



EUROPE 2020
CYPRUS NATIONAL REFORM PROGRAMME
2019

APRIL 2019

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1. INTRODUCTION

The Cyprus economy continued to experience robust growth in 2018, reaching 3.9%, one of the strongest growth rates in the EU. Growth was broadly based, driven by strong performance in various sectors of economic activity and reflecting mainly the increase in domestic demand, particularly private consumption, and net exports. Unemployment has declined markedly, while inflation was low.

These developments were supported by positive developments in the financial sector and continued robust fiscal performance with favourable ramifications for debt sustainability, with only a temporary impact on public finances due to the winding down of the Cyprus Cooperative Bank. The improvements in the macroeconomic environment were complemented by the implementation of wide ranging structural reforms which are reflected in the Action Plan for Growth.

The Government intends to continue utilizing the favourable growth conditions in order to achieve the implementation of its wide ranging reform programme aiming at safeguarding sustainable long term 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 2018 Council Country Specific Recommendations¹ and the 2019 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 also included. The NRP also reports on progress made towards meeting the five national targets of the Europe 2020 strategy. The Government's strategy as regards investment, including in the context of the utilization of EU funds, is also presented.

In summary the reform priorities aim at:

- Increasing the efficiency of the Public and Local Administration.
- Improving the efficiency of the Judicial System.
- Continuing the implementation of the reformed Insolvency and Foreclosure Frameworks.
- Reducing further the high level of non-performing loans and private debt.
- Boosting productive investment, enhancing competitiveness and improving the business environment.
- Improving the quality of Active Labour Market Policies, particularly for young people.
- Further promoting the reform of the education and training system.
- Implementing the health care reform.
- Promoting social and environmental sustainability.

These reform priorities are also in line with the most pressing economic and social priorities as outlined in the Commission Annual Growth Survey³: delivering high-quality investment, focusing on reforms that increase productivity growth, inclusiveness and institutional quality and continuing to ensure macro-financial stability and sound public finances.

¹[https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018H0910\(12\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018H0910(12)&from=EN)

²https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-cyprus_en.pdf

³<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0770&from=EN>

2. MACROECONOMIC CONTEXT AND SCENARIO

This year's NRP has been prepared on the back of a robust economic and fiscal performance exhibited by the Cyprus economy and positive developments in the financial sector. The aforementioned performance and positive developments have been acknowledged by Rating Agencies, leading to consecutive upgrades of the Cyprus economy, which led Cyprus to gain back its investment grade status.

Economic growth in 2018, reaching 3.9%, one of the highest in the EU, was broad based, driven by the strong performance in the tourism sector, shipping sector, business services and a continuous recovery of the construction sector, leading to improving labour market conditions. In particular, tourist arrivals in 2018 reached a new record number, exhibiting a growth rate of about 7.8% vis-à-vis 2017, the previous record year.

From the expenditure side, the economy's robust performance can be attributed mainly to domestic demand and in particular private consumption, as well as net exports. Private consumption benefitted from increased employment across most sectors and also from a (slowly) rising of compensation per employee.

On the back of economic recovery, the labour market has significantly improved, even though there is still slack in the economy. The unemployment rate has been showing a downward trend since the second quarter of 2015, falling to 8.4% in 2018. For 2018, employment in persons exhibited an increase of 4.0%. Youth and long-term unemployment, which constitute the main challenges in the labour market, declined to around 20.2% and 2.7% in 2018 from the peaks of about 40% and 8% in 2013 and 2014, respectively. The flexibility in the labour market and the active labour market policies promoted by the Government have contributed to the downward trend in 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, exhibited an increase of 0.7% in 2017 and an increase of 0.1% in 2018.

Inflation, as measured by the Harmonised Index of Consumer Prices (HICP), reached 0.8% in 2018. This increase is mainly attributed to increases in the prices of electricity and water, as well as of transport and petroleum products, which recorded an annual rate of growth of 9.3%, 6.6% and 6%, respectively. The largest decline in prices during 2018 was recorded in the category "imported goods" (-1.1%). Core inflation averaged at 0.4% during 2018, indicating low inflationary pressures in the economy and strong growth in prices for energy products and seasonal food (6.8% and 17.6%, respectively).

On the fiscal front, a robust fiscal performance has been continuously exhibited, meeting fiscal targets with considerable margins, thus supporting debt sustainability. The budget balance of the General Government⁴ was in deficit during 2018 of about €990 mln (-4.8% of GDP), including the one-off fiscal burden of €1,659 mln, that was the result of the sale of part of assets and liabilities of the Cyprus Cooperative Bank Ltd (CCB) to the Hellenic

⁴ The sale process of parts of the assets and liabilities of the Cyprus Cooperative Bank Ltd (CCB) to the Hellenic Bank resulted in the establishment of two new entities, namely the Cooperative Asset Management Company Ltd (SEDIPES) and Cyprus Asset Management Company Ltd (KEDIPES), which are both classified within the General Government sector as of September 2018.

Bank. Primary balance was also in deficit of €475 mln (-2.3% of GDP). Excluding the abovementioned one-off fiscal burden, nominal balance was in surplus of the order of 3.2% of GDP compared to 1.8% of GDP the year before, recording an improvement of 1.4 percentage points of GDP. Respectively, primary balance also improved by 1.4 percentage points of GDP, reaching 5.7% compared to 4.3% of GDP the year before.

Following a peak in gross debt to GDP ratio in 2014-2015 at 107.5%, public debt to GDP declined to around 96% of GDP at the end of 2017. In 2018, there was a one-off increase in public debt to GDP ratio rising to about 102.5% of GDP, due to the issuance of government bonds to facilitate the transaction between the Cyprus Cooperative Bank and Hellenic Bank. Thereafter, debt trajectory is forecast to follow a downward trend.

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 is still high, as deleveraging takes place at the same time. In numbers, there has been a significant reduction in NPLs from the peak of €28.9 bln to around €11 bln in 2018, which constitutes a decrease of around 60%, which is the biggest fall experienced in the E.U. This improvement can be mainly attributed to the three-pillar strategy adopted by the Government to address the remaining challenge facing the sector and the wider economy. The first pillar is the CCB's orderly market exit, with a domestic bank acquiring parts of CCB's assets and liabilities, while the newly established AMC is expected to gradually reduce the NPL stock. A second pillar is the strengthening of the legal framework for insolvency, foreclosures, and asset disposals. The third pillar is an NPL subsidy scheme (Estia scheme) with strict eligibility criteria, which supports borrowers who face difficulties repaying loans backed by their main primary residence.

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, education, health care etc.), which are considered as key for the island's economy, having a positive impact on its growth potential. Furthermore, given the strong performance of the economy, disposable incomes are expected to further improve, providing boost to consumption and investment. 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 less restrictive 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 (especially in view of the BREXIT) and the ruble, the tourism sector is expected to remain robust in the future, as momentum from other jurisdictions appear to be strong. Given the positive general economic environment, unemployment is expected to continue its downward trend path, with wages and employment expected to continue growing in 2019 and 2020, supporting domestic demand.

Based on the above, the growth rate of the economy in 2019 is expected to reach around 3.6% in real terms.

HICP is projected to increase moderately at around 0.5% in 2019, whereas the unemployment rate is expected to fall further and average at around 7% in 2019.

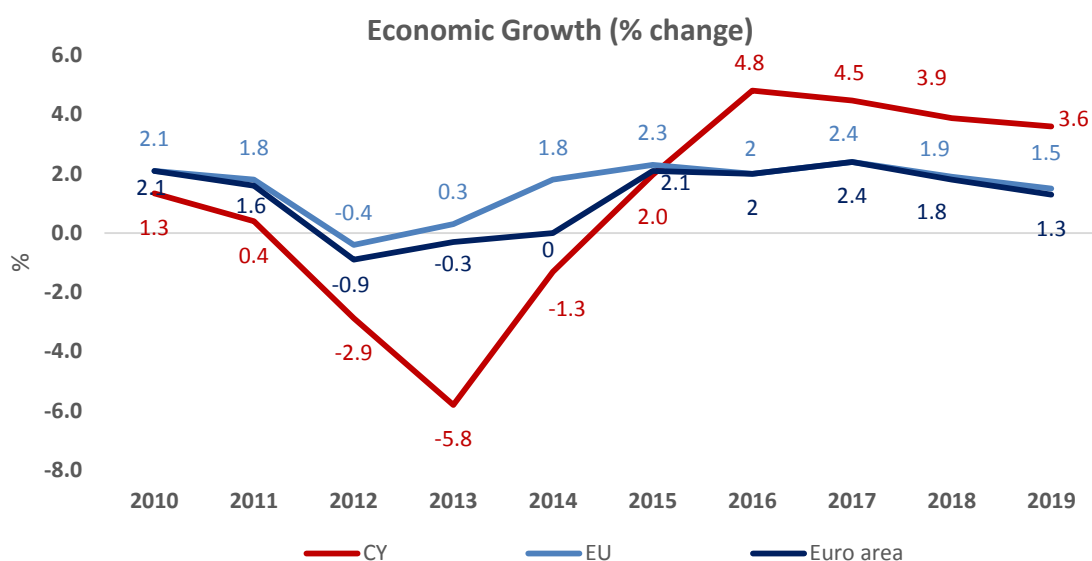
Downside risks to the above baseline scenario, include slower than envisaged reduction in NPLs and possible worsening in external demand for services associated with a disorderly exit of the UK from the EU. Additional fiscal risks stem from recent court rulings related with the constitutionality of fiscal consolidation measures regarding pension cuts and public sector wages cuts.

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

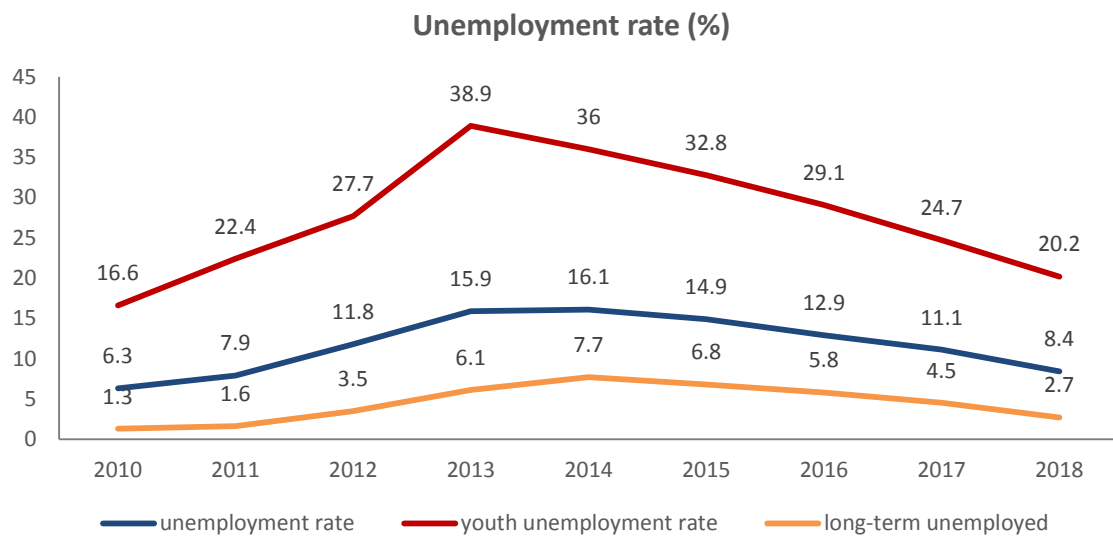
Table: Macroeconomic indicators

Indicator	2015	2016	2017	2018	2019f
Real GDP (%)	2.0	4.8	4.5	3.9	3.6
Inflation (HICP)	-1.5	-1.2	0.7	0.8	0.5
Unemployment Rate (% of labour force)	14.9	12.9	11.1	8.4	7
Public Debt (% of GDP)	108.0	105.5	95.8	102.5	95,8
Nominal balance (% of GDP)	-1.3	0.3	1,8	-4,8	3

Graph: Economic Growth



Graph: Unemployment



3. KEY POLICY RESPONSE TO MAJOR ECONOMIC CHALLENGES

A. Reforms and other Measures related to Country Specific Recommendations

3.1. Public Administration and Local Government Reforms, SOEs governance

Country Specific Recommendation – CSR 1

Adopt key legislative reforms to improve efficiency in the public sector, in particular as regards the functioning of the public administration and the governance of state - owned entities and local Governments.

3.1.1. Reforming Public Administration

Aiming at modernising the public administration and improving its efficiency, legislative proposals for the reform of the public service were submitted to the House of Representatives (HoR) in 2016. These included horizontal reforms relating to civil servants mobility, the introduction of a new appraisal system for civil servants, and new procedures and criteria for the evaluation and selection of candidates for promotions. The proposals were rejected in the Finance Committee of the HoR, with the exception of the Bill regarding mobility between the Public Service and State Owned Organisations (SOEs), as well as among SOEs, which was approved in May 2017.

The Ministry of Finance (MoF) and its Public Administration and Personnel Department (PAPD) reviewed the rejected proposals and, after taking into consideration the opinions expressed by the parliamentary parties, introduced several amendments. Consultations are currently underway with various stakeholders on the revised proposals. The intention is for new proposals to be submitted to the HoR by the end of June 2019.

3.1.2. State Owned Enterprises

As regards the draft legislation on the governance of SOEs, the pending before the HoR as of April 2015 has been recently withdrawn. It is noted though that most of the provisions of the draft law are included in the above guidance provided by the MoF.

The Fiscal Responsibility and Budget System Law (FRBSL) N. 20(I)/2014 provides the legal underpinning for the financial oversight of state-owned entities (SOEs). This includes among others, the approval of borrowing and of annual budgets, monthly budget execution reports and any other matters which may be determined by the Minister of Finance.

To increase transparency and improve planning, MoF's circular issued in June 2018 Bill, informed all SOEs that the 2020 budget must be prepared based on the three-year medium term budgetary framework. A relevant seminar to all SOE's will be organized in the 1st half of 2019.

Furthermore, the FRBSL states that the SOEs are required to submit for approval to the Minister of Finance and competent Minister, a strategic plan including key indicators related to the objectives defined. Strengthening SOEs planning and reporting framework will be

achieved as Public Financial Management (PFM) reform progresses to include all organizations into the strategic planning process and the conversion from the traditional budget to the Activities Based Budget (ABB), over the coming years. The MoF plans to start the implementation of this process within 2019, with the 3 state universities.

In parallel, the Institute of Directors (Cyprus Branch) took an important initiative by drafting and issuing at the end of 2018 a code on the governance of the SOEs based on best practices, including the OECD guidelines. A relevant seminar was organized in November 2018, under the auspices of the MoF, for the presentation of the code. Bill

3.1.3. Local Government Reform

The draft legislation concerning the Local Government Reform which had been submitted to the HoR in July 2015 has not been forwarded for voting into legislation. In order to overcome the obstacles faced during the discussions in the competent Parliamentary Committee, the Government has appointed an external expert in November 2018, to prepare a study/policy paper with the following objectives:

- To assess the current situation on the basis of international experience and the findings of previous studies and reports on local Government in Cyprus, as well as the available financial data on the operation of the municipalities of Cyprus.
- To indicate, in cooperation with the Ministry of the Interior (MoI), the municipalities that will be proposed for unification.
- To introduce a system of representation/election in the Municipal Councils of the new Municipalities that will emerge, taking into account the current population proportions.
- To propose for the unbundling and transfer of responsibilities from the central Government to the local Government, in accordance with the international experience and the European Charter of Local Self-Government of the Council of Europe. The latter provides that the place of decision-making and provision of services must be as much as possible close to the citizens.
- To propose ways for municipalities to gradually become autonomous, taking into account the current legal framework.
- To suggest ways for municipalities to become financially independent but also viable, taking into account the amount of state subsidy paid today. This subsidy should be partially replaced in the long run by other means of financing (e.g. through the increase of own revenues based on increased responsibilities).
- To strengthen internal control and transparency institutions.
- To suggest ways to better manage staff, based on good practices, indicating a model for the organizational structure of the municipalities.
- To compare, on the basis of the available data and international experience, the existing situation with the proposed one and to record the potential benefits that will arise.
- To define the legal framework on the basis of which the unification of Municipalities will be promoted.
- To define the legal or other framework for the implementation of the expert's other suggestions.

The expert has recently delivered the study/policy paper, on the recommendations of which a revised version of the Municipal law has been drafted and handed to the Union of Municipalities, the comments of which are expected to be provided in April 2019. All the above issues and recommendations of the expert have been taken into consideration in the draft legislation and there is a provision in the legislation for the unification of a number of the current municipalities and/or communities, so as the newly established Municipalities will not be more than fifteen.

Furthermore, the draft legislation concerning the establishment of the 5 District Clusters is still pending before the HoR. District Clusters will be responsible for activities related to: (a) water boards, (b) sewage boards, and (c) solid waste management. A major change has been introduced though compared to the previous draft legislation, namely the issuing of the planning and building permits will be transferred to the Local Authorities and not to the District Clusters.

Following a recent external study which proposes the establishment of 37 Local Clusters for the 350 Communities, a revised version of the Communities law was drafted. Local Clusters will be responsible for: (a) management of garbage collection, (b) promotion of actions to design and bring to maturity complex projects, (c) provision of accounting services, with a single software system, (d) secretarial services, (e) technical support by qualified personnel, (f) provision of health services, (g) provision of traffic control services, (h) implementation of the provisions of the Dogs Law, and (i) out-of-court settlement of offenses by the imposition of a fine.

Following stakeholders' consultation the above draft legislations will be forwarded to the Attorney General for legal vetting, before being submitted to the Council of Ministers (CoM) and then to the HoR.

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

(a) Institutional reforms

In accordance with the Action Plan for Growth, and with the view to setting up a more efficient and growth inducing governance system, a series of institutional measures have been introduced since last year. New competent Authorities have been established relating to two key sectors of the Cyprus economy, namely the Deputy Ministry for Shipping and the Deputy Ministry for Tourism, in March 2018 and January 2019, respectively (see also section 3.4.4 for developments in the two areas).

An Economy and Competitiveness Council⁵ was set up in June 2018, with the aim to monitor developments in terms of productivity and competitiveness and to contribute, through policy recommendations, to the steady and sustainable growth of the Cyprus economy. The set-up of this independent body follows also the recommendation by the Council of the EU on the establishment of National Productivity Boards in the Euro Area Member States. The newly established Council will also contribute to greater institutionalization of competitiveness analysis and policy formulation (see sections 3.4.4 and 3.4.5 for the formulation of the 1st Competitiveness Report for Cyprus and the development of a new Long-Term Economic Strategy for Cyprus).

In addition, a new governance system has been introduced in the area of Research &

⁵http://www.ecompet.cy/ecompet/ecompet.nsf/home_en/home_en?opendocument

Innovation, in accordance with the CoM decision of October 2018 providing for the set-up of the National Board for Research and Innovation (NBRI), the appointment of a Chief Scientist as well as the appointment of R&I liaisons in all Ministries. Discussions are currently underway for the establishment of a Deputy Ministry for Research, Innovation and Digital Transformation (see also section 4.4 for further developments in the area of R&I).

(b) Improving the regulatory framework

The Government has placed great emphasis on improving the ease of doing business via better 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 under the Action Plan continued in 2018. Progress is recorded for reform actions in the areas of tourism, the modernization of the Department of Registrar of Companies and Official Receiver (DRCOR) and of the Tax Department, all of which are of particular importance for the improvement of the business environment. As regards the regulatory framework for tourism, the Bill and regulations regarding the operation of hotels were approved by the HoR on the 1st March 2019 and reforms in the area are expected to accelerate given the set-up of the Deputy Ministry for Tourism as of January 2019 (see Section 3.4.4.f). Recommendations for the simplification of the procedures and legislation as well as the modernization of the Civil Registry and Migration Department have been prepared and are currently under consultation with key stakeholders.

As regards the reform of the DRCOR, the modeling of the current procedures of the Companies Section and the Intellectual & Industrial Property Section was completed in 2017, which constituted the basis of the business process reengineering, aiming at streamlining the procedures and providing more efficient and faster services. A total of 100 procedures were streamlined, 750 modeling diagrams were developed and more than 350 change requirements were defined in relation to policy, operational, legislative, organisational and system change requirements.

In addition and on the basis of the results of the business process reengineering, a comprehensive legal package was approved on 18.12.2018 by the HoR, comprising of 2 Amendment Laws and 5 Regulations, aiming at further simplifying the existing legal framework and procedures regarding the filing obligations of registered organisations. Moreover, all statutory forms of the Companies Section (81 in total), were redesigned or consolidated for the purpose of simplification. Support to applicants was enriched with explanatory notes and checklists to guide the applicant through the process. The new statutory forms, also electronically designed, will be introduced gradually, in a phased approach, starting in 2019.

Work is in progress regarding the operational and restructuring changes, including the development of new websites and IT solutions through the support inter alia of the European Commission's Structural Reform Support Service (SRSS). In addition, work is also in progress with regards to the complete revision of all statutory fees paid for services rendered by the Companies Section, estimated to be completed in 2020.

The third and final progress report of the Action Plan for Better Regulation, ending in 2018, is being prepared. This will be followed by a new Action Plan for 2019-2021 in policy areas of high priority for the reduction of administrative burden.

The new Impact Assessment (IA) mechanism, put in place in 2017, aiming at more thorough impact assessments for new legislation has been embedded as a mandatory part of the legal drafting procedure. An IA report summarizing the main findings and suggestions for the way forward was published in 2018. The training program of public officials, to further enhance the implementation of the new IA framework, including the SME Test for new legislation, is planned to continue.

The guidelines for consultation and for legal drafting and harmonizing national legislation, also introduced in 2017, in order to improve law making in Cyprus, are under implementation.

(c) Moving to the digital era

As noted in the 2019 Country Report for Cyprus, significant challenges still exist as regards formulating a digital enabling environment and improving performance on digital transformation. Progress made towards expanding Cyprus' digital public services (e-Government) is also noted. 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 promoted under the Digital Strategy of Cyprus covering the period up to 2020. The coordination and enrichment of the said strategy are undertaken by the Digital Strategy Group under the Minister of Transport, Communications and Work with participation from the public and private sector.

A tender for "Drafting the national digital strategy of Cyprus" was procured in March 2019, with the objective of drafting a renewed national digital strategy around public interventions that would achieve the digital transformation of the public sector, the promotion of the digital transformation of the private sector, and the promotion of innovation, while paying due consideration to Cyprus' digital maturity. In the meantime, several actions will be implemented in 2019, i.e. training programmes for all citizens for the acquisition of digital skills and the promotion of the use of public electronic services, an awareness campaign in relation to the development of digital culture by citizens and enterprises.

- eGovernment

One of the major pillars of the on-going reform relates to the effective advancement and implementation of eGovernment projects, aiming at improving governance and increasing productivity and efficiency. Based on the Cyprus Government priorities and targets set, the CoM and the eGovernment Board approves initiatives aiming to further promote digitization and eGovernment in the Public Sector. Important upcoming and already launched public calls for tenders concern the modernization of systems and the digitalization of citizen services in the fields of health, justice, finance, and energy.

Some of the major initiatives and projects which have been approved by the eGovernment Board aiming to promote digitization in the Public Sector for the next years are given below:

- Upgrading of the National Land and Survey Information System, aiming at enhancing the two major application components of the current system, i.e. the legal/fiscal applications and the survey and cartography related applications (geographical component).
- Development of a new information system for the Cyprus Tax Department; aiming at the simplification of processes and procedures, and the use of more modern tax Department methods, in order to increase personnel productivity and improve operational efficiency.
- Implementation of a new information system for the Customs Department aiming to ensure the correct application of the Union Customs Code (UCC) Work Plan of the European Union, in order to modernise and simplify trade into and within the EU and to harmonise the customs procedures across Member States.
- Promotion of eGovernment at the local authority level, through the design and implementation of an efficient and flexible IT infrastructure and application architecture to be utilised by the local authorities to enhance process automation, information management and service delivery.
- Provision of an integrated registry platform solution which aims to interconnect the National Insolvency Registry with the European eJustice Portal in order to improve the provision of information to the relevant creditors and courts and to prevent the opening of parallel insolvency proceedings.

Further to the above, efforts are intensified in order to further promote eGovernment/digitisation as far as the following areas/sectors are concerned:

- Justice: The tendering process has started for an e-Justice system which aims at digitizing the operations of the courts, accelerating court awards while at the same time relieving citizens and professionals (lawyers and law offices) of bureaucratic burden by providing digital services through the web. Due to delays caused by appeals during the technical evaluation of tenders, the pilot operation of the system is expected to be launched within 2020 (see Section 3.2.1).
- Public Finance: In order to support the Government's efforts towards a better Public Financial Management system, an Enterprise Resources Planning System (ERP) will be developed, covering core functions of the Treasury and of various Directorates of the MoF (budget management, payroll and pensions, auxiliary functions etc.). The ERP system will also provide e-Services to citizens and civil servants such as processing of electronic invoices from the suppliers of the Government and making public financial information available to the public through a specialized reporting tool. The contract for

the ERP was signed in November 2018 and the project is expected to be completed by November 2021.

- **Network Infrastructure:** the deployment of a high-end unified data and voice network is planned, that will enable the Government, among others, to set the foundations for delivering innovative and flexible services to Government officers and citizens and businesses (i.e. a central service phone number for the entire Government) while at the same time reducing costs for network operation, management and maintenance and achieving energy efficiency. The implementation of the project is expected within the second half of 2019.
- **Health:** A major focus is given to initiatives for improving the provision of e-health services. All relevant processes have been put into place to manage the implementation of a Laboratory Information Management System and a National Health Information System so as to cover the needs in every National Hospital and Health Center. The tender for the National Health Information System was published at the end of 2018. More information on eHealth is provided under CSR5 below (sub-section 3.5.3 (c)).
- **Public Data:** The further exploitation of public data through the National Open Data Portal is an ongoing process. Cyprus was one of the top five EU countries in the field of Open Data maturity for 2018 and the new open data portal scored highest among 31 open data portals in Europe⁶.
- **Digital Society for all:** In an effort to create a digital society equal to all, a Bill was prepared and submitted to the HoR in September 2018 for complying with the Directive (EE) 2016/2102 of the European Parliament and of the Council of 26 October 2016 on the Accessibility of the Websites and Mobile Applications of Public Sector Bodies. The relevant law (N.50(I)/2019) has been enacted as of April 5, 2019.

Further to the above, the expansion/roll-out is a continued process for other strategic eGovernment horizontal interventions which have already been put in place aiming to further support the needs and demands of the public sector as well as of citizens/business:

- The Government Gateway - Ariadni (<https://cge.cyprus.gov.cy>) provides the foundation for delivery of the vision for a 'Joined-up Government' and constitutes the central passage to all electronic transactions between citizens, businesses, institutions and the Government. Ariadni provides around 100 public e-services with a full set of information for each Governmental procedure.
- eOASIS is the electronic management of the official documents of the Public Service.
- Government Data Warehouse (GDW) which enables easy access to accurate, consistent and integrated Government data for better and faster decision making and for statistical purposes.
- A Strategic Study is under preparation, with the support of the SRSS, for the reform and improvement of the Government's web presence on the Internet, so as to respond to the current digital challenges, improving at the same time its image to the public.

⁶ Open Data Maturity in Europe, 2018 Report
(https://www.europeandataportal.eu/sites/default/files/edp_landscaping_insight_report_n4_2018.pdf)

Furthermore, as part of the overall effort made to reduce bureaucracy and increase the efficient use of EU funds, the Ministry of Energy, Commerce and Industry (MECI) is proceeding with the re-engineering and electronic submission and management of all state aid schemes. Under the pilot implementation of the new system, the electronic submission of two grant schemes was completed successfully in April 2018 (537 applications for youth and 249 for women entrepreneurship) and is expected to reduce the total time required for the evaluation of applications. New calls on grant schemes are expected to run online within 2019.

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 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, i.e. the adequate coverage (supply side) and the required take-up (demand side).

The Broadband Plan of Cyprus was updated during 2018, taking into account the existing network mapping, the telecommunications providers' plans for the next three years, the Digital Agenda for Europe 2020, the Commission's Communications of 14 September 2016 entitled 'Connectivity for a Competitive Digital Single Market – Towards a European Gigabit Society' and '5G for Europe: An Action Plan'.

A "pilot" Voucher Scheme is under implementation as of the 12th April 2019 by the Department of Electronic Communications of the MTCW, with a total budget of €800,000 funded by the national budget. All Cypriot citizens can benefit from the scheme, aimed to subsidize ultrafast broadband connections (minimum 100Mbps download speed). The main objective of this program is to increase the demand while encouraging the market for investment in ultrafast networks, a goal that is fully in line with the Digital Agenda 2020, Communication the EU's "Gigabit Society" and the National Broadband Plan. As regards the eligibility criteria, relevant infrastructure must already be in-place or planned to be in place soon, while both new connections and upgrade of existing ones are eligible. The voucher value will correspond to 30% of the monthly cost for 12 months with a maximum of €30 per month. All 4 telecommunication operators in Cyprus (CYTA, CABLENET, PRIMETEL, MTN) can participate, provided that they have at least one product to offer with minimum speed of 100 Mbps. The total amount to be granted per operator over the duration of the program will not exceed the de minimis rule (i.e. €200,000). The pilot scheme will end in November 2020.

Achieving a widespread deployment and uptake of very high capacity networks throughout Cyprus, in both urban and rural areas, is of high importance for the government. In this direction, the government is in the process of planning Broadband Projects for intervention that will boost and stimulate the market and the private investments in broadband ultrafast

networks.

- **Digital Skills**

Workshops and training programs are provided to citizens free of charge for the learning of eGovernment systems and the acquisition of basic digital skills by the general public. The main goal 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 program to students of Secondary Education has been implemented with high rate of success. This program is offered free of charge to all students, on a voluntary basis.

Moreover, a pilot program is being implemented as of February 2019 that will last for 1,5 year, under which 250 tablets will be offered to primary and secondary schools to be used at school during teaching hours and at home for conducting homework.

Additionally to the above, a lesson has been introduced for the teaching of digital technologies in primary schools, whilst the introduction of robotics for organising competitions in secondary schools (205 robots acquired in 2018) is expected to promote digital skills among young people further.

- **E-Commerce**

E-commerce is steadily expanding in the country, though Cyprus is still lagging behind in comparison with other EU countries. Nevertheless this is marking a change of culture and attitude - both of the consumers and the retailers - and a much greater pace is envisaged in the fore-coming years.

Taking into consideration the results of a related study, the MECI, as the competent national authority, is currently proceeding with two specific actions in order to further facilitate the promotion of e-commerce in Cyprus:

- Amendment of the current legislation for regulating e-commerce in order to make it fit for the digital age, providing more clarity and increased safeguard security for online transactions. The draft legislation is under legal vetting.
- A scheme supported by ESIF which is expected to be launched by June 2019 with a budget of €4.5mln and will cover activities related to e-commerce, cloud services and digital transformation.

- **Blockchain**

Cyprus, together with 25 other member states, has signed the Declaration for Cooperation on a European Blockchain Partnership (EBP). Following this development, an Ad Hoc Working Group was put together (approved by the CoM on 30 August 2018), with a mandate to evaluate the environment and possible risks, and to develop a national plan for the development of blockchain technology in Cyprus, including pilot projects, legislative initiatives, communication strategy etc. The Ad Hoc Working Group has already prepared a strategy which will be submitted for approval by the CoM within April 2019.

(d) Enhanced Citizens' Services

Aiming at improving the citizens' daily communication with the civil service, a unified Contact Centre for the public administration has been operating as of October 2018, delivering services to the public. The contract for the delivery of services was assigned to a private sector operator following an open public procurement competition.

The Contact Centre operates 7 days a week providing information to citizens and businesses, through multiple channels (telephone, e-mail, IVR), on more than 500 Government/administrative procedures and informing citizens on the status of their applications, for specific services.

Citizens also have online access to all the information regarding the above services/procedures, via the Government gateway Portal ARIADNI (see sub-section 3.1.4.c above). Examples of Government/administrative procedures for which the public may obtain information, either through the Contact Centre, or online via the gateway portal are allowances, grants pensions, benefits, birth certificates, driving licenses, road tax licenses, passports, identity cards and refugee identity cards. Citizens can also submit a complaint, or a request via the Contact Centre for information on the progress of an application they have already submitted to a Government Department, which must call back the citizen to provide information on the progress of the application or the handling of the complaint.

In the context of upgrading the quality of services offered to citizens, Citizen Service Centres (CSCs/one-stop-shops) have been established in Cyprus, with the aim to provide multiple services from one point of contact. Acting as an alternative channel for dealing with public agencies/organisations, CSCs offer more than 90 different services from a number of Governmental organisations. The network currently comprises of 10 CSCs in total (8 in urban areas and 2 in rural areas), 9 of which are under operation while 1 will start its operation in the next few months. The aim is to establish 3 more CSCs within the period 2019-2021.

During 2018, the CSCs have provided over one million services to citizens who have visited them, while it is estimated that CSCs offer on average around 4.400 services on a daily basis.

(e) 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 Finance, a new process for the evaluation and selection of public investment has been introduced and is fully operational as from 2019. It includes 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 are submitted to the Directorate General of European Programmes Coordination and Development (DG EPCD) and the MoF (MOF), for evaluation.

In order to improve decision making by maximizing the benefits for users and investors while minimizing the burden for taxpayers through the combined advantages of a solid

project preparation and evaluation framework, the Cypriot authorities delivered during the period 2016-2018 a series of training seminars to civil servants, on the preparation of PCNs and on the preparation of Cost/Benefit Analysis. Also, the Cypriot authorities have received in 2017 and 2018 technical support from the World Bank. This consisted of developing a series of tailor made quantitative and qualitative methodologies and IT tools for an economic and financial analysis of Public and PPP projects and recommendations on setting up a PPP unit within the Public Works Department of the Ministry of Transport, Communications and Works (MTCW)⁷.

(f) 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 professionalization in Public Procurement has been prepared. At the moment, designated officers in each contracting authority/entity are in charge of its procurement procedures and provide guidance and support to the staff, with the view to build capacity and expertise on public procurement. Guidance is also provided through targeted trainings, the best practice guide and model tender documents. Further support is provided via a helpdesk function and a quality review process of the tender documents for EU funded and other competitions above a defined threshold. 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 are also compulsory, for both above and below threshold procurements. Tender documents and clarification questions and answers during the competition process, as well as prices quoted by tenderers upon electronic opening of the financial part of the tenders, are automatically visible by everybody, including the general public.

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 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 which are recorded in the relevant minutes.

(g) Sound management of Government grants

The CoM, with its Decision no. 86.013 dated 24/10/2018, has established implementation rules for the sound management of Government grants. Government grants amount to about €800mln per year and represent 12% of the Government annual budget. The new rules,

⁷ 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.

which are based on the public financial management and control legislation (Law 38(I)/2014), make the beneficiaries of Government grants more accountable for the management of the grants provided, as well as improve the governance in these entities, to the benefit of the public interest.

Circulars and guidance have complemented these rules, which mainly cover annual Government grants of a general nature of more than €0.5mln to entities in the wider public sector including SOEs and other entities where the Government exercises control or significant influence. These obligations cover the areas of sound financial management, legal compliance, public procurement, HRM, ethics etc.

The above Decision of the CoM also covers the monitoring and management of Government grants between 20 000 and 500 000 euros per annum, as well as Government grants financing specific projects/activities.

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

Country Specific Recommendation - CSR 2

Step up efforts to improve the efficiency of the judicial system by revising civil procedures, increasing the specialisation of courts and setting up a fully operational e-justice system. Take measures to fully operationalize the insolvency and foreclosure frameworks and 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 Government, acknowledging the importance of efficient resolution of civil and commercial cases, has set as a high priority the reform of the Justice system. An ambitious and comprehensive programme of reforms, spanning over several years, is under implementation aimed at building a modern system for administering justice. Reforms cover inter alia important topics, such as the revision of the rules of civil procedure, the introduction of new specialised courts, addressing the backlog of cases including NPLs cases, the introduction of new recruitment and promotion criteria for judges, the training of judges and the introduction of modern IT systems and processes.

The institutional framework in place facilitates the effective implementation of the reforms. The close cooperation between the Ministry of Justice and Public Order (MJPO) and the Supreme Court (SC) 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 SC. A wide range of issues related to the operation of the courts is discussed, agreed and followed up. Additionally, a Courts' Reform committee has been established, in which all relevant stakeholders participate, namely the President and 2 Judges of the SC, the President of the Judges' Association, the Director of Courts Reform and Training, the Chief Registrar, representatives of the MoF and of the MJPO, and the President of the Cyprus Bar Association. The Committee plays a facilitating and supporting role in the promotion of the reforms.

A critical step in the reform agenda has been the functional review study of the Cyprus courts which was carried out through technical support from the SRSS, aiming at providing recommendations for the overall modernization of the judicial system. In February 2017, the SC appointed a former Judge of the SC as the Director of reform and training in order to coordinate the whole reform project. The study was concluded in March 2018, and included the experts' recommendations for addressing identified challenges regarding the operation of the SC and the Courts of first instance as well as the management of the courts. On the basis of these recommendations, the Government has prepared a detailed action plan for judicial reform, the implementation of which is currently ongoing. Important measures some of them supported through the SRSS are described below.

A major project relates to the *review of the Civil Procedure Rules*. The project is carried out by a team of experts which works in close cooperation with the Rules committee set up by the SC, which is composed of Judges of all levels, lawyers and a Registrar. A progress report was submitted by the experts in June 2018 with recommendations in relation to Block 1 of the changes (Filing of an action - hearing), and following a public consultation in July-August 2018, the team of experts finalised the draft for Block 1 and released it to the Rules

Committee for full review on 24.2.2019. Block 2 (costs) is currently under discussion. Discussion on Block 3 (enforcement) commenced at the end of January 2019. The final set of recommendations is expected to be submitted by the experts in June 2019. Phase II of the project, which mainly provides for the translation of the new Rules in Greek, is estimated to start in mid-2019 and, following their adoption by the SC, the new rules are expected to enter into force by mid-2020.

Another major component of judicial reform, which is expected to contribute significantly towards the enhancement of the efficiency of the courts, is the *establishment of specialised Courts*, namely the Administrative Court, the Administrative Court for International Protection, the Commercial Court, the Constitutional Court and the Court of Appeal, which are briefly described below:

- The Administrative Court, operational since January 2016, was strengthened with two additional judges since September 2017. The improved performance is already showing, with the number of administrative cases pending before the court decreasing by about 3000, or 30% from 8,025 at the end of 2017 to 5,700 at the end 2018.
- On 9 July 2018, the Law for the Establishment and Operation of the Administrative Court of International Protection was enacted (Law 73(I)/2018). The provisions of the Law provide for the transfer of cases relating to international protection to this court from the Administrative Court, allowing the latter more time to deal with all other administrative cases. The new Court is expected to become operational in the second quarter of 2019. The recruitment procedure for the three judges of the court is at the final stages, whilst other measures for securing appropriate supporting staff and premises are currently ongoing.
- The Bill for the establishment of a Commercial Court, which was prepared by the MJPO following consultation with relevant stakeholders, is pending before the HoR for enactment as of October 2018. The Bill includes provisions for the cases that will fall under the jurisdiction of the Court, the qualifications of the judges etc. Five judicial posts have already been approved for this court.
- For the establishment of a Constitutional Court and a Court of Appeal to deal with civil, criminal and administrative cases at second instance (by the separation of the jurisdiction of the SC), the MJPO has recently prepared three draft Bills, which were sent to the SC, the Attorney General of the Republic and to the Cyprus Bar Association, for consultation.

The *clearance of the backlog of delayed cases* which have accumulated in the courts, is a very critical and pressing task in the reform process and the Government is placing great emphasis on the implementation of the necessary measures to address it. A case management judge has been appointed who will update case management procedures in order to facilitate the timely handling of the backlog of cases. Other measures currently underway include, inter alia, the creation of a taskforce of judges through the recruitment of a number of additional judges to tackle the backlog of cases and the recruitment of supporting staff. Within this framework, a decision was taken by the SC in February 2019 to assign the *handling of financial disputes* - judicial procedures relating to non-performing loans to 6 existing District Court judges. Appropriate training of the judges is soon expected to take place. Additionally, a Bill amending the Courts Law providing for the creation of a new jurisdiction within the District Courts was prepared by the MJPO and was submitted to the

HoR on 25/1/2019 for enactment (see Section 3.3.1).

A study concerning the *establishment of a training school for judges* was completed in May 2017. On the basis of its recommendations, relevant draft Bills have been prepared by the MJPO and sent to the SC for comments. In the meantime, a training programme is running and a number of training sessions have already taken place.

Another important project in the reform programme relates to the *establishment of criteria for the selection/appointment and evaluation/promotion of judges*, which is also funded by the SRSS. The study of the experts will soon be submitted to the SC.

The *introduction of digital audio recording of court proceedings* is currently under examination, through a feasibility study financed by the SRSS and expected to be completed by mid-2019. The objective of the support measure is to enhance the efficiency of courts, reduce delays in the hearing of cases and thus the length of court proceedings.

With the view to promote the use of Alternative Dispute Resolution (ADR) methods, a *study on Mediation* was carried out by experts which provided recommendations on how the use of mediation could be enhanced. This pertains, among other issues, to the accreditation of mediators, their qualifications, training, disciplinary supervision and the dissemination of information to the general public. The study also includes suggestions for the amendment of the existing legislation. The final report was delivered to the MJPO and a public consultation with all relevant stakeholders is still ongoing (since August 2018), since an extension was requested by some stakeholders.

The MJPO is preparing a Bill for *setting up a small claim procedure in the District Courts*. The Small Claims procedure will be an alternative method of commencing and dealing with a civil proceeding in respect of a claim that does not exceed the amount of €5.000. The aim of the small claims jurisdiction is to provide an inexpensive, fast and easy way for people and for businesses to resolve relevant disputes.

The *introduction of an electronic Court administration system* so as to digitize the operations of the Courts (e-justice) is one of the main pillars for the reform of the Justice system. A tender was launched in March 2017. Following the technical evaluation of the tenders, recourses were filed by a number of unsuccessful bidders at the Tenders Review Authority. The latter issued its Judgment in November 2018 and annulled the administrative decision (for legal reasons). The new Evaluation Committee, which was re-established with a new composition taking into account the Judgment of the Tenders' Review Authority is currently evaluating the technical part of the tender.

In the meantime, a *mini electronic registry has been prepared* and installed in all Civil Registries and the SC to allow for a more efficient processing of applications, pending the full implementation of the e-justice system.

An important prerequisite for the implementation of the above reforms is the provision of adequate and modern facilities in order to ensure the efficient functioning of the courts. To this end, the Government has *prepared a building programme* that prioritises needs, ensuring that the courts, in the short-medium term, will have buildings that are fit for purpose.

3.2.2. Improving the insolvency and foreclosure frameworks

As regards the legal framework in place and with the view to introducing a more efficient, effective and transparent framework serving to addressing the NPLs challenge, a comprehensive list of legal amendments was enacted in July 2018, including amendments in the foreclosure and insolvency frameworks.

The major provisions as regards the foreclosure framework aim at:

- Clarifying that old court decisions for the sale of property can be implemented under the new foreclosure procedure.
- Widening the means of servicing of notices to the debtors.
- Shortening the time period within which a reserve price is applied when foreclosing property.
- Enhancing the right of the bank to participate in the foreclosure process.
- Regulating the provision of information to prospective buyers.
- Allowing for electronic auctions.

Key amendments in the insolvency framework concern the following:

- Removal of impediments to the restructuring process.
- Amendments of definitions to ensure effective restructurings.
- Removal of all protection in case a borrower receives state subsidy, defaults.

It is noted that, properties sold through the first auction increased from 121 in 2017 to 203 in 2018. Properties sold through the second auction have increased from 19 in 2017 to 44 in 2018. Moreover, properties purchased by the creditors after the 6th month, increased from 6 in 2017 to 431 in 2018.

In addition, the MECI proceeded with an in-depth assessment of the business environment, in order to identify the impediments to the effective and full implementation of the insolvency framework. The project “Strengthening the implementation of Cyprus’ insolvency framework: Assessment of the current operational model of the Insolvency Service”, funded by the EBRD and aimed at assessing the way the Insolvency Service operates in implementing insolvency procedures, pursuant to the legal framework and in response to the needs of the external stakeholders, was concluded in December 2017.

Based on the results of the project, an Action Plan was formed and approved by the CoM in June 2018, anticipating business solutions for the current operational model of the Insolvency Service, mainly in the following major areas: Operations and administration, systems and automation of the Insolvency Service, external communication and information to the stakeholders, licensing and supervision of insolvency practitioners.

In the context of the implementation of the above Action Plan, the project “Supporting the framework for insolvency and restructuring practitioners (IPs) in Cyprus, as part of overcoming the impediments for the full implementation of the insolvency framework” is in progress, with the technical support of the SRSS. Its aim is to harmonize the procedures among the three licensing authorities (i.e. the Bar Association, the Institute of Certified Public Accountants in Cyprus and the Insolvency Service) and to empower the profession of Insolvency Practitioners through continuous professional development. The project is

structured in three phases and commenced in March 2018, with a total duration of 18-22 months.

In addition, the project “Improving the efficiency and effectiveness of the Insolvency Service of Cyprus (ISC)” has commenced in November 2018. The aim of the project is to improve the efficiency and effectiveness of the operation of the ISC including i) proposing new organizational structure and internal procedures, ii) replacement and succession plan, and iii) manuals for the standardization and modernization of the core operations of the Service. The project is implemented with EC support, and is due to be completed within six months. In February 2019, the assessment of the current organizational structure was concluded and relevant recommendations were provided.

Another project aimed at increasing the awareness about the insolvency framework as well as the establishment of a Customer Service, within the ISC is expected to begin within the first half of 2019.

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.

(a) Issuance of title deeds

Regarding the current system of issuing planning and building permits and the legislation framework, the Ministry of Interior (MoI) conducted a dialogue with the Scientific and Technical Chamber of Cyprus (ETEK) which represents the architects and engineers involved in the procedures, in order to formulate a roadmap / proposal of a new policy for the issuing of planning and building permits and the relevant control (enforcement) procedures. The dialogue with the ETEK was initiated after the completion and submission of the Final Report of the technical support for reforming the construction development legislation framework in Cyprus (SRSS/S2016/017). The ETEK, as the technical advisor of the State, submitted their comments on the findings of the report.

The MoI prepared a draft policy that is currently under discussion with the ETEK and is expected to be finalized by the end of April 2019, which concentrates on revising the current system by introducing simplifications in the procedures. More specifically, it provides for the involvement of the private sector (architects, engineers), thus relieving the planning and building control authorities from excessive burden, so as to concentrate on the complicated or high risk developments. As regards the planning permits, proposed amendments in legislation will provide the simplification of the issuance of permits and confirming the basic planning data to the applicant. Regarding the building permits, the treatment of the applications based on risk analysis is proposed to be adopted, with the involvement of the supervisor engineer and third party confirmation. The final proposal will be discussed with the planning and building control authorities, including the Union of Municipalities, in order to formulate and forward the legal drafting of the new policy.

Additionally, and for regulating the involvement of the private sector as described above, the MTCW forwarded to the Legal Service an amendment of the Scientific and Technical

Chamber of Cyprus Law and draft Regulations for the Registry of designers and supervisor engineers, since their participation in the processes must be regulated and certain criteria and requirements for them should be imposed. Furthermore, discussion between the MoI and the Union of Municipalities for the reform of local authorities is continuing in order to formulate the requirements of the planning and building control authorities. Both legislative actions (i.e. for the Registry and for the reform of local authorities) are of profound importance for implementing a successful reform in the issuance of planning and building permits.

Furthermore, 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.

The DLS divided the relevant applications into two categories: (i) applications by the owner of the property (Developer), and (ii) compulsory applications that were initiated either by the buyers or by the Director of the Department of Lands and Surveys.

Regarding the first category, the process is up to date (the number of applications completed within a year exceeds the number of new applications). Regarding the second category, applications have been initiated for all pre 2015 developments where the owners (developers) did not proceed with their responsibilities. Approximately 2100 cases (about 35,000 titles deeds) were initiated. By the end of 2018, about 800 cases (representing 11,000 titles deeds), or 31%, were completed.

(b) 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 had 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, 17,053 applications have been filed by DLS, out of which 9,033 have separate title deeds and 8,020 have no separate title deeds. Until now, 6,000 applications have been completed and the title deed has been transferred to the buyer (66% 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 has been submitted to the HoR, and it is currently under discussion by the Parliamentary Committee of Legal Affairs.

Furthermore⁸, 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 Laws

⁸ 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 implementing a comprehensive strategy, including legislative amendments allowing for the effective enforcement of claims and facilitating the sale of loans. Integrate and strengthen the supervision of insurance companies and pension funds.

3.3.1. Accelerating the reduction of non-performing loans

The banking sector has refocused its operations and improved its corporate governance. During 2018 decisive actions were taken by the Government to address the non performing exposures (NPEs) challenge. The regulatory and supervisory framework has been revamped.

A new comprehensive strategy for the reduction of NPEs was adopted in 2018, consisting of the following three pillars which together have already started bearing fruit as regards the further normalization of the financial system:

(i) Strengthening the effectiveness of the legal framework related to the management of NPEs

A comprehensive list of legal amendments was enacted in July 2018, making the legal framework more effective, efficient and transparent. More specifically, there were amendments in the legislation on foreclosures and insolvency, on the sale of loans and a new securitization Law.

Information as regards the foreclosures and insolvency legislation can be found in section 3.2.2 above.

The main changes introduced regarding the sale of loans framework were the following:

- Split of mortgages is allowed.
- Amendments on definitions to ensure that all credit facilities are included.
- Ensuring that the sale of loans framework is accompanied by transfer of rights, priorities, continuation of proceedings etc.
- Enhanced access of credit buyers to the data exchange mechanism for purposes of assessing the borrowers' indebtedness.

The main provisions of the new securitization Law introduced were as follows:

- Ensuring the proper functioning of the securitization market.
- Vesting the CBC the power to authorize, regulate and supervise the activity of securitizations.

(ii) Addressing the most challenging portfolio of NPEs (mortgage or SME loans having the primary residence as collateral) through a burden sharing scheme between the stakeholders and state support (ESTIA scheme)

Through burden sharing, between the Government, the banks and the borrower, the ESTIA scheme will incentivize eligible households/SMEs to repay their loans, thus contributing to the stabilization of the banking sector. The State will provide financial assistance to the participating borrowers, covering one third of borrowers' restructured loan repayment obligations. Eligible loans and borrowers will have to fulfil a set of income and wealth criteria. The scheme is expected to become operational in the coming months.

A Memorandum of Understanding (MoU) with the details of the Scheme, to be signed by the participating banks and the state, was finalised and submitted for legal vetting to the Law Office in February 2019. Following the completion of the legal vetting expected in April 2019, the MoU and the final scheme will be submitted to the CoM for approval. A communication plan is under development in order to announce the scheme to the public just after the approval of the MoU. The Finance Parliamentary Committee has already released appropriations for the implementation of the ESTIA scheme in January 2019. The first payment of the State grant is expected to be released at the end of 2019 proportionately from the commencement of the restructuring to the end of 2019, while next instalments will cover a full year.

An electronic platform is also under development, through which applications will be submitted by the banks. The Ministry of Labour, Welfare and Social Insurance (MLWSI) will be undertaking the assessment of the relevant eligibility criteria.

(iii) Addressing Challenges faced by the State Bank (Cyprus Cooperative Bank-CCB)

In 2018, the Government, as the main shareholder of the CCB, which was the second largest bank in the country, proceeded with the sale of part of the bank's assets and liabilities to Hellenic Bank. According to the EC's decision, the residual entity surrendered its banking license and exited the market, while its subsidiary, which has been established under the Company's Law, has been licensed by the Central Bank of Cyprus (CBC) as a credit acquiring company for the sole purpose of managing the assets that remain in its perimeter, with a view to maximizing their value. The Residual Entity's sole and single activity will be to manage the assets within its perimeter.

As a result of the implementation of the new strategy, NPEs were reduced to €11.3 bln in October 2018, down by 59% from its peak of €28.9 bln in April 2015, of which 46% was the fall recorded from €20.9 bln in December 2017. As a share of total loans, NPEs fell to 32,1% in October 2018 from 42,5% in December 2017.

It is noted that, in addition to the above, as regards the Courts' Law, a Bill was submitted to the HoR, according to which specific judges will be appointed (in addition to the 6 judges already appointed) who will be responsible for the handling of (i) financial disputes arising between the borrower and the creditor regarding the amount of the credit facility which is delayed or exceeded, (ii) foreclosure related disputes and (iii) bond issued disputes acquired between 2008-2013. Applications or appeals filed at the District Court regarding (i) to (iii) shall be examined and completed within 60 days of their submission.

This was driven by the fact that €5.68bln of CCBs NPEs and €0.5bln CCB's Performing Exposures (PEs) were removed from the banking system, leading to the decline of NPEs to

gross loans ratio from 38.9% at end August 2018 to 32,1% in September 2018. It also reflected the fact that the above regulatory changes resulted to the Bank of Cyprus' (Holdings) sale of a portfolio of loans with gross book value of €2.8bln, known as project Helix, out of which the €2.7bln relate to NPLs. The Portfolio was transferred to a licensed Cypriot Credit Acquiring Company (CyCAC) by the Bank of Cyprus Public Company Limited. The shares of the CyCAC were acquired by the Apollo Global Management Fund. Similarly, the Hellenic Bank also sold a €144mln NPEs portfolio to B2Kapital Cyprus Ltd while the Alpha Bank Cyprus is expected to assign the management of a portfolio of approximately €3.7bln NPEs to a Service Provider in the 2nd half of 2019.

In parallel, the aggregate banking system provision coverage increased from 47% at end of December 2017 to 52% at end September 2018. Moreover, a further decline to NPE levels is expected in 2019, with the anticipated effects of the implementation of the ESTIA scheme expected to be catalytic.

- **E-auctions**

Following the legal amendments adopted in July 2018 and given the commitment⁹ of the Republic that within 12 months after the decision date (i.e. 19 June 2019), it will establish an electronic auction system for properties subject to foreclosure proceedings to be utilised by the AMC and banks, the MoF is in the process of finalizing the Ministerial Decree setting out relevant procedures for the conduct of electronic auctions.

The Association of Cyprus Banks is in final negotiations with a platform development company for the design of the relevant electronic platform. The MOF is in the process of assigning to a consulting firm the preparation of the profile of «Administrator of E-auctions», a relevant code of conduct, as well as a process for the licensing and monitoring of the “Administrator of electronic auctions”.

As regards the establishment of an electronic auction system two ministerial decrees are under preparation:

- A decree that will allow the establishment of e-auction system is almost completed and it shall be approved before the relevant deadline (i.e. 19 June 2019).
- A decree to regulate the profession of the auctioneer which is planned to be ready by September 2019.

The downward trend in NPEs is also attributed to increased repayments and restructurings successfully completed by banks, internal arrangements and efforts to strengthen their arrear management units and reclassified as performing facilities, as well as banks' partnership with foreign debt specialists (Pepper Cyprus, Altamira, APS).

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

In order to integrate and strengthen the supervision of insurance companies and occupational pension funds, the authorities have undertaken a series of measures. A draft Bill on the creation of a single independent supervisory authority for the supervision of insurance companies and occupational pension funds has been prepared, based on the independent

⁹ Commitments on framework conditions to allow efficient workout of non-performing

report commissioned with the support of the European Insurance and Occupational Pensions Authority (EIOPA). It aims at a more efficient and effective supervision of the two sectors, thus better managing risks and better guarding the interests of stakeholders.

The organisational structure of the new supervisory entity has been prepared and discussions with the two supervisory authorities' personnel have been initiated, with the view to finalise the structure. Concurrently the Authorities have embarked in a broader consultation with all interested parties on the new entity's structure and proposed legal basis and framework.

The consultation process is envisaged to be completed by June 2019, following which the final draft Bill will undergo legal vetting. Submission of the Bill to the CoM and then to the HoR for enactment is envisaged to take place by December 2019.

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

Country Specific Recommendation 4

Prioritise the implementation of key elements of the action plan for growth, in particular fast-tracking strategic investments, and take additional measures to improve access to finance for small and medium-sized enterprises. Improve the performance of State-owned enterprises including by resuming the implementation of privatisation projects.

The Action Plan for Growth, introduced in 2015 and revised in 2017, includes a set of targeted actions with specific timeframes. The measures aim at enhancing the competitiveness of the economy, increasing productivity and unlocking the country's investment potential. To date, significant progress has been made as regards the implementation of the measures in the Action Plan, which also incorporates CSR related measures. In particular, with regard to horizontal policy measures and measures in key sectors of economic activity, the majority of foreseen actions have been implemented or completed by the executive, while for the rest progress has been made.

Particular emphasis is placed on improving the business environment, enhancing access to finance for small and medium enterprises (SMEs) and strengthening the competitiveness of the economy through, inter alia, actions to facilitate investments especially in productive sectors.

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. It thus decided to develop a comprehensive strategy to promote investments and establish the necessary legal framework for facilitating strategic investments.

To this end, in November 2017, a Bill setting out a new procedural and legal framework for facilitating major investments, including the set-up of a fast track mechanism, was submitted to the HoR. Key reform measures are envisaged by creating a new and transparent regulatory framework with clear allocation of responsibilities, streamlining of license issuance procedures and strict deadlines. The Bill took into consideration the Bill for the creation of the Deputy Ministry for Growth that would act as the implementing body.

Due to the fact that, the Bill for the creation of Deputy Ministry for Growth has not progressed, the Government's intention is to withdraw the above Bill, in order to make relevant amendments, including the transfer of relevant competence to the MoI and some modifications in the way the investment law will be applied, that do not alter the philosophy of the initial Bill. The revised Bill is expected to be submitted to the HoR by the end of 2019.

3.4.2. Improving access to finance for small and medium sized enterprises

As noted in the 2019 Country Report for Cyprus, access to finance remains challenging but progress has been recorded. The Government continues its efforts aiming at introducing more and new types of financial support for SMEs with demand and supply side measures. Particular emphasis is placed on introducing alternative forms of financing as well as

improving the management and hence the effectiveness, of financial instruments supported by national and EU funds. Efforts are also undertaken towards increasing awareness on the available funding. Amongst others, a new category for Financial Instruments has been introduced in the beginning of 2018 at the Funding Programmes Portal operated by the DG EPCD, which is systematically updated with new funding tools and opportunities becoming available for Cypriot SMEs and other beneficiaries. Relevant information is also provided through seminars, awareness campaigns and other events organized or supported by the DG EPCD or other bodies (e.g. EC Representation in Cyprus, National Contact Points for EU Competitive Programmes etc.). Such activities will continue in the future, aiming at the information of businesses and individuals.

(a) Measures supported by ESIF

- Management of Financial Instruments

The ex-ante assessment study¹⁰ for the use of financial engineering instruments has identified substantial financing gaps in the areas of SMEs and energy. It 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 (more on progress in Section 5). 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 SRSS. The results of the study are expected to be ready by the end of 2019.

- Advisory services - Advice for Small Business Facility

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

The program includes various tools addressing the needs of SMEs, such as:

- Targeted business advisory services to SMEs: The facility assists SMEs in accessing business advice by engaging local consultants. During 2018, 40 enterprises received advisory services in various sectors, while in 2019 the number of supported enterprises is expected to increase to around 50.
- International advisory projects: In order to enhance the internationalization of larger SMEs, the facility offers assistance through international trade experts. During 2018, 3 enterprises benefited from this tool while in 2019, 5 enterprises are expected to receive relevant advisory services.

¹⁰ Study financed in the context of the Operational Program “Competitiveness and Sustainable Growth”, - final report was submitted in July 2017
(<https://www.structuralfunds.org.cy/uploadfiles/20170728%20CY%20Final%20Report.pdf>).

- **Business clinics facility:** The tool aims at supporting start-ups and early stage enterprises with viable business ideas and business plans, on issues such as access to credit, management and building leadership skills, digital marketing and financial literacy. In 2018, 10 companies participated in one business clinic while in 2019, 2 young companies are expected to also take part.
- **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 took place in 2018 and 4 more trainings to SMEs are expected in 2019.

- **Grants**

The MECI implements various measures and schemes aimed to improve the competitiveness of SMEs and create new job positions, amongst others, via improving the access to finance for SMEs and enhancing the entrepreneurial activity. They are in line with the priorities set under the Policy Statement on the Enhancement of the Entrepreneurial Ecosystem in Cyprus, the principles of smart specialization and the targets set at European level through the Europe 2020 Strategy. Some of the main measures promoted by the MECI are addressing the following areas: Entrepreneurship – Women and the youth, Enhancing the competitiveness of SMEs, Digital transformation of SMEs, Clusters development.

(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 (Jan 2019), the loans disbursed via CYPEF to SMEs reached the amount of €116 m. (i.e. 83% of the committed total loan portfolio).

- **Tax incentives**

The amended Income Tax Law N135(I)/2016, established a framework of incentives effective from January 2017 until the end of 2020 through tax relief to individuals who invest in innovative SMEs, including start-ups, either directly or through an investment fund. The incentives provide for the following: exemption of the investment from the investor's taxable income (up to a maximum amount of 50% of the taxable income); deduction of up to €150,000 per year as well as the right of allocation and distribution of the discount in a 5 (five) year period, and investment in shares, loans, or granting guarantees to innovative companies.

The measure was promoted in the context of the Policy Statement on the Enhancement of the Entrepreneurial Ecosystem in Cyprus (see Section 3.4.4.a) with the view to support business innovation and also support the efforts of young scientists and the startup community. It is expected to 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). From 2017 until now in total 13 companies were approved and received an innovation certificate under the scheme.

(c) Investment funds

The establishment of a modern and competitive legal and regulatory framework regarding the industry of collective investment funds in Cyprus is a priority. In order to keep pace with developments and specialize and upgrade the current regulatory framework, developed from 2010 onwards, with the view to bring it in line with the best European and international practice for collective investment funds, the following legal changes are being promoted in order to introduce new features and specialization for the collective investment schemes in Cyprus:

- A new law on Alternative Investment Funds (Law 128/2018) was enacted in July 2018, which amends and replaces the Alternative Investment Funds Law of 2014 and aims at: the introduction of Registered Alternative Investment Fund (RAIF), whose supervision will be done through the AIF Managers Directive¹¹; 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).
- A draft Law was submitted to the Law Office for legal vetting in April 2018 aiming at the introduction of licensed and regulated mini-managers, for the fund managers below the AIF Managers Directive thresholds. The draft Law aims also at providing specialisation for below the threshold managers under an appropriate and proportionate regulatory regime.
- A draft Law is under preparation aiming at the introduction of licensed and regulated administrators, who will contribute considerably to the development of the fund industry, providing specialized services to fund managers and investors.

(d) Measures supported by other EU sources

- EIB direct lending/Government guarantee scheme

Recognizing the success of the EIB Scheme, on 29 November 2017, the CoM approved the increase of the state guarantee from €750m to €1bn, thus supporting the continuation of the EIB scheme in the future.

Until February 2019, ten Cypriot banks signed 22 different Loan Agreements with EIB amounting to €780 mln in total, leading to €580 mln allocated by the banks to beneficiaries (SMEs and MidCaps) resulting in around 470 new investment projects.

- European Fund for Strategic Investments (EFSI)

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 of the Horizon 2020 Programme for R&I. Under these two agreements, the two banks provide attractive loans to innovative SMEs and mid-caps. As per

¹¹This 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.

latest figures provided by the intermediaries, up to now, an amount of around €3,7 mln has been disbursed out of €8,5 mln signed with eligible beneficiaries.

Furthermore, EIB has signed a €35 mln 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. This is 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 €55 mln, aiming at supporting a total investment of €80.8 mln. EU Competitive Programmes (e.g. COSME, Horizon)

(e) Competitive Programmes

As per the Annual Financial Reports of the European Commission, the amount of €170,6 mln was allocated to Cypriot beneficiaries participating in EU Competitive Programmes during 2014-2017. Given this figure, corresponding only to the first four 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 relate to the Horizon 2020 (€89,5 mln) and the Erasmus+ (€40,3 mln) Programmes. 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 promotional 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 DG EPCD, with the support of the SRSS, carried out in 2018 three sessions of seminars/workshops, consisting of three courses in each session, i.e. nine training courses in total, with the aim of strengthening the capacity of the participating organizations in terms of effective management, implementation and monitoring of the funded projects.

In addition to the above training courses, DG EPCD and the EC Representation in Cyprus, in cooperation with the National Contact Points (NCPs) of Horizon2020, ERASMUS+, LIFE και Creative Europe Programmes, held in 2018 an information event during which the NCPs presented their programmes while “success stories” were also presented by the Cypriot participants of the projects. The event was attended by more than 220 participants.

A special edition on “success stories” from projects funded under the various EU Competitive Programmes was also published in 2018 by DG EPCD.

3.4.3. Improving the performance of State Owned Enterprises

(a) Implementing the privatisation plan

The Government considers privatisations as an important structural reform for the modernization of the public sector and for improving its performance. It remains committed to implementing the privatization plan which constitutes an opportunity to attract investments and enhance efficiency and competitiveness and thus support growth and job creation. To this end, 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.

In this respect, the CoM declared entities and assets as subject to privatisation by virtue of the Regulation of Privatisations Issues Law. On the basis of decrees issued by the CoM, assets under exploitation are: Limassol Port, Larnaca Port and Marina, Ayia Napa and Paphos Marinas, Casino thematic resort, National Lottery activities, Specific State assets in Troodos area, and Telecoms Company.

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

- **Limassol Port**

The privatization of the Port of Limassol, the largest on the island, was successfully completed in January 2017, with the assumption of operations by consortiums led by Eurogate, a German operator, and Dubai Ports. The three concession agreements relate to the container terminal (25 years), marine services (15 years) and the multipurpose terminal (25 years).

- **Larnaca Port and Marina**

The process for the privatization and re-development of the Port of Larnaca and the Marina area, the second largest on the island, is at the stage of evaluation of the proposal of the successful tenderer, which is near its completion. The process is expected to be completed by mid-2019.

- **Ayia Napa and Paphos Marinas**

A design-build-operate-transfer agreement for the Ayia Napa Resort Marina was signed in 2016. As far as the Paphos Resort Marina is concerned, the tendering procedure for a similar agreement has been cancelled, since the proposal that had been submitted did not fulfil the criteria. A new tendering procedure will be launched by the Deputy Ministry of Tourism.

- **Cyprus Telecommunications Authority (CYTA)**

A new proposal was drafted in the form of a Bill and relevant regulations, with the aim to implement the corporatization of CYTA, as a necessary first step towards a partial privatization.

The Bill and regulations, before the HoR since 2017, provide for majority ownership of CYTA by the State and respect of the employment status and rights of the current employees. In parallel, it creates the conditions for the attraction of a strategic investor through equity participation and the assumption of management control of the company, which is considered necessary in order to maintain the value and business prospects of CYTA.

- **Integrated casino resort**

The signing of a Public-Private Partnership (PPP) agreement with the selected bidder, for the construction and operation of an integrated casino resort, was completed in mid-2017.

These investments, along with other private investments, including the casino resort, that are

already underway, are expected to provide a significant boost to the economy and increase potential and actual GDP.

- **National Lottery's activities**

The activities of the National Lottery, as well as any relevant asset belonging to the State which is used exclusively for the conduct of the operations of the National Lottery, have been declared as an asset subject to privatisation.

On the basis of the relevant recommendations of the appointed advisors, the CoM decided the licensing of the activities of the National Lottery for a period of 15 years to include the current National Lottery products and the addition of e-instants.

The revised legislation Bill providing for the regulation of the exclusive licensing of National Lottery games and relevant matters was submitted to the HoR for deliberation in September 2017. Following the conclusion of the discussions at parliamentary committee level, the Bill will then be submitted to the European Commission to ensure its compatibility with the EU acquis. Subsequently the process for the selection of a licensee will be launched.

- **Troodos assets**

Nearly 200 Troodos assets owned by the State have been declared as assets subject to privatisation. The decree provides that these assets will be exploited through a long-term lease and/or license and that the extent and structure will be determined specifically at a later stage.

In May 2017, the appointed advisors submitted their draft preparatory work, analysis and recommendations for the exploitation of the Troodos assets with potential private sector participation. The final conclusions and recommendations of this deliverable will be used by the inter-ministerial Committee for Privatisations to approve/reject the identified exploitation options of the real estate assets which will be deemed available and attractive.

(b) Electricity Authority of Cyprus

The unbundling of the Electricity Authority of Cyprus is also in progress: The functional and accounting unbundling of the Electricity Authority of Cyprus (EAC) are carried out according to the relevant regulatory Decisions of 2014¹². According to these regulatory Decisions, EAC has been functionally unbundled in two main Business Units (BUs), under which the four 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.

The Functional unbundling of EAC was officially enforced on 1/12/2016. Cyprus Energy Regulatory Authority (CERA) has completed the third and final review in January 2019. The purpose of each review was to ensure compliance with the relevant CERA Regulatory

¹²Regulatory Accounting Rules for the preparation of Separated Regulatory Accounts (No. 02/2014), Accounting Unbundling of the Electricity Authority of Cyprus (EAC) activities (No. 03/2014) and Functional Unbundling of EAC activities (CERA No. 04/2014)

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. The audited SRAs for the year 2017 were submitted in September 2018, and are currently being reviewed by CERA. According to the Regulatory Decision No. 02/2014, the SRAs for the year 2017 will be published on EAC's website in their entirety, with the exception of commercially sensitive information, for which the regulated entity has requested and received an approval of non-publication by CERA.

The CoM 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. Currently, the Bill for the independence of the TSOC is under public consultation.

3.4.4. Other measures included in the Action Plan for Growth

(a) Enhancing entrepreneurship

The Policy Statement for the Enhancement of the Entrepreneurial Ecosystem in Cyprus, implemented since 2015, 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.

So far out of the 88 concrete actions included in the Policy Statement with an implementation horizon up to 2020, 78% are fully implemented. Having completed the third year of implementation of the Policy Statement, it is particularly encouraging that there is a continuous dynamic in the development and cultivation of entrepreneurship culture by the majority of stakeholders, both in the public and private sector.

Regarding the first pillar aiming at cultivating the entrepreneurial culture, a series of measures are being promoted by the Ministry of Education and Culture (MOEC). Within the framework of upgrading and modernizing the educational system, the MOEC established a specialized committee for the creation of STEM schools, both in primary and secondary education. The committee is expected to submit relevant recommendations to the Minister of Education and Culture by the end of 2019.

Empirical learning programs on entrepreneurship, such as the Junior Achievement "Spending Smart" and "Student Companies" programs continue to be implemented in primary and secondary education schools respectively. Students have the opportunity to develop skills and understand concepts of entrepreneurship through experiential learning. In the school year of 2017/2018 1,200 students participated in the programs, while in the year of 2018/2019 the number is expected to exceed 1500 students.

Under the second pillar of the Policy Statement, the actions taken for the modernization and reorganization of the Department of Registrar of Companies and Official Receiver (see

Section 3.1.4.b) are expected to substantially simplify the business start-up process, thus contributing to the improvement of the business environment and competitiveness as an international business centre. Specifically in 2018, the following actions have been completed:

- Business processes have been redesigned and a plan for the implementation of reform actions has been developed.
- Forms and amending Bills and regulations, for the redesign or consolidation of the existing forms of the companies sector, were adopted by the HoR on 30/10/2018.
- With the 2018 Company Taxes (Amendments) Regulations, the variable charge of 0.6% was abolished during the procedure of registering a company and in the case of the increase of the company's nominal capital. This significantly reduces the cost of starting a new business.

As regards the enhancement of entrepreneurial innovation, under the third pillar, an important development in 2018 concerned the strengthening of the R & D ecosystem and the creation of appropriate conditions for encouraging business innovation through the adoption of a new structure for the national governance system for R&I by the CoM in October 2018 (see Section 4.4).

Regarding the start-up visa scheme which aims to attract third-country entrepreneurs in Cyprus, during its pilot operating period and up to December 2018 14 applications were submitted. From those 5 have been approved, and a total of 6 residence permits were granted. A proposal for the extension and improvement of the scheme, in order to make it more attractive, will soon be submitted to the CoM.

Furthermore, in the context of upgrading businesses and integrating digital technologies towards the creation of new products and services the MECI intends to implement a new grant scheme for digital business transformation. The project, with a total budget of €4.5mln, will be co-funded by national funds and the European Regional Development Fund.

The above scheme, along with a series of other grant schemes, financial instruments and other incentives aimed at promoting entrepreneurship and improving the competitiveness of SMEs, serve to the implementation of the fourth pillar of the Statement for facilitating and enhancing access to finance (see section 3.4.2).

Finally, efforts to enhance the internationalization of SMEs and improve their access to markets (fifth pillar) are described in the following sub-section.

(b) Facilitating and Promoting Export Performance

Within its efforts to enhance the internationalization of Cypriot companies, the Trade Service of the MECI, promotes products and services abroad through a series of actions. These include financial assistance schemes under the “De Minimis Rule” for participation in Trade Fairs and market research abroad, advertising promotional campaigns, organization of business forums and trade missions, tasting events in target markets, publication of advertorial in specialized magazines and digital media and visits of journalists and business people to Cyprus. Furthermore, the Trade Service supports the export oriented companies through the activities of its Export Helpdesk and its Trade Centres abroad.

The Trade Service has also been recently involved together with other Cypriot Authorities, in the drafting of new legislation regarding the branding of Cyprus agricultural products.

Taking into account the recommendations of a relevant study on export facilitation undertaken in 2016, with the support of the SRSS, the Trade Promotion Section of the MECI has recently implemented a general restructuring by reorganizing the staff according to geographical areas and areas of specialization with the aim to better tackle the promotion of the products and services of Cyprus.

Additionally, the MECI outsourced in 2017 a study on the Trade Centres operating abroad. The study which was concluded in 2018 addressed issues of efficiency improvement as well as the possible establishment of Trade Centres in new markets. The recommendations of the study received due consideration, taking into account the various parameters affecting the international economic environment. Cyprus Government following the recommendations of the study, established in 2018 an additional trade centre. The recommendations of the study will also be taken into account in the preparation of the strategy for developing economic diplomacy in Cyprus (see below).

The “Advice for Small Business Facility” implemented with the support of ESI Funds, on the basis of an agreement signed in May 2017, between MECI and EBRD, also serves, amongst others, to the enhancement of the internationalization of Cypriot SMEs (see Section 3.4.2.a).

Following a functional review of the organisation of the Ministry of Foreign Affairs (MFA) in October 2016, economic diplomacy was identified as a key policy priority, also in line with the findings of the aforementioned study on export facilitation. As a result a new, senior level position at the Ministry, namely, the Head of Economic Diplomacy (HED) was created. The mandate of the HED includes creating an “economic diplomacy culture” at the MFA, engaging with relevant economic and financial stakeholders in Cyprus, in the public, private and other sectors, and acting as the main coordinator between these actors and the Diplomatic Missions of Cyprus abroad. Following these developments, a study for the development of a strategy and action plans to be followed and implemented by the authorities in order to meet the objectives of economic diplomacy including on trade promotion and attraction of investment, is being carried out through technical support from SRSS. This also includes training to MFA staff and other Government authorities, to develop the skills required with a view to maximising the impact of the overall economic diplomacy efforts. The project is expected to be completed in the 1st quarter of 2020.

(c) New Industrial Policy

In line with the Renewed European Commission's Industrial Policy Strategy, the Single Market Programme and the Digital Europe Programme, the MECI in collaboration with other Ministries and key stakeholders in the industrial ecosystem, from both the public and the private sector, has concluded a final draft of a New National Industrial Strategy Policy 2019-2030. The final draft is currently under final approval procedure by the MECI following which it will be submitted to the CoM for adoption. The main objective is to gradually increase industry's contribution to GDP from 7.9% in 2017 to 15% by 2030.

The New Industrial Policy will help tackle main economic challenges and investment gaps, with regards to productivity and investments in areas such as environment, energy, digitalisation and innovation, through its six strategic pillars:

- i. Sustainable development and production, through the creation of appropriate infrastructures and projects, institutions and mechanisms, business models, cyclical production processes and alternative energy systems.
- ii. Improvement of industrial and business environment, by removing obstacles to the operation and development of industries, reducing their administrative burden and costs through better state services offering, implementation of e-Government and standards, and creation of a positive culture for industry.
- iii. Digitalization of industry, through the adoption of digital systems and production applications, modern equipment and cutting-edge technologies, but also through the creation of smart factories and digital service infrastructures i.e. digital innovation hubs, technology transfer centers, etc.
- iv. Development of new and enhancement of existing skills for human resources, through the redeployment of education programs, lifelong learning and the implementation of certification standards for digital and non-digital skills relevant to industry.
- v. Enhancement of access to finance, through the maximum and flexible use of existing financial instruments, supported by national and/or EU or other funds, but also through the design of new alternative funding tools.
- vi. Enhancement of access to markets, through the creation of mechanisms to help boost trade, marketing, attract and facilitate investment, and exploit transnational agreements

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

The project for the development of the first Competitiveness Report for Cyprus through the technical support of the SRSS was concluded in the 1st quarter of 2019 and the Report will be published in April 2019. The report provides an overview of the performance of the Cyprus economy, in terms of competitiveness, highlighting its comparative advantages, weaknesses as well as the risks faced by the economy. The Report also assesses the economy's performance as regards the drivers of competitiveness, on the basis of international benchmarks, comparing them with the performance of selected economies, the EU average and the corresponding performance of the country from previous years. It also includes recommendations for addressing the economy's risks and weaknesses and enhancing its competitiveness. The first report also includes an in depth analysis of the ICT sector.

Following its set up, as of June 2018, the Cyprus Economy and Competitiveness Council has undertaken the responsibility of preparing Competitiveness Reports for Cyprus. In this context, the Council also monitors the preparation of the first Competitiveness Report¹³ for 2018 which will serve as an instrument by the Council for providing policy advice to the Government in priority areas.

(e) 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 more, diversified tourism markets as well as to address the seasonality problem by improving air connectivity,

¹³ The first report will be published in the Council's website: <http://www.ecompet.cy>

adopting a wide range of promotional activities and diversifying the tourism product.

Nevertheless, there are still structural challenges to be addressed with a view to strengthening the competitiveness of the sector. To this end, a number of priority measures are under implementation aiming at enhancing the sector's potential and contribution to sustainable growth.

The Bill for the establishment of a Deputy Ministry for Tourism was approved by the HoR in July 2018. As a result, the Cyprus Tourism Organisation, the quasi-state organization responsible for the field of tourism, was transformed as of 2.1.2019 into the Deputy Ministry for Tourism, also assuming the responsibilities of the Tourism Unit which had been operating as part of MECI. This is headed by the Deputy Minister of Tourism. The Deputy Ministry will be enjoying wider horizontal powers as stipulated in the relevant legislation, thus being empowered to pursue the implementation of the tourism strategy more effectively.

Additionally, within the framework of the simplification of procedures for the licensing and operation of hotels, a Bill was approved by the HoR on the 1.3.2019¹⁴. The draft legislation for the Restaurants and Recreation Centres has been submitted to the Law Office of the Republic of Cyprus for legal vetting.

A Strategy Study for the development of a Tourism Growth Strategy and accompanying action plans was undertaken by external consultants and submitted to the Government in December 2016. Following stakeholders' consultation, the study and implementation action plan were submitted and approved by the CoM in January 2018. According to the action plan, the competent authority had to carry out the Strategic Environmental Impact Assessment Study (SEIAS), as required by Law. As a result, the Deputy Ministry is currently proceeding with the preparation of the SEIAS, including a carrying capacity study. The results/findings of the studies and the results of the public consultation will be incorporated in the original Strategy Study to formulate the complete National Tourism Strategy.

In the meantime, the Deputy Ministry is preparing a business plan for 2019-2020, on the basis of the priorities set under the above Strategy Study, to cover the period until the completion of the formulation of the final Strategy. The business plan will include not only short and medium term actions but also preparatory actions for long-term measures to be implemented, in line with the priorities in the sector.

(f) Enhancing Connectivity

With regards to connectivity, the number of airlines operating in Cyprus was raised from 20 to 70 during the last twelve years as a result of the cooperation between the Government and the airport operator (i.e. Hermes Airports). It should be noted that the two Cyprus' airports (i.e. Larnaca and Paphos airports) recorded the 4th fastest connectivity growth in 2018 and in 2017, compared to 2017 and 2016 and amongst 43 and 45 European airports respectively¹⁵. Furthermore, the Larnaca Airport ranked 3rd amongst the top performers in its category¹⁶ as

¹⁴ The new legislative framework will be enforced immediately after it is published in the Cyprus Government Gazette.

¹⁵ Airport Council International (ACI) Europe Airport Industry Connectivity Reports: <https://www.aci-europe.org/policy/connectivity.html>

¹⁶ Group 3 in Airport Traffic Categories i.e. airports with between 5 and 10 million passengers a year

regards direct connectivity growth from 2017 to 2018, and 2nd as regards the top performers over the last 5 years (i.e. 2018 vs 2013) with an increase of 98.5% in direct connectivity.

(g) Enhancing the competitiveness of the Cyprus Shipping Industry

The sustainable growth of Cyprus shipping is of high importance as it offers 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 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 significant sector of the Cyprus economy.

Within the framework of the current national strategic objective of enhancing further the competitiveness of the Cyprus Merchant Shipping and strengthening 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.

The restructuring of the newly established Shipping Deputy Ministry (SDM), operating as of March 2018, is an ongoing process which started in mid-2018 and will continue during the period 2019-2020. The ultimate objective of the restructuring is to upgrade the quality of services offered to the shipping industry. The organizational and administrative structure of the SDM has already been reviewed, and new arrangements were introduced in December 2018. This entails a clear separation of functions and responsibilities under three distinct directorates in order to increase the efficiency of performance, as well as the optimization of performance of all available resources.

Furthermore, particular importance has been attached on the rationalization of services provided, the re-engineering of processes and the upgrading of systems and methods.

(h) 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 MJPO.

- Action Plan for the implementation of the national strategy against corruption

A horizontal National Action Plan Against Corruption which aims at implementing the principles enshrined in the national strategy through specific coordinated actions by all the stakeholders involved, both in the public and the private sector, will soon be submitted to the CoM for political approval, since consultation has been completed.

The MJPO has undertaken a coordination role concerning, among other aspects of Corruption, the coordination of the implementation of the National Action Plan. In this respect, it has created the Office for Transparency and Prevention of Corruption, the responsibility of which has been assigned to an anti-fraud policy expert.

Many of the actions that have been included in the Action Plan, such as the designation of

focal points at the different departments/services, the adoption of codes of conduct for the CoM and for the public prosecutors, the enactment of the Law for the establishment and operation of the Internal Affairs Service (I.A.S) – No. 3(I)/2018, have already been concluded. Other actions that have been included in the Action Plan, such as the Bills on the Independent Authority Against Corruption, whistle-blowers and lobbying, are well underway as described below. Numerous other actions, including the design of the public awareness campaign, the preparation of training plans and the creation of anti-corruption experts' network, are included in the Action Plan.

The MJPO, recognising the importance of getting young people involved in the fight against corruption, and sharing the statement of the Parliamentary Assembly's Resolution of 2017 that young people of all ages "have a fundamental role to play in bringing a new culture of integrity to all levels of the society" and thus eventually shifting public perception towards a new ethics consciousness, the MJPO intends to materially engage the youth in Cyprus in the fight against corruption and has already prepared a draft Action Plan to this end. It also published a call for all university and college students for developing the anticorruption campaign's logo, poster and motto.

- **Independent Authority against corruption**

The Bill for the establishment of an Independent Authority against corruption was approved by the CoM on the 27th February 2019 and was submitted to the HoR on the 15th March 2019. 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.

- **Bills for the regulation of lobbying and the protection of whistle-blowers**

Aiming at increasing transparency in decision-making processes, the Bill drafted by the MJPO for the regulation of lobbying, after taking into account recommendations submitted during public consultation, was submitted to the Law Office for legal vetting, which is expected to be soon concluded. It will then be submitted to the HoR.

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 whistle-blowers. The Bill is before the HoR as of May 2017, where discussions are considerably advanced and the Bill is expected to be presented before the plenary in the coming months.

- **Police legislative and other measures on anti-corruption**

Two empirical studies were conducted by a Committee appointed by the Chief of Police, with the aim to trace and map the problem of police corruption and examine the mechanisms for suppressing it. The above studies indicated that a number of actions needed to be taken, including the creation of an independent and autonomous internal CYPOL agency with a mandate to tackle police corruption and to work towards the preparation and passing of special legislation for the tapping of telephone conversations, integrity testing, the use of undercover agents, as well as witness protection.

As a result of the above, a Bill on police corruption was approved by the HoR on 19/1/2018, bringing into force the Law for the Establishment and Operation of the Internal Affairs

Service (I.A.S), No. 3(I)/2018 and followed by the establishment of I.A.S, charged with the mission of fighting corruption within CYPOL. Administratively I.A.S reports directly to the Chief of Police, whereas its powers and authorities are directly supervised by the Attorney General, or by an Attorney appointed by the Attorney General for this purpose. I.A.S. is staffed by police officers who are selected and seconded by the Chief of Police for a set time period (4 + 2 years) and are obliged to act in a confidential manner during and after (for 5 more years) their secondment at I.A.S. Moreover, I.A.S. members must consent to the lifting of secrecy regarding their bank accounts and telecommunication data.

Based on its mandate, the I.A.S. deals with intelligence about/investigates police corruption offences, according to the definitions provided by the relevant legislation (Law 3(I)/2018). On the basis of this legislation, a list of 37 offences has been drafted which can be classified under the categories of bribery, abuse of power and abuse of trust. After investigation is completed by I.A.S, the file of each case is submitted to the Attorney General for further instructions. The latter examines the content of the file and based on his findings will order either prosecution of the accused person(s) or that the case shall be closed.

Apart from penalizing police corruption, Law 4(I)/2018 includes provisions for relevant disciplinary action, including the obligation of police officers to report police corruption to I.A.S., as well as disciplinary penalties of either dismissal or compulsory retirement for officers convicted of police corruption. Suspension measures may be also taken during the disciplinary investigation and afterwards, in case that a criminal or disciplinary prosecution of the officer involved is decided.

It is finally noted that a budgetary provision has been made for the recruitment of a number of accountants in 2019, who will assist in economic investigations in the context of investigating criminal cases for various offenses, including corruption.

- Legislation on the fight against Manipulation of Sports Competitions

The Law 180(I)/2017 on the fight against Manipulation of Sports Competitions aiming to combat corruptive behaviour in sports, was enacted on 15.12.17, providing for the establishment of a five member Ethics and Sports Integrity Commission. The Commission acts as the “national platform” as well as the national contact point for the purpose of the Council of Europe Convention on the Manipulation of Sports Competitions. The Commission monitors all aspects relating to match fixing and runs a hotline for complaints while at the same time it has the opportunity to act, at its own initiative, to investigate incidents of possible match fixing. A complete report is prepared and sent by the Commission to the Attorney General with suggestions as to whether there are reasonable grounds to start a criminal procedure or not. The Law further defines new corruption offences in this area.

3.4.5. Formulating a Long Term Strategy for the Cyprus Economy

The Cyprus Economy and Competitiveness Council will implement a project for the elaboration of an integrated strategy for long-term sustainable growth of the Cyprus’ economy. The Council’s proposal was adopted by the Government and technical support through SRSS has been secured for 2019. The main aim of this project is to formulate a long-term strategy and a new economic model that can lead to the sustainable growth and the strengthening of the international competitiveness of the economy. It will provide the necessary strategic directions and the conditions for a targeted and effective implementation

of the country's reform and investment policies for the next 10-15 years. This is expected to be done through an analysis of the current situation, the assessment of the weaknesses and prospects of the Cyprus' economy as well as of the global economic trends, opportunities and threats. The study will also identify the main existing and new sectors that can support long-term sustainable economic growth, on the basis of the comparative and competitive advantages that Cyprus has or can develop. The strategy will be developed through stakeholders' consultation.

The project is expected to begin in the second half of 2019 and to be completed in the first half of 2021. The first deliverables, including the strategic economic policy guidelines, are expected to be ready in the first half of 2020.

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

Country Specific Recommendation 5

Complete reforms aimed at increasing the capacity and effectiveness of the public employment services and reinforce outreach and activation support for young people who are not in employment education or training. Complete the reform of the education and training system, including teacher evaluation and actions to increase the capacity of vocational education and training. Take measures to ensure that the National Health System becomes fully functional in 2020, as planned.

3.5.1. Enhance PES and support young NEETs

The labour market conditions continued to improve in 2018 as a result of the robust economic growth. In particular, the employment in persons increased by 5.6% (21.255 persons) in 2018 while the employment rate went up to 73,9% compared to 70,8% in 2017. The unemployment rate fell to 8,4% in 2018 compared to 11,1% in 2017.

These employment developments resulted also in a decrease of part time and temporary employment for both sexes with the total part time employment falling to 11,6% in 2018 compared to 13,0% in 2017 and the total temporary employment falling to 13,7% compared to 15,2% in 2017. Young people (15-24) increased their employment by 13,3% (or 3.555 persons) in 2018, compared to 2017.

Young people (15-24) have also experienced a great drop in the unemployment rate (from 24,7% in 2017 to 20,2% in 2018). The number of long-term unemployed decreased considerably by 39,3% (or 7.530 persons) in 2018 resulting in the very low level of the long-term unemployment ratio of 2.7%, from 4.5% in 2017. Despite the declining trend of the youth unemployment rate, the proportion of young people not in employment nor in education or training (NEET) still remains high at the level of 11,1% in 2018 Q3.

Registered unemployment continued its declining trend in 2018 with the monthly average number of registered unemployed in 2018 exhibiting a decrease of 21% (or 6.915 persons) reaching the level of 26.766 persons.

As far as labour demand is concerned, the number of job posts notified with the Public Employment Services (PES) in 2018 (23,457 job posts) indicated an increase of 6% compared to the jobs notified in 2017 (22,180 job posts).

During 2018 Cyprus continued its efforts to tackle unemployment and modernise and enhance its PES through the strengthening of its human and technical capacity and also exploring the potential to improve efficiency in service provision, the performance of PES as well as reinforcing outreach and activation support for young people who are NEETs:

(a) Increasing the capacity and effectiveness of Public Employment Services

Under the framework of the enhancement and modernization of the PES, the process of purchasing the services of 30 employment counselors was completed, with ESF co-funding (see Section 5) and their recruitment was made in June-August 2018. The additional counselors have enhanced considerably the efficiency and capacity of the Cyprus PES in

dealing effectively with its customers, especially with the most vulnerable. The increase of the permanent staff of PES is also foreseen in 2019 and 2020 in order to safeguard the continuous provision of effective and quality services. During 2019 the purchase of services of security guards will be promoted, who will be placed in all PES offices to secure the smoother operation of PES.

The results of the cooperation of the PES with the Private Employment Agencies (PrEAs) through the implementation of the new innovative employment scheme are under evaluation. This scheme, through the provision of vouchers (Job Placement Voucher), provided subsidies to PrEAs for every placement in employment of vulnerable groups such as youth, long term unemployed, and Guaranteed Minimum Income (GMI) recipients.

As regards the efforts to expand the use of IT for self-service provision, the PES has developed and launched an on-line platform for employers to facilitate them to assess jobseekers' profiles and perform vacancies matching. A new project is foreseen during 2019 with ESF support (€1.3 mln), for the development of a new modernized IT system which will facilitate innovative e-services and faster procedures, improve matching accuracy and provide better reporting. The results of the consultation taken under the Mutual Assistance Project of the PES Network (see below), as regards the digitalization of PES, are taken into consideration. For the time being the PES is working on the preparation of the tender documents for the purchase of an IT consultant.

In 2018 the Cyprus PES launched also the IT System of monitoring and evaluation of ALMPs which has been identified as crucial for self-improvement in the design and delivery of ALMPs. At present the second cycle of the officers' training is promoted in order to ensure the correct recording of data.

During the period 2017-2018 the Cyprus PES participated in a Mutual Assistance Project of the PES Network Programme, responding to the 2016 and 2017 CSR concerning the effective implementation of the services and ALMPs provided by the PES. Under this project an action plan has been prepared determining targets to be achieved and next steps to be followed while two pilot projects were implemented regarding the expansion of services provided to employers (operation of district Employment Units) and the provision of services based on customer segmentation. The PES offices have recorded very encouraging and promising results as regards the upgrading of quality of the services provided.

On the basis of the experiences gained through the participation in the Mutual Assistance Project the Cyprus PES is reviewing its manual/document of its operations in order to incorporate in it new and reviewed procedures, and an enriched list of new guidelines and instructions which will determine clearly the rights and obligations for both officers and clients. In parallel, a strategic document is being prepared which will determine the main employment goals and objectives at operational level, and set the policy initiatives/procedures which will lead to achieving these goals and objectives.

During 2018 and 1st quarter of 2019 the staff of PES has participated in various training programmes for up skilling their abilities and knowledge and deal effectively with the clients. An extensive training programme has also been applied for upgrading the managerial skills of the management team which will be extended in 2019.

The MLWSI is currently drafting a Bill regarding the operation of PES, Bill expected to be completed in the first half of 2019. It will go through a consultation procedure in the second

half of 2019 before being submitted to the HoR.

(b) Reinforce outreach and activation support for young NEETs

Under the National Action Plan for Youth Employment (2014-2017) Cyprus had introduced several measures aimed at supporting the implementation of the Youth Guarantee Implementation Plan, which focused primarily on reforming Cyprus' ALMPs and the reform of its vocational education and training (VET) system. These measures proved to be effective: Youth unemployment is decreasing substantially benefiting also from the high GDP growth.

The European Commission decided to help in this matter by giving peer support to Cyprus in order to add value to the implementation of the Youth Guarantee, going beyond what Member States could achieve on their own. To this end an action plan has been developed, bilateral study visits have been made, progress updates and ongoing support are in place.

In this way, PES services have prioritised their endeavors to provide to young unemployed, actions such as:

- Enhancing the cooperation with other stakeholders (such as Human Resource Development Authority, the MoEC, Cyprus Productivity Centre, Employers' Organizations and companies, Youth Board, NGOs, Public and private universities) for the profiling of NEETs, outreach and activation Support, enrichment of the training opportunities, and the information necessary for the analysis of the NEETs' characteristics.
- Increasing the Outreach of NEETs and having them registered under PES.
- Delivering of intensive tailored made counseling and job-search activities to the registered NEETs based on the analysis of their characteristics and the identification of their specific barriers to enter the labour market.

(c) Other measures to upgrade skills and address skills mismatch in the labour market

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 schemes of the HRDA are targeted, amongst others, for young people who are NEETs, through schemes addressed to unemployed and inactive persons, as described below.

- System of vocational qualifications: The implementation of the system continues during the programming period 2014-2020, with a budget of €6,0mln (co-funded by the ESF). It is foreseen that 80 new standards will be developed, the existing 72 standards will be revised and around 4.000 certificates will be awarded to employed and unemployed persons. During 2018, 315 certificates were awarded and total expenditure amounted to €351.192. The 2019 budget amounts to €1,5mln and the target is for 650 certificates to be awarded.
- Scheme for the employment and training of tertiary education graduates: aims at providing opportunities to tertiary education graduates, below the age of 30, to secure a suitable job and acquire work experience and specialised knowledge and skills, while at

the same time strengthening enterprises and organisations through the employment and training of qualified persons. During 2018, around 760 unemployed graduates benefitted from the scheme and total expenditure amounted to €4,5mln. The 2019 target is for 1.180 unemployed graduates to benefit from the scheme, with a budget of €6,8mln.

- Scheme for the training of the long-term unemployed in enterprises/organisations: offers opportunities to long-term unemployed people in order to enter/re-enter employment with the parallel acquisition of the necessary knowledge and skills. The HRDA provides incentives to employers in order to design, organise and implement in-company training programmes to cover the training needs of newly-employed persons who were long-term unemployed. During 2018, around 130 long-term unemployed persons benefitted from the scheme and total expenditure amounted to around €487.000. The 2019 target is for 250 long-term unemployed persons to benefit from the scheme, with a budget of €750.000.
- Training programmes for the unemployed: aim at the participation of the unemployed who are registered with the PES in training programmes for specific occupations/themes that the HRDA defines after consultation. Contractors (Certified Vocational Training Centres) are appointed by the HRDA to provide the training programmes, following a tendering procedure. Training programmes may include a practical training part in an organisation/enterprise for on the job training.

During 2018, a series of training programmes were successfully completed in the areas of hotel and catering sector for GMI recipients (Provision of care services for persons with paraplegia and quadriplegia, provision of care services for GMI recipients and for salespersons). Overall, during 2018 around 320 unemployed persons benefitted from the scheme and total expenditure amounted to around €143.000 while in 2019 with a budget of €1,5m, the target is to expand the benefit to 750 unemployed persons.

- Multi-company training programmes - participation of the unemployed: The encouragement and subsidisation of the participation of the unemployed who are registered with the PES in this category of programmes started to be implemented in 2015. Each training institution may accept unemployed persons to participate in training programmes to further enhance their knowledge and skills. During 2018, around 240 unemployed persons benefitted from the scheme and total expenditure amounted to around €50.000. The 2019 target is for 2.000 unemployed persons to benefit from the scheme, with a budget of €300.000.
- The HRDA has in place a comprehensive system for evaluating on a continuous basis the impact of its schemes on all participants. For instance the results of the study on the scheme for the employment and training of tertiary education graduates (2017) show that the scheme has a very profound effect on employability since the vast majority of the participants (93,5%) are employed approximately 6 months after completing their participation while 78,8% of them continue to work in the same organization.

Additionally, the HRDA conducts research studies on employment forecasting and the identification of skills gaps, as briefly described below:

- Forecasts of employment needs in the Cyprus Economy 2017-2027: The HRDA provides 10-year employment forecasts on a regular basis every two to three years. The

latest study on employment forecasts was completed in 2017, covers the period 2017-2027 and provides forecasts for employment needs in several economic sectors (three broad sectors, 21 main sectors and 52 sectors) and in 309 occupations (173 high level occupations, 130 middle level occupations and 6 low level occupations), covering the whole spectrum of the Cyprus labor market.

- **Identification of Employment and Training Needs:** This study 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 programs. The study collects and analyses the views of social partners, other stakeholders and enterprises.
- **Identification of Green Skill Needs in the Cyprus Economy 2017-2027:** This study was completed in 2018 and provides forecasts for employment and demand for labor in the economic sectors and occupations with participation in the green economy for the period 2017-2027. Additionally, it identifies the green skill needs for specific occupations of the green economy of Cyprus.

(d) Combatting undeclared work / labour market regulation / collective bargaining

The Unified Labour Inspectorate, established in 2017, operates under the direct control of the Permanent Secretary of the Ministry of Labour, Welfare and Social Insurance. Efforts are constantly being made to improve the labour inspection mechanisms through training, risk assessment and analysis, in order to inspect and better target cases of illegal and undeclared work. The Inspection Units carry out labour inspections on a regular basis, across a multitude of businesses and establishments, in varied sectors of economic activity so as to safeguard compliance with Labour Laws, to strengthen the quality of work, to combat cheap labour, in the framework of the government's continued efforts to better regulate the labour market.

In addition to the above, the government also aims to strengthen and enhance collective bargaining.

3.5.2. Complete the reform of the education and training system, including teacher evaluation and actions to increase the capacity of vocational education and training.

There is an on-going effort for the implementation of reforms of strategic importance in the area of education and training, aimed at increasing the efficiency of public spending in education, improving the quality and market relevance of education and strengthening social cohesion. A renewed effort has begun as of February 2018 for the designing and implementation of reforms.

As part of the reform, the first teacher appointments completed in September 2018 (60 permanent and 278 temporary position offers) were carried out in accordance with the New Appointment System introduced in November 2017.

Three important reforms which are currently in focus outlined below:

(a) Introduction of a new evaluation system of teachers and education work

The existing evaluation system stands for almost 40 years and it is widely considered as

obsolete and actions are being taken in order to introduce a new one. The need for such a reform has been repeatedly stressed during reviews of the Cyprus educational System, done by UNESCO (1997), the Committee for the Reform of the Education System (2005) and the World Bank (2014).

On May 2, 2018, the MoEC appointed a new committee to develop a «New System for the Evaluation of Teachers and Educational Work». The terms of reference, include the formulation of a proposal for the implementation of a modern evaluation system which will: (i) give incentives to teachers to systematically retrain and improve their skills, (ii) allocate responsibilities to schools to assume an essential role in the evaluation of their work and the provision of quality education, and (iii) allow educational authorities to assess the quality of the education provided, with the aim to improve it and select its educational leaders more effectively.

In January 2019, the committee delivered its report to the MoEC, which is now in the evaluation process in order to adopt a new system that will aim to enhance learning outcomes through a supportive evaluation system. Discussions are being held with social partners in order to reach an agreement for the implementation of the new system.

The new evaluation system will highly influence the quality of Cyprus education as teachers' and educational work evaluation are fundamental parameters of a contemporary educational system. Implementation of the policy reform depends highly on the progress made during consultations with the various stakeholders, especially the teachers' unions.

(b) Modernization of the student evaluation system

On June 11, 2018, the MoEC appointed a new committee to develop a «Modernized Student Evaluation System» based on modern educational trends such as formative evaluation and multiple sources of information for student's assessment. Extensive consultations have taken place with social partners (teachers unions, parents associations, inspectors unions, pupils association) and the final report was delivered to MoEC in December 2018. At the moment, MoEC is in consultation with stakeholders in order to finalize its parameters. The new approach will introduce structural changes, on the basis of the latest educational approaches that prevail globally, and will fundamentally reform the educational system.

(c) Increasing the capacity of technical and vocational education and training

The construction of new technical and vocational schools of education and training and the establishment of three new evening schools of technical and vocational education will increase the capacity of VET. At the same time, it will serve the aim of improving the quality and attractiveness of VET provision in Cyprus.

Several projects for the construction, expansion and upgrading of technical schools are taking place, and some of them have been completed (e.g. schools at Paralimni & Limassol) while the construction of two new schools in Larnaca and in Limassol is underway, expected to operate in 2022 and 2025 respectively. The construction of a hotel administration department and of a dairy and cheese-making workshop in Nicosia has also been completed, whilst the development of areas to be used for workshops of the Hotel and Catering field of studies is underway. The new workshops will operate as of the school year 2019-2020. The construction of a new building of a public school of Higher VET in Limassol is also underway and expected to be completed in 2022.

The process for the establishment of the three new evening schools of technical and vocational education in three Districts is underway and will operate as of September 2019. Currently there are two evening schools of technical and vocational education, one in Nicosia and one in Limassol offering programmes equivalent to the ones offered in the morning, adapted however to the particular characteristics and needs of adult learners. Evening schools operate as second chance schools, offering programmes to adult learners who hold a lower secondary education leaving certificate, the opportunity to re-enter the formal school system, obtain a qualification at upper secondary level, move on to higher education if they wish and/or enter the labour market as skilled workers. .

Finally, it should be mentioned that in order to meet labour market demands and after consultation with stakeholders, new specialisations have been offered during the last years by technical schools, including in the areas of natural gas transmission and distribution, renewable energy sources, digital technology and programming, industrial design, shipping, management of hotel units.

A series of other measures are also promoted in the context of the education reform, as follows:

(d) Teacher's professional learning

The implementation of the policy for teachers' professional learning, as per the decision of the CoM of July 2017 is officially carried out by the Cyprus Pedagogical Institute (CPI).

Aimed at the quality improvement of teachers' and students' education, all schools are expected to prepare a Professional Learning Action Plan, which is an integral part of the School Improvement Action Plan. This focuses on a specific priority issue, according to teachers' and students' needs assessment and includes focused school-based training as well as a number of school-based activities. Activities should be internally evaluated, to inform further decision-making. For the preparation and implementation of the Plan, schools have at their disposal the electronic platform for professional learning, hosted at CPI's web site, which offers supporting material (e.g. needs assessment specimens, suggestions for actions), suggestions for cooperating opportunities with the MoEC or other institutions (e.g. universities), as well as additional instructions.

Moreover an opportunity is given to a small number of schools, on a voluntary basis, to follow, through the CPI professional learning support programme, a more systematic procedure in order to implement teachers' professional learning according to the specific issue set as priority and teachers' specific needs. Each school follows its own suitable methodology (e.g. action research, lesson study, quality teaching rounds). During the school year 2017-2018, a total of 41 schools participated in the CPI programme.

(e) Upgrade Vocational School Counselling

Taking into consideration the radical changes in the labour market, connected with technology innovations and the 4th industrial revolution as well as the increasing pace of change in most fields of industry and employment worldwide, MoEC goals are shifting to follow and cover the new needs of the employment market, concerning students and future employees. Educational Trainings provided to Counselors and students concentrate more on the development of employability skills, soft skills and life skills as well as the encouragement and cultivation of innate student talents and inclinations.

Special emphasis is given in the training of School Counsellors for the implementation of School Mediation and SAP (Student Assistance Program) at schools, aiming to help students develop their social and life skills and manage their emotions. Counselling and Career Guidance offices operate in all public Secondary and Technical schools as well as Central Career Guidance offices at the MoEC.

To this end, there is a close collaboration between all competent Authorities at national level (MoEC, MLSI, Human Resource Development Authority, and the Cyprus Productivity Center), while information concerning educational and professional standards in other member states is regularly updated. In addition, School Counselors are encouraged and facilitated to visit international educational fairs and institutions. Preparatory Learning Schools also provide second chance educational opportunities to early high school leavers.

(f) Enhance success rates in primary schools and provide affordable high-quality early childhood education and care

A recent reform approved by the CoM (9/1/2018), is the gradual extension of the entry age in primary education (six years old) and consequently, the extension of compulsory pre-primary education from one year to one year and four months (children aged four years and eight months to six years). The aim of this change is to improve school success rates, since the entry age is one of the most important factors for pupils' school success.

The project "School and Social Inclusion Actions" is offered in a number of pre-primary schools and includes, among others, the provision of morning and afternoon programmes for reinforcing learning and creativity and psychosocial support for pupils and their families through the establishment of "Information and Social-emotional Support Centres", as well as supporting school equipment.

(g) Adult participation in learning

A wide range of education and training programmes and initiatives are undertaken to improve supply in adult education and upgrade skills of low-qualified adults. Measures to strengthen the adult learning system include, among others, the following: introducing of a new framework of second-chance schools, developing a validation system for non-formal and informal learning and strengthening the capacity of Post-Secondary Institutes of Vocational Education and Training schools and monitoring the Cyprus Qualifications Framework (CyQF)/European Qualifications Framework levels of certificates, diplomas and Europass documents. More targeted initiatives, better coordination of policies and activities and cooperation between stakeholders will be sought.

3.5.3. Taking measures to ensure that the National Health System becomes fully functional in 2020, as planned.

The General Healthcare System (GHS) implementation is the greatest reform of the health sector in Cyprus and it is expected to improve the resilience of the sector and to enhance access to quality health care in the country.

(a) Public Hospitals' Autonomization

At the same time the autonomisation of public hospitals, reflects the transformation of the status of existing public hospitals into a new public legal entity. The Autonomisation Law

and respective Regulations on staffing issues were adopted by the HoR in June 2017. Since then, efforts are continuous and progressively intensive for the implementation of all requested reforms in public hospital as well as to the private health sector, towards ensuring the full function of the National Health System in 2020, as planned. Among the measures taken in overcoming existing obstacles, are the restructuring of primary healthcare centers, the development of eHealth infrastructure, measures in the area of pharmaceuticals and measures to address waiting times in accessing to healthcare services.

The implementation of the Law on Autonomization started on 19/12/2017, when the Board of Directors of the State Health Services Organisation (SHSO) was nominated by the CoM. The Board of Directors is working intensively towards the autonomization of public hospitals. Among the main actions completed are:

- Regulatory Administrative Act published for the establishment of 6 Directorates (3 Hospital Directorates, 1 Primary Healthcare Directorate, 1 Ambulance Directorate and 1 Mental Health Services Directorate).
- CEO and CFO of SHSO have been appointed, as well as the CEOs and CFOs of Directorates and part of the rest of the top managerial personnel of Directorates and various Units of the Organisation.
- The Scientific Council of the SHSO, as provided in the Law was established in February 2019.
- Public servants have been seconded to the management unit of SHSO.
- Hospital personnel has been seconded/transferred to the State Health Services Organisation on the 1st January 2019.
- Contracts to all Ministry of Health (MoH) employees seconded/transferred to the State Health Services Organisation were offered beginning of February 2019.
- Specific actions have taken place in preparation for the 1st phase of NHIS for Primary Health Care (structural level preparations, information meetings for healthcare professionals about healthcare reforms, information meetings on how GPs will enroll to the NHIS system, report on Incentives to GPs).
- The costing of public health facilities and PHC study has been completed.
- The SHSO is proceeding with the implementation of Communication strategy for the public as well as the personnel.
- The Budget of the Organization for 2019 has been approved by the HoR.

On-going and planned actions include:

- A study of public health services utilization and client satisfaction for SHSO (baseline) is expected to start in March 2019.
- Other legislation related to the Autonomization is currently being amended.
- The premises for the SHSO will be secured by September 2019.
- The recruitment of other Organization's personnel is active.

(b) Adoption of legislation for universal healthcare coverage

As regards the implementation of the National Health Insurance System (NHIS), according to the legislation, NHIS will commence on 1/6/2019 (1st phase) with outpatient care i.e. FD, Outpatient Specialist, Drugs and Laboratories, and will be fully implemented on 1/6/2020 with the addition of Inpatient, A&E, Ambulances, Rehabilitation, Preventive Dental care, Palliative care and Allied Health Professionals. Substantial progress has been made in the following areas:

- Preparation and forwarding of Regulations for voting (collection of contributions, co-payments, family doctors, outpatient specialists, pharmacists, laboratories and Beneficiaries).
- Negotiations with healthcare providers' representatives.
- Delivery of the GHS IT system.
- Enrolment and contracting of healthcare providers.
- Enrolment of beneficiaries.
- IT deliverables for infrastructure, website, contact centre, accounting, provider enrolment, Beneficiary enrolment and personal doctor list management have been delivered, tested and accepted by the Health Insurance Organisation (HIO).
- Communication strategy completed.
- The Budget of HIO for 2019 has been approved by the HoR.

On-going measures include:

- Roadmap prepared by the HIO with actions and milestones towards the General Health Scheme (GHS), implementation (first stage – 6/2019, full implementation – 6/2020).
- The implementation of the 1st Phase of the project for the development and operation of the IT System and the key GHS business processes (including IT Services, Care Management and Claims Management) is foreseen to be completed by the end of April 2019 (in time for GHS first stage launch in 6/2019).
- On-going consultation on the regulatory framework needed to support the successful implementation of the GHS, including Regulations already approved by the HoR (i.e. on the collection of contributions and copayments) and Regulations expected to be approved within the next couple of months (e.g. on the PD and OS doctors, on laboratories, on pharmacies, medical devices and sanitary, and on beneficiaries–dependent children of a beneficiary over the age of 21 and proof of normal residence).

(c) Other reform measures in the area of healthcare

A number of reform measures in the healthcare sector are required for the smooth implementation of National Healthcare System. These measures include the following:

- Restructuring of the public primary care

A detailed restructuring plan for the rural primary healthcare centres has been approved by the CoM in November 2017. Its implementation has already commenced, with one rural primary healthcare center being already restructured and functioning. Furthermore, a detailed restructuring plan of the urban primary health care centers of Nicosia has been developed and approved by the CoM on the 25th of July 2018. Since then the working hours of a number of centers have been extended.

Additionally, the necessary infrastructure needed for the implementation of the Primary Health Care reform is currently being developed. Community nursing services are being extended to cover all rural area communities in Cyprus and a network of the ambulance services has been further developed so that the response time of the ambulance is almost, throughout Cyprus, within recommendations and international standards for every citizen.

- Pharmaceuticals

The Pharmaceutical Services of the MoH have undertaken several measures toward the facilitation of the implementation of the National Healthcare Insurance System (NHIS).

These include the drafting of the following legislative acts:

- The Pharmacy and Poisons (Amendment) Law of 2019.
- The Specifications for the Establishment and Functioning of Hospital Pharmacies Regulations of 2019.
- The Specifications for the Establishment and Functioning of Pharmacies Open to the Public (Amendment) Regulations.
- The Narcotic Drugs and Psychotropic Substances (Amendment) Regulations of 2019.

The above legislative acts have been submitted to the HoR for further deliberation prior to enactment. In general, these provide for the necessary adjustments to the practice of pharmacy in order for pharmacists to function effectively with the NHIS. The provisions generally include systems for electronic prescribing, generic interchange and detailed keeping of records. In addition, new regulations for the establishment of hospital pharmacies have been brought forward for the first time.

In addition to the above, the Pharmaceutical Services of the MoH have drafted the establishment of a National Medicines Authority Law of 2019 which is about to be tabled to the CoM for approval prior to forwarding to the HoR. In general, this legislation establishes an independent national agency modelled after similar agencies in the EU for the regulation of medicinal products, cosmetic products, medical devices and food supplements.

- **E-Health**

Development of an Integrated Health Care Information Systems: the project's tender was issued on 09/11/2018 with a date of tender submission the 12th of March 2019. Its implementation period is 24 months with the production operation date to be set by the end of 2021.

Other eHealth projects include:

- The digitization of the paper medical files of the Nicosia General Hospital which was 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).
- The issuing system for the sponsored patients.
- The European patient Billing.
- The treatment subsidy and cross-border healthcare system.

Electronic Health Legal Framework: the law on eHealth has been approved by the HoR on 5th April 2019, providing amongst others for the establishment of a National Electronic Health Authority.

- Addressing the existence of waiting times in accessing healthcare services

As from April 2015, the MoH implements the voucher system. It aims at establishing and improving the cooperation between the public and private health care sectors for services not offered in public hospital. Furthermore, it upgrades the quality of health services offered to patients and reduces dramatically the cost of the health services obtained from the private sector. It enhances transparency by ensuring the right of patients to decide on the medical centre and the doctor of their choice (co-payments methods). It improves access to healthcare by addressing waiting times of certain healthcare services.

The system is based on two schemes: 1) within the framework of the scheme for the provision of financial assistance for healthcare services not offered in the Public Sector and 2) a programme (based on a CoM decision) aimed at reducing waiting lists in public hospitals. This programme uses a voucher system (within the first scheme) and since 2015 has benefited over 1000 patients per year. So far, the voucher system programmes have been successful in achieving their objectives, increasing utilization, and improving quality, facilitating greater transparency, improving patients' choice and is therefore considered as a basic 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 will be enhanced in the future.

In addition, the reintroduction of the second programme, aimed at reducing waiting lists in public hospitals, came into force in February 2018 by a CoM decision. The success of this programme, allowed the MoH to gradually extend it into more specialties by using overtime hour benefits as well as referral to the private sector combined with the extension of the working hours of outpatient departments to cover afternoon hours between 3 and 6pm. Following a CoM decision in January 2019, the implementation of the piloting programmes has been renewed until 31/05/2019 to the outpatients and until 31/01/2020 for the other specialties covered.

Other measures processed by the MoH are the following:

- A legislation has been drafted on the provision of community nursing and community obstetrics services, whose public consultation has recently been completed. This aims at regulating nursing and obstetric services exercised/provided autonomously in an outpatient environment addressed to individuals, groups, families, women, neonates, groups, families and/or the community as a whole.
- Legislation has been drafted on rehabilitation services and rehabilitation centers, aiming at regulating their operation. The draft law entitled «Law regulating the establishment, operation, control and supervision of rehabilitation and rehabilitation Centers» is currently under public consultation.

B. Overall Investment Strategy

Overall Investment Priorities

The strategic guidelines and growth policy orientations, governing the allocation of budgetary resources in response to the main investment needs of the country, over a medium term horizon, are outlined in the Government Strategy Statement and, accordingly, in line Ministries' Strategic Plans which underpin the Government's budget framework. These are additionally reflected and complemented by more detailed policy orientations in the Action Plan for Growth and the current National Reform Programme, serving to the alignment of the reform agenda with the key priorities of the strategic framework for investments.

The overall aims of the Government's investment strategy under the above strategic framework are to increase the growth potential of the economy, to improve competitiveness and safeguard the long term sustainability of growth.

The utilization and further development of comparative and competitive advantages, the diversification of the productive base, the enhancement of the competitiveness and extroversion of the Cypriot enterprises and the promotion of economic sectors of high contribution to economic growth and sustainability, both social and environmental, are key objectives.

The above objectives relate to investments by both the public and private sectors. In order to make Cyprus more attractive to both local and foreign investors, emphasis is placed on reforms that aim at creating an efficient business environment, facilitating investment, promoting better regulation and streamlining of procedures, increasing the efficiency of the public sector, promoting the growth of SMEs and entrepreneurship and improving the efficiency of justice delivery, as reflected in the reforms outlined under the previous sections of the NRP. A number of incentives are in place in order to support the realisation of investment, with increasing emphasis being placed in the area of innovation.

In terms of the areas where investment is expected to be channelled, Energy, Tourism, , Shipping, Industry Education, Health and Justice are amongst the key priority sectors in the above context, as well as horizontal areas such as Research and Innovation, Digitalization and eGovernment, Environment and Climate Change.

As mentioned under section 3.4.5, a study will be carried out for the development of a new strategy for sustainable long-term growth aiming at strengthening the economy's competitiveness which achieving social and environmental sustainability. Concrete policy directions for targeted reforms and investment in the next 10-15 years are envisaged and these will inform further our assessment of future investment needs.

Investment priorities under ESIF 2021-2027

Based on the five broad Policy Objectives stipulated in its Proposal for the regulatory framework governing Cohesion Policy in the 2021-2027 period, the European Commission has provided suggestions for priority investment areas for ESI funding in Cyprus, in the context of its Country Report (Annex D).

These suggestions will provide the basis for the deliberations that will be conducted between DG EPCD - as the National Programming Authority and Managing Authority for ESI Funds

in Cyprus - and the competent Commission Services, according to the relevant programming provisions of the proposed regulatory framework for the period 2021-2027 (i.e. possible formulation of a Partnership Agreement or other relevant strategic document and preparation of Operational Programmes).

Nevertheless, it must be noted that the five Policy Objectives to be pursued by ESIF actions in the next programming period, do not diverge at a great degree from the eleven thematic objectives being targeted during the current programming period. For the 2021-2027 period, the majority of European Regional Development Fund (ERDF) investments will be geared towards the first two objectives (a Smarter Europe and a Greener Europe).

Hence, the sectors of research/innovation, SMEs, energy and environment - which are already targeted in the context of the ongoing Operational Programmes (according to the current thematic concentration) - will continue to constitute policy investment areas in the forthcoming programming period as well. On the other hand, a number of various projects already initiated through ESI funding in Cyprus in the current programming period will also have a rollover effect in the 2021-2027 period, due to their high degree of success, effectiveness and relevance to the new five Policy Objectives.

More specifically, the areas where Cohesion Policy Funds have brought significant added value and which continue to be relevant for the next programming period are the following:

- **SMEs**

One of the major problems that SMEs face in Cyprus is their access to finance, so taking measures in this right direction is of paramount importance. Recognizing this – and as analyzed in the EU Funds section of the NRP – a significant amount of ESI funding is targeted towards the improvement of access to finance especially for SMEs.

As also recognized in the ex-Ante assessment study conducted by the European Investment Bank in June 2017 (see section 3.4.2a), there is significant funding gap for Cypriot SMEs which needs to be tackled over the next years. Hence SMEs and their access to finance will continue to constitute an area of action for ESIF Funds in the new programming as well, through the promotion of both relevant and targeted grant schemes and financial instruments.

- **Digitalisation**

It is widely accepted that digitalisation is an important mean for the enhancement of the competitiveness and the modernization of the Cyprus economy. In this respect, it is important to continue encouraging the enterprises to take advantage of the benefits provided by information and communication technologies. Great needs are also identified in the public sector and the local authorities. In this respect, efforts should be geared towards e-governance, aiming to increase the effectiveness and efficiency of the services provided to citizens and enterprises. A number of projects is being implemented in the current programming period (such as the information system of the Town Planning and Housing Department and the IT System - along with relevant other processes - for the National Health System), but there is further scope for similar projects, due to the size and complexity of the public sector.

- **Research and Innovation**

Investment in research and innovation remains vital for the enhancement of Cyprus'

competitiveness. In this respect, it is important to continue placing emphasis on the sectors that were identified by the Smart Specialization Strategy, as well as keep encouraging the cooperation between enterprises and academia and focus on market-oriented research.

Enhancement of capacity building in research and innovation is also of particular importance, so investments are needed for increasing the number of researchers as well as the number and capacity of research infrastructures. It must be kept into consideration, though, that Cyprus is a service oriented economy and there is lack of large industries that could take advantage of research and innovation investments; most of the enterprises are micro with limited export orientation, whilst the remote location of Cyprus and the small size of the domestic market are disincentives for attracting high-tech companies in the country.

- **Environment and Climate Change**

Cyprus's location - in the South-East Mediterranean – renders it increasingly vulnerable in regard to the effects of climate change compared to other European regions (such as frequent and intensive extreme weather events, long heat-waves, dust storms, droughts and other). In this respect, several projects have been promoted to mitigate the effects of climate change such as breakwaters at several coastal areas as well as anti-flooding projects in several urban areas.

Furthermore, recent investments - particularly in solid waste and water management - are still not sufficient enough to achieve full compliance with environmental regulations. Solid waste treatment and management plan and sewerage systems (plant and the network) as well as tertiary treatment of water are some of the projects undertaken. The needs however in this area are enormous and the investments required are high in budget. It is of outermost importance to continue and further enhance projects on environment and climate change.

- **Energy**

Another important area with a considerable investments gap is energy. Cyprus still lacks effective tools to sustainably increase energy and resource efficiency. Cyprus remains heavily dependent on fossil fuels at almost 90%. The energy sector reform has made significant progress to further encourage growth in renewable energy.

Financing gaps both in the broader energy efficiency sector and in the use of RES have been also identified in the ex-ante assessment Study conducted by the European Investment Bank 2017 (see section 3.4.2a). Especially on the use of RES, significant financing gaps have been identified by the private sector (both households and SMEs) which led the Government to design a financial instruments for this purpose. On top of the design of the new financial instrument several grant schemes have already taken place targeting households and SMEs in regard to energy saving. Both of these schemes have shown considerable uptake.

- **Transport/Public Transport/Urban Mobility**

Infrastructure and promotion of public transport and promotion of urban mobility is also an area with significant added value. Cyprus has at present one of the highest car ownership ratios in the world (600 cars per 1000 inhabitants) and a very low use of green transport. In addition, all cities are facing serious traffic problems with negative effects on their environment (air pollution, noise), road safety and the quality of life. Several projects are co-financed by the EU funds which include the promotion of alternative ways of mobility such as cycling lanes running among major axes and pedestrian spaces at the city center.

Unfortunately, Cyprus depends entirely on road for its internal movements. The non-feasibility of establishing and operating a railway network and other fixed track systems, imposes full reliance on road transport, a fact which dictates the construction of a modern and safe road network. Interventions in the sector of public transport mainly concern the upgrading and modernization of the road network, which constitutes part of the Trans-European Networks (TEN-road projects) and in particular the sections linking the entrance portals to the big urban centers, the ports and airports.

In parallel to this, there is the need of upgrading the secondary links, especially in rural areas which do not stand to benefit from the upgraded primary road network (in the current programming period: primary road connecting the new Limassol Port with the Limassol-Paphos highway/vertical road has been completed).

In general, the interventions concerning infrastructure in the transport sector should aim primarily at containing the effects from the insular character of the country, as regards its geographical isolation from the other EU countries, and also at solving accessibility problems in the mountainous areas. At the same time they must also seek to address the significant lack in public transport and the improvement of the attractiveness of the urban areas of the country.

- **Regional Development**

Another important investment need of Cyprus is regional development, which is mainly due to the inequalities existing between and within urban and rural areas.. In this programming period a substantial amount was dedicated to urban development, whilst one of the most important achievements in this endeavour is the active involvement of local authorities in both the design of integrated strategies for their areas and in the process of projects' selection.

More specifically, investments were concentrated in the four city centres of Cyprus, where many deprived neighbourhoods and areas were identified. These projects being implemented in the city centres have succeeded to regenerate the urban environment, encourage the creation of new businesses, and improve the sites of cultural heritage thus attracting more visitors, as well as tackling the specific societal challenges of each area through renovation of social infrastructures and enhancement of social services provided.

- **Employment/Social Inclusion/Human Resources**

As a result of the economic crisis, unemployment (and particularly youth unemployment) still remains one of the main challenges faced by Cyprus.

A number of measures have been adopted at national level in order to boost growth and tackle the unemployment challenge, with a significant contribution by ESIF. Under this framework, seven targeted subsidy schemes were announced in order to promote the employment of unemployed.

Especially in regard to youth unemployment, it is generally recognized that measures promoted under the ESF and YEI, had a positive impact during the recent years.

Measures to promote social inclusion and activation of vulnerable groups of population who are threatened by increased risk of poverty and social exclusion remain at a high priority level in the context of the country's social protection policy. Following the economic crisis,

the high unemployment rates as well as the high migration flows to Cyprus, have forced the poverty rate to an increase. An ESF funded project providing school actions of social and educational inclusion (also known as DRASE) has had a critical contribution to the achievement of the target for tackling early school leaving. The said project can be intensified and expanded in the future to include a bigger number of schools but also a wider spectrum of activities.

- **Vocational education and training**

The vocational education and training (VET) system of Cyprus can play a vital role in the forthcoming years, in terms of mitigating the adverse effects of the economic crisis on the labour market and specially in tackling youth unemployment. Several actions have already been taken with ESIF co-financing during the current programming period. However, there are still a lot of steps to be taken in order to enhance the attractiveness of secondary VET and match specialisations with the current needs of the labour market.

In addition, VET could be an important part of the Cyprus lifelong learning strategy, whose main actions include the enhancement of lifelong guidance and counselling services, and the development of a national qualifications framework (NQF).

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	Cyprus 2018	EU 28 2017 (Eurostat data)
Employment rate (20-64 years old)	75%	75-77%	67.9%	68,7%	70,8 %	73,9%	72.2%
Reduce poverty and social exclusion	20mln	19.3% or 27.000	28.9%	27.7%.	25.2%	n.a.	22.4%
Decrease early school leavers to	10%	10%	5.2%	7.7%	8,6%	n.a.	10.6%
Increase tertiary educational attainment	40%	46%	54.5%	53.4%	55,8%	n.a.	39.9%
R&D (% of GDP)	3%	0.50%	0.48%	0,53%	0,56% ^p	n.a.	2.07% ^p
CO ² emission (non-ETS)	-20% (c.t. 1990)	-5% (c.t. to 2005)	-3,2% (c.t. to 2005)	-2,0% (c.t. to 2005)	+1,9% ^p (c.t. to 2005)	n.a.	
Renewable energy	20%	13%	9.34%	9,27%.	9.72%	n.a.	17%*
Energy efficiency	1.483 Mtoe	2.2 Mtoe	2.2 Mtoe	2.4 Mtoe	2.5 Mtoe	n.a.	1.542 Mtoe*

p = provisional data, c.t.= compared to, n.a. = not available, *=EU28 data 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 2018 in relation to the previous years and this is progressing towards the national target. The poverty rate has improved in 2017, although it still deviates significantly from the respective national target. Regarding the two education indicators, despite a small deterioration in the rate of early school leavers to 8.6% in 2017 compared to the indicator regarding tertiary educational attainment improved and both indicators over perform considerably in relation to the national targets. The R&D ratio to GDP has been increased and surpassed the national target in 2017. Regarding the greenhouse gas emissions indicator, in the non-ETS sectors (EU Emission Trading System-ETS) this was reduced in 2016 compared to 2005 but increased in 2017 according to provisional estimates. As regards the contribution of renewable energy to total energy consumption, this was increased in 2017 compared to 2016, exceeding the minimum trajectory for 2017-2018. The energy efficiency indicator in 2017 was above the target of 2.2 Mtoe.

A more detailed account of developments as regards the national targets as well as related policies follows.

4.1. Employment National Target

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

- Increased to 73,9% in 2018 compared to 70,8% in 2017.

Employment – unemployment situation

The Employment target set for Cyprus within the framework of the Europe 2020 Strategy is 75-77%. In 2018 the employment rate stood at 73,9% compared to 70,8% in 2017. This trend is expected to continue in the next years. As regards the sectoral distribution of employment, services continued to account for the biggest percentage of employed persons in 2018 with 81,2% compared to 80,4% in 2017, whereas industry accounted for 16,6% in 2018 compared to 17,1% in 2017 and agriculture for 2,2% compared to 2,5% in 2017.

Ever since its peak in 2015, the unemployment rate started to decrease fast, reaching 8.4% in 2018 (from 11.1% in 2017 and 14.9% in 2015). Male unemployment rate decreased in 2018 to 8.0% compared to 10.9% in 2017, while female unemployment was 8,7% in 2018 compared to 11.3% in 2017. Long term unemployment fell to 2.7% in 2018 compared to 4.5% in 2017.

Young people (15-24) have also experienced a great drop in the unemployment rate (from 24.7% in 2017 to 20.2% in 2018). The proportion of young people not in employment nor in education or training (NEETs) still remains high, 11.1% in 2018 Q3, but decreasing (20.1% in 2017, 16.0% in 2016). The MLWSI in cooperation with the MoEC has initiated efforts to identify and reach out to the non-registered unemployed young people identified as NEETs.

During 2018 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), address the skills mismatch and promote entrepreneurship. They are addressed to all unemployed as well as to vulnerable groups such as the long term unemployed, the youth unemployed and the unemployed who are GMI recipients.

In 2018 the Department of Labour promoted the five schemes with incentives for the employment of:

- Young unemployed people until 25 years old.
- Unemployed People over 50 years old. People with Chronic Diseases.
- People with Disabilities.
- 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 27.7% in 2016 to 25.2% in 2017.

The recently released 2018 EU-SILC data (reference year 2017) clearly indicate an overall improvement in the main social indicators in Cyprus in line with the improvement of the economic performance in the country (drop in unemployment and wages improvements). In particular, income inequalities, as measured by the Gini coefficient¹⁷, as well as the risk of poverty and social exclusion, as measured by AROPE¹⁸, improved considerably in 2017 falling to 25.2% compared to 27.7% in 2016. In addition, the number of working poor witnessed a decrease from 9.1% to 8.2%, supported by the GMI Scheme, as well as the number of people living in conditions of severe material deprivation from 13.6% to 11.5%. The AROPE for children (0-17) also witnessed a reduction from 29.6% in 2016 to 25.5% in 2017. It is also noted that the AROPE for the elderly (65+) increased slightly by 1.7pp (from 22.9% in 2016 to 24.6% in 2017), compared to its significant drop by 24.7pp over the last decade (from 49.3% in 2008).

The following two factors contributed considerably towards the above improvements and are expected to continue contributing positively towards reducing the poverty indicators for the elderly in the near future: i) The maturation of the social insurance pension system, which was introduced in the '80s and thus the old-age pensioners, particularly those at higher ages, retired before completing full years of contribution. Poverty among the elderly declines over time in proportion to the decline of the share of those people in the total old-age pensioner population. ii) The anti-poverty effect of the current non-contributory minimum income provisions of the national social security pension system, supporting low-income pensioners.

(a) Guaranteed Minimum Income

With the introduction of the Law 109(I)/2014 a wide-ranged reform in the Social Security system took place, by including beneficiaries and population groups formerly excluded from public assistance, such as low income earners, pensioners with low incomes and vulnerable groups of people previously not supported or not supported enough. It is noted that even though the Law 109(I)/2014 has included more vulnerable groups than the previous legislation, there is a decrease observed concerning the beneficiaries and the amounts granted by the Government in regards to the public assistance.

The mechanisms in place to address poverty and social inclusion of those belonging to the lowest deciles of the income distribution are the following:

- **Guaranteed Minimum Income (GMI) benefit:** The benefit aims to ensure a socially acceptable minimum standard of living for persons (and families) legally residing in Cyprus whose income and other economic resources are insufficient to meet their basic and special needs. The GMI is provided in the form of monetary support and/or services; the entitlement to the benefit is guaranteed for the claimant if all the conditions

¹⁷ The Gini coefficient decreased from 32.1% in 2016 to 30.8% in 2017.

¹⁸ The at risk of poverty or social exclusion rate (AROPE) decreased from 27.7% in 2016 to 25.2% in 2017.

laid down by law are satisfied. The table below provides the statistics concerning the basic needs and the housing - rent subsidy for the years 2017 and 2018:

A/A	Description of the benefit	2017	2018	Percentage of change	
1.	Basic Needs	Recipients (family units)	32.028	30.045	-6,19%
		Average amount of the benefit (per family per year)	€5.773	€6.067	5,09%
2.	Housing: Rent subsidy	Recipients (family units)	6.055	5.666	-6,42%
		Average amount of the benefit (per family per year)	€1.727	€1.742	0,87%

- Scheme supporting pensioners' households with low income: The scheme is a cash benefit scheme addressed to pensioners' households whose total annual income is below the poverty threshold.
- Child benefit and single parent benefit: The child benefit is granted to families who have had their legal and continuous residence in the areas under the effective control of the Cyprus Government, for at least the last five years prior to the submission of the application. Single parent families receiving child benefit are also entitled to a single parent benefit for each dependent child, provided the single parent and the dependent child have had their legal and continuous residence, in the areas under the effective control of the Cyprus Government for at least the last five years prior to the submission of the application. For European citizens EU Regulation 883/2004 art 68 applies.

The unintended consequences such as the low take-up of benefits or low incentives to work are addressed as follows:

- For the GMI, in case the applicant refuses to undertake training and find a job, the GMI could be withdrawn. Any applicant or beneficiary is obliged to: accept a job offer and/or personalised accompaniment by advisors from the Public Employment Services, not voluntarily terminate employment, participate in occupational training and educational programs when required, participate in a community service scheme approved by the MLWSI, accept social intervention, participate in development and social autonomy programs, accept meetings and visits to their residence for assessment by competent officers with the aim to program activities for occupational counseling, psycho-social support and social rehabilitation.
- Concerning the Child Benefit and the Single Parent benefit, it is examined whether the parents are employed or not, as well as their respective incomes.

There is integrated service delivery targeting people belonging to the lowest deciles such as the following:

- The GMI offers supplementary allowances as follows: rent allowance and house loan interest allowance (mutually exclusive), subsidies for municipality and other levies (no specified amount), extraordinary needs, care and assistance needs, 20% reduction on the bill of electricity, free medical card, free access to the state training institutes, reduction for public transportation fares, free card for transportation by bus.
- The Scheme supporting pensioners' households with low income and the child and single parent benefit are cash benefits.

The full implementation of the project “Baby’s Dowry”, which complements the efforts to combat child deprivation and poverty, took place in 2018. The project, which is co-funded by the Fund of European Aid to the Most Deprived, provided basic material assistance to 990 cases of newborn babies from deprived families, along with social inclusion activities, with a total amount of €682.000.

(b) Provision of accessible and affordable social care programmes

The provision of accessible, affordable and quality social care programmes at local level is a key priority of the Government. The MLWSI, 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. The total amount spent for the State Aid scheme for 2018 increased to approximately €8.3 mln for the implementation of 257 programmes, including childcare services, long-term social care services to the elderly and persons with disabilities, counseling programmes and other specialized programmes covering specific needs, such as violence in the family, unaccompanied minors, victims of trafficking.

In addition, the State Aid scheme of 2018 has set among its main priority areas, for applying for state aid for the development of care programmes, the “Strengthening of state policies aimed at reconciling work and family life, by developing high quality social care services for dependent family members and by extending their working hours to make it easier for working parents”. In particular, in 2018 an amount of about €2.7 mln was provided for the funding of 131 programmes covering child care needs (Day care centers for preschool and school age children, day care centers for children with disabilities). Stressing on the importance of operating affordable and quality childcare services at local level, the Government will maintain the above mentioned priority area in the State Aid scheme of 2019. It should also be noted that the indicator for the care of children aged less than 3 years old in formal childcare, has witnessed an important increase over the last three years of 7.4pp, from 20.8% in 2015 to 28.2 % in 2017.

(c) Childcare services

Childcare services for children up to the age of compulsory education is also provided by child minders who 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.

It should also be mentioned that the Government (Social Welfare Services - SWS) operate nationwide institutions concerning child and adolescent protection, care for the elderly, care for people with disabilities, day care preschool child services and the protection to victims of sexual exploitation and unaccompanied children. In particular, these services operate 8 institutions for people with disabilities, 3 social care institutions for elderly and disabled people and 4 day care centers for preschool children, with a total budget of approximately €7mln.

On the basis of the Directive on work-life balance for parents and carers, the government will proceed with further required legislative measures to encourage fathers to be more

involved in childcare.

(d) Long term social care

The Government continued the implementation of the “Scheme for the Subsidization 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. Subsidization 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 they receive State Aid according to the relevant schemes of the MLWSI.

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 stage of legal vetting). In addition, in terms and conditions for the operation of home carers have been determined by the competent SWS, 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.

Recognizing the need for increasing the level of community-based care and services to persons with disabilities, among the actions included in the National Disability Action Plan 2018-2020, the Government approved a new project co funded by the European Social Fund for the creation of “Ten additional homes in the community for persons with disabilities”. The new family-type homes will offer to 50 persons (5 per home) with intellectual disability and or autism, care services, supported living, training in daily living skills, support in participating in social activities and be included in the community. The project with a budget of €6 m. for the period 2016-2020 is implemented by the Department for Social Inclusion of Persons with Disabilities. The project will run as a pilot for the formulation of a new law for community services to persons with disabilities. In addition, consultation with the organizations of persons with disabilities is in progress and a new law is being drafted for regulating the right of persons with disabilities for decision making and legal capacity.

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, the full implementation of the actions included in the National Action Plan on the Prevention and Combating of Violence in the Family for the period 2017-2019 was pursued. In this context, the CoM of Cyprus has approved on 23rd January 2019 the operation of a “Women’s House” which will function as an interdisciplinary center, where professionals from various disciplines and state officials such as clinical psychologists, social workers, specially trained police officers will work under the same roof to provide appropriate support and treatment to women who are victims of violence. Victims of violence will be referred to the House by the SWS, the police and non-Governmental organizations, or other state agencies and will also be accessible directly to the victims themselves and their families. The services which will be provided to victims by the House include: Counseling and support; psychosocial counseling support; legal counseling and guidance on their rights; referral to the relevant services.

(e) Provision of support services to vulnerable groups

Furthermore, in the context of the National Strategy on the Prevention and Combating of Sexual Abuse and Sexual Exploitation of Children and Child Pornography, the Children's House, which provides child friendly services to children victims of sexual abuse and/or sexual exploitation, based on a multidisciplinary approach, continues its operation and has expand its services in all Districts of Cyprus, since the second semester of 2018.

In accordance with the existing legislative framework [Refugee Laws of 2000 – 2018] “the SWS provide material reception conditions of applicants for international protection who live in the areas under the effective control of the Government”. Asylum seekers who cannot be accommodated at a reception centre or there is no available space, are entitled to apply for material reception conditions (special welfare assistance in the form of allowance & coupons for food and clothing) provided by the SWS. Aid for food, clothing and footwear is provided by vouchers which are redeemable by different financial providers. Reimbursement for electricity, water supply and petty cash expenses takes the form of financial aid. In addition, the rent is paid directly to the owner on receipt of the necessary evidence signed by the beneficiary.

The number of unaccompanied minors, continue to increase. As soon as an unaccompanied minor enters the Republic of Cyprus, he/she is taken in care of the Director of SWS, who acts as a guardian safeguarding access to his/her rights. The unaccompanied minors are placed in foster or residential care. Currently there are three state homes for unaccompanied minors and two homes operated by an NGO. Also there is a cooperation with an NGO, concerning the operation of a program for finding and training families to become foster families for unaccompanied children, as well as for other children in care of the Director of SWS. The SWS cooperate with all the relevant services and NGOs in order to provide services to unaccompanied minors and safeguard full access to their rights, such as with the MoEC for their educational needs, with the MoH for their health and mental health needs, etc. Amongst others, one of the primary considerations, concerning unaccompanied minors, is their integration into the Cyprus society and their preparation to enter adulthood.

All victims of trafficking receive information, services and benefits as specified in the anti-trafficking law [L. 60(I)/2014]. In particular, they receive immediate financial, psychological, social support and assistance, including housing if it's required, in cooperation with non-Governmental organizations. Services are also provided to victims through the State Shelter for female victims. SWS as the first responded authority, in consultation and cooperation with other members of the Multidisciplinary Coordinating Group, have developed a standard referral form which has been introduced in 2019 in order to improve the identification and referral of potential victims of trafficking and exploitation into the National Referral Mechanism and at the same time to improve data collection. SWS aiming at the enhancement of coordination and collaboration with the voluntary sector for the provision of services and support to victims of trafficking, including their access to information, housing, employment and social integration, have signed in April 2018 a Protocol of Cooperation with a relevant NGO.

4.3. Education National Targets

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

- *Increased to 8.6% in 2017 compared to 7.7% in 2016.*

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

- *Increased to 55.8% in 2017 compared to 53.4% in 2016.*

(a) Decrease in early school leavers

Following the 2013 economic recession in Cyprus, the rate of Early School Leavers (ESL) had dropped significantly from 11,4% in 2012 to 5,2% in 2015. A marked increase to 7.7% and 8.6% was recorded for 2016 and 2017, respectively, which however still remains below the target of 10%. 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.

- Measures to integrate children with migrant background

A series of social, political and financial changes that have taken place in the last two decades have turned Cyprus into a country receiving migrant and refugee populations. In the last couple of years the turbulent situation in the Middle East/Syria and African countries, has led to an unprecedented influx of refugees in Cyprus. An interdepartmental committee of the MoEC for the integration of children with migrant background into the Cyprus educational system is the body responsible for developing and implementing the policy for migrant children. The committee submitted a policy paper and an action plan in 2016, including the areas of reception of newcomers, teaching Greek as a second language, mapping out migrant population, teacher professional learning and intercultural and antiracist dimension in education.

In the case of Primary Education, the route followed includes the registration of the student in the local school and the use of an electronic platform for mapping migrant students' profile. The expansion of the platform for secondary schools is now under construction. A diagnostic test has just started to be applied to identify language needs/level in March every year. Extra hours for teaching Greek as a second/additional language are given to the school for each student for two years. Another project for Greek language afterschool classes for third country minors has been funded by the Asylum, Migration and Integration Fund and coordinated by the Cyprus Pedagogical Institute in 2016-2018. Under the same funding, new material and teachers' guides for reception, teaching Greek as a second language and school – parent relations have been produced and promoted by the Pedagogical Institute for all schools. In the case of secondary education, a diagnostic test (not standardized) is used to identify language needs. There is monitoring through tests on the students' progress in learning Greek as a second language. Transition classes with 18 hours pull-out classes focusing on language learning are implemented in schools in Cyprus which have large concentrations of students with migrant background. Fewer hours are provided in schools with small numbers of migrant students (e.g. lyceums, technical schools), and special

programmes are implemented in schools where unaccompanied minors enroll. Various forms of training and professional learning activities have been offered (afternoon seminars, conferences, distance learning seminars, etc.).

The intercultural dimension has been taken into account for the design of new curricula and material during the recent period. A new curriculum for teaching Greek as a second language is currently being designed. A code of conduct on antiracist behavior is implemented in schools and a network of support to schools which implement the code is coordinated by the Cyprus Pedagogical Institute. During the school year 2017-2018, 31 primary and secondary schools participated in the network. One central and 7 regional meetings were held, in which school representatives participated. The meetings provided training seminars on relevant issues, opportunities for reflection and exchange of practices on the implementation of the policy.

The new Action Plan 2019-2021 of the Interdepartmental Committee action plan which is now being formulated aims at achieving better student assessment – monitoring of their progress, further dissemination and use of the guides for reception by the CPI for teachers and the use of guides already available in different languages for newly arrived students and parents and a new guide for parents with information in different languages, organize different schemes of in service training for teachers, head teachers and school inspectors. One of the aims is also the collection of data on EU co-financed programmes and other funding sources that could cover the needs of migrant students (Asylum, Migration and Integration Fund, European Social Fund, etc.) and the involvement of external stakeholders.

- **DRASE- Actions for social and school inclusion**

The programme “Actions for social and school inclusion (DRA.S.E.)” is a project co-funded by ESI Funds, during the 2014-2020 programming period, and implemented by the MoEC. It is foreseen that the project will continue in the forthcoming period.

The programme aims to: support the population living below the poverty line or being at risk of poverty and social exclusion; ensure the welfare and support of the financially weaker groups of the population particularly affected by the economic crisis; reduce early school leaving; improve learning outcomes; reduce school failure, and combat delinquency and strengthen social cohesion by reducing the risk of social marginalization and exclusion.

DRA.S.E. is an all-encompassing, holistic programme of morning and afternoon programmes, as well as after school lessons to reinforce subjects of study (Greek language, maths, physics, chemistry, computer science, economics etc.). DRA.S.E. also offers programmes for personal development and helps students to develop social skills: creative programmes like theatre, art, physical education (sports/dance), music. Moreover, the programme also encompasses ‘Information and Social-emotional Support Centres’, offering psychological support to students and parents.

96 Pre-Primary, Primary, Secondary, Lyceum and Vocational schools are participating in the above programme, with 15% of the student population. The schools were selected based on objective criteria.

(b) Increase in tertiary educational attainment

Cyprus continued to over-achieve this target and it had one of the highest rates of tertiary

education attainment at 55.8% in 2017. However, efforts are made to further improve the quality of tertiary education and to strengthen its link with the labour market.

After the establishment of the Cyprus Agency of Quality Assurance and Accreditation in Higher Education (CYQAA), and its European Association for Quality Assurance (ENQA) membership, granted to CYQAA for 5 years in February 2019, the next step is about supporting and working together towards establishing a quality culture, a new mentality among all stakeholders in higher education. Furthermore, all Higher Education Institutions (HEIs) are expected to submit to CYQAA, by July 2019, applications for Institutional, Departmental and Programmatic Evaluation. As a result of that, by 2020, all HEIs in Cyprus will be operating in a fully educational accredited environment.

The effort of MoEC to adopt a performance-based funding system for public universities is ongoing. A consultation has already started between MoEC and the Cypriot public universities.

Finally, with the view to strengthen the link between the tertiary education and the labour market 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 are being continued and strengthened with an envelope amounting to €7.2mln (85% co-funded by the European Social Fund).

4.4. R&D National Target

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

- Increased to 0.56% in 2017¹⁹, compared to 0.53% in 2016.

Investment in Research and Development (R&D) as a percentage of GDP amounted to 0.48% in 2015, 0.53% in 2016 and 0.56% in 2017 (€108.7 mln)²⁰, showing a steady increase over the last years.

The national target for R&D expenditures as a percentage of GDP has been set to 0.50% by the year 2020. The target was set taking into consideration the particularities of Cyprus in terms of the size of the research community, the orientation of the economy in low value-added products and services and the very small size and low involvement of Cypriot companies in research and innovation (R&I) activities. Even though the above particularities continue to exist, it was managed to achieve the target well ahead 2020.

Recognising that R&I is one of the main drivers for economic growth and an important factor in addressing global societal challenges, Cyprus is examining the possibility of increasing R&D spending in the future. This is also acknowledged by the newly established National Board for Research and Innovation (NBRI), which has been established after a CoM' Decision, in October 2018. The Board acts as the principal advisory body for the development of R&I strategy in Cyprus. It consists of ten members from both the academia as well as the business sector. Another development concerning R&I Governance, is the appointment of a Chief Scientist who is responsible for the coordination and promotion of R&I policy and the smooth operation of the relevant governance system. The competent Minister for R&I continues to be the Minister of Finance.

Currently, the NBRI is in the process of preparing a strategy framework for R&I, for the period 2019-2023. The new strategy framework, lies on 8 pillars, which are the following: 1) Governance, 2) National R&I Strategy, 3) Research excellence, 4) Knowledge transfer – commercial exploitation, 5) Innovative entrepreneurship, 6) Cultural change, 7) International dimension and 8) Communication. Upon its finalization and approval by the CoM, the strategy framework, will serve as the main vehicle for execution of the National Strategy for R&I. It will be put into action through a first set of policy measures and activities targeting the aforementioned strategic pillars and enabling a strong boost of the R&I ecosystem.

To date, the R&I policy is guided through the national Smart Specialisation Strategy. Its action plan, with a budget of €144 mln, 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). 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. Following the announcement of a series of calls since 2016, a small number of projects

¹⁹Provisional data.

²⁰ Provisional Data

started to be implemented in 2018, while the implementation of the majority of measures, is expected to start in 2019.

As regards the legislative changes/reforms that took place in 2018 in the area of R&I, it should be noted that the HoR approved, in July 2018, a revision of the legislation governing the operation of the two main public universities (i.e. the University of Cyprus and the Cyprus University of Technology), with the aim to allow public universities to utilize and exploit their scientific know how and their research findings for the benefit of the economy and the society at large. Within this context, the Bill provides the possibility for public universities to establish and/or to participate in legal entities for the above purposes (i.e. create spin offs).

Another initiative that started in 2018 and is expected to take place in 2019, relates to the “Optimal utilisation of research laboratories of organisations funded by the Government and by the business community”. For this exercise, specific support will be provided by the Policy Support Facility (PSF) of the Horizon 2020 Programme. The institutions that will be involved in this exercise are all public universities, major research institutions (RIs) in Cyprus as well as the majority of Government Departments that are involved with R&I. The purpose of the PSF specific support to Cyprus will be to provide tailored advice and concrete recommendations that could be used by the Cyprus authorities as a basis for the development of a new action plan on the optimal utilisation of public research laboratories by the business community. Such a utilisation is a powerful tool for the development of the collaboration between public research and business sectors and for fostering science-industry linkages, effective knowledge transfer and business innovation.

Within this framework, a mapping exercise for the existing research infrastructures that are funded by the Government, started in the last quarter of 2018 and is currently at an advanced stage of implementation. In addition to the value added that will be created by the optimal utilisation of publicly funded research laboratories by the business community, this exercise will also assist in identifying the future needs of Cyprus for the creation and upgrading of research infrastructures.

Facilitating the access, not only to national, but also to European RIs is also an objective of the Cypriot Government. Given the above, the Government has decided to support the participation of the research community in European Strategy Forum on Research Infrastructures (ESFRI) landmarks and projects, recognizing that this participation will give Cyprus access to the highest quality of facilities in diverse areas and allow further development of its R&I capabilities. For this reason, Cyprus proceeded with the identification of the interest from the research community in Cyprus for the participation in 2016 ESFRI Roadmap and has prepared a National Roadmap for participation in ESFRI landmarks and projects on the basis of national priorities and R&I capacity. The procedure started in March 2017 and is on-going while a similar exercise is expected to be conducted for the new 2018 ESFRI Roadmap. To date, Cyprus participates in six ESFRI landmarks either as a Member²¹, or as an Observer²², while its participation in a number of other Landmarks is being examined. The Government provides support at policy level as well as financial support for the participation of national stakeholders in the above mentioned European RIs (e.g. national membership/participation fee).

²¹ PRACE, DARIAH-ERIC, ESS-ERIC and SHARE-ERIC.

²² ELIXIR and BBMRI-ERIC.

4.5. Reduction of GHG emissions

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

- Non-ETS emissions were reduced by 2% in 2016 while increased by 1.9% in 2017

The Department of Environment of the Ministry of Agriculture, Rural Development and Environment (MARDE) publishes annual inventories and projections for greenhouse gas emissions (GHG). The latest inventory, concerning period 1990-2016, was submitted to the secretariat of the United Nations Convention on climate change in May 2018. Total GHG emissions in 2016 were 8761 Gg CO₂ eq. excluding Land use, land use change and forestry (LULUCF). Between 2005 and 2016, total national emissions excluding LULUCF decreased by 5.5%. During the same period non-ETS emissions reduced by 2.04% compared to 2005. According to provisional information for 2017 (GHG inventory submitted to the European Commission in January 2019) total emissions excluding LULUCF decreased by 3.5% compared to 2005, while non-ETS emissions increased by 1.9% during the same period.

(a) Mitigation

On January 23, 2019, the CoM approved the draft Cyprus National Plan for Energy and Climate for the period 2021-2030, through which Cyprus aims to contribute to the achievement of the Union's ambitious goals of making a real contribution to tackling climate change.

The preparation of Cyprus' National Plan for Energy and Climate has been done through the National Energy and Climate Governance System, which has been instituted by a decision of the CoM in 2017. The National Governance System, among others, has the responsibility for monitoring progress towards the achievement of national energy and climate change objectives and involve a wide range of institutions and experts from various ministries, in addition to the relevant Ministries (MARDE, MECI, MCWT, and MoF).

The Cyprus' National Plan for Energy and Climate for the period 2021-2030 approved by the CoM includes policies and measures concerning various sectors, in order to achieve the following objectives:

- Reduce the EU greenhouse gas emissions by 40% by 2030 compared to 2005. The target set for Cyprus is to reduce greenhouse gas emissions by 24% from 2005 levels (excluding emissions from power generation, cement works and ceramics/sculptures). It is noted that, according to a recent Cyprus emissions report, the transport sector's contributes 49%, energy (excluding electricity) 17%, waste 14%, agriculture 12% and industry 8%.
- Increase the penetration of RES into gross final energy consumption by a total of 32% in the EU by 2030. No binding national targets have so far been decided.
- Reduce the energy consumption by 32.5% at EU level by 2030. The estimated national contribution of Cyprus is determined by a decrease of 9.5% in primary energy consumption compared to the corresponding estimate of the European Commission for Cyprus 2007.

In addition to the above, the CoM decided that, for the formulation of the final National Plan (to be submitted in December 2019), it will consider among others a scenario with which all national targets are achieved at the lowest possible cost.

Many policies and measures affecting the above-mentioned objectives are set at EU level, such as the fuel quality directive, the new vehicle emission performance standards, the fluorinated greenhouse gas Regulation, the Landfill Directive, and the Common Agricultural Policy (CAP). In addition, several policies and measures relating to renewable energy and energy efficiency affect the reduction of greenhouse gas emissions in Cyprus. In summary, the policies and measures already in place and contributing to the reduction of greenhouse gas emissions are presented in the following table.

Cross sectoral	<ul style="list-style-type: none"> • Information. • Dissemination of information.
Energy	<ul style="list-style-type: none"> • Renewable energy penetration. • Energy efficiency (including transport measures). • Natural gas in electricity production.
Industry	<ul style="list-style-type: none"> • F-gases recovery.
Agriculture	<ul style="list-style-type: none"> • Promotion of anaerobic digestion for the treatment of animal waste.
Waste	<ul style="list-style-type: none"> • Reduction of waste to solid waste disposal sites from sorting at production level. • Reduction of organics to landfills. • Increase of amount of organic wastes treated by composting. • Promotion of anaerobic digestion for the treatment of the organic fraction of the municipal solid waste. • Biogas recovery from old solid waste disposal sites (deep unmanaged).

(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. To this end, Cyprus has adopted a National Adaptation Strategy and Action Plan in May 2017.

The MARDE, as the central body coordinating the adaptation policy-making process, has led the preparation and adoption of the National adaptation strategy and action plan while the responsibility for the implementation of specific sectoral actions lies with the responsible authorities for each specific action. An update of the national strategy and action plan have been prepared in collaboration with all the involved parties and approved by the CoM in November 2018.

The implementation of the adaptation strategy is considered a priority for the Ministry and for that reason a LIFE integrated project proposal has been submitted and preliminary approved by the European Commission. The main objective of the project is to implement actions included in the National action plan. Particular attention is also given to the

promotion of regional cooperation on climate change issues. The total budget of the project is €18mln.

(c) Waste management

Cyprus' environmental performance is an important issue. Waste management remains a challenge as generation of waste is still higher than the EU average. Cyprus landfills significant amount of waste but this is diminished each year estimating to have reached 60% for 2017 and sufficiently lower, due to additional operating infrastructure (MBT plants), in 2018. Around 30% of recyclable waste in 2017 have been recycled but further action needs to be taken to reach the target of 50% by 2020. To this end, an overarching policy framework for the circular economy is being prepared.

After the approval by the CoM of the regulatory proposals on municipal waste management by the local authorities, which are currently under public consultation, economic instruments will be implemented and in particular the “pay as you throw” system, which is envisaged to provide economic incentives for the separate collection and recycling of municipal waste. The proposed regulation will also provide for the mandatory preparation of local action plans for the prevention and management of municipal waste and the mandatory implementation of a separate collection system for both recyclable and organic waste.

(d) Water management

Water management remains a challenge for Cyprus. The newly adopted water pricing policy under the Water Framework Directive covers all the water services (domestic water supply, irrigation water distribution as well as reclaimed water distribution for irrigation) for all the water uses in the country. On urban wastewater, according to the 10th reporting exercise for 2016, under article 15 of the Urban Waste Water Treatment Directive (UWWTD), 79.7% of the total generated load of all agglomerations (higher than 2,000 p.e.) is collected via a sewerage collecting system and 3,32% is treated via individual and other appropriate systems (IAS) and undergoes secondary treatment. Hence, only 17,01% of the total generated load of all agglomerations is still discharged without collection or treatment.

4.6. Renewable Energy Sources (RES)

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

- Increased to 9.72% in 2017 compared to 9.27 in 2016

The final share of RES in 2017 was 9.72% compared to 9.27% in 2016, while the RES minimum trajectory (based on directive 2009/28/EC) for 2017-2018 is 9.47%.

The updated National Action Plan for RES foresees an increased capacity of Photovoltaic Systems from 192MW to 288 MW in 2020. The high interest for participation in support schemes that were announced in 2017, indicates that an additional 240MW of photovoltaic systems will be operational by 2020.

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)					
	2018	2017	2016	2015	2014	2013
Wind	157.5	157.5	157.5	157.5	146.7	146.7
Biomass	12.7	12.7	10.3	10.3	10.3	10.3
PV	124.5	112.53	82.36	76.41	63.99	33.88
Total	294.7	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 44.6MW of PV have been installed in the context of support schemes, providing for self-consumption schemes. The CoM, in 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 systems to be developed, will be introduced in the new competitive market by the end of 2020 and they are expected to compete on an equal footing with conventional generation. Until the implementation of the competitive market, however, new projects receive the RES selling price (known as “Avoidance Cost”) as defined by CERA that reflects the weighted average generation cost of the system. It is noted that the RES selling price as defined, is 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 10 kW per system and self-generation and net-Billing for larger systems up to 10 MW per system.

- 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 2017, the share of RES in the heating and cooling sector was 24.96%, above the indicative target for 2020 (23.5%). 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. The installation of solar water heaters in new houses has been introduced as a requirement in 2010, and since then minimum requirements have been revised twice to increase the share of RES in new buildings. The current minimum requirements, implemented as of the 1st of January 2017, provide that at least 25% of energy consumption in new single-family homes, 3% for new apartments and 7% for new non-residential buildings, comes from RES. It is expected that from 2020 all new buildings will be Nearly Zero Energy Buildings which according to national legislation means that at least 25% of energy consumption must come from RES.

In 2018 the support scheme for the installation of solar water heaters in household had a great success with almost 1000 applications received. It is expected that the scheme will be repeated in 2019 along with the 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 using high efficiency heat-pumps (solar and geothermal systems).

Year	2013	2014	2015	2016	2017
RES Heating and cooling (%)	20.49%	20.85%	23.60%	23.72%	24.96%
RES in electricity (%)	7.64%	7.39%	8.48%	8.64%	8.98%
RES in transport (%)	2.4%	1.63%	2.45%	2.63%	2.53%
Total share of RES (%)	8.99%	8.85%	9.34%	9.27%	9.72%

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 efficiency²³. 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 2.5Mtoe in 2017 in relation to 2.4Mtoe in 2016.

Based on the National Energy Efficiency Action Plan of 2017 (4th NEEAP 2017), Cyprus aimed 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 scenarios for energy efficiency²⁴. The national indicative target for energy efficiency was also expressed in achieving primary energy consumption of 2.2 Mtoe at the year 2020. However, based on Cyprus draft integrated National Energy and Climate Plan of January 2019 (draft NECP 2019), the anticipated level of national primary energy consumption in 2020 will be about 2.5 Mtoe instead of 2.2 Mtoe.

More specifically, compared to the previous projections used in 4th NEEAP 2017, the projections of energy consumption in the draft NECP 2019 have taken into account the following major updates:

- The updated macroeconomic forecasts of the MoF (Sep 2018) according to which, a stronger economic growth is foreseen up to 2030. For example, GDP in year 2020 is expected to reach €21.7bln (at 2010 prices), instead of €20.2bln as per macroeconomic forecast used in 2017 reported.
- The latest developments regarding the use of natural gas for power generation plants. According to latest projections the natural gas penetration is expected in the last quarter of 2020 instead of end 2018 (as per 4th NEEAP 2017).

As stated in the 4th NEEAP 2017, a major reduction in primary energy consumption will be achieved through the switch from oil to natural gas in power generation sector. Given that the aforementioned changes and latest developments, the primary energy consumption for power generation in 2020 is now projected to reach 0.94 Mtoe, compared with 0.70 Mtoe in the 4th NEEAP 2017. This is explaining why the anticipated level of primary energy consumption in 2020 will be about increase to 2.5Mtoe instead of 2.2 Mtoe previously projected.

The aforementioned facts and changes on the level of national indicative target for primary energy consumption of Cyprus in 2020, will be explicitly presented and described in the final NECP of Cyprus which will be submitted to the European Commission by December 2019.

Moreover, Cyprus is currently strengthening its efforts in order to achieve the national obligatory target (Energy Efficiency Directive) for achieving cumulative end use savings of 241,588 toe within the period 2014-2020.

²³ A national baseline scenario and a national energy efficiency scenario had been compared. Both scenarios were executed in 2014.

²⁴ A national baseline scenario and a national energy efficiency scenario had been compared. Both scenarios were executed in 2014 and updated in 2017.

Specifically regarding the planned importation of liquefied natural gas which is expected to help diversify Cyprus energy mix, though Cyprus has launched the process of importing liquefied natural gas the necessary infrastructure and the contract to import liquefied natural gas are expected to be concluded by the year 2021.

The measures described in 4th NEEAP 2017 are being implemented. The progress achieved by the end of 2016 has been monitored and a report has been submitted to the European Commission in 2018, in compliance with the requirements of Directive 2012/27/EE for Energy Efficiency. The major implemented/on-going and planned measures are:

- **Legislative measures (implemented/ongoing):**

- Minimum energy performance requirements for new buildings, buildings that undergo major renovation and building elements that are retrofitted.
- Legislation defining 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 energy efficiency obligation scheme for obliging energy companies to achieve annual energy savings (expected in 2019).

- **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).
- Certifications of small scale RES installers.
- Training and licensing of technical building system installers.
- Licensing of heating systems inspectors.
- Licensing of air-conditioning systems inspectors.
- Promoting the role of energy managers within business, for monitoring the energy use and promoting actions to reduce energy consumption.
- Promotion of energy management system.
- Training and assignment of energy saving officer in the public sector.
- Annual information campaign with the logo “Save energy-Save money”.

- Annual competition in schools for promoting energy efficiency, radio spots, leaflets, workshops, annual fairs, lectures, energy performance certificates, energy audits and energy performance contacting.
 - More targeted awareness increase actions were implemented in 2018 and are being implemented in 2019 with technical support provided by SRSS and the Environment Agency Austria and the Cyprus Energy Agency, in order to increase awareness of enterprises, industries, citizens, local authorities and journalists of the importance of energy efficiency and of opportunities to save energy and take steps towards saving energy. These include 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, the establishment of the energy efficiency network of enterprises and industries and event-based awareness campaigns. Performance indicators will be used to evaluate the effectiveness of these actions.
- **Public financing schemes and other financial Measures (implemented/on-going):**
- An amount of €53 mln has been allocated by the ESIF 2014-2020 for grant schemes and projects for energy efficiency investments in private and public buildings. 33 million euro is allocated for improving the energy efficiency for buildings used by SMEs and households while, the remaining amount is allocated for improving the energy efficiency in central Government public buildings. Moreover, €1.17 mln have been secured for pilot projects of combined heat and power generation in public and semi-public buildings. The projects in the public sector have started.
 - MECIMECI announced in 2017, a support scheme for the installation of cogeneration systems fuelled by biomass/biogas for the production of electricity for self-consumption. MECI also announced 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 2nd call of the co-funded scheme (saving – upgrading) for energy efficiency upgrade for households and multifamily buildings was announced in 2018 Support scheme “Solar energy for all” for on-the-site production and consumption of RES for own use 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.
 - Energy poverty, vulnerable consumers’ categories and measures to protect them were defined in a Ministerial decree which entered into force in 14/9/2015. The Ministerial decree includes measures such as (a) reduced prices on electricity tariffs, (b) financial incentives for participating in a scheme for installing a net-metering photovoltaic system with a capacity of up to 3kW, (c) financial incentives for upgrading the energy efficiency of their houses, and (d) uninterrupted supply of electricity, during critical periods for those vulnerable consumers that continuous power supply is essential for reasons related to their health.
 - Grant scheme in 2019 for thermal insulation of roofs in the residential sector, for installation of net-metering photovoltaic system, for the replacement of old solar domestic heating systems for hot water and for conducting energy audits in SMEs (national funding of €24.5 mln).

- Establishment of a new energy efficiency revolving fund/soft loan to promote investments in the fields of energy efficiency and RES, targeting SMEs, public bodies and households (new financial instrument under ESIF, see section 5).
- Private financing institutions offer financing for energy efficiency investments, such as the energy loans for thermal insulation, for energy efficiency upgrade of buildings etc.
- 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.
- Targeted energy efficiency measures in public buildings.
- Establishment in 2018 of an energy efficiency network with voluntary agreements with businesses to reduce GHG emissions.
- Financing measures for energy efficiency in tourism and in agriculture.
- Targeted measures in transportation and integrated fleet management systems.
- Street lighting projects-replacing existing lamps/lighting fixtures in road lighting systems with new more efficient ones (with EIB and national funds).
- Incentives for new buildings with higher energy efficiency than the Energy Performance of Buildings Directive (EPBD) requirements. New buildings and buildings renovated can receive a 5% extra building factor if they achieve higher energy efficiency than the minimum mandatory levels provided by the legislation.
- Reduced VAT for energy efficiency retrofits of households - applying a lower VAT rate (5 % instead of 19 %), for renovation and repair works carried out in existing private dwellings.
- Increasing tax on electricity consumption for energy efficiency and RES.

5. UTILISATION OF EU FUNDS

For the Programming Period 2014-2020 Cyprus has been allocated a total amount of €998,4 mln 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 the Partnership Agreement (PA), a comprehensive strategic document aim at securing the synergy and coordination among the ESI Funds allocated to Cyprus, so as to achieve effective results towards enhancing growth and job creation in Cyprus. The main strategic objective of the PA is the restructuring of the economy, the preservation and creation of new jobs and the safeguarding of social cohesion. This objective will be attained through the following three funding priorities:

- (i) Supporting the restructuring and strengthening the competitiveness of the Cyprus economy.
- (ii) Upgrading human resources, promoting employment and social cohesion, and
- (iii) 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 decided to allocate its ESI Funds to the following thematic objectives (TOs):

Thematic objective	ERDF (€mln)	ESF/YEI (€mln)	CF (€mln)	EAFRD (€mln)	EMFF (€mln)	Total (€mln)
1. Research & Innovation	70	0	0	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	33,61	9,84	113,45
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	64,07	0	7,95	5,25	77,27
9. Social inclusion and poverty	15	54,02	0	14,26	0	83,28
10. Education-lifelong	0	17,0	0	1,06	0	18,06

Thematic objective	ERDF (€mln)	ESF/YEI (€mln)	CF (€mln)	EAFRD (€mln)	EMFF (€mln)	Total (€mln)
learning						
11. Institutional capacity and public administration	0	14,06	0	0	0	14,06
Technical assistance	6,35	1,43	15,54	1,38	0,75	25,45
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	TO3, TO8	21%
R&D target	TO1	8%
GHG emission reduction target	TO4, TO5, TO6	46%
Renewable energy target	TO4	15%
Energy efficiency target	TO4	15%
Early school leaving target	TO9, TO10	11%
Tertiary education target	TO10	2%
Poverty target	TO9	9%

Further to the overall/general correlation between the funding priorities set in the PA and the CSRs, support from ESI funds affects certain aspects of them. More explicitly:

- With respect to CSR 4, ESI funding is targeted towards the improvement of access to finance especially for SMEs. Specifically, in order to support the competitiveness of Cypriot SMEs and facilitate their access to finance, several grant schemes have been promoted through ESIF financing in the context of the Operational Programme “Competitiveness and Sustainable Development 2014-2020”, the most relevant being the grant schemes: for youth and women entrepreneurship, for the enhancement of competitiveness of manufacturing SMEs, for energy upgrading, for promoting R&I within the scope of RESTART/Research projects and for strengthening business innovation.

Furthermore, the use of financial instruments is also promoted in the context of the above Operational Programme. An amount of €40 mln has been earmarked for this purpose, which is twice as much the amount delivered in the 2007-2013 period. Based on the results of the ex-ante assessment for the potential use of such instruments (see section 3.4.2a), it has been decided that a single loan instrument will be created in order to support projects in the fields of energy efficiency and renewable energy sources, both for the public and private sector (households and enterprises). The management of the financial instrument (and the respective fund) has been assigned to the EIB in December 2018, and deliberations for its deployment are currently underway.

In addition, ESI funds also support the Advice for Small Business Facility - implemented by the EBRD, on behalf of the MECI – which provides expert assistance, business advice and targeted training to new and existing SMEs.

- With respect to CSR 5, ESI funding in the context of the Operational Programme “Employment, Human Resources and Social Cohesion 2014-2020” has been allocated to targeted interventions aiming to create synergies and complementarity in order to maximize the effectiveness of the funding.

With regards to the increase of the capacity and effectiveness of the Public Employment Services (PES) and the reinforcement of the outreach and activation support for NEETS, a dedicated project for the enhancement of PES is being implemented. In the course of the project, 30 PES counsellors have been hired and an integrated monitoring and evaluation system for the ALMPS has been developed. In addition, the outreach and activation of NEETS is pursued through the implementation of a project providing them with consulting and vocational guidance. Moreover, two aid schemes for the employment of unemployed youth of up to 25 and from 25-29 years old respectively are being implemented. Two additional projects cover traineeship opportunities for young graduates in order to obtain the necessary professional qualifications and thus facilitate their entry into the labour market.

As far as the reform on the education and training system is concerned, a dedicated project (through ESF funding) for the development of the technical and vocational education and training system is being implemented aiming to upgrade the quality and effectiveness of VET System at all level in Cyprus.

As regards the overall implementation of ESI funds, it is noted that by the end of 2018, 50% of ESF funding and around 46% of ERDF funding has been reimbursed to Cyprus. The said percentages have rendered Cyprus first - among the 28 Member States - in terms of absorption for ERDF and ESF funds. As regards CF funding, around 33% has been reimbursed, enabling Cyprus to rank third among the 28 Member States. For the year 2018, in particular, a total of €138.3 mln from all ESI Funds has been certified by the European Commission and reimbursed to Cyprus (an amount that overshoot the target set for 2018 by €11.4 mln).

So far, ESI funding has paved the way for over 80 enterprises to be supported in introducing new products and over 250 enterprises have been supported in the manufacturing sector. In addition, 120 enterprises have been supported to upgrade energy efficiency of their building, including usage of renewable energy systems and 390 young people and women have received financial support to create and develop their own companies.

As regards waste treatment, 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. Furthermore, in order to enhance prevention, reduction and separate collection of solid waste, a pilot project for the areas of Larnaca & Ammochostos has been implemented, with a total budget of €6,2 mln.

Furthermore, in order to protect the environment and biodiversity, a budget of €10 mln has been allocated for projects in the area of Natura 2000 Network. These projects aims at protecting and restoring biodiversity (habitats and species of the Natura 2000 network), as well as evaluating and promoting ecosystem services through green infrastructures. In this

context, actions of €0.4 mln have been implemented for the preservation of the Akamas National Forest Park.

In regard to the measures taken to reduce the effect of climate change, it should be noted that 30 breakwaters have already been constructed to protect coastal areas from erosion. The areas protected through these projects are Larnaca, Pervolia, Germasogia, Yeroskipou and Polis Chrysochous.

Regarding the field of sustainable transport, the major project of the vertical road – primary road connecting the Limassol Port with the Limassol-Paphos highway is well advanced. The road has been implemented over two programming periods and it has already contributed significantly to both the construction and the reconstruction of Trans-European Networks. It is expected reduce traffic within the Limassol city centre, increase travel speed and reduce travel time for heavy goods vehicles.

In the field of sustainable urban development, projects of over €140 mln are promoted in the 4 major city centers of Cyprus. Built areas of 3.000 sq. meters are expected to be rejuvenated while additional 100.000 sq. meters of open spaces will be created or improved. By the end of 2018, 16 projects have been approved for €84.9 mln (7 by Paphos Municipality, 3 by Nicosia Municipality, 4 by Limassol Municipality and 2 by Larnaca Municipality).

Regarding the ICT sector, by the end of 2018, 7 projects have been approved for a total budget of €61.2 mln, aiming to enhance the access to and use of information and communication technologies by citizens, businesses and public administrations. Examples of approved projects that are under implementation are: a) the development and implementation of the information system of the National Health Insurance System (€13.9 mln), b) the information system for Town Planning and Housing Department “Ippodamus” (€6.5 mln) and c) the Enterprise Resource Planning and Human Resources System for the public sector (€23.3 mln).

Furthermore, by the end of 2018, over €60mln from the ESF have been invested for improving the conditions of social inclusion for vulnerable groups.

Finally, in the fisheries sector, three community-led local development strategies for the total amount of €7 mln are being implemented aiming at the improvement of the fisheries areas. In addition, €24 mln are being channelled for grant schemes and projects.

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The NRP has been prepared in close cooperation with all competent Ministries and other Services. It was approved by the Council of Ministers on April 9, 2019.

In addition, there was consultation with local authorities, social partners and other stakeholders. The comments received in the context of this consultation related to the following policy areas: labour market issues, education and training systems reform, productivity improvement, public administration and local government reform including better regulation, digitalization including e-government, judicial system efficiency, NPLs and access to finance, investment facilitation, introduction of the national health system, RES and energy efficiency, taxation and green economy. All the comments received in the context of this consultation were put before the responsible Ministries and, where possible, changes were incorporated in the NRP.

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