit institutions, (excluding their overseas operations), total non-performing facilities (NPFs) decreased by 13,6% to €20.571 mln at the end of December 2017 compared with €23.810 mln at the end of December 2016. The total NPFs ratio to total facilities fell from 47,2% at end-December 2016 to 43,7% at end-December 2017. According to the ECB Annual Report on supervisory activities, Cyprus actually exhibited the highest year-on-year decrease for NPLs in the EU.

The downward trend in NPFs can be attributed to increased repayments, restructurings successfully completed by banks, and reclassified as performing facilities, write-offs as well as settlement of debt through swaps with immovable property that is expected to be sold with the aim of a faster cash collection. Notwithstanding the observed progress NPFs remain high at 43,7% of total loans. Total facilities with amounts past due of more than 90 days decreased to €15.719 mln in December 2017 (33,4%) compared to €17.400 mln (34,5%) in December 2016.

Banks have established internal arrangements and have strengthened their arrears management units. New lending criteria are more vigorous, putting the ability of the borrower to pay as the primary criterion for new lending. Credit institutions continue their efforts towards restructuring their NPFs in cases where viable settlements are possible, though debt restructuring is becoming more challenging and a slowdown of loan restructurings has been observed.

To this end, all three core domestic banks have partnered with foreign debt specialists and established independent debt servicing companies: Pepper Cyprus (fully owned subsidiary of Pepper Europe (UK) and attached to the bank of Cyprus), Altamira Asset Management (Cyprus) (joint venture of Spanish Altamira Asset Management with the Cyprus Cooperative Bank) and APS Debt Servicing Cyprus (joint venture of Czech APS Holding with Hellenic Bank).

Supervision for the significant institutions of the Cypriot banking system, has since November 2014 been performed by joint supervisory teams consisting of ECB and CBC staff, which adhere to SSM rules, regulations and practices. Cyprus banks are now in the same arena as their European counterparts and are assessed on an equal footing. For the less significant institutions, supervision is conducted by the CBC in close cooperation with and involvement of the SSM.

As regards the setting up of targets, the CBC has recently imposed restructuring targets to banks aiming to encourage them to increase the quantity and quality of restructurings of NPLs. One of the targets set relates to early arrears management and aims to incentivise banks to act early on borrowers and contain the new NPL formation. The CBC is closely monitoring the achievement of these targets and demands adaptation of the banks' strategic plans to reduce NPLs if deviations are identified.

The Authorities aim to further facilitate the reduction of NPLs through 3 pillars, namely, enhancing the legal framework, restructuring the Cyprus Cooperative Bank and addressing the most challenging segment of NPLs.

In this regard, the Government took the initiative to enhance the necessary legal environment, which would facilitate the development of a functional secondary market for NPFs in Cyprus. To this end, the Ministry along with relevant stakeholders is currently working on amendments of the relevant legal framework with a view to strengthening it and make it more effective and efficient. Emphasis is given on foreclosures, sale of loans and loan securitization. Tangible progress in all these areas is crucial for the banking sector to resolve legacy issues and adequately support the real economy.

As regards the Cooperative Sector, additional actions are in progress to strengthen CCBs capital base. The Government, as the major shareholder of the CCB has initiated the process of selling the whole or part of the assets and the liabilities of the CCB. The request for proposals has been issued on the 15th of March with a deadline on 28th of March for prospective investors to submit their interest. The process is ongoing but so far significant interest has been expressed by a wide range of investors.

Lastly, the Government is contemplating the establishment of an incentive scheme, targeting non performing exposures with collateral being the primary residence of households, which is the most challenging segment among the NPLs portfolio.

The scheme is called "ESTIA project" and aims at supporting vulnerable households, enabling the performance of their loans, thus contributing to the stabilization of the banking sector and the creation of the conditions for sustainable growth. Even though the provisions of this scheme have not been finalised yet, it is envisaged that for the participation in the "ESTIA project," eligible borrowers should meet specific pre-defined income and asset criteria in order to exclude free riders or strategic defaulters being transferred, ensure fairness and limit moral hazard.

3.3.2. Integrating and strengthening the supervision of insurance companies and pension funds

A draft law on the creation of an independent supervisory authority for the supervision of insurance companies and occupational pension funds has been prepared and final comments on the bill are expected from the existing supervisory authorities. The draft law envisages creating a platform for an independent and enhanced supervisory authority, both in personnel and systems, with a view for more

efficient and effective supervision of the two sectors, thus better managing risks and better guarding the interests of stakeholders.

Currently, the Public Administration and Personnel Department (PAPD) is expected to present the organogram of the new Authority, the schemes of service for the personnel as well as other relevant legislation/regulation for the transfer and the recruitment of personnel in the new Authority. First round consultation with the personnel, has already taken place.

Further to the completion of the consultation with the personnel in March 2018, a wider consultation on the draft law on the creation of the new supervisory authority is expected to take place between April and May 2018. The aim is to finalize the draft law and proceed with its legal vetting in June-September 2018. The draft legislation would subsequently be submitted to the HoR in September 2018 for enactment.

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

Country Specific Recommendation 4

Accelerate the implementation of the action plan for growth, focusing in particular on fast-tracking strategic investments and improving access to finance and by end-2017, resume the implementation of the privatization plan. Take decisive steps towards the ownership unbundling of the Electricity Authority of Cyprus, and in particular, proceed with the functional and accounting unbundling by the end of 2017.

A slightly revised Action Plan for Growth was approved by the Council of Ministers in November 2017, which incorporates measures relating to the 2017 CSRs for Cyprus. It includes around 95 targeted actions with specific timeframes with the aim of enhancing the competitiveness of the economy, increasing productivity and unlocking the country's investment potential. To date, significant progress has been made to implement the main measures of the Action Plan. In particular, with regard to horizontal policy measures and measures in key sectors of economic activity, developed and implemented by or with the contribution of the Unit of Administrative Reform (UAR), in cooperation with the relevant Ministries, more than 50% of the actions have been implemented or completed by the executive, while for the rest progress has been made.

Particular emphasis is being put on improving the access to finance for small and medium enterprises (SMEs) and enhancing investment by removing inter alia barriers to investment.

3.4.1. Facilitating Investment

Investment is a key contributor to growth. Notwithstanding the recent increase in investment, Cyprus has suffered from low capital formation in relation to other European countries and it is thus necessary to develop a comprehensive strategy to promote investments and establish the necessary legal framework for facilitating strategic investments.

In November 2017, a bill setting out a new procedural and legal framework for facilitating major investment, including the set-up of a fast track mechanism, was submitted to the HoR. The bill is currently being discussed in the relevant Parliamentary Committee. Key reform measures are introduced by creating a new and transparent regulatory framework with clear allocation of responsibilities, streamlining of licence issuance procedures and strict deadlines.

3.4.2. Improving the access to Finance and entrepreneurship for small and medium sized enterprises

As also noted in the 2018 Country Report for Cyprus, access to finance has improved but remains a key issue notably for small businesses. In 2017, in order to improve the access to finance for SMEs, the Government has taken a series of measures

aiming in particular at introducing new financial support measures for SMEs targeting both the demand and the supply side.

(a) Measures supported by ESIF

- Management of Financial Instruments

The ex-ante assessment study⁸ for the use of financial engineering instruments has identified substantial financing gaps in the areas of SMEs and energy and has recommended the creation of a guarantee instrument or a small scale co-investment (equity) instrument for SMEs and a dedicated loan instrument for energy efficiency and renewable energy projects. The study also proposed three possible governance options for the management of Financial Instruments. Following the study, technical support as regards the implementation and management of new Financial Instruments including in the post 2020 period is being provided by the SRSS. A tendering procedure is currently under progress. Results of the study are expected to be ready by the end of 2018.

- Advisory services - Advice for Small Business Facility

Following also the recommendations of the study on promoting the export performance, the Government signed in May 2017 an agreement with the EBRD for the implementation of “Advice for small business facility”. The program aims to promote the sustainable development of SMEs in Cyprus through tailor made advisory services and other non-financial support tools. The program has a budget of 2.15 mln and will be co-financed by the ESIF. The objectives of the program are to provide expert assistance, business advice, targeted training to new and existing SMEs and business matching activities. The objectives are also to promote inclusion, by targeting groups that are underrepresented in the local SME environment such as women led enterprises. Another objective of the program is to improve the financial literacy of SMEs.

The program includes various tools addressing the needs of SMEs. These tools consist of:

- Targeted Business Advisory Services to SMEs: The Facility will assist SMEs in accessing business advice by engaging local consultants. During 2018, 40 enterprises are expected to receive advisory services in various sectors.
- International Advisory Projects: In order to enhance the internationalization of larger SMEs the facility offers assistance through carefully selected international trade experts. In 2018 3 enterprises are expected to receive advisory services.
- Business Clinics Facility: The tool will be made available to support start-ups and early stage enterprises with viable business ideas and business plans. It will aim at supporting them on issues such as access to credit, management and building leadership skills, digital marketing and financial literacy. In 2018, 10–15 young companies are expected to participate in one Business Clinic.

⁸ Study financed in the context of the Operational Program “Competitiveness and Sustainable Growth”, - final report was submitted in July 2017.

- Trainings for SMEs and consultants: the Facility offers training courses from the EBRD to build the capacity of local consultants and local SMEs. These training sessions will cover a wide range of topics including financial literacy, marketing and selling, business diagnostics and project management for consultants. 2 training sessions are expected to take place during 2018.

- Grants

The MECIT implements various measures and schemes aimed to improve the competitiveness of SMEs and reduce unemployment in the country. These measures aim at improving the access to finance for SMEs and enhancing the entrepreneurial activity. They are in line with the priorities set under the National Policy Statement on Entrepreneurship, the principles of smart specialisation and the targets set at European level through the Europe 2020 Strategy. Some of the main measures promoted by the MECIT are addressing the following areas:

- Entrepreneurship – Women and the Youth.
- Enhancing the Competitiveness of SMEs.
- Business Innovation - Innovative products/Services Scheme.
- Clusters.

(b) Measures supported by national funds

- Cyprus Entrepreneurship Fund (CYPEF)

The Cyprus Entrepreneurship Fund (CYPEF) has supported both working capital and investment loans to SMEs. According to the latest figures, the loans disbursed via CYPEF to SMEs reached the amount of €80 m. (i.e. 57% of the committed total loan portfolio).

- Tax incentives

A new amending Law was approved in December 2016 and is effective from January 2017 until the end of 2020. The amended Income Tax Law N135(I)/2016, creates attractive incentives through tax relief to individuals who 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 (risk-finance investments).

(c) Investment Funds

Based on best European and international practice, the MOF has set as a priority the establishment of a modern and competitive legal and regulatory framework regarding the industry of collective investment funds in Cyprus.

The regulatory framework has been developed from 2010 onwards through the

enactment of three separate laws (and respective secondary legislation) that form the legal nexus for collective investment schemes.

In order to keep pace with developments and specialize and upgrade the framework bringing it in line with the best European practice for collective investment funds, the following draft laws have been drawn up which introduce new features and specialization for the collective investment schemes in Cyprus:

- Draft law which is currently under discussion at the HoR. The law amends and replaces the Alternative Investment Funds Law of 2014 and aims for: the introduction of Registered Alternative Investment Fund (AIF), whose supervision will be done through the AIF Managers Directive⁹; the introduction of limited partnerships with legal personality as an alternative investment fund vehicle (proved to be a versatile and successful vehicle for funds in Europe); the introduction of arrangements for the establishment of Variable Capital Company under the Companies Law (expected to enhance the versatility of the limited company as a corporate vehicle for open ended funds).
- Draft Law¹⁰ aiming at the introduction of licensed and regulated mini-managers, for the fund managers below the AIF Managers Directive thresholds and at providing specialisation for below the threshold managers under an appropriate and proportionate regulatory regime.
- Draft Law aiming at the introduction of licensed and regulated Administrators, who contribute considerably to the development of the fund industry, providing specialized services to fund managers and investors.

(d) Crowdfunding

The MOF is closely monitoring the new priority initiatives proposed by the European Commission, which aim to complete the Capital Markets Union. Crowdfunding is included among these new priority initiatives with a proposal for a Regulation on European Crowdfunding Service Providers for Business and a proposal for a Directive amending MiFID (Market in Financial Instrument Directive).

At the same time, in cooperation with the Cyprus Securities and Exchange Commission (CySEC) and in consultation with the private sector, the Government is currently exploring the potential of and the risks to promoting and facilitating the development of a bespoke national crowdfunding framework. This potential national framework should operate without prejudice to the new Prospectus Regulation which will enter into force shortly. Based on preliminary assessments, there seems to be a need for regulatory reform to be undertaken in order for this sector to become operational while at the same time, ensuring appropriate investor protection.

⁹ This gives flexibility to fund managers to set and market funds quickly, while at the same time maintaining a high standard for supervision and investor protection.

¹⁰ Expected to be submitted to the Legal Service for legal vetting in March / April 2018.

(e) Measures supported by other EU sources

- EIB direct lending / Government Guarantee Scheme

An Assessment Study was carried out by the European Investment Bank (EIB), in cooperation with the MoF during the 2nd half of 2017, for the assessment of the impact of the EIB Scheme in Cyprus¹¹. Overall results of the study were very positive and one of the findings was that the EIB Scheme had a positive contribution to the growth rate of the economy by 0.28% and 0.46% for the years 2015 and 2016 respectively. Recognizing the success of the EIB Scheme, on 29 November 2017, the Council of Ministers approved the increase of the state guarantee from €750m to €1bn, thus supporting the continuation of the EIB Scheme in the future. Currently, EIB has signed Loan Agreements with the 10 out of the 12 Cypriot Banks, while another Loan Agreement is expected within the next weeks with an additional Bank. Until January 2018, €680m have been signed between EIB and the Cypriot Banks, leading to €390m allocated by the Banks to more than 250 beneficiaries (SMEs and MidCaps) resulting in around 350 investment projects.

- 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.

Between December 2016 and June 2017, the European Investment Fund (EIF) has signed two EFSI agreements of a total €10m each, with two commercial Banks under the InnovFin SME Guarantee Facility. Under these two agreements, the said Banks 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.

Furthermore, EIB has recently signed €35m loan with the Cyprus Organisation for Storage and Management of Oil Stocks (COSMOS - KODAP) for the financing of Phase I of the construction of the new Strategic Oil Reserve Terminal in Cyprus. The said loan will finance the first EFSI infrastructure project in Cyprus.

In total up to today, 3 projects are being promoted under EFSI in Cyprus, with a total approved financing of €55m, aiming at supporting a total investment of €80.8m.

¹¹ Cyprus Banks Loan for SMEs and MidCaps" Scheme under the Multi-Beneficiary Intermediate Lending (MBIL) framework.

- EU Competitive Programmes (e.g. COSME, Horizon)

As per data provided within the Annual Financial Reports of the European Commission (DG Budget), an amount of almost €120 mln has been allocated to Cypriot beneficiaries participating in EU Competitive Programmes during years 2014 to 2016. Given this figure, corresponding only to the first three years of the current programming period, it is expected that Cyprus will reach the target of absorbing around €300 mln during the whole 2014-2020 period. The majority of these funds relates to absorption from the Horizon 2020 (€59 mln) and the Erasmus+ Programmes (€33 mln). Part of the allocation from the H2020 resources is directed towards the entrepreneurial community, either through the participation of the SMEs in funded projects or through the financing of R&D activities with commercialization potentials.

Several information and promotion events are undertaken by the competent Authorities in order to enhance participation of national beneficiaries in these programmes and the absorption of EU funds by Cypriot beneficiaries, including SMEs. The Directorate General for European Programmes, Coordination and Development (DG EPCD) will also provide in 2018, with the support of the SRSS, a series of specialised trainings to strengthen the capacity of the participating organizations, in terms of effective management, implementation and monitoring of the funded projects.

3.4.3. Implementing the privatisation plan

As regards the implementation of the privatisation plan, it is emphasised that despite the fact that the Privatisation Law has been annulled, resulting in the dismantling of the Privatisation Unit, the MoF has taken the lead in implementing the related actions included in the Plan.

The progress achieved so far in the various projects is summarised as follows:

- Commercialisation of Limassol Port

The commercialisation of the Limassol Port has been completed. Three Concession Agreements were signed on 25th April 2016 and the Concessionaires took over the operations, following a 9 month transition period, on 29th January 2017. The three concession agreements relate to the container terminal (25 years), marine services (15 years) and the multipurpose terminal (25 years).

- Development of Larnaca Port and Marina Area

The project concerns the licensing through a Concession Agreement of the Port and Marina of Larnaca for 40 years, and the lease of the land for the development of real estate for a period of 125 years.

The project is currently under tendering procedure. Three economic operators were pre-qualified through an open invitation for Expression of Interest and are invited to tender through a close procedure Invitation to Tender and Draft Concession Agreement. The deadline for the submission of the tender proposal is on 30 April 2018.

The aim is that the selection of the preferred Tenderer is finalised during the summer 2018 and the Concession Agreement before the end of 2018.

- Cyprus Telecommunications Authority (CYTA)

In view of the lack of consensus concerning the privatisation of CYTA at the HoR, a revised corporatisation bill and Regulations, prepared by the MoF, were submitted to the HoR for approval on 10 November 2017. The revised bill provides for the transfer of CYTA's telecom operations to a limited liability company, and of all CYTA employees on an unpaid-leave status. The rights and the status of CYTA employees will not be altered, whereas there is no provision for their transfer to the wider civil service. The State will hold, at all times, all LLC shares or a majority stake in the company. The draft bill allows for a process to attract a strategic investor at a later stage, through a structure that will entail management control.

- National Lottery Operations

On the basis of the recommendations of advisors as to the most beneficial option for the privatization of the National Lottery, the Council of Ministers, in November 2016 approved the licensing of the National Lottery's activities to a private investor/operator for 15 years. A new bill which repeals the existing one was submitted to the HoR in September 2017. Following the discussion at a parliamentary committee level, the bill will be submitted to the European Commission for approval of Technical Characteristics.

The launch of the process for the selection of a licensee will depend on the duration of the above-described steps whose exact duration is outside the control of the Government. Assuming that these 2 steps are completed by October 2018, the process for the selection of a licensee is expected to be completed in January 2019, even though all relevant parameters will be reassessed on the basis of actual developments.

- Development of Troodos Area

Following the completion of the study on the long term development of the wider area of Troodos' mountains and the best options for private sector participation in specific real estates in September 2016, the consultants undertook a series of consultations with stakeholders and submitted their recommendation in May 2017. The assets have been classified in clusters. The transaction for the first, most attractive clusters aims to be the anchor for the transactions of the other clusters that will follow. Specific actions are being taken in order to provide mapping and urban planning to potential investors.

- Cyprus Stock Exchange

A tender process for the appointment of external advisors was launched. The appointed advisors will be mandated to prepare a study for the identification, analysis and evaluation of feasible strategic options for the CSE. Submitted offers are being evaluated by a competent evaluation committee. It is expected that the final study will

be submitted by no later than September 2018.

- Electricity Authority of Cyprus

The functional and accounting unbundling of the Electricity Authority of Cyprus (EAC) are carried out according to the Regulatory Decisions No. 02/2014 (Regulatory Accounting Rules for the preparation of Separated Regulatory Accounts), No. 03/2014 (Accounting Unbundling of the Electricity Authority of Cyprus (EAC) activities) and No. 04/2014 (Functional Unbundling of EAC activities) of Cyprus Energy Regulatory Authority (CERA).

According to the aforementioned Regulatory Decisions, EAC has been functionally unbundled in two main Business Units (BU's), under which the four (4) Basic Regulated Activities of EAC are organized and separated. Specifically, the EAC competitive functions are exercised by the "Generation and Supply BU" and the non-competitive functions are exercised by the "Networks BU". All non-regulated EAC functions are organized under a separate BU.

Each BU is managed by a separate Mixed Special Subcommittee (MSS). Each MSS is composed of Members of the EAC Board of Directors (BoD), the Executive Director of the related BU, a representative of the EAC Financial Services (observer) and a representative of the EAC Internal Audit Services (observer). The BoD has granted each MSS with specific decision-making powers, so as to ensure functional separation between the two BUs. The EAC General Manager (GM) is responsible for the preparation and submission for approval to the BoD of the following; corporate policies, the management of financial resources (loan negotiations, available funds, etc.), the management of human resources, risk management, IT and data security strategy, corporate values, management systems and, in general, he is the CEO of the organization, responsible for the management of the corporate performance of all EAC activities (regulated and non-regulated).

The BU operate based on a "Code of Corporate Governance" and each is responsible for drafting its Business Plan. The two Business Plans form part of the overall EAC Strategic Plan. BU are also responsible for drafting and submitting their Annual Budget Proposal, which also form part of the overall EAC Annual Budget Proposal. The GM ensures the consolidation of the annual budgets and strategic plans of all EAC Basic Regulated Activities and submits them to the BoD for approval.

The Distribution System Operator (DSO) is organized as a separate Department below the Distribution Directorate of the Networks BU. Furthermore, the Meter Registration and Meter Reading functions are carried out within a "ring-fenced" entity below the DSO. The personnel involved with Meter Registration and Meter Reading is independent from the rest of the DSO and EAC personnel. Under the Distribution Directorate also falls the function of the "Ownership of the Distribution Networks". The Networks BU is also responsible for the "Ownership of the Transmission Networks".

The Functional unbundling of EAC was officially enforced on 1/12/2016. CERA has completed the first review of the functional unbundling and currently is conducting its

second review. The purpose of each review is to ensure compliance with the relevant CERA Regulatory Decisions, detect any deviations from the Regulatory Decisions and enforce corrective measures.

EAC Accounting Unbundling has also been completed and the Separated Regulatory Accounts (SRA's) are submitted in compliance to the unbundled functions of the EAC. SRAs were firstly submitted in August 2015 for the accounting year ending 31st December 2014 and then in August 2016, for the accounting year ending 31st December 2015. The audited SRAs for the year 2016 were submitted in November 2017 and are expected to be published.

The third and final review of the EAC Functional unbundling is expected to take place at the end of December 2018. Following the December 2018 review, EAC is expected to be fully compliant with the related CERA Regulatory Decisions.

The Council of Ministers has decided on December 7, 2017 to proceed with the full independence of the Cyprus Transmission System Operator (TSOC) from the vertically integrated EAC. The TSOC will be responsible for the system operation and the electricity market operation. The independence of the TSOC from the vertically integrated EAC is expected to be completed by 1st July 2019.

3.4.4. Other measures included in the Action Plan for Growth

(a) Enhancing entrepreneurship

As noted in the 2018 Country Report for Cyprus, on entrepreneurship the country is performing in line with the EU average. Early stage entrepreneurial activity was the third highest in the EU. The Policy Statement focuses on five key priority pillars:

- (i) cultivation of an entrepreneurial culture,
- (ii) improvement of the business environment,
- (iii) enhancement of entrepreneurial innovation,
- (iv) facilitation of access to finance, and
- (v) improvement of access to markets.

The Policy Statement is accompanied by an action plan including 88 concrete actions and has an implementation horizon up to 2020. Since 2015 when Cyprus Government developed the Policy Statement for the enhancement of the entrepreneurial ecosystem in Cyprus some 51% of the actions included in the action plan were fully implemented.

Specific actions that have been implemented in 2017 include the tax incentives for innovative companies (January 2017) and a number of certificates have been issued; Cyprus Start-up Visa Scheme (February 2017), in order to attract talent from non-EU citizens in Cyprus, which foresees the granting of up to 150 visas; proposed legislative amendments to fully allow technology transfer from public universities to enterprises (currently being discussed at the relevant committee in Parliament), the co-funding of research and innovation excellence centres (KOIOS and RISE); publication and further use of Open Data (900 sets of data published on the website

from 60 Government sector bodies) in a dedicated Government platform; and innovation and entrepreneurship programmes in the Army.

The implementation of the action plan is closely monitored by a committee which operates under the auspices of the Permanent Secretary of MECIT.

The Government also took actions in order to promote social entrepreneurship. A bill was prepared, which provides among others, for the creation of a registry for social enterprises. Both the action plan and the said bill were approved by the Council of Ministers on the 9th of January 2018. The relevant bill for social enterprises has been recently submitted to the HoR.

Simplifying the procedures for granting employment visas to highly skilled third country nationals will facilitate foreign investment. In this respect, the procedure that is currently being followed for the employment of highly skilled third country nationals is under review in order to be simplified as much as possible. To this end, a Working Group was set up. Procedures followed for the employment of high-standard third-country nationals have already been simplified, as there is no need to register a vacant job or to search for local / community staff.

In order to promote business activity and entrepreneurship in Cyprus, with special emphasis on support for start-ups, the possibility of setting up an Entrepreneurs Support Centre was examined, which would undertake all operations of the existing One-Stop-Shop and also assist existing and new entrepreneurs and major investments.

Technical support from the SRSS was utilized to create a new web portal for business. The portal will be an upgrade of the Point of Single Contact (PSC) portal. A project to prepare the a) Layout Designs, b) the Information Architecture and the c) Technical Specifications for the development of the platform for business has been completed and the MECIT completed the preparation of the ToRs. It is anticipated that the Tender Procedure will commence shortly.

As regards the technology transfer from public universities to companies (e.g. university spin offs) amending legislation (bill and revised regulations) governing the operation of the two main public universities¹², was approved in July by the Council of Ministers and was submitted to the Parliament for approval. Discussion in the relevant Parliamentary Committee will commence soon. The revision aims at improving the current legal framework to allow public universities utilize and exploit their scientific knowhow and their research findings for the benefit of the economy and the society at large. Within this context, the bill provides the possibility to public universities to establish legal entities for the above purposes. It also provides to their academic and other staff the possibility to participate and benefit from activities, such as technology transfer and the transformation of inventions into products and services with added value for the market.

¹² The University of Cyprus and the Cyprus University of Technology.

(b) Facilitating and Promoting Export Performance

Aiming at the identification of products and markets with export potential and the evaluation of the services and support offered to economic operators for the facilitation and promotion of exports, the authorities commissioned a study to external consultants through SRSS. The recommendations of the study have been prioritised and include among others, skills development and capacity building actions, particularly in terms of encouraging new exporters and early stage internationalising SMEs, the enhancing of the effectiveness of the financial assistance schemes under the “de minimis” legislation, the upgrading of the website of the Trade Service and the enhancement of the effectiveness of the helpdesk, the branding of exports, the refocusing and streamlining of the functions of the Trade Centres and the strengthening of the economic diplomacy functions of embassies.

The authorities are proceeding with actions in specific areas on the basis of the recommendations: two projects in important areas, currently under implementation, relate to, firstly, the development of economic diplomacy which is currently being promoted by the competent authority. A relevant study will be carried out through technical support from the SRSS and will include relevant action plans and training to develop the skills required. A second project relates to capacity building of SMEs. Through an agreement between MECIT and EBRD signed in May 2017, the “Advice for Small Business Facility” was set up which aims at helping SMEs to improve their capacity mainly through providing consultative support and training.

Additionally, the MECIT outsourced in 2017 a study on the Trade Centres operating abroad, addressing issues of efficiency improvement as well as the possible establishment of Trade Centres in new markets. The recommendations of the study are currently under consideration.

(c) Measuring the competitiveness of the Country – Developing a Competitiveness Report for Cyprus

The Competitiveness Report will be the analytical tool for the assessment of the current situation regarding the performance of Cyprus vis-a-vis other countries and through time. It will also include an in depth sectoral analysis. The purpose is to guide policy makers in the prioritisation of reforms and policy development. An outline of the report prepared by the UAR has already been presented to the National Economic Council, the Fiscal Council and other representatives of the academia. The competitiveness report will be published on an annual basis and will be made available to the wide audience. The first report is expected to be published in October 2018¹³.

(d) Enhancing the tourism product

Tourism has been a major pillar for the recovery of the economy following the 2013 crisis. Since the crisis, Cyprus has made significant efforts to attract tourists by

¹³ The first report will be prepared through technical support from the SRSS of the European Commission (SRSS).

improving air connectivity, advertising and diversifying tourism products. Nevertheless, the sector still suffers from some structural problems, which hamper its competitiveness. The following priority measures are under implementation aiming at enhancing the sector's potential and contribution to sustainable growth:

- The assessment of the institutional framework was carried out within the framework of the functional review for MECIT which started in Q2 2015 and was completed in December 2015. Reflecting the emphasis attached on this sector, a Bill for the establishment of a Deputy Ministry for Tourism was submitted by the Government to HoR and was discussed at the relevant Parliamentary Committee. Additionally, the relevant legislation was assessed within the framework of the work undertaken by the Presidency and MECIT for the simplification of procedures which started in Q2 2015 and was completed in December 2015. The findings of the above assessments were considered and decisions were taken as regards the implementation of the experts' recommendations. A drafted legislation for the recreation centers has been submitted to the Law Office of the Republic for legal vetting and the final Bill For hotels was submitted to the HoR at the end of 2017.
- A study was undertaken by external consultants for the development of a Tourism Growth Strategy. The Final Strategy and accompanying Action Plans were delivered at the end of December 2016. The study was presented to stakeholders on 3 October 2017, launching in parallel a consultation which ran until end November. Subsequently the strategies, together with an action plan for its implementation, was submitted to the Council of Ministers and were approved on 17 January 2018. In the meantime, the competent services are proceeding with the necessary preparatory steps for the implementation of some of the recommendations of the study which are clearly of a priority nature, as well as with the carrying out of the Strategic Environmental Impact Assessment Study, as required by Law.

(e) Enhancing the competitiveness of the Cyprus 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 more than 50 years of success in merchant shipping, initially by establishing in 1963 the Cyprus Ship Register which now ranks 11th in the world and 3rd in the European Union (after Malta and Greece) 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 and Shipping is today a vital sector of the Cyprus economy.

Within the framework of the current relevant national Strategic objective of Enhancing further the competitiveness of the Cyprus Merchant Shipping and strengthening of the Maritime Safety, main activities include the Revision of the national policy framework and adoption of measures to further develop the Cyprus ship registry and the Maritime cluster in Cyprus and the Restructuring of the Maritime administration.

In relation to the institutional changes, a Law was enacted in July 2017 (Law 123(I)/2017) establishing the Deputy Ministry of Shipping which was formally established as of 1st March 2018 through a transformation of the Department of Merchant Shipping.

The establishment of a Deputy Ministry of Shipping testifies the political will of the Government of the Republic of Cyprus to enhance the governance and further development of its shipping sector / maritime cluster. The said institutional change will facilitate the acceleration of the implementation of structural reforms in order to improve the business environment and boost investment.

(f) Fighting corruption

In line with the Government's priority for the fight against corruption and the promotion of transparency, the National Strategy Against Corruption was approved by the CoM on 28 June 2017 and was subsequently published by the Ministry of Justice and Public Order (MJPO). Furthermore, an Action Plan Against Corruption implementing the principles enshrined in the National Strategy has been prepared. Following consultations with all interested parties, the strategy will be finalised.

Following the recommendations received by European and International Organisations, the MJPO proceeded with the preparation of a bill for the incorporation of an Independent Authority Against Corruption. The Independent Authority will have as a primary responsibility to ensure the consistency and effectiveness of the actions taken by the public and private sector in preventing and combating corruption. The draft bill was presented in October 2017 within the context of public consultation with stakeholders from the private and public sector, NGO's and other interested parties. The MJPO is reviewing the feedback received in order to amend the said bill, following which, the bill will undergo legal vetting and then will be submitted to the HoR.

Moreover, a bill pertaining to regulate lobbying has been drafted by the MJPO and was opened for public scrutiny. After considering all the recommendations submitted during the public consultation the bill will be revised, if necessary, and it is envisaged to be sent to the Law Office of the Republic for legal vetting within the first half of 2018 and then to the HoR.

Additionally, in order to promote transparency via direct access to information, a bill granting access to public documents has been prepared and was approved by the HoR in December 2017. With the present bill a general right of access to any document is provided excluding documents that are considered to constitute absolute exceptions and for which a citizen can be informed otherwise.

The MJPO has also prepared a bill amending the "Reporting Act concerning Corruption (Complementary Protection Measures and Leniency) Law of 2015" which includes provisions regarding the protection of persons acting as whistleblowers. The said bill is currently before the HoR and it is expected to be presented before the plenary of the House for voting in 2018.

3.5. Public Employment Services. Education and Labour Market and Health Care Reform

Country Specific Recommendation 5

Speed up reforms aimed at increasing the capacity of public employment services and improving the quality of active labour market policies delivery. Complete the reform of the education system to improve its labour market relevance and performance, including teachers' evaluation. By end-2017, adopt legislation for a hospital reform and universal health care coverage.

3.5.1. Increasing the capacity of Public Employment Services

The Department of Labour responding to the Country Specific Recommendation to enhance the human and technical capacity of the Public Employment Services (PES), and also exploring the potential to improve efficiency in service provision and therefore the PES performance, initiated a series of reforms and measures, some of which within the framework of the project “Further Enhancement and Modernization of PES 2014-2020”,

In particular, in October 2017, the process of purchasing the services of 30 additional Employment Counselors was initiated by the launching of a call for the submission of applications. The recruitment of the Employment Counsellors is expected to be finalised in the first half of 2018. The training programme for the 30 new Employment Counsellors (with 5 weeks duration) has been prepared.

Additionally, in 2017 a special training project was implemented for the whole staff of PES while the PES Employment Counselors have been retrained on the counseling process for vulnerable groups in order to improve the quality of the services provided to the customers. The design of the training needs of the PES staff for 2018 is now under consideration.

In order to enhance the capacity of PES, the Department of Labour has initiated the cooperation of the PES with the Private Employment Agencies through the implementation of a new innovative Employment Scheme. The Scheme provides subsidies to such Agencies for every placement of vulnerable unemployed (e.g. youth, long term unemployed, and guaranteed minimum income recipients) who acquire a Job Placement Voucher from the PES.

In the context of the expansion of the use of IT self-service by the employers, the Cyprus PES has developed an on-line platform that will facilitate them in doing the matching on their own. Within the efforts for the development of a new computerized Candidates Placement System, the tender documents for the purchase of a consulting service is expected to be prepared in the second Quarter of 2018. The PES administrative and technical capacity is anticipated to be improved through the development and implementation of two special tools, one for the short to medium terms labour market forecasts and the second an opinion survey.

In March 2017, the Cyprus PES requested technical support from the European

Commission and the PES Network to develop its services. A team of experts visited the Cyprus PES in May 2017 and developed a fully documented plan for reforming the Cyprus PES. The reform plan entails the increase of the effectiveness of active labour market policies (ALMPs); the upgrade of the on-line PES facilities to be used by employment counselors, job seekers, employers and other stakeholders; the expansion of the services provided to employers in order to satisfy their demand for labour in a more effective and direct way; the use of a customer segmentation model to offer targeted assistance to the variety of the registered unemployed vulnerable groups.

An action plan has been prepared and two pilot projects are already under implementation (expansion of services provided to Employers and provision of services based on customer segmentation). In addition, at the end of 2017, the Cyprus PES participated in two study visits to France and Estonia, which have been organized by the European Commission and the PES Network.

3.5.2. Improving the quality of Active Labour Market Policies (ALMPs) delivery

(a) Enhancing the contribution of PES in the implementation of ALMPs

The PES has an important role in the implementation of ALMPs as a mediator for the participation of the unemployed through referrals to Employers. Through the Technical Support provided by the PES Network experts, the Cyprus PES has gathered important and useful information for the improvement of the ALMPs delivery. One crucial measure identified for the effectiveness of ALMPs is the preparation of clear and comprehensive verbal and written instructions about the proper management of the job seekers. To this end, the legal framework for the PES operation is being developed by a working group from the private sector.

In 2017 several meetings were set up between the management team of PES, GMI Service and Human Resource Development Authority, in order to bridge any gaps in communication. Through this measure the exchange of information has been improved, as well as the effectiveness of the services provided.

The implementation of ALMPs is also expected to be improved with the recruitment of the 30 employment counsellors as the quality of the provision of services in respect of the matching of demand and supply of labour will be upgraded.

Up to now, the evaluation of the effectiveness of the Employment Subsidy Schemes is done on a scheme by scheme basis once completed. As regards the Training and Work Experience Programs implemented by the Human Resource Development Authority (HRDA), external evaluations are prepared for the schemes completed and funded by ESF.

A computerized system for the Monitoring and Evaluation of ALMPs has already been developed between the ALMPs implementing bodies. It will start its operation after the fine tuning regarding the exchange of data with ALMPs implementing bodies and the training of the PES staff.

(b) 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 design and implementation of the training programmes is based on a systematic employment forecasting and the identification of skills gaps. The HRDA provides 10-year employment forecasts on a regular basis every two to three years. The latest study, completed in 2017, covers the period 2017-2027 and provides forecasts for employment needs in 21 main economic sectors and in 309 occupations, covering the whole spectrum of the Cyprus labour market.

The HRDA also 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 the study for the identification of employment and training needs, the views of social partners, other stakeholders and enterprises are collected and analysed.

The main measures as well as the studies evaluating their impact are briefly described below.

Scheme	2017-2018	2017	2018
Contribution to the integration of Unemployed and Inactive into Employment			
Job Placement of GMI recipients for the Acquisition of Work Experience in the Broader Public Sector (ESF funded).	1.4 m 6 months placements.	600 GMI recipients - €20.500	€1,3 mln
System of Vocational Qualifications (ESF funded).	€8.5 m (2014-2020) Foreseen to develop 90 new standards for the training and development of persons and revise 71 whilst around 10.000 certificates will be awarded.	€260.000 – 411 certificates	€3.5 mln – 4.200 certificates
Scheme for the Employment and Training of Tertiary Education Graduates.	Targeted to tertiary education graduates less than 30 years old.	900 unemployed graduates benefited - €5.5 mln	920 unemployed graduates - €5,5 mln
Scheme for the Training of the Long-term Unemployed in Enterprises/ Organisations.	Incentives to employers to implement in-house training programmes for newly employed persons who were long-term unemployed (7/2016 – 12/2018).	100 long term unemployed persons benefited - €370.000	250 long term unemployed - €750.000
Scheme for the Provision of Incentives for Hiring Recipients of Guaranteed Minimum Income Combined with a	Scheme offers a three month training and 12 months work experience in the private sector. 850 GMI recipients - €390.000 which covers part of the training.	20 GMI recipients - €2.000	400 GMI recipients - €200.000

three-month Training Period.			
Training Programmes for the Unemployed.	Training programmes in specific occupations/themes that the HRDA defines after consultation targeted at unemployed persons who are registered with the Public Employment Services (PES).	260 unemployed - €120.000 9 training programmes in the hotel and catering sector for GMI recipients.	650 unemployed persons - €1.3 mln 52 training programmes in the areas of hotel and catering and sales for GMI recipients, provision of care services for people with disability and for GMI recipients.
Multi-Company Training Programmes - Participation of the Unemployed.	Unemployed registered with the PES for a minimum of 6 months (since 2015).	260 unemployed persons - €45.000	4.000 unemployed persons - €600.000
Promotion of Lifelong Learning of Employed			
Single-Company Training Programmes in Cyprus.	Incentives to employers to organise in-company training programmes. Themes are determined biannually by HRDA following consultation with interested bodies.	35.000 employees - €5,2 mln	40.000 employees - €5.8 mln
Single-Company Training Programmes Abroad.	Incentives for participation in training programmes abroad in areas related to the introduction of innovation, new technology and technical know-how. Themes are determined biannually by HRDA following consultation with interested bodies.	170 employees - €350.000	270 employees €550.000
Multi-Company Training Programmes.	Participation in training programmes implemented by public or private training institutions. Designed by certified vocational training centres according to the themes determined by the HRDA biannually following consultation with interested bodies.	12.000 employees €3.3 mln	12.000 employees €3.4 mln
High-priority multi-company training programmes.	Participation in training programmes implemented by public or private in specific high priority areas. Designed by certified vocational training centres according to the themes determined by the HRDA biannually following consultation with interested bodies.	1.300 employees - €2 mln	1.000 employees - €1.5 mln
Trade Union Officials Continuing Training Programmes.	Training needs of trade union officials on issues that relate to trade union activities.	3.500 trade union officials - €420.000	4.800 trade union officials - €550.000

(c) Evaluation of the impact of Schemes

The HRDA conducts on a continuous basis evaluation studies regarding the impact on the participants of its Schemes. All studies include field research through telephone interviews with all participants.

Results of the study on the Scheme for the Employment and Training of Tertiary Education Graduates (2016) show that the Scheme has a very profound effect on employability since the vast majority of the participants (91,5%) are employed, approximately 6 months after completing their participation. Approximately 8 in 10 (79,9%), continue to work in the same enterprise/organisation where they were employed during their participation in the Scheme.

Results of the study on the impact of the participation of the long-term unemployed persons in Multi-Company Training Programmes (2015-2016) show that the Scheme contributed toward the entry of unemployed persons into employment and their exit from the unemployment registers as almost half (46,6%) of the participants in the Scheme were employed, approximately 15 months after completing their participation.

(d) Other measures

- Cost of living allowance, wages and collective agreements

The new agreement with the private sector for Cost of Living Adjustment index (COLA) came into force on 01.01.2018. Consequently, due to positive indexation, salaries from January 2018 were automatically increased by 0,28%. The agreement provides that: (i) The frequency of adjustment will be yearly, every January. (ii) Only 50% of total COLA will be paid yearly. (iii) Negative indexation and negative economic development will not affect the salaries (e.g. both lead to stability in salaries). (iv) Social dialogue towards achieving a more comprehensive and viable agreement, directly linking COLA with economic growth, will be continued.

Concerning other wage setting policies, no changes are expected during 2018. Minimum wage legislation will continue to cover the previously regulated limited number of professions. In a similar manner minimum wage is expected to remain to the 2012 level of €870 on appointment and €924 after six months of employment at the same employee. Overall, collective bargaining will continue to be the most important mechanism regarding the wage-setting policies.

- Combating Undeclared Work

The Government has set the tackling of undeclared work among its major priorities. Modifications to the Social Insurance Law have been approved from HoR in May 2017. In particular, the main amendments include the increase of the amount of fines, and the introduction of an electronic declaration of commencement of employment.

In addition, a new bill providing for the creation of a Centralized Labour Inspectorate

has been 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 more than 25 Laws of the MLNWSI, such as, minimum wage, protection of wages, organization 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 Centralized Labour Inspectorate.

3.5.3. Completing the reform of the education system to improve its labour market relevance and performance, including teachers' evaluation.

The Ministry of Education and Culture has undertaken several reforms and measures to improve the quality of education (all measures) and improve its labour market relevance:

(a) New Teachers' Appointment and Evaluation Systems

The new appointment system is based on meritocracy and transparency and takes into consideration exam results, university degree grades, additional academic qualifications and teaching experience in contrast to the old system where the priority order for placement was specified mainly by the year of enlistment in the appointee lists. Exams to hire new personnel under the new system were introduced for the first time in November 2017 and the first appointments will take place in September 2018. A transition period until 2027 has been agreed during which candidates from both systems will be hired.

As far as the new teacher evaluation system is concerned, following the publication of the "New System for the Evaluation of Teachers and Educational Work" in December 2016, extensive consultations have taken place with social partners (teachers unions, parents associations, inspectors unions, pupils association, the University of Cyprus and political parties). Currently discussions are ongoing with the teachers' unions on specific modifications to the existing «Law for the Inspection and Evaluation of Educators". The dialogue will continue with the stakeholders aiming for a consensus to be achieved. The intention is to introduce the new system with no additional costs.

(b) Upgrading of the Public Technical and Vocational Education and Training System and Apprenticeship Scheme.

As noted in the Country Report for Cyprus 2018, the proportion of young people (15-24 years) not in employment, education, or training (NEET) remains one of the highest in the EU. The authorities in close consultation with social partners are addressing the situation through the implementation of several measures.

The fields of study offered by Secondary Technical and Vocational Education (STVE) and evening Technical Schools have been reviewed in order to make them more relevant to labour market needs. New specializations (2016-2017) include "Natural Gas Transmission and Distribution", "Renewable Energy Sources", "Digital Technology and Programming". Reformed curricula are based on European Credit System for Vocational Education and Training (ECVET) units of learning outcomes, and include

industrial placements. Information campaigns regarding the employment prospects offered by STVE are organised in schools.

Further strengthening of the link between the Apprenticeship Scheme and Industry is pursued. Forty specializations, which will be offered on the basis of the apprentices' demand, labour market needs and the capacity of organized employers to offer placement for students, are in the process of being developed. Apprenticeship Scheme programmes will be linked through the use of ECVET units of learning outcomes with the Vocational Education and Training (VET) programmes offered by the Evening Technical Schools, providing graduates the opportunity to complete upper secondary education in one or two years instead of four.

The Cyprus Agency of Quality Assurance and Accreditation in Higher Education accredited the Post-Secondary Institutes of VET (PSIVET) in April 2017 as a Public School of Higher Vocational Education and Training and the programmes offered at ISCED Level 5. The Public School of Higher VET is envisaged to contribute to tackling the problem of skills mismatch and youth unemployment, since the programmes offered have been especially designed to be relevant to labour market needs and respond to the requirements of emerging economic sectors. Curricula are systematically evaluated, revised and updated, following consultation with social partners and stakeholders who also participate in the Council of MIEEK¹⁴, including representatives of the organised Associations of Employers and Manufacturers. In January 2018 five new programmes of study were submitted for accreditation (e.g. Industrial and Residential Automation, Welding of Gas Pipes and Industrial Structures).

In order to facilitate the link between students and industry, a platform for data collection has been developed by the Department of STVE, on which Institutes of Vocational Education and Training (IVET) and Classes of Technical Schools (CVET) graduates can upload their CVs and enterprises post their job vacancies.

(c) Modernization of the Content of Education and School Programme

The implementation of new content gradually introduced since 2008, is constantly being monitored and assessed by the MOEC in order to introduce improvements where necessary. Specifically, as regards the new school programme implemented in the Lyceum, following the completion of the first 3 year cycle this year, the programme will be evaluated with the aim of introducing any necessary improvements in consultation with stakeholders (parents, students, and teachers' unions).

(d) Establishment of a framework for continuous professional learning of teachers

Through an initiative piloted in 2015, all schools were invited to develop and

¹⁴ Industry experts from the world of work and the academic community are selected and appointed to teach at MIEEK, in order to further enhance the relevance of the programmes with labour market needs and ensure that they are up-to-date with current technological advances.

implement an action plan for the continuous professional development of teachers in the 2016-2018 school years. In a second phase, selected schools took part in an intensive Professional Learning programme, the coverage of which is envisaged to be extended in 2018 to more schools in the country. A different group of schools shall be selected to participate in the programme every year.

(e) Measures to support and reinforce diversity of all pupils

A number of measures are being implemented including the programme “Actions for School and Social Inclusion”, the introduction of a Code of Anti-Racist Policy, a Guide for the prevention and management of School bullying etc. In 2017, the MoEC has secured technical support from the SRSS in order to modernize the policy and the respective legislative framework for the provision of special and inclusive education in a more efficient and effective way.

(f) Counseling for NEET's

An ongoing project supported by the European Social Fund (ESF) and the Youth Employment Initiative (YEI) is aiming to expand the outreach of counseling services to young people not in Employment Education or Training (NEET). The young people, who will be supported by these services, will be helped to reflect on their capabilities and be given options for either employment or further education and training.

(g) The restructuring of the MOEC

The restructuring of the MOEC which aims at increasing the administrative capacity of the Ministry, will also contribute towards improving the educational outcomes. So far the Policy and Strategic Planning Unit, the European Management Funding Unit, the Information and Communication Technologies Unit and the Coordinating Committee on Health Education and Citizenship Office have been established, while the status of the Examinations Service has been upgraded and is directly accountable to the Permanent Secretary.

(h) Revision of entry age in primary education

School success rates are also expected to be improved through the recent reform approved by the Council of Ministers in January 2018 which provides for the gradual increase of the entry age in primary education to six years as from 2021-2022.

(i) Comprehensive Action Plan for Secondary Education

In addition to the abovementioned measures, the poor performance of students in relation to the PISA test, has led to the development of a comprehensive action plan for secondary education that is implemented as of school year 2017-2018. Reforms include the introduction of new regulations for schools which aim inter alia to ameliorate student engagement, enhance co-operation among schools and parents/guardians in favour of students' attainment, and facilitate the introduction of formative student assessment, the preparation of a new student evaluation mechanism and the provision of instruments for school self-assessment and

development of action plans for the improvement of students' learning outcomes. Reformed curricula are designed so as to equip students with key competences which help them be adaptable to the needs of changing societal and market needs.

(j) Measures to enhance the level of digital skills

The Ministry of Education and Culture is involved in various programmes and projects in order to develop the digital competence, targeting students, teachers, schools and citizens. All actions are implemented in the framework of the National Digital Strategy. A selection of 15-20 schools are participating every year in specific programmes, projects and activities which include, among others, the following:

- EduWeb– a European funded programme combating Digital Exclusion - Children educate digitally illiterate adults in safe and creative web. Started in 2018.
- eSafe Schools (since 2012)- Through this programme, schools develop a strategy for the creative and safe use of the internet in their schools so as to create and sustain a safer internet culture.
- Young Coaches for the Internet (since 2012) - Through this programme, students under the coaching of their teachers, develop and apply an action plan for the year, educate their peers and their school community in the creative and safe use of the internet.
- CYberSafety - Cyprus Safer Internet Center covering Awareness, Helpline; national strategy for a better internet for kids.

Furthermore, the MOEC/Cyprus Pedagogical Institute has submitted to the CoM a proposal for a centralised training programme for teachers on digital competences and the use of digital technologies in the learning process, to be funded under Structural Funds, as well as a digital technology centre for citizens. The project will be implemented when adequate financial resources are secured.

It is also noted that as of 2017, training for and certification in the European Computer Driving License (ECDL) is offered free of charge to all students in lower secondary education. The training is also offered to other individuals like soldiers, unemployed and persons with disabilities.

3.5.4. Adopting legislation for a hospital reform and universal healthcare coverage

(a) Adoption of Legislation for a hospital reform

The Law for the establishment of the State Health Services Organization was adopted by the Parliament on 26th of June 2017. The Law provides for the establishment of a new public legal entity responsible for the final administrative and financial autonomy of public hospitals. This structural reform is expected to remove bottlenecks resulting from the existing unequal access in healthcare and inefficient use of resources and to improve the productivity and the quality of healthcare delivered.

Since the adoption of the Law by the Parliament, the following actions are being implemented:

- Enactment of the Law for the establishment of the State Health Services Organization through two notifications in the Official Gazette of the State, dated 12.1.2018 and 2.2.2018 respectively.
- Adoption of the State Health Services Organization Regulations of 2017 by the Parliament and publication in Government's Official Gazette on 30/6/2017. The regulations provide for the Organization's staffing issues, such as employment, evaluation and disciplinary control.
- Appointment of the Board of Directors of the Organization by the Ministerial Council on the 19th of December 2017. The BoD had its first meeting during January 2018 and continues with its mandate, on the basis of the respective Law.
- The budget of the new Organization for 2018 was approved by the HoR on 30 March 2018.

As future steps, the following actions will take place:

- By July 2018 it is expected that the Management Team of the Organisation as well as Directors of the public Hospital's Directorates Manage will be recruited. By the end of September 2018, the Heads of various Units of the Organisation will be recruited. Current employees will be seconded or transferred to the Organization by January 2019.

(b) Adoption of legislation for universal healthcare coverage

The legislation for the National Health Insurance System was adopted on the 16th June 2017. The NHIS, according to the Law, will promote universal health coverage, addressing the existing inequalities of health care coverage amongst the population. The principles of NHIS are Universality (Universal coverage of the population), Equality (Equal access of beneficiaries to healthcare services), Solidarity (Contributions based on income) and Free Choice (the patients choose freely their healthcare providers).

The system will be financed through large-scale contributions from employees, employers, Government, incomes, retirees. Beneficiaries will also pay a small user fee for the services they receive in order to avoid abuse of the system.

Collection of contributions will be done by the Social Insurance Services, the Tax Department and the General Accounts Department.

According to the NHIS Law, the first stage of NHIS will be implemented on the 1/6/2019 (most of the outpatient services) and full implementation of NHIS on the 1/6/2020.

The Health Insurance Organisation, which is the responsible organization for the implementation of NHIS, has prepared a roadmap of all actions and milestones that need to be completed so that NHIS can go live on 1/6/2019.

(c) Other Reform Measures in the area of Healthcare

- Public Primary Healthcare

Among the reform measures undertaken in addressing the CSR, is the reorganization and upgrading of public primary health care, for which a detailed restructuring plan has been prepared. It entails clustering small healthcare facilities, extending opening hours, standardizing procedures and improving synergies and coordination with ambulance services and community care centers. The proposal for the reorganization and upgrading of the public primary health care has been approved by the CoM on the 22nd November 2017 and its implementation has already begun. The responsible Department of Medical and Public Health Services has begun with the clustering of small healthcare facilities and the extension of opening hours in a rural primary healthcare center. Additionally, the extension of the opening hours of an urban health care center in Nicosia has already begun.

- Establishment of National Pharmaceutical Authority

The legislative proposals for the establishment of a National Pharmaceutical Authority in Cyprus have been drafted and will be re-submitted to the CoM before being submitted to the HoR. The establishment of this Authority will allow for the concentration of expertise in the field of pharmaceuticals for human and animal use, medical devices, cosmetics, food supplements and biocides thereby enhancing efficiency of both procedures and budgets leading to a positive impact on the level of these services for all stakeholders, the public included.

- E-Health

A major reform project is the Rollout of an Integrated Health Care Information System (IHCIS) to all Public Hospitals and health Centers in the Republic of Cyprus. The tender documents and specifications have been completed and are at the stage of final corrections after the quality review by the Competent Authority for tenders. The MoH has requested the final approval of the project by the e-Governance Board and approval of the total expenditure by the MOF. Due to the increased duration of the contract and Service Level Agreement and of the functionality the budget of the project is increased and requires re-examination. (Expected go live in 2nd quarter 2021).

The Ministry proceeds with projects on the digitization of paper Medical Files of the Nicosia General Hospital extended to all Public Hospitals and all Health Centers in the Republic of Cyprus (co funded by structural funds), the Deployment of Generic Cross Border eHealth Services in Cyprus (National Contact Point for cross border healthcare - for the Patient Summary and e-Prescription) (eHealth Network Project co funded by CEF/INEA), the Electronic Exchange of Social Security Information (EESSI) project (EU project co funded by CEF/INEA), the Laboratory Information Management System (LIMS) for the State General Laboratory (SGL) and the System for Medical Card and European Health Insurance Card (EHIC), Issuing System for the sponsored patients, European Patient Billing, Treatment Subsidy and cross-border healthcare System.

The draft law on eHealth has been prepared and submitted to the Law Office for legal vetting, aiming at the development of the legal framework for the deployment of electronic solutions in healthcare.

- Addressing the existence of waiting times in accessing healthcare services

The Ministry of Health has proceeded with the implementation of the Voucher system back in April 2015, aiming at 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 and addressing waiting times of certain healthcare services. The system 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 CoM decision) aimed at reducing waiting lists in public hospitals.

Through the voucher process (within the framework of the Scheme for the Provision of Financial Assistance for Healthcare Services not offered in the Public Sector) more than 1000 patients benefited per year. Furthermore, through the Program aimed at reducing waiting lists, 22,028 patients have been referred for treatment/examinations/tests to the private sector to skip waiting lists in public hospitals in 2017. 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 on-going 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 took place in February 2018, after a relevant CoM decision and will be run until the end of 2018.

It has to be noted that the NHIS implementation was a subject of public discussion for more than three decades. Nevertheless, an extensive public dialogue with more than 300 meetings with the stakeholders and partners took place prior to the adoption of the NHIS Law by the HoR.

4. PROGRESS TOWARDS NATIONAL EUROPE 2020 TARGETS

The table below will present the progress as regards the national targets.

EU HEADLINE & NATIONAL TARGETS	EU TARGET	CYPRUS TARGET	CYPRUS 2015	CYPRUS 2016	Cyprus 2017	EU 28 2015 (Eurostat data)
Employment rate (20-64 years old)	75%	75-77%	67.9%	68.6% ¹⁵	70,4%	71.1%*
Reduce poverty and social exclusion	20mln	19.3% or 27.000	28.9%	27.7%	n.a	23.7%
Decrease early school leavers	10%	10%	5.2%	7.7%	n.a	10.7%
Increase tertiary educational attainment	40%	46%	54.5%	53.4%	n.a	39.1%
R&D (% of GDP)	3%	0.50%	0.48%	0.50 % ^p	n.a	2.03% ^p
CO² emission (non-ETS)	-20% (c.t. 1990)	-5% (c.t. to 2005)	-5.5% (c.t. to 2005)	-1.8% ^p (c.t. 2005)		n.a. for 2013: -9.6% ^p (c.t. to 2005)
Renewable energy	20%	13%	9.34%	9.27%	n.a	16.7%
Energy efficiency	1.483 Mtoe	2.2 Mtoe	2.2 Mtoe	2.4 Mtoe	n.a	1.529

e = estimated, c.t.= compared to, p = provisional data, n.a. = not available * = EU28 for year 2016

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

There has been a further improvement of the employment rate in relation to the previous years and this is progressing towards the national target. The poverty rate has also improved in 2016, although it still deviates significantly from the respective national target. Regarding the two education indicators, despite a small deterioration in 2016, both indicators over perform considerably in relation to the national targets. The R&D ratio to GDP has been increased to reach the national target of 0.50% in 2016 amounting to €91.4 mln. There was a slight increase of the energy efficiency indicator, whilst the renewable energy indicator noted a slight decrease in 2016 in relation to 2015. Regarding the greenhouse gas emissions indicator, in the non-ETS sectors (EU Emission Trading System-ETS) this was reduced by 1.8% in 2016 compared to 2005.

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

¹⁵ First three quarters mean.

4.1. Employment National Target

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

- Increased to 70.4% in the first nine months of 2017 compared to 68.6 % in the corresponding period of 2016.

Employment – unemployment situation

The Employment target set for Cyprus within the framework of the Europe 2020 Strategy is 75-77%. In 2017 the employment rate stood at 70.7% compared to 68.7% in 2016. As regards the sectoral distribution of employment, services continued to account for the biggest percentage of employed persons in the first nine months of 2017 with 80.2% compared to 79.3% in the corresponding period of 2016, whereas industry accounted for 17.2% compared to 16.9% in 2016 and agriculture for 2.6% compared to 3.8% in 2016.

Unemployment had increased significantly in the years 2009-2014 due to the economic crisis. Since 2015, it started decreasing considerably reaching 11% in 2017 (12.9% and 14.9% in 2016 and 2015 respectively). The male unemployment rate decreased in 2017 to 10.9% compared to 12.7% in 2016, while the female unemployment declined to 11.2% in 2017 compared to 13.4% in 2016.

Long term unemployment which has been increasing over the past few years, has since 2016 showed a declining trend reaching 5.8%. In 2017 it further decreased to 4.5%. The share of young people neither in employment nor in education and training (NEETs) amounted to 16.0% in 2016 (age group 15-24) compared to 15.3% in 2015. The Ministry of Labour, Welfare and Social Insurance in cooperation with the Ministry of Education and Culture has initiated efforts to identify and reach out to non-registered unemployed young people identified as NEET.

Youth unemployment has decreased considerably in Cyprus as the economy grew for the third consecutive year and targeted measures are being taken. Namely, youth unemployment decreased considerably to 24.7% in 2017 compared to 29.1% and 32.8% in 2016 and 2015 respectively.

During 2017 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, youth unemployed and GMI recipients.

In 2017 the Intermediate Body of the Department of Labour promoted the following six schemes to help the employers hire unemployed persons:

- Scheme Providing Incentives to hire young unemployed people until 25 years old.

- Scheme Providing Incentives to hire young unemployed people between 25 to 29 years old (Not in Education, Employment, or Training - NEETs).
- 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.

4.2. Poverty National Target

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

- Decreased from 28, 9% in 2015 to 27, 7 % in 2016.

The recently released 2016 European Union Statistics on Income and Living Conditions (EU-SILC) data (reference year 2015) clearly indicate an overall improvement in the main social indicators in Cyprus. In particular, the income inequalities, as measured by the Gini coefficient¹⁶, as well as the risk of poverty and social exclusion, as measured by AROPE¹⁷, improved in 2016. In addition, the number of working poor witnessed a decrease from 9.1% to 8.2%, as well as the number of people living in conditions of severe material deprivation from 15.4% to 13.6%. On the other hand, the AROPE for children (0-17) and for the elderly (65+) increased by 0.7pp and 2.1pp respectively (ARPE children: 29.6%, AROPE (65+): 22.9%). It is noted that despite the increase of AROPE for people aged 65+ during 2016, over the period of 2008-2016 Cyprus experienced the largest drop of AROPE rate for that group in the EU (it dropped from 49.3% to 22.9%).

The introduction of the GMI scheme in the second half of 2014¹⁸ played a major role towards the improvement of the poverty indicators, especially for the working age population (the long-term unemployed and working poor), which is the primary target group of the GMI.

The risk of poverty rate for the age group 18-64 decreased by 0,8pp, from 15.9% in 2015 to 15.1% in 2016, and the Relative median risk of poverty gap for the same group decreased by 3,7pp, from 21.8% in 2015 to 18.1% in 2016.

Based on the 2015 and 2016 EU SILC data respectively, it is noted that the household disposable income¹⁹, as well as its two main income components, i.e., the level of households' working income and social transfers, remain rather stable between 2015

¹⁶ The Gini coefficient decreased from 33.6% in 2015 to 32.1% in 2016.

¹⁷ The at risk of poverty or social exclusion rate (ARPE) decreased from 28.9% in 2015 to 27.7% in 2016.

¹⁸ This means that the year 2015 is the first complete year under which the GMI was in full operation.

¹⁹ Measured by the indicator “Mean equivalised disposable income”, which is calculated at EUR 16,944 in 2015 and EUR 16,943 in 2016.

and 2016. With respect to the households' working income, it is also noted that the share of persons living in households with very low work intensity did not effectively change between 2015 and 2016²⁰. Based on the above analysis, one could conclude that with the introduction of the GMI, the social transfers became more effective in improving the poverty indicators.

Progress towards national targets for EUROPE 2020

(a) Provision of accessible and affordable social care programmes

The provision of accessible and affordable social care programmes, which provide people with quality services at local level (i.e. child care services, long-term social care services to the elderly and persons with disabilities) is a key priority of the Government. The MLN competent authority is implementing State Aid Schemes, under the Regulation 360/2012, and under the Commission Decision 2012/21 EU, for the provision of services of general economic interest where NGOs and Local Authorities may receive state aid, if they fulfill certain criteria, for the development and functioning of quality social care programmes. In 2017, 155 organisations received state aid for the operation of 241 social care programmes with a total budget of approximately €7,5 mln.

(b) Childcare services

Childcare services are provided by the public, non-Governmental and private sector. Childcare for children up to 4 8/12 years is inspected by the Social Welfare Services of the MLNWSI, while pre-primary education (3-5 8/12 years) is inspected by the Ministry of Education and Culture (MOEC). Compulsory education starts at age 4 8/12 years and is free of charge at public kindergartens. The (MOEC) is responsible to ensure that all children aged between 4 8/12 and 5 8/12 can enrolled in a public kindergarten. Parents can also choose to enroll their child in a private kindergarten. In addition, in public kindergartens the educational needs of a number of 3 - 4 8/12 year olds are satisfied, provided that there are available places. The MOEC operates 271 public kindergartens (academic year 2016-2017) and subsidises also the operation of community kindergartens (80 kindergartens academic year 2016-2017) which function together with the public kindergartens most of the times and cater mainly for children aged 3 – 4 8/12 years.

Priority is given over the years to the provision of accessible, affordable and quality child care services at local level with the involvement of local stakeholders. Under the State Aid Scheme of the MLNWSI an amount of about €1.400.000 was provided for the funding of 56 Day Care Centers for preschool-age children in 2017. Childcare services for children up to the age of compulsory education (4 8/12 years) is also provided by Child Minders which are registered based on the relevant legislative framework (Children's Law, Subject 352 and Regulations) and are inspected by the Social Welfare Services. Child Minders provide childcare services to a small number of children and according to the latest data there are 60 registered Child Minders.

²⁰ In particular, this indicator exhibits a marginal reduction from 10.9% in 2015 to 10.6% in 2016.

(c) Subsidisation of Social Care Services

The Government continued the implementation of the “Scheme for the Subsidisation of Care Services”, which covers the long term social care needs of GMI recipients and members of their family unit. The Scheme mainly covers cash benefits and in justified cases it may provide for in-kind services. Subsidisation of care services under the GMI legislation, covers home care, day care, respite care and residential care, and child care in approved and registered care services (natural and/or legal persons) according to the relevant legislative framework. Long term social care programmes are also implemented at local level, by NGOs and local authorities, which receive State Aid according to the relevant Schemes of the MLNWSI. An amount of about €800.000 for the funding of 29 Homes for the Elderly was provided during 2017. The largest percentage of the total amount given through the State Aid Schemes was distributed for the operation of programmes, which provide Day Care Services or Care Services on a 24 hour basis to people with disabilities. Specifically, in 2017 an amount of approximately €3.1 mln was used for this purpose.

In order to improve the minimum criteria for service provision, including carers qualifications and training, Cyprus is in the process of revising the existing legislative framework for residential care and day care (currently at the stage of Legal Vetting). In addition, in 2016 terms and conditions for the operation of home carers have been determined by the competent Social Welfare Services, pending the drafting of a new law which will regulate the provision of home care. In this context, approved (self-employed) Home Carers are included in a provisional Registry which is published and available on line.

(d) Combating child deprivation and poverty

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. The Project “Baby’s Dowry”, was officially launched by the Ministry of Labour, Welfare and Social Insurance on 08/12/2017 and it is run by the Social Welfare Services. It provides basic material assistance to newborn babies of deprived families (Guaranteed Minimum Income Recipients, Public Assistance Recipients and people who face multiple social and financial difficulties). In addition, through the Project, the Social Welfare Services, implement social inclusion activities (accompanying measures), which aim at the social integration of the most deprived persons. Specifically, as a prerequisite to receiving the basic material assistance, the families of the beneficiaries attend a lecture for enhancing their parental skills and they receive information on prenatal and postnatal care of their babies, as well as information about training programs they can enroll in order to be assisted to find a job.

(e) National Action Plan on the Prevention and Combating of Violence in the Family

The Government pays particular attention on preventing and combating violence in the family and the sexual abuse and sexual exploitation of children. In this direction,

a new National Action Plan on the Prevention and Combating of Violence in the Family for the period 2017-2019 was approved by the Council of Ministers in May 2017, which amongst others, aims to implement actions towards the prevention of violence in the family, awareness raising on violence in the family, training of professionals, effective implementation of the national law, coordination and evaluation of the Action Plan, etc. In addition, the first National Strategy on the Prevention and Combating of Sexual Abuse and Sexual Exploitation of Children and Child Pornography was approved in 2016. One of the main objectives of the National Strategy was the creation of a Children's House based on European standards (Barnahus – Iceland). Since September 2017, the Children's House has been operating as a pilot programme by an NGO (fully subsidized by the Government) in cooperation with the Social Welfare Services, the Police and the Ministry of Health. It provides, child friendly services to children victims of sexual abuse and/or sexual exploitation, based on a multidisciplinary approach.

4.3. 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) Decrease in early school leavers

Following the 2013 economic recession in Cyprus, the rate of early school leavers had dropped significantly from 11,4% in 2012 to 5,2% in 2015. A marked increase to 7.6% was recorded for 2016. However, the rate of dropped-out students remains low, at 0,3% for lower secondary and 0,2% for upper secondary students. Throughout this period, measures to help low achieving students as well as integrating students with migrant background have been promoted, and there had not been any change in policies which could explain the latest increase. Therefore, it is quite possible to assume that the increase in the recorded figure of ESL from 2015 to 2016 is due to one – off exogenous factors such as low skilled foreign workforce.

- Measures to integrate children with migrant background

Based on the Policy Document on the 'Integration of Children with a Migrant Background into the Cypriot Education System', adopted in 2016, an Action Plan is being rolled out in 2016-2018 covering such issues as mapping the migrant student population, diagnosis, evaluation and teaching of Greek as a second language, measures for reception, transition and inclusion of migrants, teacher training and anti-discrimination actions. Extensive efforts are in place to provide support for the learning of Greek and for the integration into general lessons of migrant students, including refugees and unaccompanied minors. In summer 2016 a summer school for selected children with migrant background was introduced and given its positive

results, it is planned to be implemented also in the summer of 2018.

- DRASE

On the basis of objective and measurable criteria, 89 schools were selected to participate in the Programme "DRASE" for three years, starting with the school year 2016-2017, covering all types and grades of schooling. For the school year 2017-2018 seven additional schools are participating in the programme,

Since 2017, services have been offered through the programme by Specialists (Clinical Psychologists, Counselling Psychologists and other Specialists) to the Centres of Information and Psychosocial Support (CIPS).

(b) Increase tertiary educational attainment

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.

The MOEC intends to adopt a performance-based funding system for Public Universities. A consultation has already started between MOEC and the Cypriot Public Universities on the basis of a sample agreement between the Higher Education Authority of Ireland and the Irish Universities.

An important institutional reform to improve the quality of Tertiary Education is the establishment of the Cyprus Agency of Quality Assurance and Accreditation in Higher Education (CYQAA) in 2015 which will drive Higher Education institutions to enhance quality and develop an internal quality culture. The law by which the Agency was established (2015) provides that its processes are in compliance with the European Standards and Guidelines (ESG). The Agency has applied for full membership of the European Association for Quality Assurance (ENQA) and the European Quality Assurance Register (EQAR) in February 2018 initiating a process that is expected to be completed in March 2019

The MOEC supports the implementation of the co-funded project "Liaison Offices with the Business World". During the period 2008-2015 (Project Phase 1), Universities' Liaison Offices with the Business World were set up and actions such as practical training of students in industry, exploitation of university research structures by enterprises, training courses for students, etc., were implemented. In the period 2016-2023 (Phase B), the above actions will be continued and strengthened with an envelope amounting to €7.2 mln, of which 85% will come from European Union funds.

4.4. R&D National Target

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

- Increased to 0.5% in 2016²¹, compared to 0.48% in 2015.

Investment in Research and Development (R&D) as a percentage of GDP amounted to 0.5%²² in 2016 (€91.4mln) as compared to 0.48% in 2015 and 0.51% in 2014.

R&D expenditure in Cyprus, has to take into account the particularities of Cyprus arising from the size of the research community, and the very small size and low investment and participation of Cypriot companies in research and innovation activities. Efforts are made to increase R&D spending in the future as the Government acknowledges that Research and Innovation (R&I) is one of the main drivers of economic growth as well as an important factor in meeting global societal challenges.

Moreover, measures are taken to enhance the effectiveness of public expenditures for R&D and Innovation mainly through the implementation of the Smart Specialisation Strategy. Its action plan, amounting to €144 mln, to be implemented over the next years, includes targeted support to R&I in sectors where Cyprus has a competitive advantage (such as Tourism, Energy, Transport-Marine, Agriculture-Food Industry, and Health)²³. It also includes actions that promote the development of an innovation culture among the business sector. The majority of the programmes included therein seek to stimulate the involvement of the private sector in R&I activities and leverage private funds. They also aim at strengthening the links between the academic and research communities with the private sector as well as fostering the exploitation of research results. Up to today, the Research Promotion Foundation, the MECIT and the Ministry of Agriculture, Rural Development and Environment have proceeded with the announcement of 45 relevant calls amounting to €71mln.

Furthermore, the National Policy Statement on the Entrepreneurial Ecosystem, approved by the Council of Ministers in December 2015, sets out objectives and actions to improve the framework conditions for business R&I. These actions include, among others, the introduction of tax incentives for investments in innovative firms and start-ups, the streamlining of the regulations governing the creation of university spin-offs, the strengthening of intellectual property legislation and the utilisation of relevant funds from the European Structural and Investment Funds in a more targeted manner guided by the S3Cy.

The R&I policy of Cyprus attaches also great importance to the capacity building and the development of high quality Research Infrastructures (RIs) in the country. The

²¹ Provisional data.

²² Provisional Data

²³ The S3Cy Action Plan will be mainly allocated through competitive calls by the Research Promotion Foundation, the MECIT, the Ministry of Agriculture, Rural Development and Environment and the University of Cyprus.

Government's policy on the development of RIs is composed of a number of policy tools and actions which include among others a mapping exercise for the existing Research Infrastructures in Cyprus, the utilisation of publicly funded research infrastructure by the business community as well as the development of a national Roadmap for Investments in RIs and the participation in big European RIs with the support, both at policy and financial levels, of the Government.

Cyprus also gives great emphasis to the promotion and support of the participation of national stakeholders in the EU Financial Programme for R&I. In this respect, the "Teaming" Action under the Strengthening Excellence and Widening Participation Programme of H2020, is considered to be a great opportunity for Cyprus to enrich the Research Infrastructures landscape of the country. Currently two Centres of Excellence are under implementation, the KIOS Centre of Excellence on intelligent systems and networks and the RISE Centre of Excellence on interactive media, smart systems and emerging technologies. KIOS and RISE will benefit from substantial co-funding by the Government (€15 mln each). The Centres of Excellence are expected to contribute significantly to the upgrade of Cyprus' attractiveness in the field of R&I, the promotion of entrepreneurship, the attraction of new investments, the creation of new high academic-level jobs and the enhancement of economic growth. Furthermore, they are expected to greatly contribute to the efforts of Cyprus to become an important player of R&I in the area of Eastern Mediterranean and the Middle East with multiple associated benefits.

At the European level, Cyprus follows closely all efforts and actions towards the implementation of the European Research Area (ERA). To this end, a National European Research Area Roadmap for Cyprus 2016-2020 has been prepared and approved by the Council of Ministers in July 2017. The Roadmap includes actions for each ERA priority, including new measures to be implemented in the future. The main implementation tools of the Roadmap are the funding programmes included in the Action Plan of S3Cy which is co-funded by the European Structural and Investment Funds in Cyprus (ESIF).

4.5. Reduction of GHG emissions

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

- Non-ETS emissions were reduced by 5.5% in 2015 and 1.8% in 2016.

The Department of Environment publishes annual inventories and projections for greenhouse gas emissions. The latest inventory, concerning period 1990-2016, was submitted to the European Commission in January 2018. GHG emissions in 2016 were 8788 Gg CO₂ eq. including Land Use, Land Use Change and Forestry (LULUCF) and 8730 Gg CO₂ eq. excluding LULUCF. Between 1990 and 2016, the total national emissions excluding LULUCF increased by 56%. According to the 2018 GHG inventory, total emissions excluding LULUCF in 2016 decreased by 3.4% compared to 2005, while non-ETS were emissions reduced by 1.8% compared to 2005. In 2015, non ETS emissions were reduced by 5.5% compared to 2005.

(a) Mitigation

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

In February 2018, the Department of Environment submitted to the UNFCCC Secretariat, the 7th National Communication and the 3rd Biennial report, containing the latest update of the national policies for the reduction of greenhouse gas emissions. Such measures include the introduction of natural gas to Cyprus, primarily for use in electricity generation, increase of the Renewable Energy Sources share to electricity, heating, cooling and transport, increase of energy savings from energy efficiency in buildings, promotion of public transport and low emissions' vehicles, improvement of solid waste disposal sites and promotion of anaerobic digestion of the treatment of animal waste and other waste. According to the latest projections, it is anticipated that the national emissions of Cyprus will increase during the following years (see Table here below). However, the national target as this has been allocated through the allocation of Annual Emission Allowances (AEAs) to the Member States (Commission Decision 2017/2377) will be met through the flexibilities provided in the Effort Sharing Decision (ESD).

Non-ETS greenhouse gas emissions 2013-2020 compared to 2005 according to With Existing Measures projections scenario (2018 projections)

Gg CO2 eq.	2005	2014	2015	2016	2020
Non-ETS emissions	4153	3797	3923	4080	4501
Change compared to 2005		-8.6%	-5.5%	-1.8%	8.4%

(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. Cyprus has adopted a National Adaptation Strategy and Action Plan in May 2017.

The adaptation policy process has been aided by the CYPADAPT project, which was co-financed by the EU through the LIFE+ instrument. This project started in September 2011 and was completed in March 2014. The coordinator was the Department of Environment of the Ministry of Agriculture, Rural Development and Environment, the authority responsible for climate change in Cyprus. Cyprus prepared a combined National Adaptation Strategy and Action Plan in 2014, which was updated and formally adopted in May 2017.

The Ministry of Agriculture, Rural Development Natural Resources and Environment is the central body coordinating the adaptation policy-making process and has led the preparation and adoption of the National Adaptation Strategy and Action Plan. The responsibility for the implementation of specific sectoral actions lies with the responsible authorities for each specific action (e.g. Department of Agriculture for agricultural issues). In November 2017, meetings with all the stakeholders have taken place to assess the status of implementation of the activities included in the

Action Plan.

4.6. Renewable Energy Sources

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

- Decreased to 9. 27% in 2016 compared to 9. 34% in 2015.

Status of Renewable Energy in Electricity - The evolution of installed capacity for Renewable Energy Systems for Electricity Generation is presented in the following table:

Technology	Capacity for each year (MW)				
	2017	2016	2015	2014	2013
Wind	157,50	157,50	157,50	146,70	146,70
Biomass	10,3	10,3	10,3	10,3	10,3
PV	112,53	82,36	76,41	63,99	33,88
Total	280,33	250,16	244,21	220,99	190,88

Most of the systems installed in the period of 2005 until today, have been achieved via support schemes providing Feed in Tariffs (FiT). Roughly 37 MW of PV have been installed in the context of support schemes providing for self-consumption schemes. The Council of Ministers, since 15.4.2015, adopted a new policy toward the development of Commercial Renewable Energy Systems for Electricity generation. The new policy provides that all new Commercial Renewable Energy Systems to be developed will be introduced in the new competitive market in July 2019 and they are expected to compete on equal footing against conventional generation. Until the implementation of the competitive market however, new projects receive the RES selling price as defined by CERA that reflects the weighted average generation cost . It is noted that the RES selling price as defined, is extremely dependent on fossil fuel prices.

The Ministry has, since then, issued two support schemes in the context of the above policy, through which interested parties have expressed intent for potential installations in excess of 390 MW of RES, with many of them already in the licensing phase.

In addition to the above, a self-consumption scheme is also in effect, which provides the framework for the installation of RES systems for self-consumption in the form of net-metering for small installations up-to 5 kW and self-generation for larger systems (up to 10 MW).

Moreover, the Ministry is currently in consultation with all relevant authorities aiming to streamline the Licensing process and avoid bottlenecks toward implementation of both the aforementioned schemes.

- RES in the Transport Sector

A new strategy for the promotion of RES and alternative fuels in road transport sector is under preparation, which aims to achieve the Energy and Climate 2020 mandatory targets. The new strategy will include measures for increasing the share of biofuels in the fuel-mix, as well as the promotion of Hybrid and Electric Vehicles.

- RES in Heating and Cooling

In 2016, the share of Renewable Energy Sources in the heating and cooling sector was 23.72%, meaning that the indicative target of 23.5% of RES in 2020 at the heating and cooling sector has been already achieved.

The main contribution of RES in the sector is due to the extensive use of solar heating systems for water heating. Additionally there is a significant use of biomass heater and solar systems for space heating and a small number of geothermal systems for heating and cooling.

Various financial support schemes have been applied regarding the installation of RES systems for heating and cooling that in combination with the requirement for a minimum use of RES in new building help significantly to the increase of the use of RES in the sector of heating and cooling.

In 2018 a support scheme for the installation of solar water heaters in household will come in effect as well as a scheme for energy saving/energy upgrade in households that will support, among others actions for energy saving, the installation of res heating-cooling systems (solar and geothermal systems)

Year	2013	2014	2015	2016
RES Heating and cooling (%)	20,49%	20,85%	23.60%	23.72%
RES in electricity (%)	7,64%	7,39%	8.48%	8.64%
RES in transport (%)	2,4%	1,63%	2.45%	2.63%
Total share of RES (%)	8,99%	8,85%	9.34%	9.27%

4.7. 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 efficiency²⁴. 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 increased to 2.4 Mtoe in 2016 in relation to 2.2 Mtoe in 2015.

Cyprus aims to 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

²⁴ A national baseline scenario and a national energy efficiency scenario had been compared. Both scenarios were executed in 2014.

scenarios for energy efficiency²⁵. The national indicative target for energy efficiency is also expressed in achieving primary energy consumption of 2.2 Mtoe at the year 2020. Currently, the level of primary energy consumption is 2.4Mtoe. Given its slight increase from 2.2 Mtoe in 2015, to 2.4 Mtoe in 2016 (basically due to the increase of the GDP and the return to economic growth) additional efforts are being made in order to keep the primary energy consumption at level of 2.2 Mtoe and to minimize its increase, in anticipation of GDP increase due to the foreseen economic developments in the coming years. Based on the National Energy Efficiency Action Plan (as it has been updated in 2017), a major reduction in primary energy consumption will be achieved through the switch from oil to natural gas in electricity generation, which is planned to enter into the national energy mix by 2020, and thus contribute to achieving the projected indicative level of 2.2 Mtoe.

The measures described in the national energy efficiency action plan are being implemented. The progress achieved by the end of 2015 has been monitored and a report has been submitted to the European Commission in 2017, in compliance with the requirements of Directive 2012/27/EE for Energy Efficiency. The major implemented/ongoing and planned measures are:

- **Legislative measures (implemented /ongoing and planned)**

- Minimum energy performance requirements for new buildings, buildings that undergo major renovation and building elements that are retrofitted.
- Legislation that defines the technical requirements of Nearly Zero Energy Buildings.
- Compulsory issuing of Energy Performance Certificates (EPC) for new buildings and buildings that are sold or rented.
- Compulsory inspection of large air conditioning systems and heating systems with boiler.
- Requirements for technical building systems installed in existing buildings.
- Legislation for the qualification of technical building systems installers.
- Legislation for promotion of combined heat and power generation systems and high efficiency standards in heating and cooling systems.
- Legislation for energy efficiency (energy efficiency in public sector, energy efficiency in metering and billing, in transformation, transmission and distribution, energy audits etc.).
- Legislation for regulating the market for energy auditing in buildings, industries and transport and the operation of Energy Service Companies (ESCOs).
- Legislation for energy labelling and market surveillance.
- Legislations for setting up and energy efficiency obligation scheme for energy companies (planned for 2018).
- Legislation for transposing the amendments of Energy Efficiency Directive and Energy efficiency of the Buildings Directive into the national law (planned for 2018 and 2019).

²⁵ A national baseline scenario and a national energy efficiency scenario had been compared. Both scenarios were executed in 2014 and updated in 2017.

- Information and training measures (implemented and planned)
 - Training and Licensing of Energy Auditors.
 - Licensing of ESCOs.
 - Training of Energy Managers.
 - Training and Licensing of Qualified Experts (Issuing Energy Performance Certificates of buildings).
 - Certification s of small scale Renewable Energy Sources installers.
 - Training and licensing of technical building system installers.
 - Licensing of Heating Systems Inspectors.
 - Licensing of Air-conditioning Systems Inspectors.
 - Information campaign for energy efficiency for the period November 2017- May 2018. An additional campaign for energy efficiency will be launched in 2018.
 - More awareness increase actions are planned for 2018 and 2019 through technical support provided by EU (SRSS and Environment Agency Austria and Cyprus Energy Agency), It will include inter alia: an electronic tool (in web-based user-friendly interface) for the calculation of energy savings that will enable households to have a clear view on cost effectiveness of potential energy saving measures and the establishment of the Energy Efficiency Network of enterprises and industries.

- Public financing schemes and other financial Measures (implemented and planned)
 - 54 million euro has been secured by the European Structural and Cohesion Funds 2014-2020 for grant schemes and projects for energy efficiency investments in private and public buildings.
 - The MECIT (MECIT) announced in 2017, the operation of a support scheme for the installation of cogeneration systems fuelled by biomass/biogas for the production of electricity for self-consumption. MECIT is currently preparing a support scheme based on net-billing principle for the installation of High Efficiency combined heat and power generation with capacity up to 5MW.
 - A support scheme (Saving – Upgrading) was enacted in 2015 for the energy renovation of existing houses and existing buildings owned or used by small and medium enterprises utilizing European and Structural Funds 2014-2020 (33 million euro). A new support scheme expected to be launched in 2018 that will provide grants for energy efficiency upgrade for households and multifamily buildings (European and Structural Funds 2014-2020).
 - 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 10MW for commercial and industrial consumers.
 - In 2018 a Grant Scheme is expected to be announced (about 2 mln euro of national funding in 2018) for the insulation of the roofs in the residential sector, a Grant Scheme for conducting energy audits in SMEs and new

Support scheme for the replacement of old solar domestic hot water heating systems.

- A scheme is expected to be launched in 2019 that will utilize European and Structural Funds 2014-2020 to provide financing instruments (e.g. soft loans) for promoting energy efficiency investments in enterprises and wider public.
- In the framework of two new Interregional European programs between Cyprus and Greece (SYNERGEIN and STRATENERGY), 11 buildings in municipalities and wider public will be energy upgraded in the period 2018-2020.

5. UTILISATION OF EU FUNDS

For the Programming Period 2014-2020 Cyprus has been allocated a total amount of €998,4mln from the European Structural and Investment Funds (ESI Funds), as follows:

- European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF) and Youth Employment Initiative (YEI): €826,5 mln.
- European Agricultural Fund for Rural Development (EAFRD): €132,2 mln.
- European Maritime and Fisheries Fund (EMFF): €39,7 mln.

For the effective utilisation of the abovementioned resources, Cyprus has prepared a comprehensive strategic document, the Partnership Agreement (PA). The PA aims at securing synergies and coordination between the ESI Funds allocated to Cyprus, so as to maximise the impact on competitiveness, jobs and growth in Cyprus. The strategic objective of the PA will be attained through the following three funding priorities:

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

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

The funding priorities set out in the PA were derived primarily from the analysis of the country's development needs and perspectives, the country-specific recommendations issued by the European Commission, and the national targets set in the context of the Europe 2020 Strategy.

In order to attain the aforementioned priorities, Cyprus allocated 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	1,59	0	71,59
2. Information and Communication Technologies (ICT)	54,5	0	0	0,32	0	54,82
3. SME Competitiveness	70	0	0	32,55	9,84	112,39
4. Energy	27,25	0	105,75	5,82	0,47	139,29
5. Climate Change	11,8	0	0	29,57	0	41,37
6. Environment	45	0	139,33	36,69	23,4	244,42
7. Transport	0	0	34,25	0	0	34,25
8. Employment	0	86,55	0	7,95	5,25	99,75
9. Social Inclusion and Poverty	15	31,54	0	14,26	0	60,80
10. Education-Life Long Learning	0	26	0	1,06	0	27,06

11. Institutional Capacity and Public Administration	0	5,05	0	0	0	5,05
Technical support	6,35	1,43	15,55	2,44	0,75	26,52
TOTAL	299,9	150,57	294,88	132,25	39,71	917,31*

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

As regards the relevance of ESI funding to the Europe 2020 targets, it is noted that most of the TOs selected for investment during the 2014-2020 programming period do contribute to the national targets set for Europe2020 strategy, as illustrated in the table below:

National Targets	Thematic Objectives	Indicative Percentage of ESI funds contributing to the National Target
Employment target	T03, T08	23%
R&D target	T01	8%
GHG emission reduction target	T04, T05, T06, T07	42%
Renewable energy target	T04	15%
Energy efficiency target	T04	15%
Early school leaving target	T09, T010	8%
Tertiary education target	T010	3%
Poverty target	T09	6%

Further to the overall/general correlation between the funding priorities set in the PA and the national targets as indicated above, support from ESI funds contributes explicitly towards the implementation of some of the country-specific recommendations:

- With respect to CSR 4, ESI funding will contribute towards the improvement of access to finance especially for SMEs., through the promotion of financial instruments in the context of the Operational Programme “Competitiveness and Sustainable Development 2014-2020”. In this context, a study in support of the ex-ante assessment for the potential future use of such instruments has been prepared by the EIB. It is estimated that EUR 40 million will be delivered via financial instruments in the context of the Operational Programme, i.e. twice the amount delivered in the 2007-2013 period. Furthermore, the competent authorities have secured technical support through the SRSS for the management and implementation of the new financial instruments.
- With respect to CSR 5, ESI funding has been allocated, within the framework of the Operational Programme “Employment, Human Resources and Social Cohesion 2014-2020”, to a dedicated project for the enhancement of Public Employment Services (PES). In the course of the project, the procedures for the recruitment of 30 additional PES counselors have been initiated in 2017.

As regards the overall utilisation of ESI funds, it is noted that by December 2017, €700m have been activated, which correspond to 80% of the total amount allocated to Cyprus for ERDF, Cohesion Fund, ESF, YEI and EMFF.

So far, ESI funding has paved the way for over 100 enterprises to be supported in introducing over 80 new products with over 250 enterprises to be supported in the manufacturing sector. A new solid waste plant has been completed and the capacity for the utilization of biodegradable materials is expected to reach 210,000 ton per year by the end of the Programming Period. In addition, the ability of 50 municipalities / communities to deal with solid waste is also expected to be enhanced. Moreover, projects of over € 140mlnn have been promoted in the field of sustainable urban development in the 4 major city centres of Cyprus and in total built areas of 3.000 sq. meters are expected to be rejuvenated and an additional 58.000 sq. meters of open spaces created or improved. Furthermore, over €35m have been invested for improving the conditions of social inclusion for vulnerable groups. In the fisheries sector, three Community-led Local Development Strategies for €7m are being implemented aiming at the improvement of the fisheries areas.

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The NRP has been prepared in close cooperation with all competent Ministries, other Services and relevant Authorities. It was approved by the Council of Ministers on 16 April 2018.

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 following policy areas: employment creation and other labour issues, education system reform, productivity improvement, public administration and local government reform including e-government, access to finance, introduction of the national health system and judicial system efficiency. 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 stakeholders affected has been safeguarded from the initial stages in the large majority of areas covered by the NRP such as labour, education, health, tourism, justice system efficiency, environmental issues, as well as horizontal areas such as entrepreneurship, better regulation etc.