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COMMISSION STAFF WORKING DOCUMENT

Analysis of the recovery and resilience plan of Cyprus

Accompanying the document

Proposal for a COUNCIL IMPLEMENTING DECISION

**amending Implementing Decision (EU) (ST 10686/21 INIT; ST 10686/21 ADD 1) of 20
July 2021 on the approval of the assessment of the recovery and resilience plan for
Cyprus**

{COM(2023) 735 final}

Table of contents

1. Executive summary	2
2. Objectives of the modification of the plan	3
3. Summary of the assessment of the plan	11
3.1. Comprehensive and adequately balanced response to the economic and social situation	11
3.2. Link with country-specific recommendations and the European Semester.....	13
3.3. Growth potential, job creation, economic, institutional and social resilience, European Pillar of Social Rights, mitigating the impact of the crisis, and social territorial cohesion and convergence.....	13
3.4. The principle of ‘do no significant harm’	15
3.5. Green transition.....	15
3.6. Digital transition.....	16
3.7. Lasting impact of the plan.....	17
3.8. Milestones, targets, monitoring and implementation.....	17
3.9. Costing	18
3.10. Controls and audit.....	18
3.11. Coherence	23
3.12. REPowerEU	23
3.13. Cross-border or multi-country dimension or effect	23
ANNEX I: Climate tracking and digital tagging	27

1. EXECUTIVE SUMMARY

In 2022, the global slowdown, supply disruptions and rising energy prices led to high inflation and a deceleration of economic growth in Cyprus, while the labour market proved robust. In light of an economy heavily dependent on fossil fuel imports and the socio-economic challenges that Cyprus has been facing since the beginning of 2022, the country submitted a modified Recovery and Resilience Plan (RRP) along with a REPowerEU chapter on 1 September 2023. Specifically, Cyprus proposed modifications to its RRP pursuant to three legal bases. Firstly, in accordance with Article 18(2) of Regulation (EU) 2021/241, Cyprus updated its RRP to take into account the updated maximum financial contribution published on 30 June 2022. Secondly, in accordance with Article 21(1) of Regulation (EU) 2021/241, Cyprus considered the RRP to be partially no longer achievable due to objective circumstances and made a reasoned request to the Commission to make a proposal to amend the Council Implementing Decision. Finally, Cyprus has relied on Article 21(c) to include additional resources from Emission Trading System (ETS) revenues and from the Brexit Adjustment Reserve (BAR) for its REPowerEU chapter.

The modifications submitted by Cyprus under Article 18(2) and Article 21(1) of Regulation (EU) 2021/241 affect 74 measures of the initial plan. Specifically, under Article 18 (2), against a reduction of its contribution by EUR 90 million, Cyprus proposes to fully remove 7 investments amounting to EUR 60.5 million and partially remove 4 investments, cutting another EUR 29.5 million. Under Article 21, Cyprus proposes amendments to 48 measures based on objective circumstances. The amendments include increasing the estimated costs, postponing deadlines and in some instances decreasing the targets proportionately to increases in cost. In addition, 17 measures are amended because of clerical errors. Some measures are affected by changes under several legal bases.

Lastly, Cyprus proposes 4 new measures and 5 scale-ups of existing measures, under its REPowerEU chapter to address the key energy challenges that Cyprus is currently facing.

The proposed new reforms include the regulation and the facilitation of the participation of Active Customers, Renewable Self-consumers, Citizen Energy Communities, Renewable Energy Communities and Demand Response through Cumulative Representation in the electricity market and a regulatory framework for the connection of EV recharging points to the distribution network. The new investments aim to promote extensive energy upgrading of housing stock and a thematic research in enterprises for energy production, storage, and distribution solutions. The chapter also includes the scale-up of a number of existing investments aimed at: (i) promoting renewables and individual energy efficiency measures in dwellings and tackling energy poverty in households with vulnerable electricity consumers, (ii) encouraging the use of renewables and energy savings by local/wider public authorities and facilitating the transition of local communities towards climate mitigation and adaptation, (iii) promoting a widespread use of Electric Vehicles (EVs), (iv) enhancing the competitiveness of large enterprises in the manufacturing sector and (v) promoting research and innovation for the green transition.

Based on the assessment of the submitted modification and the REPowerEU chapter, the Cypriot modified plan receives an A-rating on all criteria, except for costing, where the plan receives a B-rating (unchanged from the original plan assessment).

(1) Balanced Response	(2) CSRs	(3) Growth, jobs...	(4) DNSH	(5) Green target	(6) Digital target	(7) Lasting impact	(8) M & T	(9) Costing	(10) Control Systems	(11) Coherence	(12) REPowerEU	(13) Cross- border
A	A	A	A	A	A	A	A	B	A	A	A	A

2. OBJECTIVES OF THE MODIFICATION OF THE PLAN

2.1. The main newly emerged challenges

In 2022, Russia’s invasion of Ukraine led to a surge in energy and commodity prices in Cyprus and the EU as a whole. The measures adopted by Cyprus largely mitigated the impact of the energy crisis on both households and businesses and negative spillovers on the Cypriot economy have been contained despite the links with the Russian economy. However, inflation remained high at +8.1% in 2022 and economic growth slowed (5.6% vs. 6.6% in 2021) amid supply chain disruptions and high energy and commodity prices. The 2023 Country Report for Cyprus identified challenges related to the business environment linked notably to the governance of state-owned enterprises, further reduction of non-performing debt, deployment of renewable energies, sustainable water management and skill mismatches on the labour market, among others. In addition, Cyprus faces macroeconomic vulnerabilities, which are assessed in the In-depth Review 2023, related to the private, government and external debt, a large current account deficit and a still high ratio of non-performing debt. In the context of Cyprus’ current challenges, the proposed revision of its RRP is twofold: including a new REPowerEU chapter to the original plan and modifying existing measures in line with the provisions of the RRF Regulation.

2.2. Overview of the new and modified components

Cyprus’ modified recovery and resilience plan adds a REPowerEU chapter to the original plan pursuant to Article 21(c) of the RRF Regulation. The modifications proposed under the plan and the newly integrated REPowerEU chapter contribute to addressing the country specific recommendations for Cyprus presented in the context of European Semester 2022 and 2023 cycles.

Pursuant to Article 18(2) of the RRF Regulation, Cyprus has justified a part of its modifications by the decrease of its maximum financial contribution. The maximum financial contribution for Cyprus was updated on 30 June 2022 and decreased from EUR 1 006 million to EUR 916 million (before the deduction of support expenses). To take this update into account, Cyprus proposes to remove seven measures fully and four measures partially from its RRP.

Pursuant to Article 21(1) of the RRF Regulation, Cyprus has justified the modification of 48 measures due to objective circumstances. While the Cypriot economy managed to contain the negative impact of Russia’s unprovoked military aggression against Ukraine on the GDP growth,

inflation increased considerably driven mainly by the stark rise in energy prices and in particular of imported fossil fuels on which Cyprus depends heavily. High energy prices, disrupted supply chains and the partial indexation of wages have put upward pressure on consumer prices, which led it to peak at 8.1% in 2022. Tightening monetary policy has raised investment costs and contributed together with increased construction material price and supply disruptions to delays and cost re-evaluations in the procurement of some of the initially planned projects under the RRP. At the same time, unexpected complexities and inefficiencies surfaced in some challenging measures, requiring adjustments to the timeline and, in some circumstances, the project design. Finally, Cyprus proposed to modify certain measures to implement better alternatives to achieve or increase their original ambition.

The main elements of the amended RRP and REPowerEU chapter are listed below by component:

Component 1.1 (resilient and effective health system, enhanced civil protection): seven measures under this component are affected by the modification proposal, four under Article 21, three on clerical error grounds and one under both Article 21 and on clerical error grounds. Changes notably concern i) a reduction in a target for sentinel doctors for influenza surveillance in this take-up type of measure because of a lack of demand from doctors to participate in the scheme, ii) a postponement of targets due to the additional time needed, as it has emerged from the stakeholder consultation, for the accreditation process required to register hospitals in the National Health System and iii) a reduction of targets for sub-investments for the enhancement, modernisation, and upgrade of State hospitals due to higher costing due to inflation. For the latter investment in State Hospitals, also changes to intervention fields to lower tagged ones, as a result reducing green tagged cost, are proposed.

Component 2.1 (climate neutrality, energy efficiency and renewable energy): based on Article 21 (mostly invoking inflation, supply chain disruptions and delays in tender procedures) eight measures are proposed to be amended, of which one is also proposed to be partially removed under Article 18. Changes notably concern the adjustment of scope of some energy efficiency measures and the shifting of timelines for certain investments (installation of smart meters by the Distribution System Operator, delivery and acceptance of firefighting aircraft, vehicles and equipment under a Forest firefighting investment), and for the entry into force of a law introducing a carbon tax for fuels, a levy on water and a charge on household/ landfill waste. However, two investments in the field of renewables and energy efficiency are also being upscaled under the REPowerEU chapter.

Component 2.2 (sustainable transport): on the basis of Article 21 (invoking supply chain disruptions and inflation) three investments, in the field of Sustainable Urban Mobility Projects, electro-mobility infrastructure and for the promotion of widespread use of electric vehicles, are proposed to be modified, with proportionate reductions in scope and limited extensions in timelines. An investment for the promotion of widespread use of electric vehicles is also being upscaled under the REPowerEU chapter.

Component 2.3 (smart and sustainable water management): six measures under this component are affected by the modification proposal, two under Article 21 (notably inflation and supply chain disruptions) and one under Article 18 (removal of the investment on the Eastern Nicosia infrastructure for wastewater treatment's effluent re-use), the rest are modified on clerical error grounds. For the modified measures, Cyprus notably proposes to postpone one milestone on the delivery of vessels for marine protection and one intermediate target on the construction of two reservoirs.

Component 3.1 (new growth model and diversification of the economy): without lowering the ambition of the measures, this component includes eleven suggested modifications mostly based on Article 21. The most important one is the limited delay of the creation of green points. In addition, the measure on the establishment of the Orounda livestock waste and animal-by-product management facilities is removed from the loan part based on Article 21, in particular due to the completed feasibility study requiring a re-design of the whole project. In parallel, the construction of a marine aquaculture is transferred to the loan compartment of the plan. Based on Article 18, the setup of the first Eco-Industrial Science Park Waste and some parts of a measure related to circular economy were removed. Finally, the measure on the support of large companies for their competitiveness enhancement is topped-up under REPowerEU and broadened to also cover energy efficiency investments, due to the lack of demand and of eligible projects under the previous design.

Component 3.2 (enhanced research and innovation): one investment is proposed to be scaled-up under REPowerEU and modified, since, following the first call, more technologies could be developed under the scheme including key clean-tech and low-carbon technologies. One reform (National R&I Policy and policy tools) is proposed to be modified, as the Action Plan will be improved to also take into account the findings of the revised smart specialisation strategy and cover a longer timeframe.

Component 3.3 (business support for competitiveness): this component includes five suggested modifications based on Article 21, two removals based on Article 18 (2) and two modifications on clerical error grounds. The amendments under Article 21, mainly introduce limited delays in the completion of milestones based on Article 21, due to unforeseen delays in the preceding steps. Particularly, the modernisation of the Companies Law is delayed due to tendering problems. Moreover, the description of the milestones of four measures is fine-tuned without reducing their ambition (i.e. the enhancement of fast-track business activation mechanism, the creation of a regulatory sandbox to enable FinTech, the establishment of an equity fund, and the setup of an integrated information system for the Registrar of Companies). Two investments are removed based on Article 18.

Component 3.4 (modernising public and local authorities, making justice more efficient and fighting corruption): this component introduces 5 revisions mostly based on Article 21. In particular, the investment for smart cities was amended to address the scarcity of demand from municipalities, and regeneration and revitalisation of Nicosia inner city had to be redesigned due to the impact of inflation on renovation costs. The measure on urban land consolidation is also backloaded due to emerged manifestly better alternative to achieve the objective by enlarging the

scope, while the digital transformation of courts is postponed due to unforeseen obstacles. Lastly, on the basis of Article 18 the investment on the rationalisation of the shift system through the implementation of a Roster Planning System was removed.

Component 3.5 (safeguarding fiscal and financial stability): three measures are proposed to be modified under Article 21, to ensure their achievement by means of alternative and more efficient modalities. In particular, limited and targeted clarifications are introduced to the reform on enhancing supervision of Insurance and Pension Funds, to the reform on an Action plan for the development of a liability monitoring register and to the reform on a new legal framework and system of exchange of data and credit bureaus. Two measures are modified on the basis of a clerical error.

Component 4.1 (upgrade infrastructure for connectivity): two measures under this component are affected by the modification proposal. The first relies on Article 21 due to a change in practices by market operators which had no interest in the scheme. The second relies on Article 18 (removal of the investment into a submarine link to Greece).

Component 4.2 (promote e-government): five measures under this component are affected by the modification proposal, four under Article 21, as well as one amendment solely on clerical error grounds. Article 21 proposals notably concern: i) a reduction in targets for Digital Services Factory as the Cypriot authorities identified a more citizen-centric and efficient organisational model to develop digital services; ii) a reduction in an intermediate target for Digitalisation in various Central Government Ministries – Services, including due to the consequences of the Russian war of aggression and supply chain bottlenecks; iii) a postponement of three intermediate targets (for the reform on Government-cloud, mainly due to the need to take into account the recent cyberattacks in Cyprus and thus a need for a new cybersecurity strategy, for Digitalisation in various Central Government Ministries – Services for the above-mentioned reasons and for Digitalisation of the Cyprus Ports Authority, due to missing technical requirements and specifications that would be necessary to proceed with a request for tender and consequently with the signing of the contract).

Component 5.1 (educational system modernisation, upskilling and retraining): four measures under this component are affected by the modification proposal, under Article 21 and based on a clerical error: i) removing the construction of one of the two technical schools, which were initially planned, due to inflation; ii) delay by one year of the digital transformation of school units due to the appeal of the tender procedures combined with the specificities of this technology oriented project, which made the technological equipment specified in the tender documents unavailable; and iii) modification of the reform on the extension of free compulsory pre-primary education from the age of four due to a design of a better alternative way to implement the reform, as the creation of additional capacity in public and communal kindergartens, combined with an accompanying temporary subsidy scheme, is expected to have a considerably more long-lasting and positive impact, despite a longer implementation timeframe.

Component 5.2 (labour market, social protection, and inclusion): four measures under this component are affected by the modification proposal. Cyprus retains the ambition of 26 structures

in total, including structures for children or persons with disabilities, and homes for children, adolescents with conduct disorders and people in need of long-term care, however the implementation will be through a governmental body, due to lack of interest of the private sector. On the Reform of the Social Insurance System and Restructuring of the Social Insurance Services, Cyprus requested the correction of a clerical error to define the examples of the social benefits described in the milestone, as foreseen in the initial plan. The budget of the investment for the creation of child centres in municipalities is modified due to inflation.

Component 6.1 (REPowerEU chapter):

Under the REPowerEU chapter and based on Article 21c of Regulation (EU) 2021/241, Cyprus has proposed measures for two new investments, two new reforms and five scaled up investments:

Reform C6.1R1 on Regulating and facilitating the participation of Active Customers, Renewable Self-consumers, Citizen Energy Communities, Renewable Energy Communities and Demand Response through Cumulative Representation in the electricity market will consist in creating at least one contact point by expanding the single contact point established as per the Renewable Energy Directive (EU) 2018/2001. This reform is expected to enable the uptake of renewable energy projects in the country, thereby allowing a faster penetration of renewable energy in the economy.

Reform C6.1R2 on the introduction of a regulatory framework for the connection of electric vehicles' recharging points to the distribution network focuses on the establishment of guidelines for the formulation of regulatory frameworks regarding the procurement of flexibility services by the DSO as well as the connection of Electric Vehicle Charging Points to the Distribution Network. This reform is expected to facilitate the rollout of EV and enable final consumers to actively participate in the competitive electricity market.

Investment C6.1I1 scaling up measure C2.1I2: Promoting renewables and individual energy efficiency measures in dwellings and tackling energy poverty, including in households with vulnerable electricity consumers is expected to increase the number of dwellings, including households of vulnerable electricity consumers, with improved energy performance, thus increasing energy savings and further tackling energy poverty.

Investment C6.1I2 scaling up measure C2.1I3: Encouraging the use of renewables and energy savings by local/wider public authorities is expected to lead to further reduction in primary energy consumption per year for local and wider public authorities.

Investment C6.1I3 on Promoting extensive energy upgrading of housing stock aims at reducing the primary and final energy consumption and the CO₂ emissions in existing households. In addition, the scheme will promote the installation of Renewable Energy Systems on these households. The renovation programme is expected to lead, on average, to a 30% reduction in the Primary Energy Demand of the buildings renovated.

Investment C6.1I4 scaling up measure C2.2I3: Promote widespread use of Electric Vehicles (EVs) will increase the number of electric vehicles been purchased, leading to increased incentives to enterprises and individuals to shift to zero-emission vehicles and thus reduce consumption of fossil fuels for transports.

Investment C6.1I5 scaling up measure C3.1I7: Scheme for the enhancement of the competitiveness and the energy efficiency of large enterprises in Cyprus will increase the number of large enterprises supported, in all economic sectors, to improve their energy performance, notably via energy efficiency measures, installation of photovoltaic systems.

Investment C6.1I6 scaling up measure C3.2I3: Thematic research and innovation funding program on green transition will increase the number of enterprises engaged in green transition R&I activities, due to the support provided.

Investment C6.1I7 Thematic research in enterprises for energy production, storage, transmission and distribution solutions focuses on grants for targeted R&I activities aiming to provide solutions to bottlenecks identified in energy production, storage, transmission and distribution (infrastructure, storage, grid etc.) that will enhance the national grid's infrastructure functionality and efficiency, accelerate renewables integration and significantly reduce the country's energy needs.

Table of new and modified components and associated costs.

Component	Status	Costs (EUR million)
1.1 Resilient and effective health system, enhanced civil protection	Modified	74
2.1 Climate neutrality, Energy efficiency and Renewable Energy	Modified	261
2.2 Sustainable Transport	Modified	90
2.3 Smart and Sustainable Water Management	Modified	76
3.1 New growth model and diversification of the economy	Modified	126
3.2 Enhanced Research and Innovation	Modified	64
3.3 Business support for Competitiveness	Modified	39
3.4 Modernising public and local authorities, making justice more efficient and fighting corruption	Modified	95
3.5 Safeguarding Fiscal and Financial Stability	Modified	45
4.1 Upgrade infrastructure for connectivity	Modified	45
4.2 Promote e-government	Modified	36
5.1 Educational system modernisation, upskilling and retraining	Modified	85
5.2 Labour market, social protection and inclusion	Modified	79
6.1 REPowerEU	New	105
TOTAL		1,221

Other elements not covered by assessment criteria

The previous description of the implementation and monitoring aspects of the plan as well as gender equality, as reflected in the Staff Working Document (2021) 196¹ final remains valid. Also, under investment 2.1I2 on Promoting renewables and individual energy efficiency measures in dwellings and tackling energy poverty in households with vulnerable electricity consumers which is upscaled under the new REPowerEU chapter the definition of vulnerable electricity consumers that can benefit from the scheme is expanded, by adding eight new categories of vulnerable groups (differentiated notably by income and disability criteria), hence allowing for approximately 1,400 more households with vulnerable consumers to benefit from the scheme.

- State aid and competition rules fully apply to the measures funded by the Recovery and Resilience Facility. Union funds channeled through the authorities of Member States, like the RRF funds, become State resources and can constitute State aid. When this is the case and State aid is present, these measures must be notified and approved by the Commission before Member States can grant the aid, unless those measures are covered by an existing

¹ COMMISSION STAFF WORKING DOCUMENT Analysis of the recovery and resilience plan of Cyprus, accompanying the document Proposal for a COUNCIL IMPLEMENTING DECISION on the approval of the assessment of the recovery and resilience plan for Cyprus (COM(2021) 398 final)

aid scheme or comply with the applicable conditions of a block exemption regulation, in particular the General Block Exemption Regulation (GBER) declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 TFEU. When State aid is present and it requires notification, it is the duty of the Member State to notify State aid measures to the Commission before granting them, in compliance with Article 108(3) TFEU. In this respect, the State aid self-assessment carried out by Cyprus in the recovery and resilience plan cannot be deemed a State aid notification. In as far as Cyprus considers that a specific measure contained in the recovery and resilience plan entails de minimis aid or aid exempted from the notification requirement, it is the responsibility of Cyprus to ensure full compliance with the applicable rules.

3. SUMMARY OF THE ASSESSMENT OF THE PLAN

3.1. Comprehensive and adequately balanced response to the economic and social situation

Cyprus' modified plan along with the REPowerEU chapter includes a balanced set of reforms and investments contributing to the Union's economic, social and territorial cohesion by referring to the six pillars of Article 3 of the Regulation (EU) 2021/241. The modification of the plan along with the REPowerEU chapter does not impact the assessment of the contribution of the plan to the different pillars, as the nature and extent of the proposed modifications to the RRP do not have an impact on the previous assessment of the plan's comprehensive and adequately balanced response to the economic and social situation, and on its appropriate contribution to all six pillars referred to in Article 3 of the RRF Regulation, as detailed in Staff Working Document SWD(2021) 196 final.

The measures in the REPowerEU chapter contribute to the attainment of the Union's 2030 climate and energy targets and the objective of EU climate neutrality by 2050. The proposed measures aim to incentivise the uptake of renewable energy, to put in place energy efficiency measures and to encourage the use of electric vehicles. The implementation of the measures included in the REPowerEU chapter are expected to contribute notably to supporting the objectives in Article 21c(3), points (b), (e) and (f) of Regulation (EU) 2021/241. The new energy efficiency investment is particularly ambitious, as the objective of the measure is to achieve, on average, at least a medium-depth level renovation as defined in Commission Recommendation on Building Renovation (EU) 2019/786. The scaled-up support scheme for the purchase of electric vehicles will lead to increased incentives to enterprises and individuals to shift to zero-emission vehicles and thus reduce consumption and, by consequence, dependency on imports of fossil fuels for transports. Both investments in the field of thematic research and innovation linked to green transition and energy issues are also noteworthy.

Coverage of the six pillars of the Facility by the modified Cypriot RRP components

● = investments and reforms of the component significantly contribute to the pillar; ○ = the component partially contributes to the pillar

Component	Green transition	Digital transformation	Smart, sustainable & inclusive growth	Social and territorial cohesion	Health, and economic, social and institutional resilience	Policies for the next generation
Resilient and effective health system, enhanced civil protection	○	●	○	●	●	●
Climate neutrality, Energy efficiency and Renewable Energy	●	○	●	●	○	○

Component	Green transition	Digital transformation	Smart, sustainable & inclusive growth	Social and territorial cohesion	Health, and economic, social and institutional resilience	Policies for the next generation
Sustainable Transport	●	○	●	○		○
Smart and Sustainable Water Management	●	○				○
New growth model and diversification of the economy	○	○	●	●	○	○
Enhanced Research and Innovation	○	○	●		○	
Business support for Competitiveness		○	●		○	
Modernising public and local authorities, making justice more efficient and fighting corruption	○	●	●	○	●	○
Safeguarding Fiscal and Financial Stability		○	●		●	
Upgrade infrastructure for connectivity		●	●	●	○	●
Promote e-government		●	●	●	○	●
Educational system modernisation, upskilling and retraining	●	●	●	○	●	●
Labour market, social protection and inclusion	○	●	●	●	●	●

Component	Green transition	Digital transformation	Smart, sustainable & inclusive growth	Social and territorial cohesion	Health, and economic, social and institutional resilience	Policies for the next generation
REPowerEU chapter	●		○	○		

Taking into consideration all reforms and investments envisaged by Cyprus, its modified RRP continues to represent, to a large extent, a comprehensive and adequately balanced response to the economic and social situation, thereby contributing appropriately to all six pillars referred to in Article 3 of the RRF Regulation, taking the specific challenges and the financial allocation of Cyprus into account. This would warrant a rating of A under the assessment criterion 2.1 in Annex V to the RRF Regulation.

The nature and extent of the proposed modifications to Cyprus’ recovery and resilience plan do not have a material impact on the previous assessment (rating of A) that the plan represents a comprehensive and adequately balanced response to the economic and social situation, thereby contributing appropriately to all six pillars referred to in Article 3 of the RRF Regulation, taking the specific challenges and the financial allocation of [the Member State concerned] into account.

3.2. Link with country-specific recommendations and the European Semester

Overall, Cyprus’ modified RRP represents a comprehensive and adequate response to the economic and social challenges faced by Cyprus. Although the modified plan removes some measures, it also introduces new reforms and investments under the REPowerEU chapter that help to maintain the coverage of a significant subset of the challenges identified in the country-specific recommendations (CSRs).

In the 2022 and 2023 CSRs in the area of energy, Cyprus was recommended to reduce its overall reliance on fossil fuels and diversify its energy supply. Cyprus shall aim to exploit all untapped potential for renewable energy generation, accelerate renewables deployment by using suitable economic instruments and by making further investments to upgrade and modernise the electricity grid, including energy storage facilities. In addition, Cyprus shall speed up the development of electricity interconnections, increase energy efficiency measures, also with a view to energy poverty, and make an effort into shifting towards sustainable transport. Finally, policy efforts targeted at provision and acquisition of green skills are deemed necessary.

Measures included in the REPowerEU chapter are expected to promote renewable and sustainable transport and strengthen research and development of new technologies linked to the green transition. Two upscaled measures establishing a research and innovation funding programme on green transition measure, as well as promoting thematic research on enterprises for energy production, storage, transmission and distribution solutions shall expand public investment for the green transition and contribute to upgrading and modernising the electricity grid, including energy storage facilities, in line with the country-specific recommendation 4 of 2023. Furthermore, Cyprus is advancing in the RES deployment recommendation (2022, 2023 CSR 4) through measures promoting renewables in dwellings, measures encouraging the use of renewables by

public authorities and facilitating the transition of local communities towards climate mitigation and adaptation, and in addition through the introduction of the regulatory framework for the operation of Energy Communities. The above-mentioned measures also contribute to reducing the reliance on fossil fuel through the diversification of the energy supply. The recommendation on the shift to sustainable transport is aimed to be followed by the measure on the promotion of widespread use of Electric Vehicles, and the establishment of the regulatory framework for the connection of EV charging points to the distribution network (2022, 2023 CSR 4.6).

The REPowerEU chapter further aims to boost energy efficiency. Cyprus is extending and accelerating energy efficiency with the adoption of measures on energy efficiency of dwellings, local and public authorities, and through energy upgrades of large enterprises and the existing housing stock (2022 CSR 4.5, 2023 CSR 4.4). Improving the energy performance of the former, including households with vulnerable electricity consumers, is expected to reduce energy poverty in Cyprus (2023 CSR 4.5). The recommendation concerning the investment and modernisation of the Cypriot electricity grid and enhancement of storage solutions is addressed by the measure on thematic research in enterprises for energy production, storage, transmission and distribution solutions (2023 CSR 4.2).

Some measures on circular economy, water management and digitalisation have been modified, partially removed or removed, without significantly lowering the ambition of the Plan. The construction of Eastern Nicosia's infrastructure for wastewater treatment's effluent reuse and two Reuse and Repair Centres in addition to the distribution of composters in rural areas have been removed from the Plan due to the reduction of the allocation. The establishment of the Orounda livestock waste and animal-by-product management facilities were removed under Article 21 due to unforeseen complexities and procurement delays. The investment on a submarine data cable to Greece (C4.1I3) has also been removed from the Plan due to the reduction of the allocation, also considering the private initiatives for other submarine cables that emerged since the adoption of the original Plan. The remaining measures in the modified Plan, however, continue to significantly address the country-specific recommendations regarding circular economy, waste management and frontloading investments into digitalisation (2019 CSR 4.2, 2020 CSR 3.5, 2020 CSR 3.7).

Taking into consideration the reforms and investments envisaged by Cyprus, its modified RRP is expected to contribute to effectively addressing all or a significant subset of challenges identified in the country-specific recommendations, or challenges in other relevant documents officially adopted by the Commission under the European Semester. The modified RRP represents an adequate response to the economic and social situation of Cyprus. This would warrant a rating of A under the assessment criterion 2.2 in Annex V ~~to~~ the RRF Regulation.

3.3. Growth potential, job creation, economic, institutional and social resilience, European Pillar of Social Rights, mitigating the impact of the crisis, and social territorial cohesion and convergence

The nature and extent of the proposed modifications to Cypriot recovery and resilience plan do not have an impact on the previous assessment (Rating of A) of the plan's impact on the growth potential, job creation, and economic, social and institutional resilience of the Member State, on contributing to the implementation of the European Pillar of Social Rights, including through the promotion of policies for children and youth, and on mitigating the economic and social impact of the COVID-19 crisis, thereby enhancing the economic, social and territorial cohesion and convergence within the Union.

3.4. The principle of 'do no significant harm'

The modified Cypriot recovery and resilience plan including the REPowerEU chapter is expected to continue to ensure that no measure included in the plan does significant harm to environmental objectives, within the meaning of Article 17 of the Taxonomy Regulation.

The modified plan assesses compliance with the 'do no significant harm' (DNSH) principle following the methodology set out in the Commission's technical guidance on the application of 'do no significant harm' under the Recovery and Resilience Facility Regulation (2021/C58/01). The assessment is done systematically for each modified reform and investment following the two-step approach. The assessment concludes that for all modified measures, there is either no risk of significant harm or, where a risk is identified, a more detailed assessment is performed demonstrating the absence of significant harm.

As regards the REPowerEU measures, the DNSH self-assessments for the different energy efficiency measures make clear that construction/renovation work and equipment replacement foreseen do not concern buildings located in or near biodiversity-sensitive areas, that in case biomass would be used it would be of local origin, consist of processed wood residues and correspond to the sustainability criteria from RED II Directive (2018/2001/EU), and that at least 70% (by weight) of the non-hazardous construction and demolition waste generated on the construction site will be prepared for re-use, recycling and other material recovery, including backfilling operations using waste to substitute other materials, in accordance with the waste hierarchy and the EU Construction and Demolition Waste Management Protocol. Also, measures will be taken to reduce noise, dust and pollutant emissions during construction/renovation works. The measures (e.g. on electric vehicles, research and innovation in the field of green transition) are largely unproblematic from the point of view of the DNSH principle, and none requires a DNSH derogation.

Where needed, the requirements of the DNSH assessment are enshrined in the design of a measure and specified in a milestone or target of this measure. This ensures that any disbursement for the respective measures can only be made once compliance with the DNSH principle is ensured. For instance, for some measures where calls for projects or calls for interest are necessary to select specific projects, such as security investment support to companies, the DNSH principle is complied with by ensuring that the terms of reference and other documentation prevent activities

that could do significant harm to environmental objectives from being selected. This is also integrated in the milestones of the measure.

Taking into consideration the assessment of all the measures envisaged, no measure for the implementation of reforms and investments projects included in Cyprus' modified recovery and resilience plan, including its REPowerEU chapter, is expected to do a significant harm to environmental objectives within the meaning of Article 17 of Regulation (EU) No 2020/852 (the principle of 'do no significant harm'). This would warrant a rating of A under the assessment criterion 2.4 of Annex V to the RRF Regulation.

3.5. Green transition

All the measures in the REPowerEU chapter are expected to significantly contribute to the green transition, including biodiversity, or to addressing the challenges resulting therefrom, as well as to the achievement of the Union 2030 climate targets and of EU climate neutrality by 2050.

Under the REPowerEU chapter, two reforms are added which should significantly contribute to the green transition by enabling the uptake of renewable energy projects in the country, facilitating the rollout of electric vehicles and enabling final consumers to actively participate in the electricity market. One new investment and three upscaled investments should significantly contribute to reduced primary energy consumption and increased energy savings in many public and private buildings and enterprises. One upscaled investment should incentivise the enterprises and individuals to shift to zero-emission vehicles and thus reduce consumption of fossil fuels for transports, and two investments (upscaled and new) in the field of R&I will increase the number of enterprises engaged in green transition R&I activities and incentivise targeted R&I activities aiming to provide solutions to bottlenecks identified in energy production, storage, transmission and distribution that will enhance the national grid's infrastructure functionality and efficiency, accelerate RES integration and significantly reduce the country's energy needs.

All the new or modified measures are expected to have a long-term impact.

Climate target

On the basis of the assessment guidelines provided for sub-criterion 5b, the measures in the modified RRP (including the REPowerEU chapter) supporting climate change objectives account for 45% of the plan's maximum financial contribution (i.e. above the 37% required), based on the methodology for climate tracking set out in Annex VI to the RRF Regulation. Components 2.1 (Climate Neutrality, Energy Efficiency and Renewable Energy: notably energy efficiency measures, smart metering infrastructure, and forests fire protection), 2.2 (Sustainable Transport: Sustainable Urban Mobility Projects and promotion of Electric Vehicles), and 2.3 (Smart and Sustainable Water Management) make particularly important contributions to the climate target. Additionally, the proposed measures within the REPowerEU chapter supporting climate change objectives account for 95% of the chapter's total estimated costs, based on the methodology for climate tracking set out in Annex VI to the RRF Regulation.

Taking into consideration the assessment of all the measures envisaged, the modified recovery and resilience plan, including its REPowerEU chapter, is expected, to a large extent, to make a significant contribution to the green transition or to address the challenges resulting from it and ensures that at least 37% of its ~~total allocation~~ maximum financial contribution contribute to the climate target. At least 37% of the total estimated costs of the REPowerEU contribute to the climate target. This would warrant a rating of A under criterion 2.5 of Annex V ~~to~~ of the RRF Regulation.

3.6. Digital transition

The modified recovery and resilience plan entails modifications to the cost of two measures related to the digital transition (Enhancement, modernization and upgrade of Cyprus State Hospitals - Digitalisation in Health Care, On-line, cloud-based platform for improving the trade and information symmetry in the fresh produce supply chain) and two removals under Article 18 of the RRF Regulation (Rationalisation of the shift system through the implementation of a Roster Planning System, submarine data cable to Greece), and does not include new measures (in the REPowerEU chapter) that contribute to the digital transition. Based on the methodology set out in Annex VII to the RRF Regulation, the contribution to digital objectives accounts for 24.6% of the modified plan's maximum financial contribution (excluding the REPowerEU), an increase of 1.6 percentage points due to a decrease of the financial contribution. The contribution to the digital transition continues to come from 12 components of the Plan, with 44 measures addressing digital priorities (out of a total of 135 for the whole Plan).

Taking into consideration the reforms and investments envisaged by Cyprus, its modified RRP is expected to contribute to the digital transition or to address the challenges resulting from it and ensures that at least 20% of its total allocation (excluding the measures in the REPowerEU chapter) contribute to support digital objectives. This would warrant a rating of A under the assessment criterion 2.6 in Annex V ~~to~~ of the RRF Regulation.

3.7. Lasting impact of the plan

The modified recovery and resilience plan, under the REPowerEU chapter, includes new measures that, in addition to the existing measures, are expected to have lasting positive effects on the Cypriot economy and boost its green transition. The REPowerEU measures are expected to contribute to the green transition by promoting the lasting use of renewables and energy efficiency measures in households, the public sector and companies, leading to a significant reduction of the primary energy consumption. Also, the reform on Regulating and facilitating the participation of Active Customers Renewable Self-consumers, Citizen Energy Communities, Renewable Energy Communities and Demand Response through Cumulative Representation in the electricity market will enable the lasting uptake of renewable energy projects in the country, thereby allowing a faster penetration of renewable energy in the economy. The promotion of widespread use of Electric Vehicles (EVs) and the establishment of the regulatory framework for the connection of EV recharging points to the distribution network will increase incentives to enterprises and individuals to shift to zero-emission vehicles. Finally, the thematic research investments which will provide

grants for targeted research and innovation linked to new technologies in the field of green transition and energy will accelerate RES integration and reduce the country's energy needs.

The nature and extent of the proposed modifications to Cyprus' recovery and resilience plan do not have an impact on the previous assessment (rating of A) of the lasting impact of the plan.

3.8. Milestones, targets, monitoring and implementation

The nature and extent of the proposed modifications to Cyprus' recovery and resilience plan do not have an impact on the previous assessment of the effective monitoring and implementation of the recovery and resilience plan, as reflected in SWD (2021) 196 final.

The milestones and targets of the modified Cypriot recovery and resilience plan enable an adequate monitoring of the plan's implementation. Each of the new reforms and investments introduced under the new REPowerEU chapter includes at least one target and/or milestone that contains the key elements of the measure and allows for the assessment of the achievement of its objectives. This new chapter includes a set of fifteen new milestones and targets (reforms will be monitored by two milestones, investments by two milestones and eleven targets). Cyprus' modified plan still corresponds to the original plan in terms of the overall level of ambition. In addition, Cyprus has sufficiently described the relevant verification mechanisms, data collection systems and responsibilities that also can be qualified as clear, robust and effective to ensure effective completion of milestones and targets.

The arrangements proposed by Cyprus in its modified recovery and resilience plan are expected to be adequate to ensure effective monitoring and implementation of the recovery and resilience plan, including the envisaged timetable, milestones and targets, and the related indicators. This would warrant a rating of A under the assessment criterion 2.8 of Annex V to the RRF Regulation.

3.9. Costing

Cyprus has provided individual estimated costs for the new measures that entail a cost in the the REPowerEU chapter. For all the measures whose modifications entailed a change in the cost estimates or related target, Cyprus has also provided individual justifications including on the proportionality of the relevant amendments and new individual estimated costs when substantial modifications of a measure entailed a change in the assumptions underlying the cost estimates.

The cost information provided by Cyprus is generally detailed and well substantiated. The costs of the measures are outlined in the standard template table. Moreover, Cyprus provided detailed estimates and assumptions on costs using individual costing files, which were intended to provide detailed descriptions of the methodology underlying the costs calculations as well as

relevant evidence. Also, Cyprus submitted separate evidence when needed. The assessment of the cost estimates and inherent supporting documents shows that the majority of the costs of the new measures and of the existing measures whose modifications entailed a new cost assessment are well justified, reasonable, plausible and do not include costs covered by existing or planned EU financing and are commensurate to the expected economic and social impact of the envisaged measures. Moreover, the changes in the costs estimates of the other modified measures are justified and proportional.

Reasonable costs

Overall, the assumptions used by Cyprus to estimate the costs of the new measures in the REPowerEU chapter and of the existing measures whose modifications entailed a new cost assessment, provide a reasonable explanation of the key cost drivers of the measures. The calculations are generally clearly spelled out allowing to identify the methodology used even if for a limited number of measures the information provided is more limited or less clear. Nevertheless, there is no evidence that would allow doubting the costing estimates provided.

The new measures included in the Cypriot in the REPowerEU chapter and the existing measures whose modifications entailed a new cost assessment, comply with the eligibility criteria set out in the RRF Regulation. All costs are incurred for reforms and investments after February 2020 and after February 2022 for the measures in the REPowerEU chapter. Value-added tax (VAT) is not included in any of the cost estimates. Some of the new measures in the REPowerEU chapter include temporary recurrent costs that are acceptable, as relevant justifications are provided showing that these costs are temporary and in line with the objective of the measures.

The reasonability of the costs of the other modified measures has not changed from the initial assessment of these measures, as the changes in the cost estimates for all of them are duly justified and proportional. In the case of measures being modified under Article 21(1) of Regulation (EU) 2021/241 for cost-related reasons, sufficient information has been provided to justify the objective circumstances and the proportionality of the changes in the cost estimates or related target. In this context, the reasonability of the cost estimates, taking into account the new measures in the REPowerEU chapter, and the modified measures, has been established to a medium extent.

Plausible costs

The amount of the estimated costs of new measures in the REPowerEU chapter and the existing measures whose modifications entailed a new cost assessment is in line with the nature and type of the envisaged reforms and investments. For most of these measures, Cyprus provided supporting documents and links to online sources to substantiate the cost estimates, including explanations of how past projects relate to the cost estimates of the new measures. Nevertheless, in a limited number of instances the comparability of past projects to the ones proposed in the plan could not fully be established, partially due to the novelty of the measure.

The plausibility of the costs of the other modified measures has not changed from the initial assessment of these measures, as the changes in the cost estimates for all of them are duly justified

and proportional. Sufficient information has been provided to justify the objective circumstances and the proportionality of the changes in the cost estimates or related target.

Considering the limitations of an ex-ante assessment of cost estimates, the amounts proposed for financing were deemed appropriate and seen as establishing the plausibility of the cost estimates to a medium extent.

No double funding

Cyprus has indicated for each individual new measure in the REPowerEU chapter and the existing measures whose modifications entailed a new cost assessment that the costs to be financed by the RRF will not be funded at the same time by other Union funding sources. Furthermore, the set-up to prevent, detect and correct double funding has not been altered by the modification of the plan.

Commensurate and cost-efficient costs

The total cost of the modified Cypriot recovery and resilience plan is commensurate to the expected social and economic impact of the envisaged measures. A large part of the measures included in the Cypriot plan addresses CSRs and the overall size of the Cypriot plan of around 5% of GDP would make a significant contribution to the recovery of the Cypriot economy. The full implementation of the plan could have a significant impact on both GDP and employment in both the short and long term, initially driven by investment and then driven increasingly by productivity gains induced by reforms. Thus, the envisaged social and economic gains that would flow from the plan seem commensurate with the measures envisaged and would be in line with the principle of cost-efficiency.

The justification provided by Cyprus on the amount of the estimated total costs of the modified recovery and resilience plan is to a medium extent reasonable, plausible, in line with the principle of cost-efficiency and is commensurate to the expected national economic and social impact. Cyprus provided sufficient information and evidence that the amount of the estimated cost of the reforms and investments of the modified recovery and resilience plan to be financed under the Facility is not covered by existing or planned Union financing. This would warrant a rating of B under the assessment criterion 2.9 of Annex V to the RRF Regulation.

3.10. Controls and audit

The original assessment of the robustness and adequacy of the control system and other arrangements included in the Cypriot RRP had concluded that these arrangements are adequate subject to the timely fulfilment of one milestone pertaining to the repository system for monitoring the implementation of the RRF. This warranted a rating of A under the assessment criterion 2.10 of Annex V to the RRF Regulation.

The Cypriot authorities have confirmed that the internal control system, as well as arrangements for the prevention, detection and correction of fraud, corruption, conflict of interest and double funding as previously assessed remain in place. In addition, certain additional assurances have been provided as per agreed milestones included in the annex to the original Council Implementing

Decision – namely a repository system for monitoring the implementation of the RRF to be in place and operational. The system had to include, as a minimum, the following functionalities: (a) collection of data and monitoring of the achievement of milestones and targets; (b) collect, store and ensure access to the data required by Article 22(2)(d)(i) to (iii) of the RRF Regulation. The adequacy of these measures has been assessed by the Commission during the first payment request.

The modifications to the original plan and the introduction of the REPowerEU chapter as such do not affect the original assessment. However, in the context of the modification of the Cypriot RRP, its audit and control system needs to be reassessed on the basis of criteria 2.10 of Annex V of the RRF Regulation. Since the original assessment, the Commission has had access to information on its actual implementation. This includes the findings of the audit on the protection of the financial interests of the Union performed by the Commission in Cyprus.

In light of this information, the Commission considers that the internal control system of the Cypriot RRP is overall adequate, but it has some deficiencies that must be addressed. These relate to a weakness in the existing control mechanisms. In this context, one audit and control milestone has been introduced to remedy the weaknesses.

Robustness of internal control system and distribution of roles and responsibilities

The previous assessment concluding on the adequacy of the arrangements as regards the roles and responsibilities of the actors for control and audit, segregation of functions and independence of actors performing audits remains valid. The plan comprehensively outlines the responsibilities and roles of key actors in controls, audits, and fraud prevention, including specialized bodies and coordinators, ensuring transparency and adherence to both national and EU legislation. Control mechanisms are meticulously described, with detailed verification processes and clear lines of responsibility for all involved entities. The plan emphasizes the independence of audit services and introduces multiple layers of controls to prevent irregularities and double funding, with provisions for correction measures and recovery in case of identified issues. Adequate staffing, training, and monitoring systems are outlined to ensure the effective implementation of these measures.

Adequacy of control systems and other relevant arrangements

The control system and other arrangements to prevent, detect and correct fraud, corruption and conflicts of interest when using funds provided by RRF continue to appear overall adequate. The implementation of a repository system for monitoring and control of the measures, as well as for collection of data in line with the requirements of Article 22(2), point (d), indents (i) to (iii) of the

RRF Regulation is confirmed. Nevertheless, certain shortcomings were identified by the Commission services in the context of its audit work with regard to lack of appropriate PFIU measures at Implementing Bodies level and a lack of clear delimitation between control and implementation duties. Hence, a milestone on audit and control has been introduced in order to remedy these weaknesses. This milestone requires to issue and circulate mandatory guidelines, formulated by the Coordinating Authority, to all Implementing Bodies, addressing critical areas including risk assessment for all verification types, double funding verifications and avoidance procedures, handling irregularities and whistleblowing for Union-funded interventions, audit trail requirements , a comprehensive fraud risk assessment for all contracting authorities, and establishing specific functions within PFIU to address fraud, corruption, and conflicts of interest, all while ensuring clear role demarcation and proper alignment of controls with these guidelines.

Adequacy of arrangements to avoid double EU funding

The previously assessed arrangements as regards the prevention, detection and correction of double funding remain in place as initially assessed by the Commission.

Legal empowerment and administrative capacity of control function

The previously assessed arrangements conducted by the Commission remain intact, reaffirming the stability and reliability of the established structures and processes.

The Royal Decree 36/2020 sets up the national structure for the implementation of the Plan, establishing the duties of every entity involved. Moreover, the plan describes clearly the role and structure of the control. The established legal frameworks have distinctly defined the responsibilities and mandates of the bodies entrusted with audit and control duties. The introduced milestone contains requirements for guidelines for verifications further defining the responsibilities and mandates of these bodies as provided for in milestone 278, forming part of the second payment request. The legal mandates of the involved entities are meticulously articulated, ensuring clarity and transparency. Furthermore, the adoption and enforcement of monitoring and implementation procedures, as described initially in the plan, were solidified by the Council of Ministers' decision on 14 May 2021. This decision not only endorsed the plan but also unequivocally assigned responsibilities to the respective bodies.

The arrangements proposed by France in its modified RRP are expected to be adequate to ensure effective monitoring and implementation of the RRP, including the envisaged

timetable, milestones and targets, and the related indicators. This would warrant a rating of A under the assessment criterion 2.8 of Annex V to the RRF Regulation.

3.11. Coherence

The modifications to the RRP display coherence within each component and show thematic interlinkages and synergies between the different components, in particular those related to the newly added REPowerEU chapter.

The measures in the REPowerEU chapter improved the coherence of the RRP by reinforcing the original measures on energy efficiency measures, electric vehicles, and research and innovation on green transition. The new reform on the introduction of a regulatory framework for the connection of EV recharging points to the distribution network is closely linked to the existing and upscaled investment on promoting widespread use of electric vehicles, and the new reform on the introduction of a regulatory framework for the operation of Energy Communities is closely linked to measures encouraging the use of renewables in dwellings.

The modified recovery and resilience plan includes measures that are complementary with one another. This concerns the components related to green transition, sustainable transport and the new REPowerEU chapter. The modifications do not have contradictory aims or possible negative effects on one another.

In order to promote wider coherence across instruments, notably with the European cohesion policy funds, a balanced territorial allocation of resources is encouraged.

The nature and extent of the proposed modifications to Cyprus' recovery and resilience plan do not have a material impact on the previous assessment (rating of A) of the coherence of the actions proposed by Cyprus.

3.12. REPowerEU

The REPowerEU chapter measures will directly contribute to an increase in the uptake of renewables and in energy efficiency in different buildings and enterprises, through the new reform on Regulating and facilitating the participation of Active Customers Renewable Self-consumers, Citizen Energy Communities, Renewable Energy Communities and Demand Response through Cumulative Representation in the electricity market, the new and scaled-up measures on investments promoting renewables and individual energy efficiency measures both in the private and the public sector. Also, the investment scaling up the measure on the scheme for the enhancement of large enterprises competitiveness in the manufacturing sector shall increase the number of large enterprises supported, in all economic sectors, to improve their energy performance, via energy efficiency measures or installation of photovoltaic systems. Also, both

measures in the field of thematic research will increase the number of enterprises engaged in green transition R&I activities, with a particular focus on solutions to bottlenecks identified in energy production, storage, transmission and distribution that will enhance the national grid's infrastructure functionality and efficiency, accelerate RES integration and significantly reduce the country's energy needs. Additionally, the reform and the upscaled investment in the field of electric vehicles shall increase the number of electric vehicles purchased, leading to increased incentives to enterprises and individuals to shift to zero-emission vehicles and thus reduce consumption of fossil fuels for transports. Ultimately, all these measures will thus contribute to energy security and to the diversification of the Union's energy supply.

All the energy efficiency measures, the upscaled scheme for the enhancement of their competitiveness and the energy upgrade of large enterprises in Cyprus and the reform on Regulating and facilitating the participation of Active Customers Renewable Self-consumers, Citizen Energy Communities, Renewable Energy Communities and Demand Response through Cumulative Representation in the electricity market will directly contribute to the second REPowerEU objective of boosting energy efficiency in buildings, decarbonising industry, and increasing the share of renewable energy. Notably, several of the renovation programmes shall lead to a 30% reduction in the Primary Energy Demand of the buildings renovated. The measures in the field of electric vehicles and the new investment on thematic research in enterprises for energy production, storage, transmission and distribution solutions will contribute to the third REPowerEU objective of addressing internal and cross-border energy transmission bottlenecks and supporting zero-emission transport and its infrastructure, including railways. Notably, the reform on the introduction of a regulatory framework for the connection of EV recharging points to the distribution network and the investment scaling up the measure on promoting widespread use of Electric Vehicles will facilitate the rollout of electric vehicles, leading to increased incentives to enterprises and individuals to shift to zero-emission vehicles and thus reduce consumption of fossil fuels for transports. The thematic research investment mentioned above will focus on grants for targeted R&I activities aiming to provide solutions to bottlenecks identified in energy production, storage, transmission and distribution that will enhance the national grid's infrastructure functionality and efficiency, accelerate RES integration and significantly reduce the country's energy needs. Finally, the upscaled investment on a thematic research and innovation funding program on green transition will contribute to the fourth REPowerEU objective on supporting the objectives above through an accelerated requalification of the workforce towards green skills, as well as support of the value chains in key materials and technologies linked to the green transition. One of the REPowerEU measures is also directly focused on energy poverty, which is the upscaled investment on promoting renewables and individual energy efficiency measures in dwellings and tackling energy poverty. It aims to increase the number of dwellings, including households of vulnerable electricity consumers, with improved energy performance, thus increasing energy savings and further tackling energy poverty.

As explained in section 3.7., the REPowerEU measures are expected to contribute to the green transition by promoting the lasting use of renewables and energy efficiency measures in

households, the public sector and companies, leading to a significant reduction of the primary energy consumption. Also, the reform on Regulating and facilitating the participation of Active Customers Renewable Self-consumers, Citizen Energy Communities, Renewable Energy Communities and Demand Response through Cumulative Representation in the electricity market will enable the lasting uptake of renewable energy projects in the country, thereby allowing a faster penetration of renewable energy in the economy. The promotion of widespread use of Electric Vehicles (EVs) and the establishment of the regulatory framework for the connection of EV recharging points to the distribution network will increase incentives to enterprises and individuals to shift to zero-emission vehicles. Notably, the reform on the introduction of a regulatory framework for the connection of EV recharging points to the distribution network and the upscaled investment on promoting widespread use of EV should facilitate the rollout of electric vehicles, leading to increased incentives to enterprises and individuals to shift to zero-emission vehicles and thus reduce consumption of fossil fuels for transports. The thematic research investment mentioned above will focus on incentives for targeted R&I activities aiming to provide solutions to bottlenecks identified in energy production, storage, transmission and distribution that will enhance the national grid's infrastructure functionality and efficiency, accelerate RES integration and significantly reduce the country's energy needs. Finally, the thematic research investments which will provide incentives for targeted research and innovation linked to new technologies in the field of green transition and energy will accelerate RES integration and reduce the country's energy needs.

All the above measures are expected to contribute to the REPowerEU objectives in coherence and complementarity with a number of other reforms and investments promoted under the RRP, mainly under Components 2.1 and 2.2, as well as under other national initiatives or EU funded programmes such as programmes co-funded by the Cohesion Policy and the Just Transition Funds (e.g. incentives for energy/storage of renewable energy systems).

Finally, it must be noted that key public stakeholders have been consulted on the REPowerEU chapter which generally proved consensual.

Taking into consideration the assessment of all the measures envisaged in the REPowerEU chapter, the chapter is expected, to a large extent, to contribute effectively to energy security, the diversification of the Union's energy supply, an increase in the uptake of renewables and energy efficient, an increase of energy storage capacities or the necessary reduction of dependence on fossil fuels before 2030. This would warrant a rating of A under criterion 2.12 of Annex V to the RRF Regulation.

3.13. Cross-border or multi-country dimension or effect

Though no measures of direct multi-country dimension, in terms of cooperation and/or scope, are included in this chapter, it is considered that most of the measures do have a cross-border effect since they contribute to the reduction of the demand and dependency on fossil fuels, either by electrification, by promoting the production and integration of renewable energy sources into the network or through supporting energy efficiency and saving, hence reducing the country's energy

needs. This reduced dependence on fossil fuels should also be reflected in Cyprus' cross-border energy flows. Therefore the measures can be considered as having a positive cross-border effect as established in the Commission's guidance in the context of REPowerEU⁵.

Taking into consideration the assessment of all the measures envisaged in the REPowerEU chapter, the measures in the chapter are expected, to a large extent, to have a cross-border of multi-country dimension or effect. This would warrant a rating of A under criterion 2.13 of Annex V to the RRF Regulation.

REPowerEU measure	Costs (EUR million)	Contribution to the target in %
Promoting renewables and individual energy efficiency measures in dwellings and tackling energy poverty in households with vulnerable electricity consumers	35.43	33.88%
Encouraging the use of renewables and energy savings by local/wider public authorities and facilitating the transition of local communities towards climate mitigation & adaptation	11	10.52%
Promote widespread use of Electric Vehicles (EVs) - new electric cars + PS vehicles (ZEV)	8	7.65%
Scheme for the enhancement of their competitiveness and/or the energy upgrade of large enterprises in Cyprus	10	9.56%
Promoting extensive energy upgrading of housing stock	30	28.69%
Introduction of regulatory framework for the operation of Energy Communities	0.09	0.086%
Introduction of regulatory framework for the connection of EV recharging points to the distribution network	0.06	0.057%
TOTAL:	94.58	90.44%

ANNEX I: Climate tracking and digital tagging²

Measure/ Sub-Measure Name ID	Measure/Sub-Measure Name	Budget (EUR m)	Climate		Digital *	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C1.1R1.1	National Centre for Clinical Evidence and Quality Improvement - Digital platform	1			095	100%
C1.1R2	Design of an Electronic platform for the surveillance of Nosocomial Antibiotic Consumption and Healthcare – Associated Infections	0.4			095	100.00%
C1.1I1.1	New facilities for the Cyprus Blood Establishment and procurement of the latest technology attendant equipment - Construction of new buildings	3.52	025ter	40.00%		
C1.1I2	Cyprus Innovative Public Health information and communications technology (ICT) System	5.7			095	100.00%
C1.1I5.1	Enhancement, modernization and upgrade of Cyprus State Hospitals - Construction of new buildings [Haemodialysis unit at Paphos Hospital, new building of Makarios Hospital for children and new Mental Health Hospital]	23.46	025ter	40.00%		
C1.1I5.2	Enhancement, modernization and upgrade of Cyprus State Hospitals - Energy efficient renovation	21.39	026	40%		
C1.1I5.3	Enhancement, modernization and upgrade of Cyprus State Hospitals - Digitalisation in Health Care	1.6			095	100.00%
C1.1I6	Deployment of generic cross border e-health services in Cyprus	1.94			013	100.00%

² While the estimated cost of Cyprus's recovery and resilience plan exceeds the total allocation of non-repayable financial support to Cyprus, Cyprus will ensure that all spending related to the measures mentioned in this table as contributing to climate objectives are fully financed by the funds from the Recovery and Resilience Facility.

Measure/ Sub-Measure Name ID	Measure/Sub-Measure Name	Budget (EUR m)	Climate		Digital *	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C1.1I7	Public warning system for supporting emergency operations through SMS	4.5		100.00%	055	100.00%
C2.1R2	Independence of Cyprus Transmission System Operator (TSOC) from the incumbent Electricity Authority of Cyprus	0	033			
C2.1R3	Digital One-Stop Shops to streamline RES projects permitting and to facilitate Energy Renovation in Buildings	0.5	011bis	40.00%	011bis	100.00%
C2.1R4	Energy Storage Regulatory Framework	0	033			
C2.1I1	Promoting energy efficiency investments in SMEs and non-profit organisations	40	024ter	100.00%		
C2.1I2	Promoting renewables and individual energy efficiency measures in dwellings and tackling energy poverty, including in households with vulnerable electricity consumers	20.5	025bis	100.00%		
C2.1I3	Encouraging the use of renewables and energy savings by local/wider public authorities and facilitating the transition of local communities towards climate mitigation & adaptation	12.5	026bis	100.00%		
C2.1I4	Encourage the reduction of CO2 emissions in businesses	5.3	027	100.00%		
C2.1I5.1	Energy Efficiency Upgrading of public buildings - Schools & Fire Service	8.35	026bis	100.00%		
C2.1I5.2	Energy Efficiency Upgrading of public buildings - Nicosia Hospital & Water	3.1	029	100.00%		
C2.1I6	Upgrading renewable energy and smart grids testing infrastructure at the University of Cyprus	1.59	033	100.00%		40.00%
C2.1I7	Mass installation and operation by the	35	033	100.00%	033	40.00%

Measure/ Sub-Measure Name ID	Measure/Sub-Measure Name	Budget (EUR m)	Climate		Digital *	
			Int. Field	Coeff. %	Int. Field	Coeff. %
	Distribution System Operator (DSO) of Smart Metering Infrastructure (Advanced Metering Infrastructure)					
C2.1I8	Monitoring and reduction of GHG emissions in agriculture	4.13	022	100.00%		
C2.1I9	Forests fire protection	25.7	036	100.00%		
C2.1I10	Market Management System to facilitate the opening of the electricity market to competition	4.7	033	100.00%	033	40.00%
C2.1I11	Ending energy isolation - Project of Common Interest "EuroAsia Interconnector"	100	033	100.00%		
C2.2R1	Establishment of an Intelligent Transport System using Digital Twin technologies	4	076bis	40.00%	076bis	100.00%
C2.2R2	Provide the regulatory framework for an interoperable and effective electric vehicle (EV) recharging infrastructure and an efficient EV recharging market	0.2	073	100%		
C2.2R3	Progressively phase out the most polluting vehicles, especially in polluted urban areas	0	074			
C2.2I1.1	Implementation of Sustainable Urban Mobility Projects (SUMP) and accessibility enhancing measures - SUMP / Cycling Infrastructure & accessibility enhancing measures	14.5	075	100%		
C2.2I2	Creation of electro-mobility infrastructure	6.79	073	100%		
C2.2I3.1	Promote widespread use of Electric Vehicles (EVs) - new electric cars + PS vehicles (ZEV)	32.99	074	100%		
C2.2I3.2	Promote widespread use of Electric Vehicles (EVs) - new electric cars + PS vehicles (ZEV)	15	ADHOC	40%		

Measure/ Sub-Measure Name ID	Measure/Sub-Measure Name	Budget (EUR m)	Climate		Digital *	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C2.3R1	Water Resource Management Reform	0.74	040	40%		
C2.3I1	Choirokitia-Famagusta Conveyor Replacement	11.76	040	40%		
C2.3I2	Water Treatment Plants: upgrade for water quality improvement	6.02	040	40%		
C2.3I3	Integrated Monitoring and Control Management System for the Water Development Department's infrastructure	5.96	040	40%	055	100%
C2.3I4.1	Smart Water and Sewerage Networks Management - Larnaca Sewerage (digital)	0.33	010ter	100%	010ter	100%
C2.3I4.2	Smart Water and Sewerage Networks Management - Larnaca Sewerage (solar)	0.95	029	100%		
C2.3I4.3	Smart Water and Sewerage Networks Management - Larnaca Sewerage (energy efficiency)	0.25	024	100%		
C2.3I4.5	Smart Water and Sewerage Networks Management - Larnaca & Limassol Waterboard / water management	17	040	100%	055	100%
C2.3I5	Anti-flood and water collection measures	16	035	100%		
C2.3I6	Enhance water security for Nicosia and Larnaca regions	6.04	037	100%		
C2.3I8	Protection of the marine ecosystem from hazards through oil spills	7.60	038			
C3.1R2	On-line platform for improving the trade and information symmetry in the fresh produce supply chain	0			011	100%
C3.1R3.1	Genetic improvement of the Cyprus sheep and goat population - Digital	0.2			011	100%
C3.1R4	Enhancement of circular economy in the Industry	15	047	40%		
C3.1I1	Marine aquaculture construction	25	081bis	40%		
C3.1I2	Enhancement of isotopic database of traditional Cypriot products	1			011	100%

Measure/ Sub-Measure Name ID	Measure/Sub-Measure Name	Budget (EUR m)	Climate		Digital *	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C3.1I7	Scheme for the enhancement of their competitiveness and the energy upgrade of large enterprises in Cyprus	7	024bis	0%		
C3.1I9	Promotion of circular economy in hotel establishments	1.4	047	40%		
C3.1I10.1	Enrichment of the tourism product in rural, mountainous and remote areas - Natural heritage	1.8	050	40%		
C3.1I11	Improvement and extension of the Cyprus Green Points Network and creation of a network of Collection Points and Recycling Corners	10	047	40%		
C3.1I12	Waste management towards circular economy	3.3	042	40%		
C3.2I2.1	Innovation Funding Programs & Funding schemes for the enhancement of growth & competitiveness of start-ups, innovative companies and SMEs - Green transition	2	022	100%		
C3.2I3	R&I funding program on green transition	6	022	100%		
C3.3I1	Integrated Information system for the Department of Registrar of Companies and Intellectual Property	6.58			011	100%
C3.3I2	Creation of a Regulatory Sandbox to enable FinTech	0.4			021ter	100%
C3.3I4	Scheme for the digital upgrade of enterprises	10			010	100%
C3.4R4.1	Strengthen administrative capacity and transparency through the professionalisation of public procurement and further digitalisation of its process - Digital	4			011	100%
C3.4R5	Enhancement of the capacity of the Law Office	1.03			011	100%
C3.4R7.1	Urban land consolidation - Digital	0.12			011	100%

Measure/ Sub-Measure Name ID	Measure/Sub-Measure Name	Budget (EUR m)	Climate		Digital *	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C3.4R9	Digital transformation of courts	10.89			011quater	100%
C3.4I2	Digitalisation of the law-making process	1.69			011	100%
C3.4I4	Enhancing e-system for issuing building permits	1.12			011	100%
C3.4I5	Smart cities	35	055bis	40%	055bis	100%
C3.4I6.1	Regeneration and Revitalization of Nicosia Inner City - Renovation	10	025	40%		
C3.5R6.1	Reinforcing and strengthening the insolvency framework - Digital	0.6			011	100%
C3.5R9.1	Improving tax collection and effectiveness of the Tax Department - Digital	16.43			011	100%
C3.5I1	Enhancement of the Supervisory Function of the Cyprus Securities and Exchange Commission	0.25			011	100%
C3.5I2	Modernisation of Customs and Electronic Payment System	10.58			011	100%
C4.1R1	Empower the National Regulatory Authority (OCECPR)	0.5			011	100%
C4.1I1	Expansion of Very High Capacity Networks in underserved areas	35			053	100%
C4.1I2	Upgrade internet connection to be "Gigabit-ready" and promote connectivity take-up	10			053	100%
C4.2R1	Digital Services Factory	4.7			011	100%
C4.2R2	Definition and implementation of a new cloud policy with regard to government IT systems and services	6			011	100%
C4.2R3	Police Procedures digitalisation on Digipol	8			011	100%
C4.2R4	Setting up the beneficial ownership registry	0.4			011	100%
C4.2I1.1	Digitalisation in various central government ministries/services - system development, hardware	13.1			011	100%

Measure/ Sub-Measure Name ID	Measure/Sub-Measure Name	Budget (EUR m)	Climate		Digital *	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C4.2I2	Digitalisation of the Cyprus Ports Authority	3.28			011	100%
C5.1R2.1	A new teacher and school evaluation system - digital	0.3			011	100%
C5.1R4	Digital transformation of school units with the aim of enhancing digital skills and skills related to STEM education	13.8			012	100%
C5.1R5	E-skills Action Plan – Implementation of specific actions	1.85			108	100%
C5.1I2.1	Skilling, reskilling and upskilling - green skills	2.58	01	100%		
C5.1I2.2	Skilling, reskilling and upskilling - digital skills	8.42			108	100%
C5.2R1.1	Reform of the Social Insurance System and Restructuring of the Social Insurance Services - Digital	7.25			011	100%
C5.2I1.1	Improving the effectiveness of the Department of Labour and Public Employment Services (PES) and reinforcing support for young people - Digital	2.3			011	100%
C6.1R1	Regulating and facilitating the participation of Active Customers, Renewable Self-Consumers, Citizen Energy Communities, Renewable Energy Communities and Demand Response through Cumulative Representation in the electricity market	0.09	025			
C6.1R2	Establishment of the regulatory framework for the connection of EV recharging points to the distribution network	0.06	073	100%		
C6.1I1	Scaled-up measure: Promoting renewables and individual energy efficiency measures in dwellings and tackling energy poverty, including in households with vulnerable electricity consumers	35.43	025bis	100%		

Measure/ Sub-Measure Name ID	Measure/Sub-Measure Name	Budget (EUR m)	Climate		Digital *	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C6.112	Scaled-up measure: Encouraging the use of renewables and energy savings by local/wider public authorities	11	026bis	100%		
C6.113	Promoting extensive energy upgrading of housing stock	30	025bis	100%		
C6.114	Scaled-up measure: Promote widespread use of Electric Vehicles (EVs)	8	074	100%		
C6.115	Scaled-up measure: Scheme for the enhancement of the competitiveness and the energy efficiency of large enterprises in Cyprus	10	024bis	40%		
C6.116	Scaled-up measure: Thematic research and innovation funding program on green transition	6	022	100%		
C6.117	Thematic research in enterprises for energy production, storage, transmission and distribution solutions	4	022	100%		

*Reforms and investments in the REPowerEU chapter are not taken into account when calculating the plan's contribution to the digital target requirement set by Regulation (EU) 2021/241.