LISBON STRATEGY

REVISED NATIONAL REFORM PROGRAMME

OF THE REPUBLIC OF CYPRUS

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CYPRUS

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<td>CSR</td>
<td>Country Specific Recommendation</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>CyLLS</td>
<td>Cyprus Life-Long Learning Strategy</td>
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<td>DL</td>
<td>Department of Labour</td>
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<td>EC</td>
<td>European Commission</td>
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<td>ECDL</td>
<td>European Computer Driving License</td>
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<td>ESF</td>
<td>European Social Fund</td>
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<td>EU</td>
<td>European Union</td>
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<td>HIO</td>
<td>Health Insurance Organisation</td>
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<td>Human Resource Development Authority</td>
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<td>LIME</td>
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<td>LLL</td>
<td>Life-long Learning</td>
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<td>MLSI</td>
<td>Ministry of Labour and Social Insurance</td>
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<td>MOEC</td>
<td>Ministry of Education and Culture</td>
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<td>NAPE</td>
<td>National Action Plan, Equality</td>
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<td>NMA</td>
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<td>National Machinery of Women’s Rights</td>
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<td>NRP</td>
<td>National Reform Programme</td>
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<td>Pv</td>
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<td>R&amp;D</td>
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OVERALL INTRODUCTION

I. BACKGROUND INFORMATION

The Spring European Council of 2008 decided to renew the Lisbon Strategy for a second three year cycle 2008-2010, along the same framework and guidelines, because evidently Lisbon Strategy, as re-launched in 2005 has contributed towards the aim of more growth and more jobs. With the re-launch of the Lisbon Strategy in 2005, the European Union and its Member States committed themselves to a new partnership and committed to undertake reforms in a co-ordinated way, which produced results. Consequently, the Heads of States and Governments in October 2007, at the Informal Council in Lisbon, when discussing the European response to globalisation, confirmed the central place of the renewed Lisbon strategy in facing the challenges of globalisation, of the ageing population, of the rising oil prices and of the problems in the financial markets. After the signing of the Lisbon Treaty, which resolved key institutional questions, the EU can now turn its attention to more ordinary issues that affect its citizens in their everyday lives.

The Union’s development model, as encompassed in the Lisbon Strategy, that combines competitiveness and economic integration with solidarity and sustainability can be a major asset in addressing the challenges of globalisation and establishing a prosperous Europe with social cohesion. The Social aspect of Europe has come more to the forefront with the signing of the Social Agenda of the EU in July 2008, which, in the Renewed Lisbon Strategy is reflected in the inclusion of Flexicurity as one of the priorities of the new Cycle. Flexicurity requires policies that address simultaneously and in a balanced way, the flexibility of labour markets, together with employment security and a very supportive social security system.

Cyprus had already included social cohesion as one of the main national challenges, in the 2005 -2008 NRP but in the current cycle this aspect is enriched. Thus the main national challenges remaining the same, the Revised National Lisbon Reform Programme of Cyprus for the period 2008-2010 continues and enhances the previous National Reform Programme, which covered the period 2005 –2008, (taking into consideration, the country’s Strategic Development Plan 2007-2013, as well as the Government’s priorities, as reflected in the new President’s Programme), and has been prepared with the maximum possible social consensus. Enhancing the competitiveness of the economy, as a tool to achieve greater social cohesion, remains at the heart of the development effort.

II. RENEWED NATIONAL REFORM PROGRAMME (NRP)

The Revised National reform Programme is divided into four Parts, following the format that the Commission and the Spring European Council have delineated:-

**Part 1:** Comprises a detailed description of the measures already adopted or are underway to be implemented by 2010, for addressing the European Commission’s Country Specific Recommendations (CSR) and Points to Watch (PTW) including all relevant timetables.
Part 2: is an update of the NRP with limited mainly modifications depending on the sector in question and with emphasis on reforms that promote the four priority areas agreed during the 2006 and 2007 Spring Councils i.e.:

- Unlocking the business potential, especially of SME’s
- Investing in knowledge and innovation
- Investing in people and modernizing labour markets
- Energy and climate change

Part 3: Contains a description of progress in the main reforms undertaken over the past twelve months, with particular emphasis on measures which correspond to the country specific recommendations, points to watch as well as the main actions adopted by the Spring Council in the four priority areas. (As these measures are also mentioned in Parts 1 or 2 inevitably there is overlapping). However the main breakdown of this part is based on the ten National Priorities as set in the National Reform Programme and accommodating the CSR, PTW and the priority areas, under the relevant national priority. Often, a reference is also made to the applicable guideline. (A List of the Guidelines is attached as Appendix 1). A summary of reform actions is also provided in the agreed reporting table, known as the GRID, which is attached as Appendix 3.

Part 4: Connects the NRP to the Structural Funds and contains data that substantiate the fact that approximately 60% of the Structural Funds are granted for measures that promote the priorities of the Lisbon Strategy. Cyprus has responded to the overall appeal of the EU by devoting almost 58% of the available funds.

III. GOVERNANCE AND OWNERSHIP

To ensure ownership and to follow up on the call of the Council to set out the detailed actions taken in response to the Country Specific Recommendations and Points to Watch, the Revised National Reform Programme has been approved by the Council of Ministers. The Council has also been informed about the developments in the implementation of the reforms and invited the pertinent Ministries to intensify their efforts to complete the reforms on time.

In the case of Cyprus, the preparation and the implementation of the NRP, as well as the work of the Lisbon Methodology (LIME) Group have provided a much-needed platform for a constructive dialogue with all stakeholders, on the broad reform agenda. It served also as a means to co-ordinate the various Services that are involved in the same issues but also to co-ordinate European and national policies. In addition, a research programme has been signed with the University of Cyprus to offer expert advice on Lisbon related issues, mainly with respect to the Methodology Group but in practice, it also touches upon policy issues, drawing upon available research.

Within this framework, the implementation mechanism which has been created has ensured active participation and involvement of all stakeholders. More specifically, the National Advisory Committee which has been set up for the NRP with the participation of the social partners, political parties, local authorities, NGOs and organised groups of the private sector, is convened on a regular basis for an exchange of views on the NRP. The last meeting of this Committee has informed the social partners in detail on the progress achieved in the
implementation of the NRP during the period under review and the contents of the new progress report to be submitted to the EU. (The Detailed Organisational Structure is given in Appendix 2).

Apart from the standard meetings with the national parliament, to inform its Members on the progress of the reforms, the national parliament has also asked Government Services to earmark in their Budget for 2009, all their projects that come under the National Reform Programme for the Lisbon Strategy, so as to take it into consideration when approving the budget. In addition, the European Affairs Committee of the Parliament summoned two meetings where, all government services and social partners were invited to discuss the issue of flexicurity and also the degree that the government services involve social partners in the reforms. The Parliamentary Committee noted with satisfaction that social partners were aware of the issue and are regularly involved.

Moreover, realising the importance of a broad communication of the need for reforms to all stakeholders and to the citizens, both the Minister of Finance, in his capacity as the National Lisbon Co-ordinator, and the technocrats, deliver speeches, participate in seminars and discussions on the importance of the Lisbon Strategy.

During the electoral campaign, issues of the Lisbon Strategy were also given predominance, like the national target on R&D and the target on the renewable energy resources. The governance cycle based on partnership and national ownership, has helped Cyprus to push forward some long required reforms, but difficult to implement, like the reform of the Pension Fund.
PART 1

PROGRESS OF REFORMS UNDERTAKEN WITH RESPECT TO
THE COUNTRY SPECIFIC RECOMMENDATIONS (CSR)
AND POINTS TO WATCH (PTW)
ADDRESSED TO CYPRUS

CYPRUS
OCTOBER 2008
PROGRESS OF REFORMS UNDERTAKEN WITH RESPECT TO
THE COUNTRY SPECIFIC RECOMMENDATIONS (CSR)
AND POINTS TO WATCH (PTW) ADDRESSED TO CYPRUS

INTRODUCTION

This Part is a Statement indicating in detail the concrete reforms that concern the Country Specific Recommendations and Points to watch addressed to Cyprus and which, the Commission has identified, as being the most important pending reforms that require to be implemented as a matter of priority. The recommendations and points to watch have also been endorsed by the 2008 Spring European Council that has requested the Commission to assist Member States in their implementation and monitor progress in the context of the Partnership approach.

In the Commission’s assessment of Progress made by Cyprus in the implementation of its National Reform Programme it is mentioned that:

“The policy areas in the Cypriot National Reform Programme where weaknesses need to be tackled with the highest priority are: addressing ageing-related expenditure; implementing a lifelong learning strategy and increasing training and labour market opportunities for young people. Against this background, it is recommended that Cyprus:

Country Specific Recommendations, (CSR)

- take steps to implement reforms of the pension and health care systems and sets a timetable for their implementation with a view to improving fiscal sustainability;
- enhance life long learning, and increase employment and training opportunities for young people by implementing the reforms of the vocational, education, training and apprenticeship system.

In addition, it will be important for Cyprus over the period of the National Reform Programme to focus on measures to:

Points to Watch (PTW)

- improve competition in the area of professional services;
- further stimulate private sector R&D; and
- address the very high gender pay gap."

The list of measures undertaken already or that are in the pipeline for the next cycle of the National Reform Programme have all been grouped together in this part but they are also analyzed in Part 3 under the appropriate national Challenge.
A. COUNTRY SPECIFIC RECOMMENDATIONS

CSR 1: ADDRESSING AGEING RELATED EXPENDITURE

• “take steps to implement reforms of the pension and health care systems and sets a timetable for their implementation with a view to improving fiscal sustainability; ”

CSR 1.1: Reform of the Pension System

The temporary stagnation in the implementation of the Pension reforms caused by the campaign for the Presidential Elections of last February was overcome soon after the elections and, the social dialogue that was resumed, led to an agreed solution that is now before the House of Representatives, with the aim to be approved and implemented by 1st of January 2009.

The dialogue with the social partners, concerning the long-term financial sustainability of the General Social Insurance Scheme, began in March 2005, by presenting and analyzing the findings of an actuarial study, in relation to concrete reform scenarios. The main changes under consideration were the following:

a. With respect to securing Sustainability, the choice was to either increase revenue or decrease expenditure by measures such as:

  Increase of Revenue:
  • Phased increase in social insurance contribution rates
  • Revamping of investment policy of the reserve of the Social Insurance Fund
  • Adoption of administrative measures
    (i) Increase inspections
    (ii) Establishment of a special «police» unit to improve effectiveness of enforcement of court rulings regarding fines for unpaid contributions
  • Measures to raise fertility rates

  Decrease of expenditure:
  • Gradual increase of the pensionable age from 63 to 65 years
  • Adoption of stricter eligibility criteria for old-age pension and the lump sum granted at 68 years
  • Setting a maximum limit on insurance credits granted for full-time education

b. For the Improvement of Adequacy, the alternatives were:

  • Changes to the formula used for calculating basic and supplementary pensions
  • Further increases in the notional income of self-employed

c. Improvement of Short-term Benefits

  • Improvement of the sickness benefit provisions regarding the self-employed
  • Increase in the duration of payment of maternity allowance from 16 to 18 weeks
  • Increase the orphan's benefit
In April 2007, the final round of consultations was initiated. In view of having reached a common ground, and on request by the social partners, a concrete reform package was submitted for the first time, in writing, by the Ministry of Labour and Social Insurance to the social partners in June 2007. By September 2007, a convergence of opinions on the majority of the proposed measures was achieved which provided for gradual increase of the contributions and leaving the retirement age at 63. Yet, due to the presidential campaign, consultations were put to a halt and were resumed soon after, in March 2008.

In June 2008, the social partners approved the majority of measures and a bill was drafted, along the line that provided for gradual increase of the contributions and leaving the retirement age at 63. With the completion of the Attorney’s General legal vetting, the Bill was forwarded to the House of Representatives. The planned measures incorporated in the Bill are the following:

- Increasing, gradually, the total contribution rate by 1.3 percentage points every five years, beginning from 2009, until the current contribution of 14.3%, allocated to financing pensions, reaches 23.4% in 2039.
- Increasing the minimum qualifying period of paid contributions for old age pension, from three to ten years and the total period, including credited contributions, from 12 to 15 years, within a period of three years, starting from 2009. Furthermore, the minimum contribution period for entitlement to old age grant (payable where there is no entitlement to pension) was raised from three to six years.
- Restricting the crediting of contributions for full-time education for old age pension to a maximum of six years.

Additional measures to improve the pension system: A number of measures have already been undertaken towards the improvement of the whole system, as of January 2007. More specifically:-

- the notional income of the self-employed was increased as well as the occupational categories, with the aim to increase the income of the Fund from the self-employed
- the quality of service to citizens has been improved with the introduction of online payment of contributions, the launch of a Social Insurance Services website, and the payment of pensions via electronic bank transfers.

Increase of the retirement age from 60 to 63 years to cover the broader public sector: A gradual extension of the retirement age from 60 to 63 years for civil servants and employees of local government, excluding educational service employees, has been implemented. The measure has also been implemented for 14 semi-governmental organizations. Relevant bills for an additional 9 semi-governmental organizations are currently in the stage of legal vetting by the Law Office of the Republic.

CSR 1.2: Reform of the Health Care System
Overall Progress in this field was slower than anticipated, and the new target is to have the Out-patient part of the System operational by the end of 2010, instead of the end of 2008, as it was the intention before. However it is worth noting that soon after, in early 2011, the in-patient part will also be in operation, thus completing the System. The delay is mainly due to the following, reasons, some of them unforeseen and others being policy re-evaluation by the New Government:

a) **The re-organization of public hospitals.** Following a policy re-evaluation, it was concluded that, the reorganization of the public hospitals is a necessary and vital prerequisite for the implementation of the National health Insurance System (NHIS) and should be completed prior to adopting the out-patient part of the Scheme. However, the re-organization of public hospitals did not progress as originally anticipated, as consensus is being sought between all major stakeholders.

b) **The training of the Family Doctors and Specialists after a bidder’s appeal.** Following the appeal by an interested party, the Tender Review Authority cancelled the procurement procedure. The whole process for awarding the contract of training of the Family Doctors and Specialists will be repeated.

c) **The development, implementation and operation of a total solution for the IT System and other business processes of the NHIS.** Due to the complexity of the project, complications have emerged causing delays.

**Inventory of Progress**

Despite the delay in the overall target, many intermediate measures have been promoted in the last year as follows:-

**1.2.1 Promoting the transformation of Public Hospitals into autonomous units**

**Principles of transforming government hospitals into autonomous Units:** On the 12th of July 2007, the Council of Ministers, following a decision in June 2006 on the approval of the principle of transforming government hospitals into autonomous bodies (legal entity governed by public law), approved a set of guidelines to be incorporated in a draft bill, currently under preparation. These guidelines concern issues, such as the establishment of a legal entity to manage the government hospitals, other issues of a managerial nature, as well as human resource issues. The draft bill for the reorganization/autonomy of the public hospitals has been prepared and the process of discussion with stakeholders commenced in September 2008.

For the promotion of the reorganization/autonomy of the public hospitals, a team of consultants has been appointed and under their guidance, eleven working groups have been set up at the Ministry of Health and continue the **preparation of policy documents** that will meet the basic operating principles of the public hospitals. At the same time, they prepare action plans and discuss the next steps.
A **timetable** for the implementation of the reorganization/autonomy of public hospitals is currently being prepared by the Consultants. An implementation date whereby the transformation of public hospitals into autonomous establishments will be completed is difficult to be determined, as consensus has not yet been achieved.

### 1.2.2 Implementation of the National Health Scheme

Another significant challenge is the implementation of the National Health Insurance System (NHIS). The Health Insurance Organization (HIO) has taken significant steps and has noted important progress regarding the implementation of the Strategic Plan for the introduction of the NHIS as described below:

- **Preparation of Draft Policy Papers and other Documents**
  The thematic work teams, established in 2007, have drafted detailed policy papers, which describe the basic principles of operation for all the healthcare provider segments of the NHIS, including the framework for the reimbursement of the healthcare providers and have also initiated the preparation of draft Regulations based on the NHIS Law. Once finalised, these papers will be discussed with the relevant health care provider associations. The teams work closely with the advice of consultants.

- **Submission of Bill to the House of Representatives**
  The HIO has conducted regular meetings with all parties concerned for the amendment of the legal framework. In November 2007, a Bill amending the NHIS Law has been submitted to the House of Representatives and the discussions for the ratification of the Bill commenced in May 2008.

- **Development, implementation and operation of a total solution for the IT System and other business processes of the NHIS**
  The IT system, including business processes, is a vital tool for the effective implementation of the NHIS. The HIO has invited relevant tenders and three applicants have been pre-qualified to participate in the Competitive Dialogue procedure, in order for the HIO to select the solution that best meets its requirements.

- **Estimation of income and expenditure for the NHIS and the development of a forecasting model and the estimation of the Cyprus national health expenditure**
  A contract has been awarded, through a tender procedure, to an actuarial company in March 2008, which submitted its report in September 2008. According to the preliminary findings of the study, the contribution rates have to be raised to around 12% of earnings, in order to cover the estimated cost of the NHIS. Based on the previous study, contribution rates were estimated at about 9%.

- **Protection of Personal Data**
  The HIO has conducted meetings with the Data Protection Commissioner and has prepared draft Regulations to comply with the provisions of the Processing of Personal Data (Protection of Individuals) Law of 2001. These Regulations are currently being reviewed by the Data Protection Commissioner.
The following diagram shows the critical tasks that need to be completed so that the NHIS is ready for its introduction, both for outpatient and inpatient care. It also shows the target date of implementation of each task:

Note: DRG stands for “Diagnosis – related group”

CSR 2: On Life – Long Learning

- “enhance life long learning, and increase employment and training opportunities for young people by implementing the reforms of the vocational, education, training and apprenticeship system.”

Overall Progress

Significant progress has been achieved with respect to the Life-long learning recommendation, depicted both in basic indicators, as well as in concrete progress in the implementation of the relevant measures.

With respect to the education and training indicators:

- Life–long learning has increased from 5.9% in 2005 that the NRP started being implemented, to 7.1% in 2006 and to 8.4% in 2007, decreasing the gap between the EU 27 which is at 9.7% (2007)
• The ratio of early school leavers decreased from 18.2% in 2005 to 16% in 2006 and dropped down to 12.6% in 2007, being lower than the EU27 average of 14.8%.

• The educational attainment (20-24) kept increasing from 80.4% in 2005 to 83.7% in 2006 and reaching 85.8% in 2007, being well above the EU27 of 78.1%.

With respect to the employment indicators, Cyprus has exceeded all the targets set by the Lisbon Strategy for 2010 and in some cases exceeded even the national targets which are more ambitious. Thus:-

• The employment rate for the elderly reached 55.9% exceeding both the national target of 53%, the Lisbon target of 50% and the EU27 of 44.7%.
• The overall employment rate reached 71% in 2007, matching the national target and exceeding both the Lisbon target of 70% and the EU27 of 65.4%.
• The employment rate for women reached 62.4%, (compared to 58.3% of EU27) being above the Lisbon target of 60% but slightly lacking from the national target of 63%.
• Youth unemployment dropped from 13.9% in 2005 to 10% in 2006 and reached 10.2% in 2007, being well below the EU27 of 15.5%.

Progress with respect to measures: Despite the fact that in a context of almost full employment, the need for life-long learning becomes less pressing, the Government continued with vigour all the measures promoting more and better employment and also more actions to enhance life-long learning:-

• The national Life-long learning Strategy (LLL) was approved on 7th November 2007 and a Monitoring Mechanism (a National and technical Committee) have been appointed to monitor its implementation. Already assessment of progress during the first year of implementation is under way.
• The Foundation for the Management of European life-long learning programmes which was also established on 17th January 2007, has been adequately staffed and with a budget of more than half a million euros is managing the integrated EU LLL programmes.
• The educational and vocational reform continued with the implementation of numerous measures analysed below, but also with measures to make the Secondary technical and Vocational Education more attractive, reform the curricula using ICT create a national Qualifications Framework and also by accelerating vocational training programmes.
• The New Modern Apprenticeship scheme was approved on 21st of November 2007, to offer an alternative form of training and development to young persons aged 14-25 years old and meet the needs of the labour market. Following discussions to clarify implementation aspects, it is expected to begin by the end of the year.
• Four new universities started operations in September 2007 and this year they have increased both their intake and the number of programmes offered, thus increasing the chances of young people to higher education.

All the relevant measures are analysed in more detail below and in Part 3, Chapter 8.

Important Note: Removing the Country Specific Recommendation: Given the significant progress achieved and documented by the indicators, the very good employment conditions of
the economy and the numerous measures that are in operation since 2005 onwards, it is the
belief of the Government of Cyprus that, reforms in this sector have been undertaken already
and thus, there is no need to have a recommendation with respect to LLL but rather a PTW
in order to monitor the ongoing measures.

2.1 Development of a Comprehensive Lifelong Strategy

2.1.1 National Strategy for Lifelong Learning (LLL) 2007-2013: The Council of Ministers
approved on the 7th of November 2007, the Cyprus National Strategy for Lifelong Learning
(CyLLS) 2007-2013 which is a comprehensive and coherent framework of strategic
objectives, categories of actions based on the following four pillars, which are analysed
further down:

(i) Promoting access and participation in lifelong learning for all;
(ii) Strengthening of lifelong learning infrastructures and systems;
(iii) Promote research and development for the support of lifelong learning;
(iv) Effective governance of lifelong learning.

2.1.2 Establishing the Monitoring Mechanism for the implementation of the Lifelong
Learning Strategy (the National and the Technical Committee for LLL): The Council of
Ministers designated the National Lifelong Learning Committee, and a Technical Committee
to support it, in order to monitor, coordinate and promote all necessary actions for the
realization of the National Lifelong Learning Strategy, as well as the issuing of the Annual
National Lifelong Learning Strategy Progress Report. The Technical Committee is currently
monitoring the actual lifelong learning measures being promoted by the several competent
authorities for the realisation of the strategic objectives under the above stated four priority

2.1.3 The Establishment of the Foundation for the Management of European Lifelong
Learning Programmes: The “Foundation for the Management of European Lifelong
Learning Programmes” was established by the Council of Ministers´ Decision on the 17th of
January 2007, as a non-profit organization, managed by a Governing Board. The main
responsibility of the Foundation is to act as the Cyprus National Agency for the management
of the integrated EU Lifelong Learning Programme such as Erasmus, Leonardo da Vinci, and
Comenius. For the smooth operation of the foundation, a state grant amounting to €510 000
for the year 2008 is provided, to partially cover its operational expenses (it is co-financed by
the EU). Having undergone all necessary organisational and administrative improvements,
the Foundation is now in a position to contribute to increasing employment and training
opportunities for young people, by facilitating their participation in various European
Programmes.

2.2 First Priority Axis: Promoting access and participation in LLL for all
2.2.1 Broadening access and encouraging people to remain in education:

Establishment of new Universities (Part 3, Chapter 8, paragraph 8.5.3): In the last two years five new universities have been established in Cyprus, increasing their total number to six, thus increasing tremendously the opportunities of young people to follow higher studies in Cyprus. The three private universities with a total number of 7,581 students have increased the opportunities for university studies in Cyprus significantly.

Increased intakes and Departments (Part 3, Chapter 8, paragraph 8.5.3): The approval by the Council of Ministers for the gradual increase of students’ intake in the University of Cyprus by 18% and in the Cyprus University of Technology by 15%, during the academic year 2008/09, as well as the approval of new Departments at both universities have also broadened the prospects for university studies in Cyprus.

Furthermore, the Council of Ministers has decided the establishment of a Medical school (Part 3, Chapter 8, paragraph 8.5.3.2).

2.2.2 Facilitating integration/reintegration in the labour market:

Accelerated Vocational Training Programmes are offered to the unemployed, unskilled young persons, on an annual on-going basis (in the context of the Promotion of Modern and Flexible Forms of Employment for vulnerable groups of the population with low levels of participation in the labour market). The training programme includes classroom and workshop training, as well as work-based learning. The specializations on offer are determined on the basis of labour market needs.

New Modern Apprenticeship (NMA) Scheme (Part 3, Chapter 8, paragraph 8.5.4.2) has been approved by the Council of Ministers on the 21st of November 2007, to gradually replace the existing Apprenticeship System. The NMA is addressed to young persons between the ages of 14 and 25, providing a learning pathway for young persons who withdrew from the education system early, enabling them to upgrade their skills and become more employable and more able to progress in their career. The scheme also aims to increase the supply of labour with persons qualified to meet the needs of the economy, to ensure mobility between education, apprenticeship and employment and to minimise the risk of social exclusion.

The implementation of the Scheme has been delayed due to some reservations expressed by the Ministry of Education and Culture during the discussion of the implementation process. The issue has been taken up by the two Ministers involved, the Ministers of Labour and Social Insurance and Education and Culture to resolve it. The implementation of the proposal is expected to begin by the end of the year on the basis of an agreement between the two Ministries.

In the meantime, Short term improvements of the existing Apprenticeship System have been decided that will continue to apply in the New NMA Scheme:

- An incentive scheme for employers who recruit apprentices has been approved by the Council of Ministers, providing for a subsidy of the wage of the internal trainer who is responsible for the apprentice’s training and supervision. This scheme aims
at raising the quality of in-company training and is expected to be put in operation by the end of 2008.

- An improvement of the remuneration of supervisors who supervise apprentices outside the Ministry’s normal working hours, in order to improve the quality of supervision by the Ministry, with respect to the in-company training components of apprenticeship.
- Introduction of health and safety training programmes for apprentices and their trainers in Technical Schools.

Building of Employment Pathways for Young People (Part 3, Chapter 8, paragraph 8.2.5): The implementation of the Scheme continued, with the aim to offer training (including computer skills) and thus enhance the employability of the young secondary education school graduates. The scheme, which is co-financed by the ESF, attaches priority to the young unemployed.

Continuation of the Scheme for Youth Entrepreneurship (Part 3, Chapter 8, paragraph 8.2.5): The measure was included in the new programming period 2007-2013 with a total budget of €6 mln and will be co-financed by the ESF. The first call for participation to the program, with a budget of €3 mln was announced in February 2008 and expired in May 2008. The applications are currently being examined by the competent authority and the approved candidates will be announced by the end of 2008 or the beginning of 2009.

Training for new farmers: The Rural Development Programme of 2007-2013 provides for measures such as: - “Education, information and dissemination of knowledge”, - “Assistance to new farmers” and - “Use of Advisory Services” to facilitate new farmers to respond to the needs of their job.

Training of inactive women: A Scheme for the promotion of training and employability of economically inactive women co-funded by the ESF and promoted by the Human Resource Development Authority (HRDA).

Education Centres provide Greek language courses to speakers of other languages (children-adults) and also computer and foreign language courses. The measure facilitates pupils’ integration into the educational system, pupils’ and adults employability and social inclusion (funded by ESF).

Training Scheme for the disabled: The Department of Labour offers a training scheme for the disabled, co-funded by the ESF aiming at the vocational rehabilitation of people with disabilities. It also promotes the implementation of a scheme for vocational training and employment of public assistance recipients co-funded by the ESF.

The Labour Department and the HRDA promote the enhancement and modernization of the Public Employment Services within the framework matching the needs of both employers and employees. Active support, in an individualised approach is also offered to vulnerable groups including young unemployed, women wishing to enter the labour market, public assistance recipients and persons with disabilities through an individualised approach.

2.2.3 Providing lifelong learning for the employed people and support to enterprises:
The Cyprus Productivity Centre (CPC) offers the following programmes: A number of upgrading programmes, on annual basis, on management to meet the needs of working executives and upgrading training programmes in technical subjects for technical staff. Also, an annual full time postgraduate programme in management is offered, aimed at young graduates as well as part-time postgraduate programme in management and public administration for university graduates employed in private and public sectors.

The Human Resource Development Authority (HRDA) offers the following programmes:-Training programmes of five Schemes, co-funded by the ESF, and, - Consultancy services and training to micro-enterprises employing 1-4 employees. So far approximately 400 micro-enterprises have completed their participation in the scheme.

2.2.4 Promoting Lifelong learning in the Public Sector:

Courses offered by the Cyprus Academy of Public Administration: The Academy organizes on an annual basis induction courses for newcomers, training of Learning Units, training courses on self assessment, on staff appraisal as well as specialized courses on European issues.

Courses for the Teachers: The Pedagogical Institute offers in-service training for teachers for topics which are a priority for the Ministry of Education and Culture, including training of all teachers on ICT skills and use of ICT in the learning process

2.3. Second Priority Axis: Strengthening of infrastructures and systems:

2.3.1 Improvement and strengthening of the infrastructure and content of education:

Within the context of the ongoing educational reform (Part 3, Chapter 8, paragraph 8.5.2.1) for a better and more modern educational system that would meet future needs and challenges, a decision was taken by the Council of Ministers in September 2008 to promote priorities such as:

• in-service training of newly appointed teachers
• Establishment of an Educational Research and Evaluation Centre
• Expansion and improvement of Zones of Educational Priorities
• Expansion of voluntary “All day” Pre-Primary schools
• Establishment of Medical School in the Cyprus University
• Organization of short-term language classes for foreign students

Secondary Technical and Vocational Education (Part 3, Chapter 8, paragraph 8.5.4.1): The Ministry of Education and Culture has proceeded with the strengthening of the quality and attractiveness of the Secondary Technical and Vocational Education (STVE) by working on the revision of the curriculum, aiming for the abbreviation of subjects, the creation of new subjects and the upgrade of the profile of the practical direction graduates according to the labour market needs.
Mechanisms to safeguard quality assurance in higher education: have been put in place such as, the external Quality Assurance (QA) system of Cyprus, presently implemented in the form of the Council for Educational Evaluation and Accreditation (S.E.K.A.P.), the Evaluation Committee for Private Universities, and the National Quality Assurance Agency, as an independent authority responsible for both programme and institutional quality assurance in both private and public tertiary education.

2.3.2 Strengthening of the infrastructure and the content of training:

Further support to the training institutions is offered by the Human Resource Development Authority: The design for the enrichment of the existing Scheme entitled “Training Infrastructure Support Scheme” started in June 2006, but due to its usefulness, it will be revised based on an ex-ante evaluation and be offered to training providers and enterprises from January 2009 onwards (Part 3, Chapter 8, paragraph 8.5.4.3).

The reform of the curricula of all subjects so that they provide ICT as a learning tool (Part 3, Chapter 8, paragraph 8.5.4.2) as well as to provide schools with suitable ICT equipment and complete the infrastructure installations is in progress with financing from the European Social Fund. In parallel, a training programme is being offered aiming to ensure that secondary education teachers will become digitally literate. It was launched in 2005 to provide participants with an ECDL (European Computer Driving License) certification and will continue to be offered at a rate of two programmes per year until September 2009 (also co-financed by the ESF).

2.3.4 Promotion of a Framework:

National Qualifications Framework: A working committee has been set up to formulate the policies for the introduction of a National Qualifications Framework. A relevant proposal has been forwarded to the Council of Ministers. The discussions are still at early stages and every effort is being made to involve all stakeholders and government departments.

Introduction of a Vocational Qualifications System (Part 3, Chapter 8, paragraph 8.5.4.3): It is designed for the assessment and certification of knowledge, skills and competences of a person to perform competently in a working environment. It has been developed with the involvement of stakeholders at central and sectoral levels with the main functions of development of the Standard and awarding of Vocational Qualification after the necessary accreditation. The system is to be implemented in two phases. During the 1st phase, 5 Standards of Vocational Qualifications at level 2 were developed (waiter, cook, receptionist, construction mason, sales person-retail). During the 2nd phase, which is expected to be co-financed by the European Social Fund (ESF), the development of 67 new standards in priority occupations at various levels is envisaged and opportunities for access are expected to be provided to employees, unemployed and economically inactive persons. By the end of December 2007, about 260 employees had submitted applications for participation. In May 2007, 41 certificates of vocational qualifications were awarded and by June 2008 another 91 certificates were awarded.

2.4 Third Priority Axis: Research and development for the support of LLL
Employment and training needs forecasts (Part 3, Chapter 8, paragraph 8.3.4): The HRDA has undertaken long-term employment forecasts for the period 2008-2015 for the Cyprus economy, in order to better plan its training activities. These are also used by career counsellors at secondary schools to advise pupils on career prospects. In addition, the forecasts are used in conjunction with annual investigations, for the identification of initial training needs and the promotion of appropriate initial training programmes for the next year. The investigations are carried out with the involvement of the social partners and with great emphasis on the young persons’ initial training needs to facilitate their employability. The investigation for 2009 was completed in April 2008 and the results are easily accessible by all interested parties via the website of the HRDA.

Evaluation of the impact of lifelong learning on the increase of productivity and competitiveness of the Cyprus economy: A number of surveys and studies are carried out by both the Cyprus Productivity Center and the Human Resource Development Authority in order to identify factors having an adverse effect on the best possible utilization of human resources and re-design current training programmes.

2.5 Fourth Priority Axis: Effective governance of Lifelong Learning

Unification of Higher Education laws: The Ministry of Education and Culture is in the process of unifying all the laws relevant to higher education. This is a key priority for the Ministry since the unification of the laws is expected to render Higher Education governance more effective.

Training of School Counselors: The in-service training for school counselors will continue for the period October 2009 to June 2011 and will be offered by the Pedagogical Institute within the context of upgrading career guidance of pupils.

Enhance Supportive Programmes: The reduction of the number of early school leavers will be further pursued through, the upgrading of several supportive programmes like the Education Priorities Zones Programme, the Teaching Support Programme, the Support Programme for the illiterates, the Self Esteem Raising and the Prevention Programme for High Risk Pupils as well as the Programme for the Normal Transition from Primary School to Lower Secondary School.

Provision of social Welfare services: For the same purpose the two competent Ministries (Ministries for Education and Culture and Ministry of Labour and Social Security) will implement a pilot project in a number of schools for the provision of Services by the Social Welfare Officers to children at risk of early school-leaving or juvenile delinquency.

B. POINTS TO WATCH (PTW)
It will be important for Cyprus over the period of the National Reform Programme to focus on measures to:

- improve competition in the area of professional services;
- further stimulate private sector R&D; and
- address the very high gender pay gap."

PTW 1: On professional Services

1. Introduction/ State of Play

In 2006 the Commission had set as a point to watch, the insufficient competition in the professional services, pinpointing indicatively at the sectors of Pharmacists, Legal Professionals and Architects and Engineers. Following consultations with both the government pertinent services, as well as with the professional groups the following observations were included in the 2007 Progress report concerning the state of competition in the Professional services.

1.1 With respect to the Pharmacists

1.1.1 Complete ban on advertising The ban of advertisement concerns the pharmaceutical products sold only on prescription, due to their specialised properties, which are known best by the doctor who prescribes. However, for other medical products like pain killers, ointments, cosmetics etc, sold without prescription, advertisement is allowed. As regards the banning of the pharmaceutical services, it was imposed following a recommendation of the EU.

1.1.2 Business Structure: It is allowed to any person or company to own any number of pharmacists, however, the share cannot exceed 49%, except when the person is a pharmacist by profession, in which case, he may own one pharmacy with share 51% and any number of pharmacies of up to 49%. This provisor safeguards that the main owner responsible for the services offered by the store is a professional. At the same time entry is free to non pharmacists as well, up to the fixed percentage of 49% which is a significant amount. Any higher percentages would rather encourage chains and oligopolistic situations rather than healthy competition among numerous stores. Despite this condition, there are two chains operating in the sector already, as well as pharmacists owned by trade unions.

With respect to the business structure, a case is now before the European Court for Italy, where the situation bears some similarities and a decision is expected soon that will have a bearing on the issue.

Fixed fees for medicinal products: A fixed fee is set either as 33% of the wholesale price or 24% of the retail. The setting of prices is done to protect the consumers, since Cyprus relies heavily on imported products that are imported by a small number of wholesalers, providing the small numerous pharmacies. And given the fact that in Cyprus there is no General Health System yet that would counterbalance the oligopolistic power of the suppliers, the setting of prices acts as a safeguard that, the provision of pharmaceutical products would be within
reasonable price limits. It must be noted that this practice of setting prices is followed in most MS. It is worth noting that the level of prices of pharmaceuticals in Cyprus is the 5th lowest in EU25.

1.2 Legal Professionals

1.2.1 Fixed Fees for Advocates (Fees are regulated by the Civil Procedure Rules issued by the Supreme Court of Cyprus. These Rules are subject to amendment every 4 to 5 years with the last amendment having taken place in 2002) (EU observation): The fees for advocates are divided into 2 categories: (i) those pertaining to court cases which are determined by the court, and which are compatible with EU legislation, and (ii) those concerning counselling and non-court cases that are set by the lawyer’s association and then sent to the House of Representatives for final approval. The House of Representatives has the right to change them and there is a case when the Parliament lowered the submitted rates. The last revision was in 2006, (not 2002 as mentioned above). The issue has also been discussed at the European Court which ruled that such practice doesn’t hinder competition, since legal services are not a commodity but a public good and as such cannot be entirely left to competition. There is an appeal by a foreigner to the supreme court of Cyprus against this practice, and the decision is pending.

1.2.2 Inability to participate in other professions or activities which are deemed incompatible: Legal Professionals can participate in other professions as managers or Secretaries but not as active members of the managing team. The existing legislation is now in the process of being changed so that lawyers can form private limited companies, which is a step of progress, however each lawyer will be allowed to be stakeholder in only one such company.

1.3 Architects and Engineers

1.3.1 Fixed Fees for public works (Minimum tariffs are provided for architectural and engineering services for public projects and services. It has been decided that for service contracts up to £900 000 (€1,54 mln) the tariff is fixed and the award of the public contract is made on the basis of quality criteria): The Treasury of the Government claims that no such practice is followed. There are cases when a ceiling is set to the fee, but then firms are evaluated based on their technical specifications and classified in order of merit. Then negotiations are carried out with the best performer which if successful, leads to an agreement, if not, the second one is invited to quote his price and terms, etc. The process of negotiations is stipulated in the Public Tenders Law.

1.3.2 Ban on advertising: Advertisement is banned for the reason analysed above and also, had it been allowed it would be in favour of the big offices that can afford to advertise.

1.3.3 Business Structure: A bill is prepared by the Ministry of Communications and Works in co-operation with the Engineers Association that will allow the operation of private limited companies, provided that the employers’ responsibility insurance will be secured. It is noted
that, now, the responsibility of engineers with respect to the quality of projects they carry out is for life.

1.4 Inventory of Progress

The Planning Bureau, in co-operation with the Commission for the Protection of Competition (CPC) has called for tenders for a study in order to examine the restrictions of competition in five professions (doctors, pharmacists, lawyers, architects, engineers and accountants) to compare the findings with the situation in five other European countries and, where necessary, to make suggestions aiming at enhancing competition. The contract was signed on 15th September 2008 and the study is expected to be completed by May 2009. The results will be assessed by the CPC.

Furthermore, the Commission for the Protection of Competition (CPC) has launched an investigation concerning the professions of doctors, paediatricians and dentists, following a complaint by the Cyprus Consumer Association. Following a request by the Ministry of Health, the CPC gave its views on the request of the Pancyprian Dentist Association to the Council of Ministers, to approve a price catalogue. The CPC emphasised the principles set out in the Arduino case. Also, an ex officio investigation is in process for the professions of lawyers, architects and real estate agents.

PTW 2: FURTHER STIMULATE PRIVATE SECTOR R&D

Introduction

There was satisfactory progress in almost all priorities set in the research sector, including the increase of investment in R&D (GERD), the development of research infrastructure, the enhancement of human capital in research, and the development of international cooperation. More specifically:

- Gross domestic expenditure on R&D (GERD) increased to €61,35 mln in 2006 from €54,34 mln in 2005, an increase of 12,7%, which is amongst the highest in EU27. Despite this, GERD as a percentage of GDP increased only by 0,03% reaching 0,43% in 2006, as the GDP growth rate was 7,2% in nominal terms. According to recent estimates, the growth rate of GDP is expected to remain at high levels (around 3%), so the target set by the Government to increase R&D expenditures to 1% of GDP in 2010 is difficult to be attained.
- The number of human resources employed in research (full-time equivalent) increased by 6%, from 1 157 in 2005 to 1 224 in 2006. In particular, the number of researchers increased by 9%.
- The Research Promotion Foundation’s Framework Programme for Research, Innovation and Technological Development 2008 (RPF FP 2008) was launched in February 2008 with a total budget of €70 mln (the budget of the previous RPF FP 2006 was only €10 mln with a satisfactory response from the research community. It must be noted that budget for the RPF FP 2008- 2010, will be €120 mln for the three years.
The participation of Cypriot organisations in the 7th Framework Programme of EU for Research and Technological Development 2007-2013 (FP7) was also satisfactory, as 272 research project proposals were submitted under the 1st Call for Proposals in 2007, with the participation of 315 Cypriot organisations. Of these proposals, 41 resulted in research projects that are currently being funded by the EU with a total budget of €7,84 mln attributed to the participating Cypriot organisations.

On the other hand, the contribution of industry to R&D expenditure (BERD) remained at low levels, and consists one of the main restraining factors for attaining the national target of 1% GERD in 2010. Specifically, BERD was decreased to 16% of GERD in 2006 from 17% in 2005, which is also far below the target of 67% set in Barcelona in 2002. However, in absolute terms, there was a significant increase in BERD by 7%, from €9,12 mln in 2005 to €9,79 mln in 2006, which is a positive outcome of the efforts made by the Government. Considering the very small size of the majority of enterprises in Cyprus (90% of them employ less than 4 persons), it cannot be expected to have a great increase neither in the number, nor in the volume of research activities conducted by enterprises. The Government encourages and promotes the participation of enterprises in innovation activities, driving them towards the utilisation and adoption of existing methods and ideas, rather than the exploration of new ones.

The main measures introduced by the Government towards the encouragement of industry participation in research and innovation activities (also described comprehensively in Part 3, Chapter 3, paragraph 3.4.1) are the enumerated below.

**Important Note: Removing the Point to Watch in Private R&D:** Taking into consideration all the factors analysed above, including the very small size of the enterprises in Cyprus, (more than 90% have less than four employees), that Cyprus has a service based economy, which is less conducive to research, the inadequate infrastructure, it is evident that the private sector cannot increase its share in R&D significantly. For this reason it is believed that this particular PTW is not so relevant to the Cyprus reality and should be removed.

### 2.1 Measures for stimulating business R&D

#### 2.1.1 RPF Programmes for the Development of Industrial Research and Innovation Activities:

Three programmes are included in the RPF FP 2008, namely Research for Enterprises, EUREKA Cyprus and Innovation. The first programme aims at encouraging the cooperation of enterprises with local research organisations, the second one focus on the cooperation of local enterprises with foreign research organisations, and the last one aims to improve the endogenous capacity of enterprises for conducting innovative activities. The budget for these programmes is €11,25 mln, and it is expected to finance 70 projects approximately.

#### 2.1.2 RPF Programmes for the development of New Researchers:

This programme includes two actions for the recruitment of young researchers by enterprises, namely “Didaktor/Post Doc in an Enterprise” and “Mobility”, in order to participate in applied research projects that are relevant to enterprises’ activities.
2.2 Measures for the promotion of R&D

2.2.1 Increase overall spending in R&D, via the new RPF Framework Programmes for Research, Technological Development and Innovation (RTDI): In February 2008 the RPF launched its Framework Programme for RTDI 2008, with a total budget of €70 mln. Until the end of June 2008, 1,076 research project proposals were submitted to the RPF and evaluated under the RPF FP 2008, from which 310 are expected to be funded. In the beginning of 2009, the RPF will launch the Framework Programme for Research, Technological Development and Innovation for the period 2009–2010, as a continuation of the current RPF FP 2008, with an additional budget of €50 mln.

2.2.2 Reform of the Research and Innovation System of Cyprus: The upgrading of the Research and Innovation System of Cyprus, approved by the Council of Ministers in October 2007, provides inter alia, the establishment of a National Research Council to be chaired by the President of the Republic, the establishment of a Scientific Council, and the integration of research and innovation activities under the Research Promotion Foundation (RPF). So far, only the integration of innovation activities in RPF’s operations was completed.

2.2.3 RPF Programmes for the Development of Research Infrastructures: These programmes aim to finance new infrastructure, upgrading of existing equipment, and access to research infrastructure abroad.

2.2.4 RPF Programmes for the development of Research and Innovation culture within the educational system: The “Development of Research and Innovative Culture” Programme includes three competitions, addressed to pupils in the age of 6-18, as well as to undergraduate and postgraduate students, either in Cyprus or abroad.

2.2.5 RPF Programmes for the development of New Researchers: The programmes for the development of new researchers are addressed to both PhD candidates and PhD holders, and include actions for the entry, improvement and mobility of new researchers, funded with a budget of approximately €3.5 mln.

2.2.6 RPF Programme for Foreign Researchers: aims to attract new researchers, as well as experienced researchers based abroad, and to incorporate them for a specific period of time in the research system of Cyprus.

2.2.7 Promotion of participation to the 7th Framework Programme for RTD 2007-2013 (FP7): RPF encourages the participation of researchers in the FP7 through the establishment of the National Contact Points Network, as well as with information seminars and brokerage events. During 2007 and 2008, the RPF organised Information Days for most Actions and Thematic Priorities of the FP7, hosting speakers from the European Commission, who helped the researchers to gain a better understanding of the FP7 details.

2.3 Measures for the promotion of Innovation

2.3.1 Awareness campaign for Innovation and R&D: Its main objective is to raise awareness among the business community and the public in general on the importance of Research and Technological Development and Innovation (RTDI). So far, several
Information Days were organized either within the 7th Framework Programme agenda or under the umbrella of general matters related to RTDI, including a ceremony for the “Research Award” that took place for the first time.

2.3.2 Awareness – Training of SME’s for the Development and Utilisation of Innovation Opportunities: The aim is to increase awareness regarding European programs in Cyprus, improving the access of SME’s to EU funding and in the longer term improving the level of innovation overall.

2.3.3 Creation of a Research and Technology Mediation System: This measure aims to bridge the gap between the supply and demand of innovation, through a mechanism matching the planned activities of research/academic institutions and their needs for business partners with the needs of SME’s for innovative activities. The measure is at final design stage and the first call is expected to be announced at the beginning of 2009.

2.3.4 Creation of Thematic and Innovation Networks: It aims at cooperation networks between enterprises, research organizations and intermediate bodies. Its design is at the final stage with the first call for proposals expected at the beginning of 2009.

2.3.5 Innovation Coupons: This measure aims primarily at bringing SME’s closer to innovation, engaging them with innovation activities and rendering their products and services more competitive. The coupons serve as a subsidy to the cost of hiring consultants. The first call was published in February 2008 with a total budget of €0.3 mln.

2.3.6 Business Incubators: The aim of the introduction of the Business Incubators Program was the creation of New Enterprises of High Technology and Innovation. Four business incubators were financed whose contracts with the Government expired at the end of 2007. The scheme will be redesigned based on suggestions from experts to be commissioned and be incorporated in the Science and Technology Park.

2.3.7 Establishment of a Science and Technology Park: The feasibility study which started in July 2006 is progressing and is expected to be completed by the end of 2008. Basic infrastructure has been completed.

2.3.8 Cyprus Innovation Award Competition: This was introduced as a new measure at the beginning of 2006 by the Cyprus Employers’ and Industrialists’ Federation in collaboration with the RPF and its main objective is to promote an innovation culture within the enterprises. The 2nd Competition was completed with great success and the award ceremony took place on the 14th of June 2008. Two prizes were awarded for the Manufacturing Industry, one prize for the Service Industry and one prize for the wider public sector.

2.3.9 Safeguarding Intellectual Property Rights and Patent Registration (EVRESITEHNIA): This measure aims at the provision of financial support to enterprises or individual researchers for patent registration. EVRESITEHNIA is included as an individual Action under the “Innovation Support” Program, within the RPF Framework Program 2008-2010. The first call was published in February 2008 with a total budget of €0.2 mln.
The gender pay gap in Cyprus is considered to be high (stagnant around 24%-25% during the last 4-5 years) compared to the EU average (15% in 2006), although it has decreased significantly from 29% in 1995. Eliminating gender stereotypes in the labour market, which is the main cause of horizontal and vertical segregation of the labour market, eventually leading to gender pay gaps, is a key priority and an integral part of the national employment policy. Towards this end, aiming at evaluating and analysing the extent of the gender pay gap in Cyprus and identifying and classifying its causes, the Ministry of Labour and Social Insurance had assigned in 2007, the preparation of a comprehensive study on the gender pay gap.

Drawing on the results of this study, the Ministry of Labour and Social Insurance has prepared a proposal of measures (with a projected total cost of €4,5 mln), aiming to reduce the gender pay gap. Efforts will be made in secure financing for the project by the European Social Fund. The aim is to have it implemented in a time framework of four years, i.e. 2009-2013

3.1 The proposed measures include, inter alia, training of inspectors, practitioners and others, preparation of manuals and guides for inspectors, managers, practitioners, schools and the public in general, development of specialized inspection procedures, gender equality incentives to business, awareness campaigns, actions aiming at reconciliation of occupational and family obligations and legislative actions, such as:

- Specialised training programmes for the equality inspectors and labour relations inspectors, aiming at establishing an effective inspection mechanism for the enforcement of equal pay legislation. Period of implementation: 2009
- Issue of manuals and guides as tools for the Inspectors, regarding the investigation of cases of inequality in employment. Period of implementation: 2009
- Developing standardized procedures for the Inspectors, while investigating inequality cases. Period of implementation: 2009
- Issue and dissemination of manuals and guides as tools for managers, while applying equality in pay. Period of implementation: 2009-2010.
- Interventions promoting the reconciliation of work and family life, including the promotion of an amendment of the parental leave legislation. Period of implementation: 2009-2013.
- Measures for eliminating occupational and sectoral segregation (including training programmes for professors providing occupational guidance in schools, the elimination of gender stereotypes in school books and study programmes, etc). Period of implementation: 2010-2013.
• Specialised training programmes regarding equality of pay and pay gaps, for practitioners (lawyers, accountants, human resource managers etc) and social partners. Period of implementation: 2010-2011.
• Incentive schemes for the provision of accessible and affordable childcare facilities and care for other dependants (Part 3, Chapter 8, paragraph 8.1.2).

3.2 Scheme for the encouragement, strengthening and reinforcement of women’s entrepreneurship:

The scheme has been completed for the programming period 2004-2006 and has been included in the new programming period 2007-2013 with a total budget of €5 mln and will be co-financed by the ESF. Two calls for participation are scheduled for the period 2007-2013. The first call for participations to the program, with a budget of €2,5 mln was announced in February 2008 and expired in May 2008. The applications are currently being examined by the competent authority and the approved candidates will be announced by the end of 2008 or beginning of 2009.

3.3 Scheme for the promotion of training and employability of economically inactive women, co-financed by the ESF:

The Human Resource Development Authority (HRDA) has proceeded with the implementation of the Scheme. The tender procedure was completed in October 2007. The target for participation in the Scheme over the period 2006-08 was 800 women, approximately 200 for placements and 600 for participation in training programmes. So far approximately 530 women have benefited. The Scheme will be fully implemented before the end of 2008.

3.4 Continuation of the Grants in aid scheme to NGOs and local communities for the development of family support services (SWS):

The Grants-in-Aid Scheme is an on-going measure and it continued to be implemented with expenditure in 2007 of €7 956 721 and a budget of €8 218 373 for 2008. The aim is to finance NGO’s to offer care services for all groups of family dependants.

During 2007, grants were provided to 213 organisations for the operation of 314 services, i.e.: 54 day-care centres for children of pre-school age, 61 centres for school-aged children, 54 programmes for people with special needs, 97 services for older persons and 48 services for other vulnerable groups of the population. Grants for 2008 have so far been provided to 210 organisations for the operation of 292 services.

3.5 Expansion and improvement of care services for children, the elderly, the disabled and other dependants, co-financed by the ESF (SWS):

During 2007-2008, grants co-financed by the ESF were provided to 31 care programmes developed through partnerships between NGOs and local authorities. During this period, about 60 work positions were created to cover the needs of the programmes and approximately 200 women benefited from the care facilities. A study on the role of local authorities in the promotion of care policies for the reconciliation of work and family life has recently been completed. The measure will be fully implemented by December 2008.
3.6 Implementation of a measure co-financed by the ESF, in the current programming period under the Community Initiative EQUAL, aiming at the reconciliation of family and professional life (Planning Bureau, PB):

This measure included three projects, i.e. “Open Doors”, “Pandora” and “New Routes for Women Employment”.

**Action 1:** Setting up of Development Partnerships, development of a joint strategy and action plan, and agreement of a work plan for transnational cooperation was completed in 2006.

**Action 2:** Implementation of the work programs of the Development Partnerships was completed in March 2008.

**Action 3:** Thematic networking, implementation of the Common Action Framework and dissemination of good practices is under implementation.

The Common Action Framework (CAF) includes the following five thematic priorities:

1. The first Thematic Priority concerns the creation of an Integrated System to Support the Counseling of the Unemployed.
2. The second Thematic Priority includes actions aiming at creating awareness on issues of female employment and self-employment and at connecting entrepreneurship with employment support structures.
3. The third Thematic Priority includes actions to activate and upgrade social parties in order to promote the reconciliation of professional and family life.
4. The fourth Thematic Priority concerns the organization of a Forum on Employment, with focus on Women. The Forum was organized on the 11th of September 2008.
5. The fifth Thematic Priority concerns actions that enhance the networking and complementary character of the implementation of the common goals, which is built in a “step by step” and grass-root approach of the activities undertaken by the agencies which constitute and at the same time activate the National Thematic Network for Employability in Cyprus.

The measure will be fully implemented by the end of October 2008.

3.7 New Measure – Preparation of a National Action Plan for Gender Equality (NAPE):

The NAPE has been prepared and approved by the Council of Ministers, on the 29th of August 2007. In accordance with this decision, all government departments are responsible to implement the measures which come under their competence. The NAPE covers the years 2007-2013, and constitutes the framework of policies, actions and measures that need to be taken, by all actors involved. It consists of 6 chapters on (a) equality in employment, (b) equality in education, (c) equal participation in political, social and economic life, (d) violence against women including trafficking, (e) equal access and equal implementation of social rights, (f) stereotypes and change of social attitudes.

The NAPE has been published, widely distributed to the public and all involved actors, and is also available on the National Machinery for Women’s Rights (NMWR) webpage.
November 2007, a seminar was organized that dealt specifically with the NAPE and the chapter on equality in the labour market. The subcommittees of the NMWR have set their priorities according to the NAPE and already began implementation. Priority will be given from the NMWR budget, for the subsidization of NGO’s implementing measures and actions included in the NAPE. The measure was completed in July 2008.

3.8 Increase of the public funds allocated to NGOs from the budget of the National Machinery for Women’s Rights to promote and implement gender equality programmes:

This is an on-going measure. The annual funds provided to NGO’s – members of the NMWR - was doubled, from €8 545 in 2007, to €17 090 in 2008, after a relevant decision of the Council of Ministers on the 7th of November 2007. The Budget of the NMWR for funding programs of NGO’s that promote equality has also increased, from €150 000 in 2007 to €154 000 in 2008. The total amount available for funding in the Budget of the NMWR is €500 000 in 2008 compared to €430 000 in 2007.
PART 2

REVISED NATIONAL REFORM PROGRAMME

OF THE REPUBLIC

OF CYPRUS

CYPRUS

OCTOBER 2008
REVISED NATIONAL REFORM PROGRAMME
OF THE REPUBLIC OF CYPRUS

INTRODUCTION

The Revised National Lisbon Reform Programme of Cyprus for the period October 2008 - October 2010 continues and enhances the previous National Reform Programme, which covered the period Oct. 2005 – Oct 2008, (taking into consideration, the country’s Strategic Development Plan 2007-2013, as well as the Government’s priorities, as reflected in the new President’s Programme), and has been prepared with the maximum possible social consensus.

The major challenges that the country is facing, are still in the macroeconomic, microeconomic and employment fields. The country’s strategic goals are macroeconomic stability, viable economic development and social cohesion. Enhancing the competitiveness of the economy, as a tool to achieve greater social cohesion, remains at the heart of the development effort.

During the new period 2008-2010, the main effort will concentrate on the implementation of the country specific recommendations (CSR) and points to watch (PTW). Details about the proposed timetables are given in Part 1 of this Report. Cyprus will also proceed with the continuation/ completions of the measures included in the Programme of the previous period 2005-2008, which have not yet finished, mainly because they have a longer time-span than the 3 year period of the previous programme and/or are of a continuing nature. These measures cover all three challenges, (macro, micro and employment) and are analyzed in detail under the relevant chapters of Part 3 of this Report.

In this part of the Report, an attempt is made to classify the main measures which will be undertaken in the new period 2008-2010, taking mainly into consideration the four priority areas agreed in the 2006 Spring European Council (and reinforced in the successive Spring European Councils of 2007 and 2008) which Cyprus considers, of major importance, for its economic development.

The new classification is as follows:

I. Macroeconomic Challenges

II. Microeconomic Challenges, under which measures related to three of the four priority areas are mentioned:

1. Unlocking the business potential (priority area).
2. Investing in knowledge and innovation (priority area).
3. Energy and climate change (priority area).

III. Employment Challenges:

1. Investing in people, modernizing labour markets (priority area) and enhancing the conditions for social cohesion.

I. MACROECONOMIC CHALLENGES
The primary macro challenge will be to maintain price stability and competitiveness, in the absence of basic monetary tools (interest and exchange rate policies, due to the adoption of the euro).

- Emphasis will be given to the implementation of the reforms of the pension and health care systems in accordance with the country specific recommendations.
- The envisaged improvement in fiscal management will be pursued via the preparation of a programme budget for 2009 based on the medium term budgetary framework (MTBF) for the period 2009-2011.
- Various measures aiming at fiscal consolidation, debt reduction, increasing labour market participation and labour supply, improving the quality of public finances, adopting tax structures to strengthen growth potential, ensuring that wage developments contribute to macroeconomic stability and growth, promoting greater cohesion between macroeconomic, structural and employment policies, promoting fiscal sustainability of public finances in compliance with the stability and growth pact, and contributing to a policy mix that supports economic recovery and is compatible with price stability, will actively continue to be pursued.

II. MICROECONOMIC CHALLENGES

1. Priority area: Unlocking the business potential

The main measures to be pursued are the following:

- Enhancing the operation of the One Stop Shop and the Cyprus Investment Promotion Agency.
- Enhancing competition conditions by strengthening the competition authorities, abolishing potential restrictions to market entry, establishing measures against oligopolistic and monopolistic situations and simplifying the procedures.
- Implement the change of the status of the Cyprus Telecommunications Authority and of the Postal Services.
- Implement reforms concerning competition in the sector of Professional Services, on the basis of the findings of the relevant study, which will be completed in May 2009.
- Enhance competition in the network industries.
- Rationalize state aid.
- Establish a State Loan Guarantee Facility to improve the access of the existing and new SMEs to credit, with the provision of guarantees for bank loans, mainly to small enterprises.
- Further promoting schemes, that aim to enhance young and women entrepreneurship, with particular emphasis on knowledge-based activities, new economy and other important sectors of the Cypriot economy.
- Further promoting entrepreneurship in education.
- Encourage public-private partnerships.
- Encourage SMEs to participate in the Competitiveness and Innovation Framework Programme 2007-2013, as well as to other relevant schemes for the period 2007-2013, co-funded by European Structural funds, for example the Scheme for the enhancement of SMEs competitiveness in the manufacturing sector.
• Encourage enterprises in developing their Corporate Social Responsibility and increase awareness on socially responsible investment based on the results of a research project to be mainly funded by the EU.
• Undertake sustained and consistent efforts, to implement the Services Directive by the end of 2009.
• The national target for the reduction of the administrative burden by 20% in the national legislation is planned for the end of 2012.

2. Priority area: Investing in Knowledge and Innovation

2.1 Research and Development

2.1.1 National R&D Investment Targets: According to recent estimates for the period 2007-2010, the growth rate of GDP will remain at high levels (around 3%), whilst the contribution of the industry to R&D expenditure is not expected to increase significantly. Therefore, the national target of increasing R&D expenditures to 1% in 2010 is difficult to materialize and tends to be unattainable, despite the large increases in R&D expenditures in absolute terms.

The main measure to be taken by the Government for stimulating investment in R&D is the substantial increase in the budget of the RPF Framework Programmes for Research, Technological Development and Innovation for the three year period 2008-2010 (‘RPF FP 2008-10’) to €120 mln, compared to €17 mil for 2006.

2.1.2 Promotion of R&D: According to the structure of the RPF FP 2008-10, this investment will be focused on the following five pillars:

• Strategic and Multithematic Research
  The objective of this pillar is to enhance the capacity of the Research System in Cyprus to produce high quality research in cutting-edge scientific fields. As such were defined, the areas of “Health and Biological Sciences”, “Technology”, “Sustainable Development”, “Information and Communication Technologies”, and “Social and Economic Sciences and Humanities”.

• Development of Human Resources in Research
  This pillar aims at the creation of critical mass of researchers as well as the cultivation of research culture at all levels of education. Particular emphasis is attached on young researchers, including both PhD candidates and Post Doc researchers, in order to incorporate them in the Research System of Cyprus.

• Development of Industrial Research and Innovation Activities
  The aim of this pillar is the development of applied research in enterprises and the strengthening of the links between enterprises and the academic/research community. Particular emphasis is attached on the effective implementation and exploitation of research results by both enterprises and the Cypriot society in general.

• Development of Research Infrastructure
  One of the major targets of the RPF FP 2008-2010 is the development of advanced research infrastructure, which will provide the necessary facilities for conducting high calibre research projects in cutting edge scientific areas. This pillar includes programmes for the development of new research infrastructure, the upgrading and
support of existing research laboratories, as well as the provision of access to important research infrastructure abroad.

- International Networking and Collaboration.
  The main objective of this pillar is the development of cooperation between Cypriot and high calibre international research organisations, and the participation of Cypriot research organisations and enterprises in European and international research programmes. Apart from the programmes of International Cooperation and International Networking, the pillar includes programmes for the implementation of Bilateral Agreements for scientific and technological cooperation signed between Cyprus and other countries, as well as for hosting researchers based abroad.

In addition, it is expected that Cyprus will succeed in raising funds from the 7th Framework Programme of the EU for Research and Technological Development (FP7). In this respect, the Research Promotion Foundation (RPF) encourages the participation of the Cypriot research community in the FP7 through the organisation of Information Days, seminars and other events (See also Part 3, Chapter 3, paragraph 3.2.1).

2.1.3 Realizing of the European Research Area (ERA):

2.1.3.1 Promotion of the participation of the Cypriot research community in the various ERA Initiatives: Currently, the RPF participates in a series of ERA initiatives, such as CORNET, eTRANET, SAFEFoodERA, MARIFISH, URBANET, EUROSTARS, AMBIENT ASSISTED LIVING (AAL) and ARTEMIS.

2.1.3.2 Implementation of the five initiatives (Management of Intellectual Property by Public Research Organisations; European Partnership for Researchers; Legal Framework for European Research infrastructures; Joint programming in Research; and Framework for International Cooperation) announced by the Commission towards the realisation of ERA, within the context of the Ljubljana Process:

2.2 Facilitation of ICT Diffusion

2.2.1 Exploiting Information and Communication Technologies: Developing an integrated National Strategy for the Information Society, the main target of which would be to exploit the opportunities provided by Information and Communication Technologies for improving the competitiveness of all sectors of economic activity. For this objective the following measures will be promoted:

- Appointment of a Commissioner for Information Society.
- Creating an appropriate institutional and regulatory framework for executing various activities via the Internet.
- Improving conditions of safe access and safe transactions via the Internet.
- Changing the way of thinking and culture of the population and introducing both ICT (Information and Communications Technology) and the Internet in everyday life.
- Expanding the coverage of broadband networks in rural areas to allow all citizens to have access from their homes to all services offered online.
2.2.2 Strengthening of e-Government Services:

- Developing a Government Data Warehouse that will contain information from various IT systems of the public service domain.
- Establishing a Central Help Desk for supporting all the microcomputers and ICT systems of the public sector.
- Developing e-procurement procedures for tenders concerning civil contracts.
- Expanding Office Automation Systems in all government departments through which all the documents will be archived electronically.
- Developing a Secure Government Gateway that will provide security, authentication, encryption and decryption and Internet-based work flow.
- Promotion of electronic identification/certification.
- Promotion of e-Democracy and e-Participation.
- eServices for the Merchant Shipping Department.
- Promotion of a Portal for the Single Point of Services (Services Directive).
- Creation of an Enterprise Resource Planning System.
- Development of the Civil Registration System (eCivil).
- Development of e-services for the Land and Surveys Department (eCilis).
- Development of the Companies Registration System (eFiling).

2.2.3 Implementing an Action Plan for the Development of e-Business: For the development of e-business, the Ministry of Commerce, Industry and Tourism is implementing a three-year Action Plan 2007-2009 on electronic commerce, the main provisions of which are as follows:

- Operating through a permanent Committee, in order to plan strategy for electronic commerce and to monitor its implementation as well as international developments in the field.
- Introducing grant schemes to help enterprises exploit e-commerce applications and ICT.
- Providing information to the public and businesses on the benefits of electronic commerce and encouraging them to perform commercial transactions via the Internet.
- Promoting the use, transactions and access to the information of the Ministry of Commerce, Industry and Tourism, through the Internet.

2.2.4 Promoting e-Learning: Upgrading the infrastructure and equipment of the elementary and secondary educational institutions; measures include:

- Increasing the number of computers and their connection to the Internet.
- Interconnecting all schools via Intranet.
- Developing an electronic system that provides full information to parents about the performance of pupils, attendance and other issues related to the education of their children.
- Providing continuous training to teachers in IT technologies and to the content of new analytical programmes.

2.2.5 Improving e-Health Services:
• Expanding the Integrated Health Care Information System in all hospitals of Cyprus, as well as in rural health centres.
• Developing and implementing a Pharmaceutical Management System, which provides, among other things, functions for registering, pricing and controlling medicine stocks?
• Developing of a National Health Monitoring System that will allow fast detection and exploitation of available information and data related to the health sector, thus helping decision-makers to choose appropriate measures, monitor and evaluate the results of the measures applied.

2.2.6 Developing e-Inclusion Services: Developing systems and other software (that will contribute to social integration and will also serve the vulnerable groups of population), such as:

• Expanding and improving the computer system for Social Welfare Services.
• Promotion of access to, and use of, new technologies by the whole population, especially by vulnerable population groups.
• Promotion of action to develop the necessary skills and encourage vulnerable groups of people to use the new technologies.

2.2.7 Broadband Networks and Services:

• Introducing Terrestrial Cable Television.
• Operating Wireless Access Systems Networks, which provide the possibility for fast transmission of sound, image and data without the use of wired means.

2.3 Promotion of Innovation

2.3.1 Action Plan for the Regional Innovation Strategy: The implementation of the five-year Action Plan for the Regional Innovation Strategy in Cyprus (RISC) which aims at enhancing innovative capacities of SMEs and strengthening the links between academia and enterprises.

2.3.2 Measures in addition to those of the RISC Plan can be grouped in the following four categories:

• Creating Innovation Poles and Business Incubators:
  ▪ Creating a technology park for establishing research centres, business incubators and innovative spin-off businesses.
  ▪ Continuing the development of business incubators, through which new inventors are supported to develop and commercialise their innovative ideas and convert them into marketable end-products, creating productive businesses.
  ▪ Introducing a business incubator accreditation system.

• Providing Innovation Support Services: Innovation can be supported and assisted by both in-house developments of innovative activities by businesses and by strengthening
collaboration between entrepreneurs and researchers/academics. Indicative actions are as follows:

- “Mentor” Programme: systematic provision of professional consulting services to businesses by Consulting Organisations, about modernising and improving their competitiveness.
- “Evresitehnia” Programme: providing financial support and safeguarding the intellectual property rights that result from research activities.
- Developing a direct line of communication between enterprises and a team of experts for providing immediate assistance on specific problems.
- Creating thematic and innovation networks to improve the cooperation between enterprises and research organisations.
- Creating a research and technology liaison system for bridging the gap between production sub-systems and innovation demand.
- Creation of an innovation observatory (ERMIS) that will monitor the progress of the implementation of the Action Plan RISC and evaluate the results of the various measures to be adopted.

• Improved Access of Businesses to Financial Resources:

- Creating a Business Angels Network for developing appropriate appraisal mechanisms and measures for the financing of innovative business activities.
- Systematically providing information and training of businesses regarding various financial programmes/schemes which can be used for the development of innovative activities.
- Participating in the EU Competitiveness and Innovation Framework Programme (CIP) 2007-2013 for supporting innovative activities undertaken by enterprises in the EU countries.

• Creating an Innovation Culture:

- Implementing a campaign for raising awareness among enterprises and the public about the importance of research, technological development and innovation, through organising relevant activities, and publishing and disseminating information.
- Developing research and innovation culture among young people.
- Continuing the award of an Innovation Prize for businesses.

3. Priority area: Energy and climate change

3.1 Transform Europe into a low carbon and energy efficient economy

Cyprus, being heavily dependant on imported oil for its energy supply and having a small and isolated system, without potential interconnections to other networks, has set energy efficiency as a top priority. To respond to the overall target of “Transforming the economy into a low carbon and energy efficient one”, Cyprus has prepared an action plan with two main policy priorities:

- Security of energy supply
- Promotion of Renewable Energy Sources and Energy Conservation

### 3.1.1 Security of energy supply implies:

- Increasing the level of security stocks of petroleum products to 90 days, a target that has been achieved in February 2008, and
- Diversifying the energy supply sources, mainly by creating infrastructure for the introduction of gas, through the Establishment of the Vasilikos Energy Centre, expected to commence its operation by the year 2013.

### 3.1.2 Promotion of the utilization of Renewable Energy Sources (RES) and Energy Conservation (ECon): The national targets in this respect are:

- Increase of the contribution of RES from 2.1% (as of 2006) to 4.2% to the total energy consumption by the year 2010. Corresponding reduction in greenhouse gas (GHG) emissions will be 190 Gg CO₂ equiv.
- Increase of the electricity generation from RES from 0.03% (as of 2006) to 6% to the total electricity consumption by the year 2010. The distribution of RES production in 2010 is expected to come mainly from wind power (4.59%) and biomass (1.18%). Corresponding reduction in GHG emissions 272 Gg CO₂ equiv.
- Reach the obligatory target for the use of 10% of biofuels in transports by 2020; aim of 2.5% biofuels for transport by 2010. Corresponding reduction in GHG emissions 113 Gg CO₂ equiv.
- Review of the target for the reduction of the total energy consumption based on the National Energy Efficiency Action Plan of Cyprus. The National intermediate indicative annual energy savings target adopted for 2010 is 60 000 toe. The Action Plan has been in place since 1/2008. Corresponding reduction in GHG emissions 184 Gg CO₂ equiv.

In response to these targets, the following measures are being promoted:

#### 3.1.2.1 Promotion of a programme for the provision of financial incentives in the form of investment and an operational aid in the fields of Energy Conservation and the promotion of Renewable Energy Sources utilisation. It is financed through a special Fund, deriving its revenue from a levy of 0.22 eurocent / KWh on the consumption of electricity.

#### 3.1.2.2 Implementation of a five year Programme (Action Plan) for the period 2006-2010 for the Promotion of Energy saving in the Public and Private Sector, expected to contribute towards the achievement of the target set for a decrease by 2010 (60 000 toe and corresponding reduction in GHG emissions in the order of 184 Gg CO₂) to the total energy consumption.

#### 3.1.2.3 Provision of incentives for the purchase of low CO₂ emissions vehicles (up to 120g/Km) will continue to be subsidized and in addition, incentives will be offered to encourage the purchase of smaller cars that use less energy.

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

3.1.2.5 Increasing Solar Energy Use in Public Buildings

3.1.2.6 New Support schemes for Renewable Energy Sources Promotion and Energy Conservation (Pending a proposal to the Council of Ministers for approval) provide state aid to encourage small scale photovoltaic systems, geothermal heat pumps and solar thermal installations for heating/cooling purposes and generation of electricity from large scale wind and photovoltaic systems.

3.1.2.7 Biofuels: Cyprus has set a target of replacing 2.5% of conventional fuels with biofuels based on energy content for the years 2008-2010 for transport. Also, there is a study underway that analyses the possibility of enforcing a specific commitment to the oil companies to include a percentage of biofuels in their products (The corresponding reduction in GHG emissions is of the order of 113 Gg CO\textsubscript{2}).

3.1.2.8 Regulation on the Energy Efficiency of Buildings Law 142(I) 2006: All new buildings must satisfy the minimum energy efficiency requirements laid down in the relevant decree issued by the Minister for Commerce, Industry and Tourism.

3.2 Review economic instruments, including taxation, subsidies and charging, to ensure that they contribute to the fight against climate change in a cost-effective way

3.2.1 Emissions Trading Scheme: As required under Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, Cyprus has prepared and submitted a National Allocation Plan for the greenhouse gases emissions, which includes 13 installations: 3 electricity production units, 2 cement production factories and 8 ceramic industries. The total of the allowances allocated is €27 398 000, under the Revised National Allocation Plan for the period 2008 – 2012.

3.2.2 Promotion of a programme for the provision of financial incentives: providing financial incentives in the form of investment and an operational aid in the fields of Energy Conservation and the promotion of Renewable Energy Sources utilisation (See also paragraph 3.1.2.1 above).

3.2.3 Implementation of a five year Programme (Action Plan) for the period 2006-2010 for the Promotion of Energy saving in the Public and Private Sector: The Programme includes the following measures:

- Provision of incentives for the purchase of hybrid vehicles, fuel-flexible/double propulsion vehicles and electric vehicles;
- Financial support for the installation of thermal insulation to households in regions with altitudes higher than 600 meters above sea level;
- Financial support for energy conservation investments in public buildings and services;
- Promotion of the use of biofuels through the adoption of a zero excise duty on biofuels;
- Expansion of the use of the school bus;
- Provision of free Compaq Florence Lamps (low electricity consumption) to the consumers;
- Communication/Information campaigns for Energy Conservation: (See also paragraph 3.1.2.2 above).

3.2.4 Provision of incentives for the purchase of low CO\(_2\) emissions vehicles (up to 120g/Km): The incentives involve 30% reduction of the registration and road tax payments for vehicles with CO\(_2\) emissions up to 120g/Km; 20% reduction for vehicles with CO\(_2\) emissions greater than 120 and up to 165g/Km; 10% reduction for vehicles with CO\(_2\) emissions greater than 165 and up to 200g/Km; 10% increase for vehicles with CO\(_2\) emissions greater than 200 and up to 250g/Km and 20% increase for vehicles with CO\(_2\) emissions greater than 250g/Km (See also paragraph 3.1.2.3 above).

3.2.5 New Support schemes for Renewable Energy Sources Promotion and Energy Conservation (Pending a proposal to the council of Ministers for approval):

The new Support Schemes include:
- Revision of wind’s systems Support Schemes (extensions of the contract period from 15 to 20 years, compensatory benefits to neighborhood communities at 2% of the total incomes, increase of the unit feed-in tariffs (≈46%), constant subsidy for all the duration of contract).
- Revision of Biomass’s and biogas’s Support Schemes (extensions of the contract period from 15 to 20 years, compensatory benefits to neighborhood communities at 2% of the total incomes, increase of the unit feed-in tariffs (≈12%)).
- Revision of photovoltaic systems Support Schemes (extensions of the contract period from 15 to 20 years, constant subsidy for all the duration of contract, increase of the subsidised capacity of Photovoltaic Systems from 20 KW to 100 KW).
- New Support Schemes for Concentrate solar power systems (contract period 20 years). The creation of solar power station 50MW is anticipated.
- Revision of geothermal heat pumps Support Schemes (increase the grant ceiling from 45 to 55%, also increase the maximum grant ceiling).
- Revision of energy conservation’s Support Schemes for existing enterprises (increase the maximum grant ceiling, in about 47%) (See also paragraph 3.1.2.6 above).

Provisions of the Priority Area: “Energy and Climate Change”

In the context of the priority area: “Energy and Climate Change” as defined by the European Commission, the followings are being pursuit:

3.3 Urge contracting authorities to systematically include energy efficiency as one of the award criteria for public procurement

3.3.1 National action plan for Green Public Procurement (GPP): The implementation of the Action Plan aims, primarily, in assisting through public procurement, environmentally friendly products and services to enter the market, thus contributing to environmental protection by stimulating more sustainable production and consumption patterns. In this context Energy Efficient Improvement Measures include:
• Energy efficient office equipment  
• Electrical and electronic appliances  
• Water saving  
• Energy studies for new and renovated buildings  
• Vehicles and internal combustion engines which are efficient and have low emissions  
• Implementation of the action plan and making annual improvements.

It is estimated that the energy savings that can be achieved are in the order of approximately 6 000 toe in 2016 and of around 2 000 toe in 2010 (in electricity and petroleum products). The corresponding reduction in greenhouse gas (GHG) emissions by 2010 is 6.14 Gg CO₂ equiv.

3.3.2. **Educational seminars** are organised for designated government buildings officers in energy subject. The above seminars are already in-progress starting from the current year.

3.3.3 **Set mandatory energy reduction targets for government buildings**: As from the 4th of January 2009, all public buildings will be obliged to acquire an energy performance standard, to be verified by a certificate.

3.3.4 **Five-year action plan for energy savings in existing public buildings** formulated on the basis of the results of energy inspections at five public buildings, aiming at an energy-saving potential of more than 25%. The measure has not been implemented at a building as yet, and so there are no actual energy savings results.

3.3.5 **Government grants scheme for energy savings/RES in the public sector and the wider public sector**, providing for grants of 30-50% for investment in energy saving/RES. Any energy efficiency technology which can achieve a post-investment primary energy saving of at least 10% is eligible. It is estimated that as a result of this measure, there will be an energy saving of around 1000 toe in 2016 and of around 200 toe in 2010 (electricity and petroleum products). The corresponding reduction in GHG emissions by 2010 is 0.61 Gg CO₂ equiv.

3.3.6 **Installation of PV systems** in schools, governmental buildings, military camps (energy saving of around 141,9 toe) and solar heating/cooling systems in governmental buildings (with a budget of about €1 mln), are being promoted with Structural Funds financing. The corresponding reduction in GHG emissions by 2010 is 0.44 Gg CO₂ equiv.

3.4 **Improve inter-connection of energy grids**
Cyprus has a small and isolated energy system without potential interconnections with other networks, within the period covered by this strategy.

3.5 **Other Environmental national policy measures**

3.5.1 **Sustainable management of Solid and Hazardous Waste**:

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1 Cyprus has not as yet implemented calculation/measuring/verification methodologies for the ex ante/ex post estimation of energy saving in accordance with the Energy Services Directive. However, studies and simulations for many measures, such as economy lamps, category A appliances and insulation etc., have been carried out by other member countries. The energy savings are estimated on this basis.
- Developing Integrated Solid Waste Management Centres that will include sanitary landfill, sorting and composting facilities and an incineration plant, as well as the required transfer stations (Four Centres that will meet the needs of all districts).
- Restoring all uncontrolled landfills (about 100) and taking measures to upgrade them.
- Creating the infrastructure for integrated management of hazardous waste, including constructing a Hazardous Waste Central Treatment Unit.
- Establishing and operating centres for collecting and managing solid waste, such as asbestos, junked vehicles, tyres, batteries, electrical/electronic appliances, etc.
- Promoting programmes to reduce the volume of waste that will be deposited in the sanitary landfills, using a sorting scheme at source or at the disposal sites, in cooperation with the local authorities.

3.5.2 Controlling Pollution Stemming from Wastewater:

- Expanding the sewer systems of the urban areas of Nicosia, Limassol, Larnaca and Pafos, with estimated capital cost of €430 mln (£250 mln) for harmonisation with Directive 91/271/EEC.
- Constructing sewer systems in the rural areas by 2012, especially in communities with a population of more than 2,000 inhabitants, that are included in the implementation programme for the Directive 91/271/EEC. The total cost of the project for the years 2007-2013 is estimated to reach €260 mln (£150 mln).
- Promoting the use of recycled water and wastewater through wastewater treatment and incorporating the treated quantity in the water balance. Running information campaigns to reduce prejudice against its use.
- Implementing the Action Plan for controlling the disposal of waste arising from industrial food production and biological treatment plants for processing urban sewage. The Plan which was launched in 2008, aims at monitoring discharge from the wastewater treatment plants, as well as industrial food waste, as well as to ensure that they do not have a negative impact on the Environment.

3.5.3 Management of Drought Repercussions: Implement the National Action Plan for Drought, aiming to increase supply by building necessary infrastructure, and decreasing demand. Total cost is expected to exceed €bil and assistance from the EU has been requested. Main projects promoted:

- New desalination plants.
- Gradual replacement of the water distribution network.
- Water saving measures.

3.5.4 Nature Protection and Coastal Sustainability:

- Preparing and applying the Management Plans for the “Natura 2000” Areas.
- Applying the plan for the CAMP Programme (Coastal Areas Management Plan) based on instruments such as, Integrated Management, the Evaluation of Carrying Capacity.
- Promoting of the national Action Plan to face the consequences from the drought and to take measures towards preventing drought and reducing its consequences.
- Reforesting and restoring the environment in deteriorated areas.
3.5.5 Controlling Industrial Pollution, Air Quality and Chemical Substances by

- Preparing an integrated strategic plan for the protection of the ozone layer and air quality management in Cyprus. This will include a study of the origin and effect of various pollutants, especially the fine particles, to develop an appropriate strategy to deal with them.
- Implementing the Action Plans for reducing the total emissions in Cyprus below the levels specified by the EU Emissions’ Annual Upper Limits and for maintaining the quality of the atmospheric air, at a level that does not have consequences for human health and the Environment.

3.5.6 Horizontal Measures for Sustainable Development

- Implementing the Action Plan for Green Public Procurement which promotes measures favouring the purchase of ecological products. (It is estimated that as a result of this measure, there will be an energy saving of around 2000 tons in 2010 and of 6,000 tons in 2016 (electricity and petroleum products).
- Preparing Strategic Noise Maps by June 2007 covering all town-planning areas, roads and airports, measuring adherence to the allowed limits.
- Promoting environmental management systems, through incentives to Organisations for establishing ISO 14001, EMAS systems and training environmental verifiers for the EMAS.
- Implementing the European system of ecological labelling (ECOLABEL). The main goal is to use grants to encourage by 2007, labelling of products that fulfil environmental criteria.

III. EMPLOYMENT CHALLENGES

4. Priority area: Investing in people and modernising labour markets and enhancing social cohesion
The overall national objective is to enhance human capital and social cohesion and also address the targets under the Council’s priority area “Investing in people and modernising labour markets”. In fact, the actions member states are encouraged to promote are the following:

- Implement the agreed common principles on “flexicurity” by defining national pathways within their NRPs by end 2008.
- Increase the availability and affordability of quality childcare in line with national and Community targets.
- Draw up action plans and set targets to substantially reduce early-school leaving and improve basic reading skills.
- Link up national and regional programmes to the Erasmus programme to increase the number of students participating in international exchanges.
- Draw up, by 2010, national qualification frameworks aligned with the European framework.

In the section that follows, the main measures addressing the five priority actions and also the national targets, are enumerated. Considering that social cohesion is one of the main priorities of the Government, a lot of measures are included in this direction.

4.1 Improve matching of labour market needs

4.1.1 Modernisation and strengthening of labour market institutions:
Further Enhancement and Modernisation of the Public Employment Services.
- Upgrading of IT tools for monitoring labour market developments.

4.1.2 Better anticipation of skill needs, labour market shortages and bottlenecks:
- Enhancement of the operation of the Cyprus Employment Observatory.
- Undertaking of three studies on long-term employment in the Cyprus Economy 2008-2018 and of annual investigations for the identification of initial training needs, with the involvement of the social partners.
- Comprehensive System for Evaluating the Human Resources Development Authority’s (HRDA) impact on the Cyprus Economy.

4.2 Expand and improve investment in human capital
4.2.1 Reduce the number of early school leavers:

- Improvement of lifelong learning ratio of 8.4% in 2007, so as to satisfy the set EU benchmark 12.5% in 2010 and improvement of Cyprus’ early school leaving ratio of 12.6% in 2007, so as to satisfy the set EU benchmark of 10% in 2012 by implementing the following measures:

- Continuation of Implementation of the Education Priorities Zones Programme (EPZ).
- Continuation of implementation of the Reinforcement/Support Teaching Programme, the Programme Against Illiteracy, the Programme for Self-Esteem Reinforcement, the Programme for the Normal Transition from Primary School to Lower Secondary School and the Prevention Programme for High Risk Pupils.
- Organizing short-term classes for foreign students.
- Upgrading and supporting of the practice of Form Teacher.
- Study of the possibility of implementing a pilot project in a small number of schools in which Social Welfare Officers will provide services to children at risk of early school-leaving or juvenile delinquency, Social Welfare Services.

Enhancing the participation in the ERASMUS sectoral programme of the EU Lifelong Learning Programme 2007-2013:

- Provision of state grants for all students and state support of Erasmus activities (students and teachers’ mobility and organization of mobility and events) through the budget of the public tertiary education institutions, which is subsidized by the state.
- Subsidization of Erasmus, mobility by private institutions
- Initiation of an intensive promotion campaign through information days, participation in Radio and TV broadcasting programmes, production and promotion of informational material, promotion by former Erasmus participants (Foundation for the Management of European Lifelong Learning Programmes).

4.3 Adapt education and training systems in response to new competence requirements

4.3.1 Respond to new occupational needs and future requirements and improving definition and transparency of qualifications:

- Further development of a Vocational Qualifications System, co-financed by the ESF

4.3.2 Ensure the attractiveness, openness and quality standards of education and training:

- Implementation of an action aiming at introducing modern technology in education, co-financed by the European Social Fund.
• Ensuring that secondary education teachers will become digitally literate, and continue strengthening the quality and attractiveness of the Secondary Technical and Vocational Education (STVE) and improving the organisation of STVE, co-financed by the ESF Upgrading the Apprenticeship Scheme.
• Enrichment of the Learning Management System “e-Gnosis”.
• Further support to the training infrastructure of institutions and enterprises.
• Introduction of an Assessment and Certification System of Training Providers.

4.4 **Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive**

4.4.1 Promotion of active and preventive labour market measures to support the inclusion of those furthest away from the labour market

- Continuation of the provision of personalized customer-oriented approach to jobseekers and adoption of a personalized customer-oriented approach to employers with the use of tailor made action plans and specialized tools.
- Development of close cooperation with local authorities and social partners in the promotion of employment of vulnerable groups.
- Introduction of a quality system in PES service delivery.
- The upgrading of vocational guidance services.

4.4.2 **Build Employment Pathways for the Unemployed:**

- Continuation of the scheme for the promotion of training and employability of the unemployed, co-financed by the ESF. The scheme will be enriched in order to include actions regarding the promotion of training and employability of young secondary education school graduates and the enhancement of computer literacy of the unemployed.

4.5 **Orderly management of economic migration issues and prevention of social exclusion of migrant workers:**

- Evaluation and revision of the strategy for the effective management of foreign workers’ issues and establishment of a policy framework and design of an action plan for the integration of migrants in the Cypriot society.
- Vocational training and Greek language programmes for beneficiaries of international protection/ Third Country Nationals (TCN) to facilitate their social inclusion, as well as a programme to raise awareness and inform the public in Cyprus on issues relating to this group.
- Employment of interpreters in public schools in order to develop communication trails and better relations between Third Country Nationals families and the school society.
- Investigation of attitudes and perceptions of Cypriot citizens regarding immigrants from third countries, production and publication of special information leaflets in different languages (including Greek), regarding the acceptance of difference and multicultural societies.
- Training seminars, specifically for teachers, including special training seminars on intercultural education and teaching of Greek as a second or foreign language, training
seminars and/or programmes for intercultural training and development of capacity to handle diversity targeted at public officials who come into daily contact with issues concerning the integration of TCNs.

• Publication of an information guide including basic information for TCN students and parents, regarding the educational system of Cyprus, study prospects and choices, pupils’ rights and responsibilities. Translated into the languages of the five most numerous nationalities of TCN students in Cyprus (Russian, Georgian, Ukrainian, Arabic and Turkish).

• Organisation of a Mediterranean Forum for the exchange of views, best practices and new approaches on integration, regarding sectors like education, labour market, society as a whole, raising public awareness, etc (MOI).

4.6 Flexicurity: Promote flexibility combined with employment security and reduce labour market segmentation

4.6.1 Promotion and dissemination of innovative and adaptable forms of work organisation: Subsidy scheme for the promotion of Flexible Forms of Employment, for attracting and assisting to remain in the labour market, unemployed or economically inactive persons and generally persons in groups at risk of social exclusion, subsidy schemes addressing companies/organizations in order to develop and apply within their company/organization integrated flexicurity policies.

4.6.2 Reviewing tax and benefit system to make work pay: In the context of reviewing the tax and benefit system to make work pay the following measures are provided:

• Reforming Labour Income Taxation
• Reform measures for welfare-related benefits
• Increasing Minimum Wage
• Addressing Inflationary Pressures
(See also Part 3, Chapter 8, paragraphs 1.8, 1.9)

4.6.3 Improving quality and productivity at work, including health and safety:

• Incentive scheme for companies and organisations to design and implement systems for continuous learning and improvement, continuation of the scheme providing Consultancy Services and Training to Micro enterprises employing 1-4 persons, co-financed by the ESF.
• Research project on the utilization of human resources aiming at the identification of factors and synergies of factors which exercise an influence on the effective utilization of human resources in the Cyprus labour market.
• Continuation of the scheme for training new-entrants in the labour market on health and safety at work, Incentive scheme to facilitate the shift from low productivity jobs to high productivity jobs, co-financed by the ESF.
• Launching of the Go-on Line project, a training scheme for companies and organizations designed to provide them with the necessary support in order to improve the level of their e-Learning, e-Government and e-Business skills and of a new scheme aiming at increasing Human Capital Investments and Improving the Productivity in SMEs (5-249 persons), co-financed by the ESF.
4.7 Promote a lifecycle approach to work through increasing the participation of women and older persons in the labour market, as well as build employment pathways for young people and the unemployed and reducing gender inequality

4.7.1 Build Employment Pathways for Young People: Continuation of the Scheme for youth entrepreneurship providing government grants with a view to fostering youth entrepreneurship.

4.7.2 Active Ageing: Increase of the retirement age in the broader public sector from currently 60 to 63 years.

4.8 Increase female participation, reduce gender inequality and promote reconciliation of work and family life

4.8.1 Increasing Female Participation: Continuation of the scheme for the encouragement, strengthening and reinforcement of women’s entrepreneurship, the scheme for the promotion of training and employability of economically inactive women, co-financed by the ESF, training during 2009-2010 of women over 50 years old, as well as unemployed persons and unskilled young persons, single parents etc, in the context of the project for the promotion of modern and flexible forms of employment for vulnerable groups of the population with low levels of participation in the labour market.

Reduce Gender inequality:

• Annual increase of the public funds allocated to NGOs and the National Machinery of Women Rights to promote and implement gender equality programmes, Ministry of Justice and Public Order.
• Implementation of a set of measures aiming at reducing the gender pay gap, and promotion of awareness raising activities and organisation of training seminars to enhance the Equality Inspectors’ skills and knowledge of the gender equality legislation with an in depth analysis of the provision of the laws, including a seminar on sexual harassment in the workplace.

Promote reconciliation of work and private life and the provision of accessible and affordable childcare facilities and care for other dependants:

• Continuation of the Grants-in-Aid Scheme to the non-profit voluntary organisation for the development of family support services.
• Scheme for the promotion of care services within the framework of reconciling work and family life, proposed for co-financing by the ESF under the new programming period 2007-2013.
• Carrying out a study on long-term care with a view to implementing suitable policies and measures including improvement of home-care services provided to older persons.
• Promotion of a dialogue with local authorities in order to develop closer cooperation and strengthen structures of social care.

4.9 Further enhancement of social cohesion through social inclusion

4.9.1 Ensuring an Adequate Standard of Living for Disadvantaged and Vulnerable Groups and Encouraging their Integration / Reintegration into the Labour Market:

• Scheme for vocational training and employment of vulnerable groups of the population, proposed for co-financing by the ESF under the new programming period 2007-2013
• Further amendment of public assistance legislation
• Investigate the possibility of providing benefits to vulnerable groups that are linked to entry into the labour market
• The prevention of social exclusion of persons with disabilities through:
  - Carrying out specialised training programmes for the acquisition of vocational proficiency for people with visual impairment, hearing impairment and severe motor disability
  - Promoting a scheme to provide incentives to private sector employers for the employment of disabled people and thus combat the employer's reluctance in giving jobs to disabled people
  - Introducing by legislation of a quota system for the recruitment of persons with disabilities in the public sector by the Social Inclusion Unit.
  - Developing and implementing of a new system for the assessment of disability and functionality with the aim, among others, to diagnose and utilize the prospects of persons with disabilities to be trained and employed according to the circumstances of each case.
  - Re-organising the sector for vocational training and rehabilitation of persons with disabilities by modernization of the training programmes, the employment schemes and the procedures followed.

• The prevention of social exclusion of children and families at the risk of poverty:
  - Conducting a study for the formulation of demographic policy and the identification of areas for intervention, with emphasis on family policies
  - Creating a Body for Demographic Issues and Family Policy
  - Evaluating and improving existing practices for lone parents and promotion of the expansion of provision to all lone parents, within the framework of a study to be conducted for the modernization of public assistance legislation

• The prevention of social exclusion of drug users:
- Continuing the scheme for the social integration of former drug dependent persons
- Continuation of the scheme “Access to housing”.
PART 3

NATIONAL REFORM PROGRAMME
(UNTIL OCTOBER 2008)

THIRD PROGRESS REPORT

PLANNING BUREAU

CYPRUS
OCTOBER 2008
NATIONAL REFORM PROGRAMME
(UNTIL OCTOBER 2008)
THIRD PROGRESS REPORT
INTRODUCTION

Part 3 contains a description of progress in the main reforms undertaken over the past twelve months, with particular emphasis on measures which correspond to the Country Specific Recommendations (CSR) and points to watch (PTW), as well as the main actions adopted by the Spring Council in the four priority areas. (As these measures are also mentioned in Parts 1 or 2 inevitably there is overlapping). However the main breakdown of this part is based on the National Priorities as set in the 2005 NRP, with the addition of energy as a tenth challenge and also accommodating the Recommendations, Points to Watch and the four priority areas of the Spring Councils, under the relevant national priority. Often, a reference is also made to the applicable guideline. (A List of the Guidelines is attached as Appendix 1). A summary of reform actions is also provided in the agreed reporting table, known as the GRID, which is attached as Appendix 3.

The national challenges are the following:

<table>
<thead>
<tr>
<th>Key Challenges for Cyprus 2008-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macroeconomic Challenges:</strong></td>
</tr>
<tr>
<td>1. Sustainability of public finances;</td>
</tr>
<tr>
<td>Reform the health and pension system (Country Specific Recommendation)</td>
</tr>
<tr>
<td>2. Improve the quality of public finances via a redirection of public expenditure;</td>
</tr>
<tr>
<td><strong>Microeconomic Challenges:</strong></td>
</tr>
<tr>
<td>3. Increasing the diversification of the economy towards higher value added activities;</td>
</tr>
<tr>
<td>4. Promotion of R&amp;D and innovation and facilitation of ICT diffusion;</td>
</tr>
<tr>
<td>Further stimulate private sector R&amp;D (Point to Watch)</td>
</tr>
<tr>
<td>Investing in knowledge and innovation (Priority area)</td>
</tr>
<tr>
<td>5. Enhancing competition and improving the overall business climate;</td>
</tr>
<tr>
<td>Improve competition in the area of professional services (Point to watch)</td>
</tr>
<tr>
<td>Unlocking the business potential (Priority area)</td>
</tr>
<tr>
<td>6. Upgrading of basic infrastructures;</td>
</tr>
<tr>
<td>7. Sustainable energy production and consumption</td>
</tr>
<tr>
<td>Energy and climate change (Priority area)</td>
</tr>
<tr>
<td>8. Ensuring environmental sustainability.</td>
</tr>
<tr>
<td><strong>Employment Challenges:</strong></td>
</tr>
<tr>
<td>9. Further development of the human capital;</td>
</tr>
<tr>
<td>Enhance lifelong learning (Country Specific Recommendation)</td>
</tr>
<tr>
<td>Address the very high gender pay gap (Point to watch)</td>
</tr>
<tr>
<td>Investing in people, modernizing labour markets (Priority area)</td>
</tr>
<tr>
<td>10. Further enhancement of the conditions of social cohesion;</td>
</tr>
</tbody>
</table>

I. MACROECONOMIC CHALLENGES

1. MACROECONOMIC SITUATION OF THE ECONOMY

1.1 State of Play
The satisfactory performance of the Cyprus economy, during the last years, in spite of a challenging external environment, has led to the integration of Cyprus into the euro zone, as of January 1st, 2008. Despite the current market crisis and the first impacts of the adoption of the euro, the performance continues to be satisfactory. Cyprus’ per capita income, in purchasing parity standards (PPS), is equivalent to 93% of the EU27 average in 2007. Real Gross Domestic Product (GDP) growth reached 4.1% in 2006 and 4.4% in 2007 and is forecasted to reach 3.8% in 2008, with private consumption and export of services being the main driving forces. However, the susceptibility of the economy to external shocks has been evident in the volatility of exports, which, in large part, are due to the impact from tourism.

Table 1: Key Macroeconomic Indicators

<table>
<thead>
<tr>
<th>% annual change</th>
<th>1996-2005</th>
<th>2006</th>
<th>2007</th>
<th>2008 (proj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>3.5</td>
<td>4.1</td>
<td>4.4</td>
<td>3.8</td>
</tr>
<tr>
<td>HCPI</td>
<td>2.7</td>
<td>2.2</td>
<td>2.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.4</td>
<td>4.5</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Employment Growth</td>
<td>2.0</td>
<td>2.7</td>
<td>3.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Nominal Earnings</td>
<td>5.6</td>
<td>4.9</td>
<td>3.5</td>
<td>6.2</td>
</tr>
<tr>
<td>Productivity growth</td>
<td>1.5</td>
<td>1.4</td>
<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Current Account Balance (as % of GDP)</td>
<td>-4.2</td>
<td>-5.9</td>
<td>-9.7</td>
<td>-10.6</td>
</tr>
</tbody>
</table>

Inflation, as measured by the Harmonised Consumer Price Index (HCPI), has increased, due to the impact of changes in the price of crude oil and other commodities, to 4.4% in 2008, from 2.2% in 2007. Core inflation (excluding volatile items) is expected in 2008 to remain at the low levels of 2.5-3%.

Employment creation was robust, exhibiting a growth rate of 2.5% per annum in most recent years. Labour market conditions have been conducive, with the unemployment rate, based on the labour force survey, declining to 3.9% of the labour force, in 2007 and it is expected to fluctuate at the same level in 2008. Labour shortages (e.g. in the sectors of hotels and restaurants, trade and construction and, at the occupational level, in technical and low skilled occupations) have been addressed, to a large extent, by an increased supply of foreign workers. The substantial increase of foreign employment in recent years does not appear to have affected the unemployment rate among the unskilled domestic labour force.

Increases in nominal earnings decreased to 3.1% in 2007, compared to an average of 5.6% over the decade 1996-2005 and 4.9% in 2006, reflecting the moderate stance of social partners. With labour productivity growth slowing down, unit labour costs expanded at an annual rate of 4.1% over the period 1996-2005, adversely affecting competitiveness, in particular in labour intensive activities and inducing a reallocation of productive resources in favour of less labour intensive activities. More recently wage moderation led to a lower unit labour cost increase, of 1.8% in 2007.

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2 Harmonised Consumer Price Index 1997-2005. For the year 1996 data is not available.
3 Unemployment Rate 2000-2005. For the years 1996-1999 data is not available.
The accession of Cyprus into the Euro zone, as from January 1st 2008, has been achieved due to the effective implementation of a stability oriented Convergence Programme. Further, enhancement of the fiscal consolidation remains an integral part of the Stability Programme, aiming at reducing public debt and thus, helping addressing the long-term sustainability of public finances. Furthermore, fiscal policy will continue to focus on growth, through a re-allocation of resources in favour of growth-enhancing activities and prioritisation of expenditure programmes.

The general government balance improved considerably over the period 2004-2007, reversing the deficit into a surplus. The improvement is also reflected in the structural balance, whereby, the structural deficit of 4,1% of GDP in 2004 was reversed to a surplus of 3,5% in 2007.

The outstanding performance of the budget balance is also reflected in the general government debt, where it was reduced from 70,2% GDP in 2004 to 59,5% of GDP in 2007, contributing significantly to the long-term sustainability of public finances. The reduction in the general government debt was, primarily, the result of a sustained primary surplus as from 2005 (Table 2).

**Table 2: Selected Fiscal and Government Debt Indicators**

<table>
<thead>
<tr>
<th>In percent of GDP</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007 (act.)</th>
<th>2008 (est.)</th>
<th>2009 (proj.)</th>
<th>2010 (proj.)</th>
<th>2011 (proj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government revenue</td>
<td>38,8</td>
<td>41,2</td>
<td>42,4</td>
<td>46,5</td>
<td>45,4</td>
<td>45,6</td>
<td>45,5</td>
<td>45,5</td>
</tr>
<tr>
<td>Government current expenditure</td>
<td>38,7</td>
<td>40,0</td>
<td>40,2</td>
<td>39,3</td>
<td>40,6</td>
<td>40,9</td>
<td>41,6</td>
<td>42,3</td>
</tr>
<tr>
<td>Interest payments</td>
<td>3,3</td>
<td>3,4</td>
<td>3,3</td>
<td>3,1</td>
<td>2,9</td>
<td>2,6</td>
<td>2,5</td>
<td>2,5</td>
</tr>
<tr>
<td>Government capital expenditure</td>
<td>4,2</td>
<td>3,6</td>
<td>3,7</td>
<td>3,7</td>
<td>3,8</td>
<td>3,8</td>
<td>3,7</td>
<td>3,7</td>
</tr>
<tr>
<td>Overall budget balance</td>
<td>-4,1</td>
<td>-2,3</td>
<td>-1,5</td>
<td>3,5</td>
<td>1,0</td>
<td>0,9</td>
<td>0,2</td>
<td>-0,5</td>
</tr>
<tr>
<td>Primary balance</td>
<td>-0,8</td>
<td>1,1</td>
<td>1,8</td>
<td>6,6</td>
<td>3,9</td>
<td>3,5</td>
<td>2,7</td>
<td>2,0</td>
</tr>
<tr>
<td>Government debt</td>
<td>70,2</td>
<td>69,1</td>
<td>64,6</td>
<td>59,5</td>
<td>49,0</td>
<td>45,0</td>
<td>43,0</td>
<td>40,0</td>
</tr>
</tbody>
</table>

While the budget balance has improved considerably, the current account deficit increased to 9,7% in 2007. Transitory as well as structural reasons are behind the relatively high current account deficit. Rising oil prices have caused imports of oil-related products to be significantly higher. In addition, higher investment and related imports of capital goods and materials have raised the underlying current account deficit. While the transitory factors will dissipate in the medium term, the process of real convergence will tend to maintain the current account deficit at relatively high levels. However, it is expected to be financed to a significant extent, by non-debt flows (net foreign direct investments in 2007 accounted for 4,8% of GDP), in particular if there is success in the efforts to boost productivity and enhance competitiveness. The current account deficit is expected to increase to around 11% of GDP in 2008. Growth is forecasted to decelerate somewhat in 2008, (Table 1) as a result of the global economic slowdown and high oil and commodity prices.
Over the longer-term and following the adoption of the euro, the primary challenge will be to maintain competitiveness. The absence of national interest and exchange rate policies after euro adoption underscores the need for the strengthening of the role of sound macroeconomic policies for safeguarding conditions of price stability. Key to addressing the competitiveness issue will be the implementation of structural reforms associated with the EU’s Lisbon Agenda.

Inventory of Progress

1.2 Policy Priority: Achieving the medium-term budgetary objectives, in line with the Stability and Growth Pact

“Securing Economic Stability for Sustainable Growth” (Guideline 1)

The envisaged improvement in fiscal management is pursued via the preparation of a performance based budget. According to the time schedule, all line ministries will prepare by the end of the year both their budget and their medium term budgetary framework (MTBF) for the period 2009-2011, based on programme budgeting.

The updated MTBF 2009-2011 includes expenditure ceilings for the entire budget, reallocation of expenditures according to the priorities of the new Government, as well as the priorities set in the National Reform Programme for the Lisbon Strategy and provides forecast of revenue and expenditure estimates for three consecutive years, thus contributing to the achievement of the medium term targets and priorities in line with the provisions of the revised Stability and Growth Pact.

1.3 Policy Priority: Fiscal Consolidation

The main pillars of the fiscal consolidation strategy are the following:

- Control of government expenditure growth in line with the nominal growth of GDP, mainly through the introduction of ceilings on certain public expenditure categories, within a context of a medium term fiscal framework;
- Enhancement of public revenue performance, brought by broadening of the tax base and an improvement in tax efficiency and tax compliance;
- Improvement of the quality of public finances, through the reallocation of expenditures in favour of growth-enhancing activities.

As already pointed out via the implementation of a fiscal consolidation strategy described in detail in the Stability Programme submitted to the European Commission, also supported by satisfactory economic growth, Cyprus has managed to improve the fiscal balance to a surplus of 3.5% of GDP in 2007 from a deficit of 4.1% of GDP in 2004. Cyprus is on track to achieve the fiscal targets set for 2008. Although the economic conditions are not favourable due to the financial crisis, which has started in the USA (sub prime mortgage market) and is now prevailing all over Europe, as well as of the global economic slowdown, Cyprus is expected to maintain a satisfactory GDP growth rate around 3.8% in 2008.
1.4 **Policy Priority: Undertaking a satisfactory pace of government debt reduction to strengthen public finances**

*Safeguarding economic and fiscal sustainability as a basis for increased employment (Guideline 2)*

### 1.4.1 Reducing Public Debt

Public debt, as a percentage of GDP, was put on a distinct downward path and was reduced from 70.2% of GDP in 2004 to 59.5% in 2007 and is anticipated to be reduced further to below 50% by the end of 2008.

1.5 **Policy Priority: Reforming and re-enforcing pension, social insurance and health care systems to ensure that they are viable, socially adequate and accessible**

The EU has set a recommendation with respect to address ageing related expenditure and to reform the pension and health care systems and to enhance lifelong learning:

**COUNTRY SPECIFIC RECOMMENDATION**

“It is recommended that Cyprus:

- take steps to implement reforms of the pension and health care systems and sets a timetable for their implementation with a view to improving fiscal sustainability;
- enhances life long learning, and increases employment and training opportunities for young people by implementing the reforms of the vocational, education, training and apprenticeship system”.

1.5.1 Reform of the Pension System

Progress in this area has been significant. Taking into serious consideration the Country Specific Recommendation, the Government has intensified the dialogue with the social partners, aiming at introducing reforms in the social insurance system the soonest. Thus, in June 2008, the Social Partners approved the majority of measures and a bill was drafted consisting of the necessary amendments to the Social Insurance legislation.

During the same month, the Minister of Labour and Social Insurance held separate meetings with representatives of all major parties, in an effort to present the reform package and to gain support for the bill that was to be forwarded to the House of Representatives.

On July 4 2008 the Labour Advisory Board consented to the basic principles of the reform package and the bill was forwarded to the House of Representatives, which started its discussion in September with the aim to approve it on time to start being implemented as of 1st January 2009.

1.5.2 **Study of the World Bank** (Reform measure adopted within the last 12 months)
The study of the World Bank on the improvement of investment returns of the reserve of the Social Insurance Fund was completed. The proposals of the World Bank are being evaluated by the Ministry of Finance and the Ministry of Labour and Social Insurance and the results will be presented to the Social Partners by the end of 2008.

1.5.3 Reform of the Health Care System

Another significant challenge (Country Specific Recommendation) is the improvement of the quality of the health care system and the effective tackling of the anticipated increases in public health expenditure. This will be accomplished via the restructuring of the public hospitals into autonomous establishments under the wider public sector and the implementation of the National Health Insurance System (NHIS). The main goal of the reform of the health system is to improve effectiveness via regulated competition and to contain costs.

*Overall Progress in this field was slower than anticipated,* as analysed in Part 1 and the new target is to have the out-patient part of the System operational by early 2011, instead of the end of 2008, as it was the intention before. However, many intermediate measures have been promoted in the last year as follows:

1.5.3.1 Principles of transforming government hospitals into autonomous bodies: On the 12th of July 2007, the Council of Ministers following a decision in June 2006, on the approval of the principle of transforming government hospitals into autonomous bodies (legal person governed by public law), approved a set of guidelines to be incorporated in a draft bill currently under preparation. These guidelines concern issues such as the establishment of a legal entity to manage the government hospitals, other issues of a managerial nature, as well as human resource issues.

1.5.3.2 Preparation of the draft Bill for Autonomous Hospitals: The draft bill for the reorganization/autonomy of the public Hospital has already been prepared and the process of the discussion with the stakeholders started in September 2008.

For the above target a team of consultants has been appointed. With the guidance of the consultants, eleven working groups have started at the Ministry of Health and continue the preparation of policy documents that will meet the basic operating principles of the public hospitals. At the same time, they prepare action plans and discuss the next steps.

1.5.3.3 Policy Papers for the NHIS: As regards the implementation of the NHIS, the thematic working teams established in 2007 have drafted detailed policy papers that describe the basic principles of operation for all the healthcare provider segments of the NHIS, including the framework for the reimbursement of the healthcare providers and have also initiated the preparation of draft Regulations based on the NHIS Law. Once finalised, these papers will be discussed with the relevant health care provider associations.

1.5.3.4 Amendment of the Bill on the NHIS: In November 2007 the Bill amending the NHIS Law has been submitted to the House of Representatives and the discussions for the ratification of the Bill have commenced in May 2008.
1.5.3.5 Securing the Information Technology System: The HIO prepared the tender and procured the competition for the “Development, implementation, operation and support of a total solution for the Information Technology System and other business processes of the National Health Insurance System in Cyprus”. The Organization has pre-qualified three participants to enter the process of a Competitive Dialogue, which started in May 2008.

1.5.3.6 Studies and a model on the Scheme Financing: The Organization has awarded the contract for tender for the “Provision of services for the estimation of income and expenditure for the National Health Insurance System and the development of a forecasting model and the estimation of the Cyprus national health expenditure” to an international actuarial company in March 2008. The company has submitted its report in September 2008.

1.5.3.7 Provisions for Data Protection Furthermore: The HIO has conducted meetings with the Data Protection Commissioner and has prepared draft Regulations to comply with the provisions of the Processing of Personal Data (Protection of Individuals) Law of 2001. These Regulations are currently being reviewed by the Data Protection Commissioner.

1.5.4 Increasing labour market participation and labour supply

Various reform measures are being promoted in order to increase labour supply, in particular among female and old aged population, so as to raise potential output, through a number of measures described in the section on the employment challenges of this Report.

1.6 Policy Priority: Improving the quality of public finances via a redirection of public expenditure and improved revenue performance

To promote a growth – and employment – orientated and efficient allocation of resources (Guideline 3)

The Medium Term Budgetary Framework (MTBF), which was introduced in 2007, continues to be the tool that translates the governments’ medium-term objectives, as well as the budgetary targets through the annual budgetary process. The main objectives are to maintain macroeconomic stability especially by improving the quality of public finances through the reallocation of public expenditure and improving revenue performance. Efficient management will allow the promotion of measures that enhance social cohesion and alleviate the burden of high oil and food prices, especially on low income groups.

The MTBF for 2009-2011, prepared in conjunction with the annual budget for the forthcoming year, takes into account the priorities set in the Government Programme, as well as the priorities set in the National Reform Programme for the Lisbon Strategy.

The budgetary process for 2009, once again, required line ministries to provide forecasts on their expenditure estimates for a three year period. The high priority areas continue to be the same as the year before and additional resources were allocated to promote social cohesion, health and education, but also address the issue of water shortage through the construction of desalination plants. Social expenditure exhibits an increase of 38,3% in the Budget for 2009 due to the strengthening of the government’s housing policy, as well as the benefits provided to pensioners and other vulnerable groups. Similarly, education and health expenditure
exhibit increases of 12.6% and 16.4% respectively. The areas which exhibit marginal or no growth are public administration, judicial, security and defense.

1.7 Policy Priority: Adapting tax structures to strengthen growth potential

Ensuring that Wage Developments Contribute to Macroeconomic Stability and Growth (Guideline 4) (See also Guideline 5)

1.7.1 Reforming Labour Income Taxation: The role of the Government is key, both for its contribution to the development of institutions and labour market regulations, but also because of its influence as a large employer. In this respect, it is worth noting, that the Government continued its policy for moderate salary increases in the public sector, with the increases agreed with the Civil Servants’ Trade Union, being at 2% for 2006, 1% in 2007, 2% in 2008 and 1.5% in 2009, following a freeze in 2004 and 2005. It is the intention of the Government to continue the restrictive wage policy in the public sector in the coming years.

The absence of national monetary and exchange rate policies after euro adoption underscores the need for the strengthening of the role of sound macroeconomic policies for providing conditions conducive to employment creation and growth.

The authorities in Cyprus, through the promotion of the structural reforms in labour and product markets within the context of the Lisbon Strategy, aim to enhance the functioning of the market mechanism, improving incentives and raising employability and upgrading the quality of human capital. In this framework, the wage bargaining system, while fully respecting the role of the social partners, at the same time, it can contribute to moderate wage increases to safeguard macroeconomic stability and growth by determining wages growth to be in line with productivity gains.

1.8 Policy Priority: Renewing impetus in tax and benefit reforms to improve incentives and to make work pay

Promoting Greater Coherence between Macroeconomic, Structural and Employment policies (Guideline 5)

1.8.1 Reforming Labour Income Taxation: The tax system of Cyprus with respect to employees is generally tax-friendly. The tax burden on labour has fallen continuously during the last two years following mainly, new increases in the tax-free income threshold. On the 1st of January 2008, the threshold for tax-free income was raised, while Cyprus, at the same time adopted the euro as its official currency and thereby, income bands were slightly rounded in favor of tax payers.

As from 1st of January 2007-1.1.2007, the government increased tax-free income to £10 750 (€ 18 500) from £10 000 (£17 086). The percentage change increase is equal to approximately 8.3%, which is higher than the inflation rate for 2007 (2.5%). On the 1st of January 2008, tax-free income was further increased to €19 500. The other income brackets were adjusted as follows:

€19 501-28,000  tax rate=20%
€28 001-36,300  tax rate=25%
€36 301 +  tax rate=30%

It is also pointed out, that the total tax wedge, (which measures the relative tax burden for an employed worker with low earnings) is estimated for 2006 at 11,9% (for a single person at 67% of average wage, which is the lowest in the EU 25). There are two reasons that explain this effect for Cyprus; these are:

- the relatively low rate of social security contributions, currently standing at 6,3%, paid for an employee and
- the high tax-free income, which basically means that around 165 000 physical persons or 66% of total person’s paying income taxes are exempted from paying personal income tax.

1.8.2 Reform measures for welfare-related benefits

In the area of public assistance allowance, which is a means-tested benefit, two reforms are currently implemented in this field in 2008:

a) Public Assistance ensures the right to an adequate standard of living through the provision of financial assistance and/or social services to persons, whose resources are not sufficient to meet their basic and special needs as determined by legislation. The guaranteed minimum amounts vary according to the number and the age of dependents, and their special needs.

b) Public Assistance incorporates activation measures that promote the economic and social integration of the recipients. An amount of up to € 1 709 may be granted for training or for professional equipment for the claimant or a dependent. When determining the benefit as differential amount, some earnings from work of the applicant and his/her dependants are not taken into account.

1.8.3 Increasing Minimum Wage

For some time, there has been a standing decision of the Council of Ministers’ that the minimum wage should be gradually increased to reach 50% of the national median wage by 2008, as a means of protecting the vulnerable and specific groups of employees (clerks, shop sales assistants, school assistants, traffic wardens for students, baby and child carers).

The government recently proceeded to raise the minimum wage. As a result, the minimum starting monthly wage for 2008 was revised to €743 from €699, while the minimum monthly wage for employees who have completed a six month period of employment at the same employer, was revised to €769 from €742.

Moreover, the Council of Ministers decided to expand the coverage of the Minimum Wage Order (as of 1.7.2008), in order to include two additional occupational categories, that of security guards and of employees with sanitation and caring duties in clinics, private hospitals and houses for the elderly.

Before the extension of coverage and according to the Business Census of 2000, the share of workers to the labour force with a minimum wage was estimated 11%. After the extension of the coverage the above percentage increases to 14%.
1.9 Policy Priority: Contributing to a policy mix that supports economic recovery and is compatible with price stability

1.9.1 Addressing Inflationary Pressures

Inflation pressures in Cyprus are, mainly, attributed to exogenous factors. In order, to contain the impact of these exogenous factors on inflation, the following measures are being promoted:

- Pursuing fiscal consolidation and ensuring that wage increases are in line with productivity.
- The Consumer Protection Service of the Ministry of Commerce, Industry and Tourism publishes, on a regular basis, a list of prices of a basket of goods, to inform consumers and enable them to make a broad comparison among various supermarkets, petrol stations and bakeries. We consider this practice to have an important impact on raising awareness and transparency in markets.
- Enhanced co-operation with the Consumer Associations.
- Strengthening the Competition Commission, with additional staff.
- Promotion of energy savings measures in the private and public sector.
- Structural reforms, aiming at raising the productivity in the economy.

II. MICROECONOMIC CHALLENGES

2. DIVERSIFICATION OF THE ECONOMY
2.1 State of Play/Overall Progress

A main characteristic of the Cyprus economy is the upward trend in the contribution of the tertiary sectors of services to GDP and employment, at the expense of both the primary and the secondary sectors.

In the period from the Turkish invasion in 1974 until the early 1990s increasing resources were channeled to the tourism sector. The hotels and restaurants sector’s share to GDP rose throughout the 1980s (3,6% in 1980, 10,6% in 1990). During the 1990s and over the first seven years of the new century, however, the sector exhibited fluctuations, and its share to production was contained to 6,9% of GDP in 2007, confirming its vulnerability to exogenous and imponderable factors. It is noted, that there is a dependency, to a certain extent of the economy on the broader sector of tourism, whose medium- and long-term prospects will depend, to a decisive extent, on the further success of the efforts for upgrading and enriching the tourist product.

The remaining tertiary sectors of services, exhibit strong dynamism, reflected in high rates of growth, an increase in their share to GDP (55,1% of GDP in 1980, 65,7% in 1990, 78,4% in 2006 and 78,3% in 2007) and an expansion of their shares in international markets. This development is attributed to the comparative advantages that Cyprus possesses in these sectors, which can be further utilized during the coming years. In this context, the accession of Cyprus to the EU and particularly the safeguarding of the right of establishment and the freedom to provide services create additional opportunities through the unhindered access of Cypriot services to the large internal market of the EU.

The prospects in the sectors of business services, private tertiary education and health, financial services, shipping, trade and telecommunications seem particularly favorable, especially if production focuses on high quality services. Indeed, with the dynamism of these segments of the services sectors, the share of private services value added, excluding restaurants and hotels, in GDP rose to nearly 50% in 2007 compared to about 48% in 2002.

In addition, the establishment of an agency for the promotion of Cyprus as an entrepreneurial base for the attraction of foreign direct investments, as well as the creation of a one stop shop are completed. Furthermore, there was an extension of the network of treaties for the avoidance of double taxation, which facilitate the development of the activities of international businesses.

Lastly, a further positive development, is the satisfactory progress achieved in the implementation of the various actions included in the Strategic Development Plan for Tourism (which aims at promoting the sustainable development of tourism and increasing significantly the receipts from tourism, via enriching the tourist product and addressing the problem of seasonality), as well as the implementation of the measures targeting at enhancing the competitiveness of the manufacturing sector and the production base of disadvantaged areas, according to the timetables set in the NRP.

In contrast, the agricultural sector’s share to GDP has been declining (10% in 1980, 7,1% in 1990 and reached its lowest value, at 3,1% in 2007). Particular restraining factors,
constituted, the Turkish invasion and occupation of a significant percentage of its fertile land, the chronic scarcity of water for irrigation, as well as the small size of the agricultural units, hindering the utilisation of modern methods of production and the exploitation of economies of scale.

Another sector that exhibits a fall in its share to GDP since the early 1980s is that of manufacturing (18.2% in 1980, 14.7% in 1990, 8.1% in 2006 and 7.9% in 2007), which is marked by problems of competitiveness, with the concentration of production on low value added activities, where quality, design, innovation and the level of specialization is low. A positive development in the sector, constitutes, the dynamism exhibited by certain sub-sectors such as pharmaceuticals and metal and wood processing industries, but also by manufacturing units in traditional sub-sectors, giving emphasis to the production of advanced technology and knowledge intensive products (stream engineering, program to predict via ultra sonic image analysis the stroke risk from carotid plaque).

Despite Cyprus’ small size and the high rate of economic growth observed over the past decades, regional disparities do exist. Rural areas have undergone demographic weakening, while population and business activities have concentrated in the major urban centers and the coastal areas, the latter experiencing rapid tourist development. Furthermore, the inner parts of urban areas are in decline, especially in the capital city of Nicosia, which is divided by the cease-fire line.

**Inventory of Progress**

**2.2 Policy Priority: Further promotion of the Restructuring and the Diversification of the Economy towards the Production of High Value Added Goods and Services**

“To promote a more entrepreneurial culture and create a supportive environment for SMEs”. (Guideline 15).

**2.2.1 Operation of the One Stop Shop (OSS):** On the basis of a decision by the Council of Ministers, which was taken in May 2006, following the Spring European Council of that year, the Ministry of Commerce, Industry and Tourism proceeded with the establishment of the One-Stop Shop (OSS) for the setting up of a business. The OSS started to operate on the 2nd of April 2007, offering a wide range of services to the investors, including the following:

- Provision of information/guidance to potential investors and aftercare service to existing investors.
- Registration of a company within seven days.
- VAT registration.
- Income Tax registration.
- Registration with the Social Insurance Fund and Employers’ Registry
- Application for the issue of residence and work permits.

Up to now 320 investors were given the necessary information within 4 working days the latest (the time needed depends on the information request) and 8 788 companies were registered from October 2007 up to today (the time needed to register a company varies between four to seven working days). Also, the recruitment of the first employee takes place within the One Stop Shop and is an easy, quick and simple process. In addition, assistance is
provided to the interested employers, for finding personnel through the system for recruitment of unemployed people, operated by the PES.

**2.2.2 Setting up of the Cyprus Investment Promotion Agency (CIPA):** The Council of Ministers has decided on the 5\(^{th}\) of September 2005 for the establishment of the Cyprus Investment Promotion Agency (CIPA) for the effective promotion of Cyprus as an international investment center. The main objectives of CIPA are:

- To play a vital role in attracting foreign direct investment in Cyprus, from the currently low level.
- To constitute itself as a central agency for the provision of information and support to interested investors.
- To develop and implement an investment promotion strategy.
- To liaise with any governmental, semi-governmental, municipal, local or other departments, services, agencies and authorities with a view to facilitate the process for granting any necessary permits, approvals, consents or other authorization, as may be required under any applicable law.

CIPA will fulfill a policy advocacy role by placing special focus on the Government’s strategic priorities and in such other fields which may be deemed essential for the upgrading and enrichment of the productive fabric’s competitiveness. Its institutional framework and operational structure will enable the Government to adopt flexible procedures and methodologies in order to effectively respond to the rapidly changing demands and challenges. The newly established CIPA, has been fully staffed and started its operations in January 2008. Its budget for 2008 was €1 mln.

**2.3 Policy Priority: Upgrading and Enriching the Tourist Product**

“Strengthening the competitive advantage of its industrial base” (Guideline 10).

**2.3.1 Construction of Marinas:** Aim of the construction of Marinas is the diversification of the economy, via the enrichment of the tourist product. The contract for the construction of the Limassol Marina has been signed on the 25\(^{th}\) of January 2008 and the constructions are planned to commence by next fall and finish by the end of 2011. The series of negotiations for the construction of the Ayia Napa Marina with the successful tenderer are to commence very soon. For the construction of the Paphos Marina, the award of the contract to the successful tenderer was completed on the 6\(^{th}\) of June 2008 and the construction of the Larnaca Marina is in the process of tenders’ evaluation. It’s important to notice that there are also thoughts for constructing a Marina in Paralimni. Additionally, the Ministry of Commerce, Industry and Tourism is accepting applications for the construction of berth areas all over Cyprus.

**2.3.2 Implementation of a new policy on golf courses:** A ministerial committee has been appointed by the Council of Ministers to re-examine the policy on big scale projects, including the golf courses policy, in view of the country’s water shortage problem.

**2.3.3 Implementation of the action plan for the development of sports tourism (sports infrastructure/marketing):** Marketing actions is an on-going process for the Cyprus Tourism Organisation (CTO) and includes the preparation of promotional material,
advertising, educational visits and participation in exhibitions. CTO supports through financial schemes, the development for minor sports infrastructure and the organization of sports events.

2.3.4 Development of Rural Areas through EU Funds (Agrotourism)

The Rural Tourism Development Scheme 2004-2006 was developed to promote measures for the economic and social regeneration of rural areas, which face serious structural problems, in order to contribute to the stabilization of the depopulation trend and to achieve greater social and economic cohesion. The specific aim of the scheme was to encourage fixed as well as non-fixed assets investment in mild forms of rural tourism activities. Priority was given to investments whereby traditional buildings were to be improved and used for economic purposes.

During the period October 2007 – October 2008, 12 projects were completed, with a total amount of €1 152 430, allocated to these projects. The total amount allocated to all projects until October 2008 is around €2 328 512. Indicatively, the scheme provided funding for the following categories of investments:

- The creation of new tourist accommodation units preferably in traditional buildings, or the upgrading of existing tourist accommodation units (hotels, hotel apartments, existing hostels, etc.).
- The establishment of new enterprises or the upgrading of existing, in the sector of restaurants, taverns, traditional coffee-shops.
- The establishment of new related to tourist business activities, preferably in traditional buildings, but also related to nature i.e. cycling routes, culture, (religious routes) and tradition (e.g. shops selling traditional products, galleries, activities centers etc.).

It is pointed out that the final beneficiary of the Scheme of the period 2004-2006 (n+2), is the Ministry of the Interior, Department of Town, Planning and Housing and the final Recipients are Small and Medium Enterprises (SME’s). Furthermore, the scheme was implemented in two phases, May-July 2005 and February-May 2008. For the first phase there had been 58 applications from which 41 were approved and for the second phase there had been 84 applications, from which 38 were approved. The scheme supported 78 SME’s and created 65 new Enterprises. Direct private investment in supported firms reached € 21 830 000, while €10 740 540 were approved to be given as a grant. Also, 186 gross jobs were created, out of which a number of job positions was filled by women.

2.3.5 Measures towards the upgrading of the accommodation and catering facilities:

- New Measure: Incentives for the withdrawal of low class hotel accommodation: This scheme, which is based on planning incentives (rights to transfer or sell the building coefficient or change the use of the buildings), will cover 20 000 hotel beds in 1 to 3 star hotels and hotel apartments. The incentive scheme has been approved by the Council of Ministers in November 2007. The implementation of the scheme will commence after the approval of the new legal framework which is under study by the appropriate Governmental Department.
Rationalisation of the classification system and upgrading of catering establishments: A new legislative framework (for the rationalization of the classification system by reducing the number of categories from 7 to 3 setting the eligibility criteria for each category) has been prepared and approved by CTO in February 2007. The framework has been submitted to the Office of the Attorney General who is currently studying the draft law.

Incentive Scheme for improving sanitary areas: In 2007 CTO has introduced an incentives scheme for the improvement and upgrading of the sanitary areas for the catering outlets. Over 255 establishments were subsidized through the scheme and the grant reached €715 000 out of a total investment of €1,8 mln.

Incentive scheme for SME’s for investments in tourist product enrichment projects and for the upgrading of existing hotel stock: The scheme, with an approved budget of €13mln will be based on the EU SME’s and Regional Aid Regulations and aims at encouraging investments in tourist product enrichment projects. The series of negotiations with the Managing Authority (Planning Bureau) has been completed and the scheme has been submitted to the State Aid Officer for final approval. Estimated launching date: end of 2008.

2.4 Policy Priority: Enhancement of the Competitiveness of the Manufacturing Sector

“Strengthening the competitive advantage of its industrial base” (Guideline 10).

“To promote a more entrepreneurial culture and create a supportive environment for SME’s” (Guideline 15).

2.4.1 Setting up a Loan Guarantee Granting Facility: The implementation of this measure is expected to provide financial support to SME’s, which are not able to provide sufficient collateral. The preparation of the Feasibility Study, which was expected to be assigned in early 2007, is now moved to the end of 2008 due to the time needed for the conclusion of the tender procedure for the assignment of the feasibility study.

2.4.2 Grants for relocation of Small Enterprises to authorised areas: The aim of this programme is to motivate the existing Small Enterprises engaged in manufacturing activities, or specified service activities, to move from residential or inappropriate for their activities areas, to other authorized areas, where they can legally have their premises and engage in manufacturing or service activities, such as industrial areas, industrial zones, handicrafts zones or any other authorized area. The program expired in June 2007. A new measure is being prepared and will be sent to the Public Aid Commissioner for approval. Finally, it has to be approved by the Council of Ministers before it is available to the interested parties.

2.4.3 Scheme for the enhancement of SME’s competitiveness in the manufacturing sector: The Ministry of Commerce, Industry and Tourism operates the Scheme for the enhancement of SME’s competitiveness in the manufacturing sector. The scheme has been included in the new programming period 2007-2013, co-financed by the European Regional Development Fund. The total budget for the period is €22 mln. The measure has been announced for applications in August 2007 and expired in December 2007. 378 applications
were received and they are under evaluation. The total budget is €11 mln for the 2007 announcement.

2.4.4 **The Council of Industrial Development** started its operations as from December 2005. It is responsible for providing consultation to the Minister of Commerce, Industry and Tourism on all subjects concerning the elaboration of strategy and planning for rational industrial development.

2.4.5 **Grant Scheme for the Modernization of Units for the Manufacturing and Trading of Agricultural and Forestry Products (Act 1.6 of the Programme for the Development of Agriculture):** The scheme has been included in the new programming period 2007-2013, co-financed by European Fund. The total budget for the period is €24 mln. The measure has been announced for applications in April 2008 and expired in August 2008. 147 applications were received and they are under evaluation. The total budget is €12 mln for the 2008 announcement.

2.4.6 **Scheme for the encouragement, strengthening and reinforcement of women entrepreneurship:** It is an ongoing scheme, implemented as from 2002 and operates on an annual basis in an effort to facilitate access to finance, foster a more entrepreneurial culture and encourage more women to create their own business. The scheme has been amended and has been included in the new programming period 2007-2013, co-financed by the ESF. In February 2008, the new scheme was announced for the period 2008-2009. A total of 147 applications were submitted under this scheme. A €5 mln fund has been granted for this scheme for the purposes of the whole program period 2007-2013. The budget for this opening is €2.5 mln. However, no grant has been disposed yet, it is expected that 100% of the applications received in 2008 shall be evaluated by the end of 2009.

2.4.7 **Scheme for the encouragement, strengthening and reinforcement of youth entrepreneurship:** It is an ongoing scheme, implemented as from 2004 and operates on an annual basis in an effort to facilitate access to finance, foster a more entrepreneurial culture and encourage more young people to create their own business. The scheme has been amended and has been included in the new programming period 2007-2013, co-financed by the ESF. In February 2008, the new scheme was announced for the period 2008-2009. A total of 186 applications were submitted under these schemes. A €5 mln fund has been achieved for this scheme for the purposes of the whole program period 2007-2013. The budget for this opening is €3 mln. However, no grant has been disposed yet. It is expected that 100% of the applications received in 2008 shall be evaluated by the end of 2009.

2.5 **Policy Priority: Enhancement of the Production Base of Disadvantaged Areas**

2.5.1 **Implementation of measures co-financed by the Structural Funds in the Programming Period 2007-2013 (Operational Programme on Sustainable Development and Competitiveness)**
In the Programming Period 2007-2013, the enhancement of the production base, is one of the objectives of the Operational Programme “Sustainable Development and Competitiveness”, to be co-financed by the Structural Fund (Details in Part 4).

2.5.2 Continuation of measures included in the Rural Development Plan (RDP), co-financed by EAGGF

The overall aim of the RDP 2004-2006 is to promote the sustainable development of rural areas and includes inter alia, the measures below, which will contribute positively towards enhancing the production base of rural areas. It will be completed by the end of December 2008.

- **Measure 1: Encouragement of small processing units of agricultural products by farmers:** The measure aims at maintaining the traditional character of rural communities, through the creation of alternative and additional income for the rural families, the promotion of diversification of activities, and the provision of grants to small scale processing units of agricultural products by farmers. The scheme was introduced in June 2004. The total budget of this measure is €1,9 mln, out of which 50% will be co-financed from the EAGGF. According to the latest monitoring data 79 applications are expected to be approved which correspond to €3,1 mln. For that reason EU accepted the request for granting additional state aid of €1,1 mln. Payments of grants will take place until December 2008.

- **Measure 2: Encouragement of the processing and marketing of agricultural products:** Support is given to activities aiming at improving or rationalizing the processing procedures of marketing channels of agricultural products. The scheme was introduced in June 2004. According to the last financial modification of the Programme, the total budget of this measure is €20 925 803, out of which 50% will be co-financed from the EAGGF. It is estimated that more than 170 applications for support will be approved and financed under this measure. EU approved the request for granting additional state aid in order to support more applications. Payments of grants will take place until the end of 2008.

- **Measure 3: Encouragement and support of small scale traditional handicraft activities:** The measure aims at promoting small-scale handicraft and craftsmanship activities, in order to create alternative and additional employment opportunities for the members of the rural family and to revive the tradition of the countryside. The scheme was introduced in June 2004. According to the last financial modification of the Programme, the total budget of this measure is €3 mln, out of which 50% will be co-financed from EAGGF. It is expected that 39 applications for support will be financed under this scheme. Payments of grants will take place until December 2008.

2.5.3 Preparation and Implementation of the Rural Development Programme 2007-2013, co-financed by EAFRD

The European Commission approved in November 2007, the new Rural Development Programme for the new programming period 2007-2013. The following three strategic goals have been set:
• Improvement of the competitiveness of the agriculture and forestry sector
• Improvement of the environment and the countryside
• Improvement of the quality of life in rural areas and encouraging diversification of the rural economy.

It is important to note that the third priority axis of the programme is focusing on the improvement of the quality of life in rural areas and the diversification of rural economy. According to the indicative distribution of the budget, the Axis 3 funds cover 10% of the total budget.

The Rural Development Programme includes, inter alia, the following measures, which will contribute positively towards diversification of rural economy:

• **Encouragement of the processing and marketing of agricultural products:** The new Rural Development Programme 2007-2013 includes a measure for the encouragement of the processing and marketing of agricultural products. Support is given to activities aiming at improving or rationalizing the processing procedures of marketing channels of agricultural products. This measure also covers grants to small scale processing units of agricultural products in order to maintain the traditional character of rural communities. The total budget of the measure is around € 24 mln, out of which 50% will be co-financed from EAFRD. A call for this measure was made from April 2008 to August 2008.

• **Encouragement of tourist activities:** This measure covers the creation of supporting infrastructures for rural tourism (e.g. thematic routes, information centres for tourism and culture, thematic museums) and supporting infrastructure of tourist interventions in the communities. The total budget of the measure is around € 5.3 mln, out of which 50% will be co-financed from EAFRD. The call is expected to take place in November 2008.

• **Conservation and upgrading of the Rural Heritage:** This measure covers the regeneration and upgrading of infrastructures in the communities (e.g. squares, pedestrian zones), the development of local/social services centres (e.g. children and elderly centres, libraries) and the protection and promotion of traditional elements of the rural heritage (e.g. bridges, mills, fountains). The total budget of the measure is around €7 mln, out of which 50% will be co-financed from EAFRD. The call is expected to take place in November 2008.

3. **PROMOTION OF R & D, INNOVATION AND ICT DIFFUSION**

A. **Increase and Improve R & D, in particular by Private Business**

“To increase and improve investment in R&D, in particular by private business” (Guideline 7).
3.1 State of Play / Overall Progress

There was satisfactory progress in almost all priorities set in the research sector in the last year, including the increase of investment in R&D (GERD), the development of research infrastructure, the enhancement of human capital in research, and the development of international cooperation. On the other hand, the contribution of industry to R&D expenditure (BERD) remained at low levels. More specifically:

- Gross domestic expenditure on R&D (GERD) increased to €61.3 mln in 2006 from €54.3 mln in 2005, an increase of 12.7%, which is amongst the highest in EU27. Despite this, GERD as a percentage of GDP increased only by 0.03% reaching 0.43% in 2006, as the GDP growth rate was 7.2% in nominal terms. According to recent estimates, the growth rate of GDP is expected to remain at high levels (around 3%), so the target set by the Government to increase R&D expenditures to 1% of GDP in 2010 is difficult to be attained.

- The number of human resources employed in research (full-time equivalent) increased by 6%, from 1,157 in 2005 to 1,224 in 2006. In particular, the number of researchers increased by 9%, whilst the percentage of women participating in research activities remained at 38% of the total number of researchers.

- The investment of industry in R&D expenditure (BERD) increased to €9.79 mln in 2006 compared to €9.12 mln in 2005. Despite the annual increase of BERD by 7%, the great investment of government in R&D caused an overall reduction in the contribution of industry to GERD, from 17% in 2005 to 16% in 2006.

- The proposal for upgrading the Research and Innovation System of Cyprus was approved by the Council of Ministers in October 2007. The proposal includes, among others, the integration of research and innovation activities under the Research Promotion Foundation (RPF), the establishment of a Scientific Council, and the establishment of a National Research Council. Not much progress was achieved since the approval of the proposal by the Council of Ministers, as the only action completed was the integration of innovation activities in RPF’s operations.

- The Research Promotion Foundation’s Framework Programme for Research, Innovation and Technological Development 2008 (RPF FP 2008) was launched in February 2008 with a total budget of €70 mln. The RPF FP was initially planned to be published within 2007, but due to the harmonisation procedures of incorporating the Structural Funds regulations within the monitoring processes of RPF, the changes in the EU regulations for research organisations and SMEs, and the incorporation of innovation activities within the RPF activities, it was postponed until February 2008.

- The response of the research community to the increased budget of the RPF FP 2008 was very satisfactory, as 1,076 proposals were submitted compared to 661 in 2006. From these proposals, 310 are expected to be funded with a budget of €70 mln.

- The participation of Cypriot organisations in the 7th Framework Programme of EU for Research and Technological Development 2007-2013 (FP7) was also satisfactory, as 272 research project proposals were submitted under the 1st Call for Proposals in 2007, with the participation of 315 Cypriot organisations. Of these proposals, 41 resulted in research projects that are currently being funded by the EU with a total budget of €7.84 mln attributed to the participating Cypriot organisations.
Inventory of Progress

The EU has set a point to watch with respect to further stimulate private sector R&D as follows:

POINT TO WATCH:

“It will be important for Cyprus to:

• Further stimulate private sector R&D.

3.2 Policy Priority: Horizontal Measures

3.2.1 Increase overall spending in R&D, via the new RPF Framework Programmes for Research, Technological Development and Innovation (RTDI): In February 2008 the RPF launched its Framework Programme for RTDI 2008, with a total budget of €70 mln. Until the end of June 2008 1 076 research project proposals were submitted to the RPF and evaluated under the RPF FP 2008, from which 310 are expected to be funded. In the beginning of 2009, the RPF will launch the Framework Programme for Research, Technological Development and Innovation for the period 2009–2010, as a continuation of the current RPF FP 2008. The budget of RPF FP 2009-10 will be approximately €50 mln.

3.2.2 Reform of the Research and Innovation System of Cyprus: The proposal for upgrading the Research and Innovation System of Cyprus was approved by the Council of Ministers in October 2007. The proposal includes, among others, the establishment of a National Research Council to be chaired by the President of the Republic of Cyprus, the establishment of a Scientific Council, and the integration of research and innovation activities under the Research Promotion Foundation (RPF). From the actions included in the proposal, the only one completed was the integration of innovation activities in RPF’s operations. The establishments of the Scientific Council and of the National Research Council are expected to be completed in 2009.

3.3 Policy Priority: Strengthening the Scientific Base Development of Research Infrastructures

RPF Programmes for the Development of Research Infrastructures: One of the five pillars of the RPF FP 2008 is entitled ‘Development of Research Infrastructure’ and contains the programmes New Infrastructure, Upgrading of Existing Equipment, and Access to Research Infrastructure Abroad. The research proposals received by the RPF under this programme in 2008 came up to 113, of which around 35 are expected to be funded with a budget of €37,2 mln, compared to 16 projects with a budget of €3 mln in 2006. The innovation introduced in this pillar is the action “Strategic Infrastructure Projects” which aims at the development of new, modern research units and laboratories that will contribute substantially to conducting high-quality research and the creation of a critical mass of researchers. The budget of this programme is €28 mln, and 6 Strategic Projects are expected to be funded.
3.4 Policy Priority: Reinforcement of Private Sector Participation in R&D

3.4.1 RPF Programmes for the Development of Industrial Research and Innovation Activities: The RPF FP 2008 includes three programmes for the development of industrial research and innovation activities, namely Research for Enterprises, EUREKA Cyprus and Innovation. These programmes aim at encouraging the cooperation of enterprises with local research organisations, the cooperation of local enterprises with foreign research organisations, the utilisation and commercialisation of the results of completed research projects and also the substantial increase of innovation activities within the business environment. In 2008, 150 research project proposals were received by the RPF, of which around 70 are expected to be funded with an approximate budget of €11,2 mln, compared to 42 projects with a budget of €5,7 mln in 2006.

3.5 Policy Priority: Enhancement of Human Resources

3.5.1 RPF Programmes for the development of Research and Innovation culture within the educational system: The “Development of Research and Innovative Culture” Programme includes three competitions, called “MERA”, “FOITO” and TEKE. MERA and TEKE Competitions are addressed to pupils in the age of 6-18, whilst FOITO Competition is addressed to both undergraduate and postgraduate students either in Cyprus or abroad. In the school year 2007-2008, 50 projects were submitted to the MERA Competition, of which 15 are expected to be awarded with a budget of €50 000, compared to 19 projects with a budget of €36 200 in the school year 2006-2007. The respective awards expected to be given through FOITO Competition are €40 000 for 15 projects in 2007-2008, compared to €17 940 for 6 projects in 2006-2007. The TEKE competition, which aims at engaging pupils with technological development and innovation activities, is a new initiative of the RPF, published for the first time in 2008.

RPF Programmes for the development of New Researchers: The programmes for the development of new researchers are addressed to both PhD candidates and PhD holders, and include actions for the entry, improvement and mobility of new researchers. In 2008, 156 research project proposals were submitted to the RPF, of which around 75 are expected to be funded with a budget of approximately €3,5 mln, compared to 23 projects in 2006 with a budget of €1,7 mln.

RPF Programme for Foreign Researchers: The Programme “Hosting of Researchers Based Abroad” aims to attract new researchers as well as experienced researchers based abroad, and to incorporate them for a specific period of time in the research system of Cyprus. Under this Programme, 26 research proposals were submitted in 2008, of which 11 projects are expected to be funded with an approximate budget of €0,55 mln, compared to 6 projects with a budget of €0,34 mln in 2006.

3.6 Policy Priority: Promotion of International Cooperation
3.6.1 Promotion of participation to the 7th Framework Programme for RTD 2007-2013 (FP7): RPF encourages the participation of researchers in the FP7 through the establishment of the National Contact Points Network, as well as with information seminars and brokerage events. During 2007 and 2008 the RPF organised Information Days for most Actions and Thematic Priorities of the FP7, hosting speakers from the European Commission, who helped the researchers to gain a better understanding of the FP7 details. During the 1st Call for Proposals in 2007, 272 research proposals were submitted with the participation of 315 Cypriot organisations. Of these proposals, 41 succeeded with a total budget of €7.8 mln attributed to the participating Cypriot organisations.

3.6.2 Promotion of participation in programmes of the European Science Foundation (ESF): In 2007 the RPF provided support to research organisations participating in one new Research Networking Programme. The duration of this programme is five years and the annual amount attributed by RPF is €4 000.

3.6.3 Bilateral agreements with other countries in the field of research: The latest agreements signed by the Government of Cyprus for the promotion of cooperation in the field of research were with Romania and Egypt in 2007. The agreements with Hungary, Jordan, the U.S.A., China and the UK are still in the phase of negotiations. From the calls of proposals announced in 2007, which concerned the agreements with France, Slovenia and Romania, 27 projects were approved for financing with a budget of €0.29 mln. In 2006, 29 projects were approved for financing with a budget of €0.46 mln, concerning the respective bilateral agreements with Greece and Italy.

B. Facilitate all forms of innovation

“To facilitate all forms of Innovation” (Guideline 8).

3.7 State of Play

Cyprus foresees to the achievement of the targets set in 2005. In fact, by 2007 for most of the set indicators the results acheived were above the EU27 average. At the same time, youth education attainment and population with tertiary education contribute positively to the overall country’s performance. Cyprus presents a very good attainment in another two indicators, i.e. Community trademarks, in the group “Intellectual property”, and high-tech exports, in the group “Applications”. R&D expenditures, in the group Knowledge creation, and patents, in the group Intellectual property, need to be improved in order to improve convergence to the EU25.

Despite the fact that the country’s performance is still low, its trend has been quite positive from 1998 to 2007. In particular, the group “Applications” has strongly increased in all indicators (high-tech exports above all). On the other hand, the groups on Innovation Drivers and Knowledge Creation have not recorded significant improvement and there is scope for increasing the numbers of Science and Engineering (S&E) graduates and the level of public R&D, which are stagnating at a low level. A marginal increase occurred on a short time trend in business R&D expenditures, but the level is still not satisfactory.
With regards to the scope for increasing the numbers of S&E graduates, it is to be noted that in Cyprus there are two universities providing courses of physical sciences and engineering, where Cypriots can undertake their studies. The practice until now, is that the number of Cypriot science and engineering students graduating from tertiary institutions outside Cyprus (mainly in the UK and Greece) is approximately two times the number of Cypriot science and engineering graduates from Cypriot tertiary institutions. It is evitable that the establishment of the new universities in Cyprus, including the Cyprus University of Technology and Frederick University, as well as the opening of new research institutes has changed this situation and will lead to a greater number of Cypriot Science and Engineering graduates working on innovation and related activities in Cyprus in the coming years.

The Government of Cyprus, acknowledging the importance of innovation in enhancing the growth potential of the economy, has attached great emphasis in facilitating all forms of innovation with the introduction of specific measures, of which the following are highlighted:

**Inventory of Progress**

3.8 **Policy Priority: Facilitate all forms of Innovation**

3.8.1 **Awareness campaign for Innovation and R&D:** Its main objective is to raise awareness among the business community and the public in general on the importance of Research and Technological Development and Innovation (RTDI). The Research Promotion Foundation (RPF) is responsible for applying this measure and so far there were several Information Days organized either within the 7th Framework Program agenda or under the umbrella of general matters related to RTDI. The major event organized within this period, was the launching of RPF’s Framework Program 2008 that took place on the 21st of February 2008. In the former event, the ceremony for the “Research Award” took place for the first time.

3.8.2 **Awareness – Training of SME’s for the Development and Utilisation of Innovation Opportunities:** The implementation of this measure aimed at increasing the awareness regarding European programs in Cyprus, improving the access of SME’s to EU funding and in the longer term improving the level of innovation on the island. The Cyprus Productivity Centre organized a training event for SME’s, wishing to exploit the Leonardo da Vinci sectoral program of the Community Program in the field of Lifelong Learning Program which was attended by 87 representatives of SME’s, and other private and public organizations. The participants were informed of the structure of the program and the opportunities that arose therein and were subsequently trained on the methodologies required to submit a proposal and ultimately receive funding. Additionally, three events were planned in the second half of 2007 aiming to address a wider range of opportunities. These, moved along the axes of European Programs, locally funded and co-funded (from structural funds) measures, as well as the opportunities from financing measures and were specific to the three sectors specified in the strategy document (Manufacturing, Tourism, Services). Unfortunately, due to the fact that other similar programs servicing the same objective were running, there was not enough interest and the measure was seized.
3.8.3 Creation of a Research and Technology Mediation System: This measure aims at bridging the gap between the supply and demand of innovation through a mechanism of inter-mediation between research/academic institutions and SME’s. The measure is at its final stages of design and is included as an individual Action under the “Innovation Support” Program, within the RPF Framework Program 2008-2010. The first call is expected to be published at the beginning of 2009.

3.8.4 Creation of Thematic and Innovation Networks: The proposed measure aims at the creation of cooperation networks between enterprises, research organizations and intermediate bodies. The design of the measures to be undertaken to that end is at its final stage. A Program covering this priority is already included in the Framework Program of the RPF for Research, Technological Development and Innovation 2008-2010, under the third pillar of “Development of Research and Innovation for Enterprises”. The first call for proposals is expected to be published in the beginning of 2009. There will be a preliminary evaluation of the measures after their first year of implementation and a more thorough one after the second year. Based on the aforementioned interim evaluations any necessary adjustments will be made and the measures will be re-launched annually until the end of the Framework Program.

3.8.5 Innovation Coupons: This measure aims primarily at bringing SME’s closer to innovation, engaging them with innovation activities and rendering their products and services more competitive. “Innovation Coupons” is included as an individual Action under the “Innovation Support” Program, within the RPF Framework Program 2008-2010. The first call was published in February 2008 with a total budget of €0,3 mln. In 2008, 18 applications for coupons were submitted to the RPF.

3.8.6 Business Incubators: The aim of the introduction of the Business Incubators Program was the creation of New Enterprises of High Technology and Innovation, which enhance the potential for the production of products with high value added in knowledge and know-how and the demand of which is sensitive with regards to their quality and innovation and not their price. The promotion of the creation of these enterprises was supported by four business incubators whose contracts with the Government expired at the end of 2007. Based on the conclusions of an evaluation study, the Council of Ministers decided for the introduction of the “Business Incubators Accreditation System for the establishment and operation of business incubators”, which was expected to start at the beginning of 2007 and now must follow an evaluation study of the Business Incubators Institution. In connection to this, the tender for consultancy services for the preparation of an evaluation study of the Business Incubators Institution has already been assigned.

3.8.7 Regional Innovation Strategy for Cyprus (RISC): The Council of Ministers approved the measures included in the Action Plan prepared on the basis of the RISC strategy on the 2nd of March 2006 and authorized the Minister of Finance to proceed with their implementation. In February 2008, the RPF proceeded with the launching of the first call of the “DIDAKTOR” Program, within its Framework Program for Research, Technological Development and Innovation 2008. The main objective of this measure is the qualitative upgrading of the human resources employed in the three main sectors of the economy, namely, manufacturing, tourism and services. In 2008, 55 research project proposals were submitted to the RPF, of which around 20 are expected to be funded with a total budget of €2 mln.
3.8.8 Establishment of a Science and Technology Park: The feasibility study which started in July 2006 is progressing and is expected to be completed by the end of 2008. Basic infrastructure has been completed.

3.8.9 Cyprus Innovation Award Competition: This was introduced as a new measure at the beginning of 2006 by the Cyprus Employers’ and Industrialists’ Federation in collaboration with the RPF and its main objective is to promote an innovation culture within the enterprises. The 2nd Competition was completed with great success and the award ceremony took place on the 14th of June 2008. Two prizes were awarded for the Manufacturing Industry, one prize for the Service Industry and one prize for the wider public sector.

3.8.10 Scheme for the encouragement, strengthening and reinforcement of Women’s Entrepreneurship: (see also paragraph 2.4.6 above).

3.8.11 Scheme for the encouragement, strengthening and reinforcement of Youth Entrepreneurship: (see also paragraph 2.4.7 above).

3.8.12 Setting up of a Loan Guarantee Granting Facility: (see also paragraph 2.4.1 above).

3.8.13 Safeguarding Intellectual Property Rights and Patent Registration (EVRESITHNIA): This measure aims at the provision of financial support to enterprises or individual researchers for patent registration. EVRESITEHNIA is included as an individual Action under the “Innovation Support” Program, within the RPF Framework Program 2008-2010. The first call was published in February 2008 with a total budget of €0,2 mln. In 2008, 6 applications for patents were submitted to the RPF.

C. Facilitate the spread and effective use of ICT and build a fully inclusive information society

“To facilitate the spread and effective use of ICT and build a fully inclusive information society” (Guideline 9).

3.9 State of Play / Overall Progress

During the last year there was noteworthy progress towards the utilisation of the opportunities offered by the information society. According to some basic indicators, the progress made is reflected in the following:

- From a figure of only 2,5% in 2004, broadband penetration in Cyprus reached 13,8% by December 2007.
- During the period 2006 to 2007, Cyprus had demonstrated a growth in take-up of 56% in general and a growth of 26% in broadband take-up by enterprises.
- Increase in the regular use of internet by individuals from 29% in 2006 to 35% in 2007.
- There was also an improvement in the supply of public services offered through the internet for individuals and enterprises. “Fully on-line availability” has risen to 45%
from 35% in 2006, closing the gap with EU27 and “online sophistication” has risen to 67%.

Despite the noteworthy growth in 2007, Cyprus is among the lowest placed in the ranking of most information society indicators compared to the EU27. Efforts in developing eGovernment services and a business environment relatively favourable to ICT investment, in particular with a good eSkill base, are laying the foundations for further development.

Table 3: Some selected ICT indicators

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<tr>
<td>Broadband:</td>
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<tr>
<td>Broadband Penetration</td>
<td>8.9</td>
<td>13.8</td>
<td>20</td>
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<tr>
<td>% of households with an internet connection</td>
<td>37</td>
<td>39</td>
<td>54</td>
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<tr>
<td>Households with broadband as % of households with internet</td>
<td>34</td>
<td>52</td>
<td>77</td>
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<tr>
<td>% of enterprises with broadband access</td>
<td>55</td>
<td>69</td>
<td>77</td>
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<tr>
<td>Internet Usage:</td>
<td></td>
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<tr>
<td>% of population who are regular internet users</td>
<td>29</td>
<td>35</td>
<td>51</td>
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<td>eGovernment indicators:</td>
<td></td>
<td></td>
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<tr>
<td>% of basic public services for citizens fully available online</td>
<td>25</td>
<td>33</td>
<td>51</td>
</tr>
<tr>
<td>% of basic public services for enterprises fully available online</td>
<td>50</td>
<td>63</td>
<td>72</td>
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As far as the progress in the implementation of the actions included in the NRP, over the period October 2007 - October 2008, is concerned, there has been satisfactory progress in the areas of eLearning and eHealth. More specifically:

- In the area of eHealth, the introduction of the Integrated Health Care System started in January 2007 and is expected to be fully completed in the beginning of 2009. On 13th of May 2008 the Modules of Phase 1 started gradually to go on live operation, whereas customisation of Phase 2 was completed and customisation of Phase 3 Applications is on track awaiting acceptance test. An extension to the main contract was negotiated, so that some additional sub-projects can be completed within this year such as the establishment of a Help Desk and the design of a Web portal to provide the public with access to medical services via web (capability to manage hospital visits online).

- The Health Monitoring System started operation in December 2007, whilst the implementation of a Pharmaceutical Information System will commence in October 2008 and is expected to be completed in 9 months as there was a delay in the Tender process for acquiring this system.

Concerning the implementation of some other important actions, the situation is as follows:

- The development of eGovernment services is an ongoing process. More services are to be offered by the Departments of Civil Registry, Lands and Surveys and Merchant Shipping via the web. The development of the eProcurement System and the eFiling
System for companies’ on-line registration are progressing and will be completed in March 2009 and June 2009 respectively. eServices will also be provided by the Legal Information System in 2008 after some delays in the data capture process for the system.

- The Council of Ministers approved on the 16th of July 2008 the establishment of a Mobile Citizen Service Centre (pilot project) after the successful operation of five (two more to operate soon) Citizen Service Centres (CSC) all over Cyprus. The Mobile CSC will provide government services to remote areas where CSCs are not easily accessible achieving the goals of an Inclusive eGovernment.

- There is a delay in the design of a National Information Society Strategy, which mainly arises from the lack of a sole entity responsible for the promotion of Information Society. However, in February 2008 the Council of Ministers decided to appoint a Commissioner for Information Society. He will be responsible for designing and implementing a national strategy for the Information Society as well as for defining and implementing the national goals flowing through the Lisbon Strategy.

- There is also a short delay in the implementation of the actions included in the policy paper for Network and Information Security, which is expected to be implemented by the end of 2008 instead of the end of 2007.

- Finally, there is further delay in auctions for granting licences for both Digital Terrestrial Television Networks and Fixed Wireless Access Networks, which are now expected to be conducted in the first quarter of 2009.

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3.10 Policy Priority: Horizontal Measures

3.10.1 Review of the National Information Society Strategy: There is a delay in the design of the National Information Society Strategy due to the lack of a sole entity responsible for the promotion of Information Society. In February 2008 the Council of Ministers decided to appoint a Commissioner for Information Society. He will be responsible for designing and implementing a national strategy for Information Society as well as for defining and implementing the national goals flowing through the Lisbon Strategy. A draft legislation has been prepared and is under legal vetting by the Legal Service.

3.10.2 Elaboration of Policy on Network and Information Security (NIS): The policy paper on Network and Information Security contains three actions for implementation: the design of an Action Plan for raising awareness of end users/responsible public bodies for NIS, the establishment of Computer Incident Response Teams (CISRTs), and the preparation of a Bulletin for Electronic Communication Companies about network resilience. The network resilience issues are addressed in OCECPR secondary legislation in the form of an order which will be published by the end of 2008. The obligations and guidelines included in the document were thoroughly discussed with stakeholders and competent public authorities in Cyprus. The completion of the final Implementation plan for the establishment of national CSIRTs in Cyprus is expected in the last quarter of 2008 following a formal request for opinion from ENISA. An action plan for raising awareness will also be discussed between stakeholders and public authorities by the end of 2008.
3.11 **Policy Priority: Further Promotion of eGovernment**

3.11.1 **Cyprus Government Portal:** The Cyprus Government Portal has been available to the public since September 2006. According to the 7th Measurement report of EU - The User Challenge Benchmarking, The Supply of Online Public Services - which was published in September 2007, as far as the National Portals assessment is concerned, provides a very high score for Cyprus of 98% on an average of 75% for the EU27.

3.11.2 **Development of websites for all Ministries / Departments / Services of the Government:** All Government Ministries/Departments/Services, including government embassies, maintain their own websites which are either informative and provide downloading of forms and other documents or also support user interaction. In order to promote e-inclusion, public web pages are developed on the basis of the Web Accessibility Guidelines and are continuously enhanced to reflect changing demands by the Cyprus Government and EU.

3.11.3 **Road Transport eServices:** The Road Transport Department has been awarded the 2008 Cyprus Innovation Award for the Public Sector for its web-enabled system, which provides among others services regarding the online registration of motor vehicles/bikes via the internet and the online payment (using credit cards) for renewing road tax licenses. The system also provides the option for an online check of CO₂ emissions and an online application for the withdrawal of old cars. As from January 2007, the inspection of used vehicles (Single Vehicle Approval), prior to their registration, can also be carried out electronically through the web. By the end of 2008 the system will also allow the online participation of citizens/companies in the auction process for the vehicle registration numbers. Additionally, driver candidates will be able to pay online for their examination fee and will be given the option to select the examination date/time and centre for their driving licence test.

3.11.4 **New Candidate Placement System:** The development of a new system started in November 2007 and is expected to be completed in November 2008. This system which is co-funded by the Structural Funds will provide enhanced functionality for labour market operations through the web and the intranet. Some of the system’s operations are:

- Candidates and Vacancies Administration (candidates registration, matching of candidates with vacancies, monitoring of interviews, etc. web)
- Private employment offices administration (issuing/renewing of permit for the operation of an employment office - intranet)
- Measurement of the Public Employment Services’ performance with quantitative and qualitative indicators (intranet) and
- Provision of statistical data (intranet).

3.11.5 **Development of a Government Secure Gateway:** The tender document is under completion and the tender will be issued in late October 2008. There was some delay in issuing the Tender as it was decided to expand the scope of the project providing eServices that require cross-government interaction. Hence, the development of the Gateway is expected to start in 2009 and be completed within a period of 12 months.
3.11.6 Development of the Civil Registration System (eCivil): The system will provide online services regarding birth/marriage certificates, passports issuing etc. The tender will be issued by the end of October 2008. Development is projected to start in 2009 and be completed within a period of 12 months. The delay in issuing this Tender is mostly due to the fact that during 2007 all IT efforts were absorbed by the task of converting all government information systems in order to adopt the Euro currency in January 2008.

3.11.7 Development of e-services for the Land and Surveys Department (eCilis): Some e-services for the Land and Surveys Department, such as the request for a copy of a certificate of registration and the issue of a cadastral plan, will be implemented through the Government Secure Gateway. More e-services are being considered and a relevant study is being revised to confirm which services and with what priority should be promoted.

3.11.8 Development of the Companies Registration System (eFiling): The eFiling project, which will allow for a complete online registration of a new company, is in progress and on track. The project commenced in April 2008 and will be completed in June 2009.

3.11.9 Development of a Central Government Data Warehouse: The objective of the Data Warehouse (central repository of data) is to enable easy access to accurate, consistent and integrated government data for better and faster decision-making, statistical purposes and for achieving responsiveness to Government obligations. The Strategy Study for the Government Data Warehouse has been completed. The implementation of the project will start after its approval by the Executive Board for the Computerisation of the Cyprus Government and the Council of Ministers, which is expected by the end of 2008. The execution of the project is expected to commence in mid 2009 and be completed within a period of 30 months (for Phases 0 and 1).

3.11.10 Roll-out of the Office Automation System (eOAS): The aim of eOAS is the electronic management of all documents of the Civil Service, as well as the automation of the procedures and regulations that rule their creation, archiving, security, distribution and disposal, including their final destruction or long term preservation for future accessibility by the public and researchers. It is already used in the Ministries of Finance and Foreign Affairs, the House of Representatives, the Central Information Service, the State Archives and other Government Agencies and Departments. The system will gradually be rolled out in all Government Offices. Currently a proposal is under consideration for identifying the readiness of the various Government Offices to use eOAS so as to define the implementation rollout plan. In May 2007, eOAS was awarded the FileNet EMEA Innovation Award, followed by the Cyprus Innovation Award for the Public Sector, given by the Employers and Industrialists Federation in June 2007.

3.11.11 Training of civil servants to help them develop an e-culture: As already mentioned in the previous progress report, the implementation of this measure is ongoing and includes:

- Training of users who are not computer literate, in order to gain basic IT skills.
- Organisation and delivery of informative seminars to staff, in order to provide them with initial information about the proposed changes/ new ways of working.
- Organisation and delivery of informative seminars targeted at middle and top management staff (all levels), in an effort to gain their acceptance and commitment for eGovernment initiatives, so that they will be able to disseminate the right, positive messages to their staff and drive the change process.
- Organisation and delivery of workshops, targeted at staff (all levels), in an effort to explore ways of effectively managing the change process.
- Training of a team of ‘superusers’ for the specific eGovernment initiative/project, who then undertake the training of users/staff (technical skills training) and/or the provision of first level support on site.

In the last year, the abovementioned process and actions were carried out during the implementation of Office Automated System in five governmental departments and services.

3.11.12 Setting up of a Help Desk System: This system is expected to manage centrally all technical support issues related to ICT usage in the Public Sector through a Call Centre and/or Intranet. The system will log all problems and solve or channel them for resolution by the involved party. The project has been delayed due to shortage of human resources and the fact that as stated above all IT efforts were absorbed by the task of converting all government information systems in order to adopt the Euro currency in January 2008. The Tender is expected to be issued in October 2008 whilst the execution of the project is expected to commence in 2009 and be completed within a period of 6 months.

3.11.13 Development of an eProcurement System: The e-procurement project is in progress. The project commenced in October 2007 and will be completed in March 2009. This will be followed by a pilot operation period of seven months and by October 2009 the system is expected to be fully operational.

3.11.14 New Measure- Revision of the Cyprus Government Information Systems (IS) Strategy: A proposal has been submitted in July 2008 to the Government Computerisation Executive Board recommending the revision of the Government IS Strategy. The aim is to refine the current IS Strategy for achieving the Cyprus Government objectives up to 2015 for productivity and growth whilst being in line with the EU i2010 Strategy Policy Actions.

3.11.15 New Measure - eID: In March 2008 the Cyprus Government initiated the procedures to introduce electronic identification /authentication (eID, smart cards) for public services in order to realise seamless access to public services across borders. eID standardisation/ interoperability is essential in order to put in place key pan-European services, such as crossborder company registration, electronic public procurement, job search, eVoting, eHealth etc. A proposal has been prepared and is awaiting approval by the Ministry of Interior prior to its final approval by the Council of Ministers.

3.11.16 New Measure - eDemocracy: Cyprus aims to promote e-Democracy and e-Participation in order to achieve a more transparent Government and a society equal for all. A study was prepared in August 2007 and is awaiting approval by the involved parties for the establishment of (a) an e-Democracy Portal and (b) a Web system for the submission of recommendations for improving Public Service procedures and operation.

3.11.17 New Measure – eServices for the Merchant Shipping Department: The Merchant Shipping Department promotes the development of eServices aiming to improve
services offered to law offices, shipping companies, police, etc. Some of these eServices include the updating of vessels crew list and the authentication of Seafarers Certificates by shipping companies and the Small Vessels Identifications of owners by police. The tender procedure is expected to be completed before the end of 2008 whereas the aforesaid eServices are expected to be available within 2009.

3.11.18 New Measure – Portal for the Single Point of Services (Services Directive): The Cyprus Government promotes the procedures for the implementation of the EU Services Directive (2006/123/EG) for Article 8, “Procedures by electronics means”, which foresees that Member States shall ensure that all procedures and formalities relating to access to a service activity and to the exercise thereof may be easily completed, at a distance and by electronic means, through the relevant point of single contact and with the relevant competent authorities. Therefore, the establishment of a single point of services and the set up of a relevant portal is underway.

3.11.19 New Measure – Enterprise Resource Planning System (ERP): The Cyprus Government initiated the procedures for the acquisition and implementation of an Enterprise Resource Planning System. The need for such a system arises after an evaluation of the future needs and obligations of Cyprus as an EU member, taking also into account the principles of “New Public Management”, the evolving IT technologies and the EU and National Strategy for the promotion of eGovernment. The Tender for the preparation of a Strategy Study for the ERP system was issued in July 2008. The Strategy Study is expected to start in January 2009 and be completed within a period of 6 months. Based on the findings of the Strategy Study a proposal will be prepared and submitted to the Executive Board for the Computerization of the Cyprus Government and to the Council of Ministers for approval. The tender procedure is estimated to take place within 2009–2010, whilst the system is expected to be operational in 2011.

3.12 Policy Priority: Promotion of eBusiness

3.12.1 Implementation of an Action Plan for the deployment of eCommerce: The Ministry of Commerce, Industry and Tourism, implementing the goals set by the European Union, has prepared a strategic plan for the promotion of e-Commerce in Cyprus. The implementation of the strategic plan began in May 2008, with the appointment of a Project Manager who will co-ordinate all the activities described therein. The project will cover a number of activities during a three year period with a budget of €4,6 mln. By the end of 2008, a website will be launched, which will provide information about electronic commerce as well as educational material to increase Information Technology literacy. The website will constantly be updated. In addition, the Ministry will organize seminars, to enlighten the consumers and the companies on the use of the Electronic Commerce and to promote its use. Furthermore, in order to provide incentives that will enhance the promotion of eCommerce, a draft version of various subsidy schemes will be prepared by the end of 2008. The subsidy schemes should be ready by the second quarter of 2009 whereas the website developed for the project, will provide to the users the ability to apply for the subsidy schemes on-line.

3.13 Policy Priority: Upgrading of Education / Life-long Learning / eLearning
3.13.1 Improvement of infrastructure in schools: The progress of this measure is very satisfactory in almost all related actions. The ratio of personal computers (PCs) to the number of pupils in the primary education was better than expected for 2008 reaching 1:5, giving high expectations for meeting the target of 1:4 set for 2010. A similar situation was also observed in secondary education, as the respective ratio for 2008 was 1:4.1 and the target set for 2010 is 1:3. For Technical /Vocational education the ratio is 1:1.58. With regard to the number of projectors in schools, the target set for one mobile projector per school in primary education and five mobile projectors per school in secondary education is met, whilst from the school year 2007-08 each ICT classroom in every secondary school has its own projector. Another target achieved, was the establishment of internet connections in all schools in both primary and secondary education. The implementation of the Educational Intranet (e-School) is processing with a short delay, and the interconnection with the internet of all secondary schools will be completed in 2010. The progress so far, is that the structure cabling of schools was completed in primary and technical education schools in 2005 and 2007 respectively, whilst in secondary schools is currently 40% and is expected to reach 100% in 2010-11.

3.13.2 Training of teachers in IT technologies: The training of teachers in basic IT skills is progressing with a short delay, reaching 85% and 80% in primary and secondary education, respectively. This training session is expected to be completed in 2009. Moreover, in September 2007, the implementation of the next training session planned for teachers started. This training session concerns the use of multimedia in class. It is expected that 50% of the teachers will be trained by 2009.

3.13.3 Reform of the educational curriculum to include use of ICT tools: The decision about the certification of IT skills for Gymnasium third grade pupils has not been taken yet, as there are second thoughts on this matter, including the enhancement of the IT Subject in schools without providing any certificate. The issue of electronic content for subjects taught in schools is progressing well. At present, there is software for 8 subjects in upper secondary education and 9 subjects in technical education, whilst different teams of teachers are evaluating and creating electronic content for the rest of the subjects. It is anticipated that most of the subjects will have electronic content by the academic year 2008-2009, as planned.

3.13.4 Implementation of the Learning Management System: The Learning Management System refers to the use of platform that enables the communication between teachers, students and parents in issues like absences, homework, examination grades etc. This platform was launched on a pilot basis in 8 schools in November 2008, whilst its installation in all schools is expected to be completed in 2009-2010.

3.14 Policy Priority: Improvement of the Quality of Life – eHealth


3.14.2 Development of a National Health Monitoring System (HMS): The Health Monitoring System has been operating since December 2007.
3.14.3 Development of a Pharmaceutical Information System: The implementation of a Pharmaceutical Information System will commence in October 2008 and is expected to be completed in 9 months as there was a delay in the Tender process for acquiring this system.

3.15 Policy Priority: Expansion of Broadband Network

3.15.1 Granting of licences for Digital Terrestrial Television Networks: The public consultation ended in December 2006 and the responses were published in February 2007. The Steering Committee that evaluated the responses from the public consultation submitted its Report to the Ministers of the Interior and of Communications and Works on the 20th of November 2007. On the 7th of June 2008 the Council of Ministers adopted the policy and regulatory framework for the authorization of DTTV networks. According to this framework, two nationwide licenses will be granted. One license (one multiplex) will be granted to the public broadcaster, CYBC, for the sole purpose of broadcasting its programs to the entire population of Cyprus. The other license (5 multiplexes) will be auctioned and the operator will have the right to offer any kind of service. He must however, carry all existing national programs. Both licences will be granted in 2009. All analogue terrestrial television transmissions will be switched off by the 1st of July 2011.

3.15.2 Granting of licences for Fixed Wireless Access (FWA) Networks: In an effort to maximise the benefits of infrastructure competition and in particular to increase the uptake of broadband in Cyprus, in defining the eligibility criteria that must be met by the applicants, the Department of Electronic Communications considered the possibility of excluding operators with SMP in the access markets from participating in the auction. In this respect, the Department of Electronic Communications has consulted the Commission Services who informed us of their opinion in February 2007. Based on this response, the regulatory framework was finalised and policy recommendations were submitted to the Minister of Communications and Works in July 2007. The auction for granting Licenses for the Fixed Wireless Access (FWA) Networks is expected to take place by the end of 2008.

3.15.3 Granting of Licenses for Terrestrial Trunked Radio (TETRA) Networks: Following the public consultation on this matter, it was decided that there was no interest for Nationwide TETRA licenses. Therefore, the plans to proceed with an auction procedure to grant this kind of licenses were abandoned. Local licenses will be available on an application basis.

4. ENHANCING COMPETITION AND IMPROVING THE OVERALL BUSINESS CLIMATE

4.1 State of Play / Overall Progress

The Cyprus economy is characterized generally, by conditions of intense competition, as reflected in the relatively large number of small enterprises (57 066 out of 62 826 or 90,83%) operating in the various sectors of economic activity. The striking majority of the enterprises
operating in Cyprus (99.8%) are classified as SME’s according to the European Definition and only 111 companies or 0.18% are big businesses (more than 250 employees) mainly in the sectors of banking, manufacturing and construction.

Competition has also intensified in sectors with a smaller number of players as in the financial sector, where competition has intensified after the liberalization of capital movements.

In the utilities’ sectors new licensed operators have entered, other than the incumbents and under the market regulation exercised by Commissioners, the prices offered to the consumers in Cyprus have been lowered in the last couple of years. Based on market analysis data provided by the pertinent Commissioners, the situation in the various markets is as follows:

With regard to the sector of electronic communications, the Minister of Communications and Works was authorised to prepare the draft bill for the Electronic Signatures Legal Framework, in cooperation with the General Attorney.

Furthermore, on the 9th of July 2008 the Director of the Electronic Communications Department was authorised by the Council of Ministers to proceed with the necessary actions for the implementation of electronic signatures, according to the Services Directive.

In the energy sector, 35% of the electricity market was opened to competition, after Cyprus' accession to the EU. Even though the Electricity Authority of Cyprus (EAC) is still practically the only supplier, the Cyprus Energy Regulatory Authority (CERA) has already awarded a number of licenses to Independent Power Producers (IPPs), for the generation of electricity by conventional and renewable energy sources. Concerning electricity prices in general, the average selling price of electricity per kWh in all categories, increased from 12.42 € cent in 2006 to 12.73 € cent in 2007, an increase of 2.5% as a result of increased fuel costs and the automatic fuel cost adjustment applied to the market price.

Furthermore, there is a continuous enhancement of the administrative capacity, of
- the Commission for the Protection of Competition (CPC),
- the Office of the Commissioner for Electronic Communications and Postal Regulations (OCECPR) and
- the Cyprus Energy Regulatory Authority (CERA)

Moreover, with a view to further enhancing the conditions of competition, all the measures included in the NRP are being promoted in accordance with the timetables foreseen, or with small delays in exceptional cases.

The EU has set a point to watch with respect to improving competition in the area of professional services as follows:

POINT TO WATCH:

“It will be important for Cyprus to:
• improve competition in professional services”.

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In the 2007 Evaluation Report on Cyprus’ NRP, the Commission set as a Point to Watch that “Cyprus should continue with measures to improve competition in the area of professional services”. As a result, the Planning Bureau has hired a consultant in order to define the restrictions in competition in six professions and suggest ways for removing the barriers. At the same time, the Committee for the Protection of Competition is conducting investigations for some of these professions. Further details are given in paragraph 4.13.

Inventory of Progress

4.2 Policy Priority: Further Enhancement of the Conditions of Competition

4.2.1 Enhancement of the Administrative Capacity of the Commission for the Protection of Competition

Adoption of the new legislation on the Protection of Competition Law

On 18 April 2008, the new legislation on the Protection of Competition Law (Law no. 13(I)/2008) was adopted. The CPC is now in full harmonization with its obligations as set out in Regulation (EC) no. 1/2003 on the implementation of Article 81 and 82 of the EC Treaty.

The CPC was enforced by the appointment of five members and five deputy members to its Committee. The five members of the Committee are employed on a full time basis.

Furthermore, during 2007 the CPC succeeded in acquiring funds from the European Union for two programmes – Technical Assistance and Twinning Light Programme. Relevant agreements were signed with RBB Economics in relation to the Technical Assistance and with the Hungarian Competition Authority in relation to the Twinning Light Programme.

The Technical Assistance Programme took place from January 2008 until March 2008. The training was focused on the following issues: (a) market definition and market power, (b) market structure (c) quantitative techniques, (d) merger analysis, (e) conduct assessment and (f) energy and telecoms market. The programme also included the delivery of relevant manuals by RBB Economics.

The Twinning Light Programme commenced in March 2008 and is still ongoing. The programme is expected to be completed by the end of 2008. The training is focused on the following issues: (a) market definition and market (b) quantitative techniques (c) merger analysis (d) cartel investigations (e) application of article 82 EC and (f) energy and telecoms market. The programme, also, includes an evaluation of the structure and internal organisation of the CPC, recommendations on the enhancement of the structure and the internal operation of the CPC, strategic objectives, providing help on internal procedures and case prioritization and, also, planning the advocacy activities of the CPC.

4.2.2 Increasing Public Awareness: In order to increase public awareness, the CPC will organise during October 2008, two Conferences, one in Nicosia and one in Limassol. The Conferences will be organised in cooperation with the Hungarian Competition Authority under the Twinning Light Programme.
Furthermore, by the end of October 2008, the CPC will publish a handbook aiming to increase public awareness on the new provisions of the Protection of Competition Law and of the Control of Concentration between Enterprises Law.

4.2.3 Electronic Communications Market

4.2.3.1 Carrying out a market analysis for Markets 4 and 5: The OCECPR is in the final stages for completing a market analysis for markets 4 and 5 concerning Wholesale unbundled Access to Local Loops (Market 4) and wholesale broadband access (Market 5). The results of the relevant public consultation are currently under evaluation.

4.2.3.2 Audit of the incumbent’s costing system: The audit of the incumbent’s costing system will be completed by September 2008. This audit will determine the cost of the incumbent’s retail and wholesale services. The results of this audit will be used in the review of the incumbent’s Reference Offers and the Retail Price Control Measures that may be imposed on the incumbent.

4.2.3.3 Digital Terrestrial Television: In July 2008, a policy document was issued by the Council of Ministers setting the finalized framework for the introduction of Digital Terrestrial Television in Cyprus. Based on this Policy document, the granting of the relevant licenses is planned for the 3rd quarter of 2009.

4.2.3.4 Broadband Wireless Access: A final policy document is expected to be published soon which will pave the way for the granting of the relevant licenses which is planned for the 2nd quarter of 2009.

4.2.3.5 VoIP (Voice of Internet): Review of the legal framework for the provision of VoIP services in Cyprus. Following a public consultation, OCECPR proceeded with the necessary amendments to the secondary legislation in order to accommodate and facilitate the provision of VoIP services.

4.2.4 Enhancing competition in the Energy Sector

4.2.4.1 Electricity Sector in Cyprus

- Setting the charges for using the grid network: This matter is still pending and is expected to be finalised before new suppliers enter the market. Ongoing discussions are taking place in order to assess the optimum charges for the use of transmission and distribution system. The delay in setting the charges has no implications as no new suppliers are expected to enter the market in the following years. The new targeted timetable is mid 2009. It is important to mention that the method of charges for connecting the Electricity Producers onto the transmission and distribution system is finalised and published.

- Electricity Market Rules: CERA has approved the “Electricity Market Rules” in principle in 2005. However, CERA has requested at the end of 2006 further simplification of the Rules for the sake of better understanding by all concerned. It is expected to be simplified by the 1st quarter of 2009 and before new suppliers enter the market.
Draft bill transposing Directive 2005/89/EC: CERA has prepared a draft bill amending the Law in order to transpose the Directive 2005/89/EC concerning measures to safeguard security of electricity supply and infrastructure investment, into the national Laws, which have been forwarded to the Office of the Attorney General for their conformity to the legal and technical aspects, before they are forwarded to the Council of Ministers and the Parliament for approval. It is expected that the amendment Law will be enacted by the end of 2008.

Further steps for regulating the Market: In depth discussions, meetings and deliberations are constantly in process with all parties involved in the Energy Sector on various important items issues among which were:

- The unbundling of the EAC accounts in order to establish the actual cost of the services rendered by EAC, the vertically integrated electricity undertaking and minimise the possibility of cross subsidies between its activities resulting in eventual lowering of the prices of electricity,
- The Market Rules, which were prepared by the TSO and submitted to CERA for approval. CERA gave unofficial approval but requested their simplification which is expected to be finalised in 2008,
- The Transmission and Distribution System Rules, already revised once, being further revised
- The use charges of the Transmission and Distribution System.

Licenses issued by CERA for existing and new Electrical Energy Generating Stations (Conventional Units of Generation): more specifically, by August 2008, CERA had issued Licences for a total of 2138.7MW out of which 1828MW (85%) were granted to EAC (54% for existing units and 31% for new units); 14.2MW (1%) were granted to two Independent Power Producers (IPPs) for existing units and 296.5MW (14%) were granted to four IPPs for new units.

Licences issued by CERA for new Electrical Energy Generating Stations (Electricity Production from RES): CERA has issued Licences for a total of 483.9MW which include 475.2MW (98%) for Wind Parks and 9.7MW (2%) for Biomass. Nonetheless, up to now only a small number of investments (biomass and small photovoltaic systems) have been materialised. The installed RES units are of total capacity of 2.69MW: 28% from biomass, 42% from grid connected PV systems and 30% from autonomous PV systems.

Applications under consideration by CERA: By September 2008, CERA was examining applications for the purpose of authorising new generating systems. These include applications of a total capacity of 398.63MW for electricity generation from RES. The RES applications under review consist of 71.66% from Wind Parks, 1.29% from Biomass, 1.88% from grid connected PV systems, 0.08% from Hydroelectric Systems and 25.09% from Solar – Thermal Systems.

4.2.4.2 Completion in the Natural Gas Sector in Cyprus: Natural Gas is still not available on the island; however it was defined by a Ministerial Direction as the basic fuel for the production of electricity with regards to future installations of sizeable capacity.
Furthermore, the Natural Gas Sector was put in line with the relevant EU Directive 2003/55/EC, relating to the common rules of the internal natural gas market. The provisions of the Directive have been incorporated into the Laws on Regulating the Natural Gas Market of 2004-2007.

Unlike the electricity sector which is characterised by ownership differentiation, the gas sector will be fully monopolistic, according to the last amendment of the law regulating the Natural Gas Market and to the relevant Ministerial Decision.

Cyprus will establish its gas industry by granting a supply permit to a single legal entity, which will be controlled by the state (Shareholding: 56% by Government with option to release 5% to 3rd parties, 44% by Electricity Authority of Cyprus), called ‘DEFA’. In general ‘DEFA’ would have the sole right to import gas into Cyprus and to sell gas to all gas consumers. Aggregating gas demand through DEFA could also facilitate Cyprus’ ability to acquire a relatively small quantity of gas on the best terms to satisfy demand. In addition, the Council of Ministers has decided the construction of a land based Energy Center as the exclusive Receiving Terminal, with Storage facilities and installations for Regasification of Liquified Natural Gas (LNG).

- **Draft Bills transposing Directives 2003/55/EC (Article 22-New Infrastructure) & 2004/67/EC**: CERA has prepared draft bills amending the Laws in order to fully transpose the Directives 2003/55/EC (Article 22-New Infrastructure) and 2004/67/EC into the national Laws, which have been forwarded to the Office of the Attorney General for their conformity to the legal and technical aspects, before they are forwarded to the Council of Ministers and the Parliament for approval. It is expected that the amendment Laws will be enacted by the end of 2008.

- **Participation of CERA in Transmission Facility Projects**: CERA participated in the Project “Institution Building Facility”, of the EU under the 2005-2006 Transmission Facility afforded to Cyprus regarding Terminal Assistance for Empowerment of the Administration Capacity of Regulatory Authorities and other bodies. CERA submitted two (2) projects to the Planning Bureau, which consisted of Technical Assistance to CERA for the preparation of Rules and Measures which are provided for, in the already harmonised with EU Directives National Legislation, and their preparation is in CERA’s competence. The projects were dealing with the following issues:
  - Measures for the Security of Natural Gas Supply in Cyprus
  - Rules for the management and Distribution of Capacity for the Natural Gas Supply System

The above mentioned projects were undertaken during the period of January 2008 - June 2008 and all the contractual obligations have been fully accomplished.

- **Project “Rules for the Management and Distribution of Capacity for the Natural Gas Supply System”**: this project was completed successfully. The specific scope of the project was the drafting of Rules for the management and distribution capacity in the Natural Gas Supply, the Definition of the applicable by the participants in the Market principles when access to the system is required, the commercial conditions and terms for the system, the methodology of tariffs and charges for access to the system, the drafting and/or approval of congestion of capacity mechanisms in the Natural Gas system. The
project was executed during the period of January 2008-June 2008 and all the contractual obligations had been fully accomplished.

4.3 Policy Priority: Change of Status of the Organisations in the Utilities Sector

4.3.1 Change of the status of the Cyprus Telecommunications Authority (CYTA): Following considerable delays a bill was prepared for the change of the status of CYTA which was submitted to the House of Representatives on 12/06/07 pending approval. The changed status aims at providing more flexibility in decisions concerning annual budgets, investments, conclusion of strategic alliances and pricing of services, human resources and purchases of services and equipment.

The discussion of the above bill started on the 23th of September 2008 at the meetings of the Parliamentary Commission on Transport and Communications. Successful implementation of the new status in the case of CYTA will open the way for its adoption in other semi-government Organisations.

Change of the status of the Postal Services: The consultations between the Ministry of Communications and Works and the Ministry of Finance regarding the change of status of the Postal Services were finalised and a bill was submitted to the Office of the Attorney General. The preliminary legal vetting has been completed; however the bill is still under consideration by the trade unions.

4.4 Policy Priority: Increase the efficiency of the Public Sector

“To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation” (Guideline 13)

4.4.1 Simplification and acceleration of the procedures for filling posts in the public service: The amendments of the Public Service (amending) Laws of 2005 and 2006 (N.79(I)/2005 and N.96(I)/2006) are currently being monitored and assessed for further improvements. In fact, a new amendment of the Evaluation of Candidates for Appointment to the Public Service Law is now being promoted with the aim to further accelerate the Public Service Commission’s recruitment procedures.

4.4.2 Modernisation of Schemes of Service: Public Administration and Personnel Department (PAPD) is urging all competent authorities to prepare new draft versions for obsolete and/or vague Schemes of Service in an effort to modernize and improve the required qualifications as well as the duties and responsibilities of the post in question. Since October 2007 up to now, 92 Schemes of Service have been prepared / modified.

4.4.3 Code of Conduct of Civil Servants: The draft text of the Code of Conduct, which was prepared during 2007, has not yet been finalized because of some technical issues related to the inclusion in the Code of principles that are already included in other relevant laws and regulations. It is expected that the Code will come into force during the second quarter of 2009.
4.4.4 Introduction of a new performance appraisal system in the civil service: With the objective to reach an agreement on the parameters of the new appraisal system, a private consultancy firm has thoroughly discussed the matter with the Council of Ministers and the civil servants’ trade union. The trade union has expressed its reservations regarding specific provisions of the system. For this reason a team was set up to facilitate the dialogue and help reach an agreement on the provisions of the new system. The team has come up with a separate assessment form relating to the development and coaching of employees, aiming to give more emphasis on the need for continuous improvement, training and development as well as familiarizing the employees with the appraisal criteria for promotion purposes. In addition, the team proceeded with the drafting of appraisal forms for promotion purposes for each level of staff.

Once there will be agreement between all parties the draft of provisions shall be submitted to the Council of Ministers and the House of Representatives for approval.

4.4.5 Introduction of a Performance Assessment System (CAF) in the Ministries and Departments/Services of the Civil Service: Several actions have been taken following the decision of the Council of Ministers to encourage the implementation of CAF in all public sectors:

- A Quality Conference to promote quality in the public sector and encourage the adoption of CAF. At the conference several organizations presented the benefits gained by implementing CAF.
- An Action Plan has been developed to facilitate the further dissemination of CAF in the public sector. The Plan includes, amongst others, personal contacts and meetings with specific Governmental Departments/Services, Semi-governmental Organisations and Local Authorities. It should be noted that the Departments of Antiquities and Postal Services proceeded with the implementation of CAF on the 1st of September 2008. The Action Plans also include the circulation of information regarding CAF through brochures and DVDs that will be sent to all Governmental Departments/Services, Semi-Governmental Organisations and Local Authorities.

Around 20 Departments/Services are either at the stage of completing their performance assessment or at the stage of preparing their Action Plan based on the results of the assessment. In addition, few organizations are at the stage of implementing their Action plan.

4.4.6 Continuous Training / Learning in the Civil Service, through the Work of the Learning Units:

“Learning Units” are trained and supported in their work by the Cyprus Academy of Public Administration (CAPA).

This year this initiative was further promoted by:

a) Six additional Learning Units that have been set up in six corresponding Organisations.
b) The allocation of a decentralised learning budget by the Ministry of Finance to the Organisations based on a more rigorous assessment of the quality of the work of Learning Units.

The main objectives for the next three years in the context of this initiative are:

i) The further increase of the number of Organisations in which Learning Units are successfully functioning, and

ii) The establishment of an electronically supported network/community of practice between CAPA and Learning Units and among Learning Units themselves.

4.4.7 Direct provision of training to Civil Servants from the Cyprus Academy of Public Administration (CAPA): CAPA continues to provide two types of programmes: (a) open, horizontal training programmes in which civil servants from all Civil Service organisations are invited to participate and (b) programmes organised in response to specific requests from specific civil service organisations on the basis of the Learning Needs Analysis conducted by their respective Learning Units.

4.4.8 Strengthening the administrative capacity of the civil service: A project proposal will be submitted to the European Social Fund Unit of the Ministry of Labour and Social Insurance (Intermediate Body) for approval.

4.4.9 Strategic, Leadership and Management Development of the Cyprus Civil Service: The overall aim of the project that will be co-funded by the EU Operational Programme for Employment, Human Capital and Social Cohesion, is to strengthen the strategic, management and leadership capacity of the Cyprus Civil Service through the provision of the necessary learning and support to the top leadership and other officers of all Civil Service Organisations (Ministries/Departments/Services).

A key part of the whole project will be the practical implementation of a system of strategic management in each Civil Service Organisation. This will be the task of the work-based projects that will be undertaken by the top management teams of Organisations.

The implementation of an Organisation’s strategic management system, will involve the definition of the Organisation’s vision, mission and objectives, the adoption of business plans, the definition of team and individual goals, the development of performance indicators, etc.

4.4.10 Enhancement of the administrative capacity of the bodies and procedures regarding the management of EU funds and the increase of the absorption rate: The Council of Ministers decided on the 28th of February 2007 to approve the recruitment of 146 additional staff, of different specialties (engineers, administrative staff, accountants, etc), to enhance the services involved in the absorption process. Following the above decision, the relevant authority proceeded with the implementation of the necessary procedures and recruited additional staff, which is now in place and working on the adsorption of the Structural Funds. In addition, IT experts have been commissioned to upgrade the existing Management Information System (MIS) and offer operational support to all bodies involved. The contract was signed on the 2nd of July 2008 and has duration of six months for the
upgrading and eight more months for testing its implementation. Operational support will be for two years ending July 2010.

4.4.11 Establishment of Citizen Service Centres (CSCs) / One-Stop Shops: Two more Citizen Service Centers (CSCs) now operate in Cyprus making it a total of five (CSCs) in 4 different Districts of the island (Nicosia, Limassol, Larnaca and Paphos/ Polis Chrysochous). The aim is to continue to provide multiple services from one point of contact/location, thus offering citizens the convenience of meeting their requirements in one stop. CSCs function as an alternative channel of dealing with public agencies /organizations. They offer more than 64 different services, from a number of governmental organisations. The majority of these services are offered on spot; due to the fact that the IT systems are in place to support the immediate delivery of services.

The CSCs are open Monday to Friday, from 8.00 a.m. until 5.00 p.m. It is noted that as of December 2005 (operation date of the 1st CSC), the 5 CSCs have provided a total of 553 132 services and have given information over the phone to 282 088 citizens.

The positive feedback received so far has been confirmed by an official survey carried out by the Statistical Service of the Cyprus Government on 11-27 April 2007, on the quality of services offered by the 3 CSCs that were in operation during that period. More specifically, 91% of the citizens who visited the CSCs evaluated “very positively” the quality of services offered by the Centers, and 8,8% of them evaluated “positively” the quality of services. It is also worth noting that almost all persons asked during the survey stated that they would gladly recommend the CSCs to friends or relatives.

Immediate plans include the establishment of 2 more CSCs, one in Famagusta and one in Paphos. In addition, following a recent decision by the Council of Ministers, we are now in the process of establishing a mobile CSC that will offer services especially to inhabitants of more remote/ mountainous areas (Details given in section 3C above).

4.4.12 Setting up of a Call Center: The Public Administration and Personnel Department (PAPD) launched in October 2007 a project for setting up and operating a Call Centre that offers multiple service delivery channels to the public. The ultimate goal of this Call Centre is the delivery of administrative information and/or the handling of cases that relate to the competences of a number of civil service organizations, from the point of filing a request to the point of the delivery of the service.

The basic prerequisite for the operation of the Call Centre is the recording and standardisation of procedures through which public organisations offer services to the public and to enterprises, as well as the simplification of these procedures, where necessary. For this reason, the PAPD has signed an agreement with a Team of Experts who offer the know-how for the execution of the project. In this framework, a number of government departments (Nicosia District Administration, Civil Registry and Migration, Road Transport Department, Department of Registrar of Companies and Official Receiver, Ministry of Commerce, Industry and Tourism, Ministry of Health, Department of Information Technology Services) have already been involved and are considered important stakeholders in the success of the project. Training of staff from the above mentioned organisations was undertaken in November 2007. Further training is planned to start by the end of October 2008.
4.5 Policy Priority: Reduction of the Regulatory and Administrative Burden

“To create a more competitive business environment and encourage private initiative through better regulation” (Guideline 14)

4.5.1 National Action Plan for Better Regulation: The Government of Cyprus considers the issue of Better Regulation (BR) as one of its priorities. A National Action Plan (NAP), approved by the Council of Ministers in July 2007, is under a joint implementation by the Ministry of Finance (MoF) and the Public Administration and Personnel Department. In May 2008, the NAP was revised.

The NAP describes actions that are being implemented in order to promote BR in Cyprus. These actions relate to three axes, as put forward by the European Commission: (1) Better Legislation, (2) Reduction of Administrative Burden (AB), and (3) Impact Assessment. However, the NAP makes a prioritization of actions towards the reduction of AB.

The NAP takes into account the commitments of the Republic of Cyprus, derived from the spring European Council Conclusions of March 2007 and March 2008.

In this respect, the Council of Ministers decided the following in February 2008:

(i) To set Cyprus’s national target for the reduction of AB, by 2012, at 20%.
(ii) To adopt the Standard Cost Model (SCM) as the appropriate methodology for the measurement and the reduction of AB.
(iii) To commission the Ministry of Finance to issue tenders in order to acquire consulting services for a zero base measurement of all legislation relating to business operations.

4.5.2 Operation of a Central Specialised Unit set up in the Ministry of Finance: The Central Specialized Unit (the Unit), set up in the MoF, responsible for the coordination and monitoring of the implementation of all actions included in the NAP, has intensified its operations during the reference period of this report, with the most important being:

With regards to the reduction of AB, tenders have been issued for acquiring consulting services, for the implementation of a pilot project to reduce AB in the real estate market and more specifically to the planning permission and the building permit. The contract was awarded to the private sector in July 2008. It is expected that the project will be completed by the end of October 2008.

Concerning the examination of best practices undertaken in other European countries regarding BR, the Unit visited Netherlands, in order to train itself in the reduction of AB by using the SCM in November 2007. Similarly, in April 2008, a training trip was organized in Ireland regarding the best practices in the impact assessment field.

Regarding the Action Plan of the European Commission to reduce AB in the community legislation by 25% until 2012, the Unit together with the rest of the civil service, is giving all the necessary support. In accordance with the guidelines received from the European Commission, the measurement of the AB in Cyprus, took place in 2 of the 13 priority areas of the Plan i.e. VAT and public procurement. In this context, technical workshops were
organized by the consortium, responsible for the implementation of the Action Plan with the participation of the private sector, regarding suggestions for the reduction of AB. The progress of the implementation of the European Action Plan, as well as the progress at national level, was presented during a national event, organized in Nicosia, in June 2008.

4.5.3 Impact Assessment: With regards to impact assessment, the Unit, in cooperation with the Attorney General’s Office, has adopted a simplified mechanism for impact analysis, until a full model of Cost-Benefit analysis is applied. A standard questionnaire has been developed, and has to be attached, as from November 2007, to all Bills/draft Regulations upon their submission to the Attorney General’s Office for legal vetting, and at a later stage, to the Council of Ministers and to the Parliament.

4.6 Policy Priority: Rationalisation of State-Aid

The total amount of state aid granted, excluding the sectors of agriculture, stock farming and fisheries, increased slightly during 2007. In relative terms there was an increase of state aid in relation to GDP from 0.50% in 2006 (revised figures) to 0.53% in 2007. In absolute terms the amount of state aid granted in 2007 was €81.8 mln as compared to 72.6 million Euro in 2006. This increase is mainly due to the restructuring aid granted to Cyprus Airways in 2007 (€15.5 mln).

It has to be noted that ignoring the restructuring aid granted to Cyprus Airways that caused an increase in the amount of aid, the volume of state aid granted in 2007 decreased both in absolute terms (from €72.6 mln in 2006 to €66.3 mln in 2007) but also as a percentage of GDP (from 0.5% in 2006 to 0.43% in 2007).

It is noteworthy that 42.6% of the total of state aid in 2007 (€34.8 mln) was granted to the sector of Culture and Media, which, does not greatly affect intra community trade. An amount of 26.8 million Euro out of the €34.9 mln was the annual grant to the Cyprus Broadcasting Corporation.

R&D: The R&D figures were adjusted for both years 2006 and 2007 under a new approach adopted by the relevant Committee. As a result of this adjustment, the aid granted for 2006 was adjusted to €3.49mln and for 2007 to €2.26 mln, as opposed to the previous calculations (€5.89 mln in 2006 and €4.37 mln in 2007).

Innovation: The state aid granted by the Human Resources Development Aid, for the purposes of training employees, was €7.96 in 2006 mln and €8 mln in 2007. In addition, the HRDA granted a total of €3.25 mln for the purposes of training, an amount that is not considered to be state aid under the definition of state aid in Article 87 of the EC Treaty. The corresponding figure for 2007 was €4.95 mln.

4.7 Policy Priority: Speed up the transposition of internal market directives

“To extend and deepen the Internal Market” (Guideline 12)

4.7.1 Continuous Monitoring of the transposition of the remaining internal market directives: According to the European Commission’s Internal Market Scoreboard No.17 of
July 2008, Cyprus has not reached the 1.5% transposition deficit target set by the European Council in 2001. This shows an increase of the deficit since the July 2007 Scoreboard No.16, when Cyprus had met the 1% interim target agreed by the EU Heads of State in March 2007. This can be mainly attributed to the Presidential Elections of February 2008 and the consequent restructuring of the Government. The transposition deficit 1.7% (as of 13 May 2008) corresponds to 29 Directives. The majority of the backlog of non-transposed directives concern the Veterinary and Plant Health Legislation (8), followed by the Energy and Transport sector (4). In addition, Cyprus has 3 outstanding directives whose transposition deadline was overdue by 2 or more years until May 2008. In this context, it should be noted that the Directive 2002/91/EC on energy performance of building is expected to be fully implemented by the end of 2008.

Due to the fact that the number of directives to be transposed actually increased compared to the previous scoreboard in December 2007, Cyprus needs to introduce working methods which are sufficiently efficient to cater for fluctuations in the workload.

4.8 Policy Priority: Enhance the enforcement of internal market legislation

4.8.1 “Screening” / Horizontal Legislation (extra): A guide was prepared and circulated to the Ministries and to the relevant authorities in order to assist them with the screening exercise. Working groups are being established for each Ministry with representatives from the Law Office of the Republic, the Planning Bureau, other broad public sector organisations, including local authorities, as well as competent bodies of the private sector, according to the Council of Ministers’ decision dated 9 July 2008. Information meetings were held in July at the Planning Bureau with representatives from all Ministries. The screening and assessment of the national legislation is scheduled to be completed by the end of 2008.

The Law Office of the Republic is currently drafting the relevant horizontal legislation for transposing the Directive, to be put into effect by December 2009.

4.8.2 Continuous monitoring of the effective enforcement of Internal Market legislation: By virtue of a Council of Ministers’ decision, the Planning Bureau of the Republic has established (at the beginning of 2006) a new Unit, which is responsible for the followings:

- the coordination of all horizontal issues pertaining to the Internal Market.
- has also an advisory role on vertical issues and the main responsibility for the IM communication policy.
- it is in contact with all the competent authorities of the country, the economic and social stakeholders in the private sector and the civil society at large, as well as with the Commission and other Community Institutions and the other Member States (at national level).
- represents Cyprus at IMAC meetings, coordinates the official position on the future Internal Market policy, the establishment of the IMI (Internal Market Information – electronically connected network with all member states’ administration system) and the activities in respect of the first vertical application (Professional Qualifications Directive) and is responsible for the promotion of the Commission’s public consultations on Internal Market issues and the organisation of Cyprus’ own public consultations.
it liaises with the Office of the Law Commissioner for monitoring the effective application of Internal Market legislation through the identification of national obligations and actions stemming from such legislation, the issue of the necessary instructions to the competent authorities and the preparation and submission of relevant reports to the Council of Ministers.

The efficiency of Cyprus’ monitoring of the internal market legislation enforcement, is reflected by the fact that the infringement cases against Cyprus, amount to 22 compared to the average of 48 cases for EU25. Nine infringement proceedings relate to incorrect transposition or incorrect application of directives and nine cases violate another source of EU law, such as a provision of the EC Treaty, a Regulation or a Decision. Furthermore, Cyprus’ SOLVIT lead centre requires on average 36 days to accept/reject and handle a case, the sixth lowest in the EU25, compared to the average of 58 days, for SOLVIT centres that have received 10 or more cases.

4.9 Policy Priority: Eliminate the remaining obstacles to cross-border activity

4.9.1 Development of an effective system of administrative cooperation: The government is supportive of the establishment of “mutual assistance provisions” across the E.U. and is involved in the relevant deliberations that take place at European Commission level including the preparation of the necessary electronic platform.

Information meetings on the integration of the various administrative cooperation issues of the Services Directive – including the national Registers – into the Internal Market Information (IMI) system were held in July at the Planning Bureau with Ministries, Professional Bodies, and other relevant Authorities.

Cyprus will decide on the appropriate structure that best suits its needs with regard to IMI on Services which, according to the European Commission plans, are expected to be tested on a pilot scale during the first half of 2009 so that it may become fully operational by the end of 2009. The National IMI Coordinator (NIMIC) is the Ministry of Commerce, Industry and Tourism whilst a final decision on the Delegated IMI Coordinators (DIMIC’s) and the Competent Authorities will be taken prior to the start of the pilot phase of IMI/Services.

Furthermore, information meetings and training will be organised for all competent authorities on both the theoretical as well as the practical issues of the electronic platform to be developed. Special training will also be given in due course to those competent authorities that will participate in the IMI Services pilot project.

4.10 Policy Priority: Applying EU public procurement rules effectively

4.10.1 Introduction of new legislation on public procurement implementing the new EU Directives 2004/17/EC and 2004/18/EC: A new legislation on public procurement was enacted in February 2006 implementing the new EU Directives 2004/17/EC (coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors) and 2004/18/EC (coordinating the procurement procedures for the award of public works contracts, public supply contracts and public service contracts).
4.10.2 Enhancement of the administrative capacity of the Public Procurement Directorate (PPD) of the Treasury: The project was concluded successfully at the end of 2007. The deliverables are of high quality and have been delivered both on hard copy as well as on CD ROM. The Procurement Guide has been web enabled as it was required by the Terms of Reference and as such, the Guide, including the Tender Documents, are now available to be used widely by the Contracting Authorities’ staff. The training seminars and workshops have been completed successfully and the Re-organisation study of the Public Procurement Directorate of the Treasury has been finalised and implemented.

4.10.3 Implementation of e-procurement in Cyprus: Regarding electronic procurement, the Public Procurement Directorate of the Treasury of the Republic has procured the competition for the “Introduction, application and deployment of a total solution for the implementation of electronic procedures in conducting public procurement competitions in Cyprus”. The procurement procedure has been concluded and the contract was signed on 5 October 2007. Project implementation is on its peak and is now focused on the parameterisation of the system. In accordance to the implementation plan the system software and hardware will be delivered and tested by March 2009. This will be followed by training and a pilot operation period of seven months and by October 2009, Cyprus will have the e-procurement system up and running. On the 19th of August 2008, the options included in the procurement notice for the acquisition of e-catalogues and e-ordering modules, were exercised, and their implementation has already commenced. These modules are expected to be incorporated into the core e-Procurement system by May 2009.

4.11 Policy Priority: Promoting a fully operational internal market of services, while preserving the European social model


In view of the fact that the Directive has to be implemented by 28 December 2009, the Planning Bureau is examining all aspects of the Directive, ensuring that all necessary actions are being promoted by the various competent authorities. In particular, the following actions (details of which are described under 1.2 – 1.5 of this Chapter) have been /are planned to be pursued:

- Screenning” exercise for the Horizontal legislation
- Upgrading the One Stop Shop to handle the activities of the Point of Single Contact (PSC)
- Development of an effective system of administrative operation

4.11.2 Upgrading the One Stop Shop to handle the activities of the Point of Single Contact (PSC) (Extra point): The Council of Ministers decided on 9 July 2008 to upgrade and expand the existing one-stop-shop at the Ministry of Commerce, Industry and Tourism, in order to be able to take on the responsibilities of the PSC.
The architecture and practical functioning of the PSC is under examination by the relevant authorities (i.e. Ministry of Commerce, Industry and Tourism, Department of Technology and Information Services of the Ministry of Finance and Department of Electronic Communications of the Ministry of Communications and Works). Every effort is being made so that the necessary technical infrastructure will be in place for the electronic system which is required to support the PSC.

4.11.3 Electronic signature: On 19 March 2008 the Council of Ministers approved the employment of three additional officers in the Electronic Communications Department (ECD) in order to strengthen its capacity and move forward with implementing the electronic signatures framework. The Minister of Communications and Works was authorised to prepare the draft bill for the Electronic Signatures Legal Framework, in cooperation with the General Attorney. The Minister of Finance was authorised to acquire the necessary funds for the following:

- Training of the staff of the Electronic Communications Department
- Hiring consultants to provide support for the implementation of electronic signatures

Furthermore, the Council of Ministers, by its Decision dated 9 July 2008, authorised the Minister of Communications and Works and the Director of the Electronic Communications Department to proceed with the necessary actions for the implementation of electronic signatures, according to the Services Directive.

Regarding the sector of electronic signatures the progress made during the period 2007-2008 consists of the following:

1. The Council of Ministers approved on the 19.3.2008 the award of the implementation of the framework of electronic signature to the Department of Electronic Communications (DEC).
2. The DEC has forwarded the amendment of Article 2 of the Legal Framework for Electronic Signatures, no. 88(I)/2004 to the Legal Service so that the amendments provide that the Competent Authority for Electronic Signatures is going to be the Director of the DEC.
3. After completing a study on electronic signatures, the DEC has concluded on a particular framework for the provision of electronic signatures in Cyprus. The DEC has submitted a draft proposal to the Council of Ministers to promote activities required for appointing a High Definition Certification Authority (Root CA) for electronic signatures.
4. The DEC as the Competent Authority is currently preparing regulations that will define the obligations of the Certification Service Providers.


4.12.1 Transposition of various Commission Directives relating to the Financial Market:
4.12.1.1 Transposition of the Directives 2004/39/EC, 2006/31/EC, 2006/49/EC and 2006/73/EC: The Law implementing the Directives which contribute towards the integration of the financial market was enacted on the 26th of October 2007 (Law 144(I)2007):

4.12.1.2 Transposition of the Directives 2004/109/EC and 2007/14/EC: The Law implementing the following Directives was enacted on the 31st December 2007 (Law 190(I) 2007):


Supplementary FSAP-related measure - Introduction of a widely acceptable primary dealers mechanism and of an electronic trading platform in the domestic market for government bonds: The required legislative changes necessary for introduction of a primary dealers mechanism have been incorporated into the legislation and the process is now under way for implementing the primary dealers system. The full implementation of the system for the government bond market is expected to take place within 2009.

4.13 Policy Priority: Enforcement of the competition policy

4.13.1 Screening of markets and regulations by competition and regulatory authorities

4.13.1.1 Study on the degree of competition in the sector of Professional Services

Following the “Point to Watch” of the Commission’s 2007 Evaluation Report, which indicated that Cyprus should continue with measures to increase competition in the area of professional services, the Planning Bureau has called for tenders for a study in order to examine the restrictions of competition in five professions (doctors, pharmacists, lawyers, architects, engineers and accountants) and to obtain suggestions aiming at enhancing competition.

More specifically, the study will map the market for each of the professions (e.g. define the market structure, the businesses structure, the supply and demand for services and the legal framework). Furthermore, it will analyse the factors that restrict competition with respect to requirements and qualifications for entering the market, price setting, restrictions in advertising and business structure. It will define the EU acquis for professional services, as well as best practices of countries which have improved competition in this area.

The contract was signed between the Planning Bureau and the selected consultant on 15th September 2008. The study is expected to be completed by May 2009.
4.13.1.2 Investigations and studies by the CPC

- The CPC decided to launch an investigation concerning the professions of doctors, paediatricians and dentists, following a complaint by the Cyprus Consumer Association.
- The CPC is conducting an ex officio investigation in the professions of lawyers, architects and real estate agents.
- Following a request by the Ministry of Health, the CPC gave its views on the request of the Pancyprian Dentist Association to the Council of Ministers, to approve a price catalogue. The CPC emphasised the principles set out in the Arduino case.

4.14 Policy Priority: Competition in Network Industries

In the electronic communications markets, the share of the alternative operators for national calls originating from fixed network increased from 6% in 2006 to nearly 12% at the end of 2007, while the market share of the OLO’s for calls to international destinations reached at an estimated 28% in 2007 compared to 26.2% in 2006. In the mobile telephony, the market share of the alternative operator increased to 13.6% at the end of 2007 compared to 10.4% in 2006. Furthermore, the market share of the alternative operators for the year 2007 in the provision of internet services based upon narrowband access reached an estimated 15.2% compared to 13.7% in 2006. Broadband access for the alternatives reached 13.03% for the alternatives compared to a 5.5% in 2006.

4.15 Policy Priority: Encouraging enterprises in developing their Corporate Social Responsibility

4.15.1 Promoting CSR: The Planning Bureau, which is also the Lisbon Strategy coordinator, has been appointed as the National Contact Point for the CSR initiative in Cyprus, with the mandate to coordinate the activities of all players involved and promote the CSR concept in Cyprus.

The main activities carried out so far involve the organization of seminars, one of them being organised in March 2005 in cooperation with Euro chambers and UEAPME, the European association of small and medium-sized enterprises. In the various seminars a reference was made to Cypriot SME’s that had adopted a CSR policy as good practice. Additionally, an exhibition named Save Energy is organised every year, which is sponsored by the Ministry of Commerce and Industry and aims at promoting energy-saving solutions for enterprises and individuals.

4.15.1.1 Surveys on CSR: Several surveys have been carried out showing that, SME’s in Cyprus carry out a number of CSR activities. One of these surveys measured the degree of awareness among SME’s on the concept of CSR and on reporting on good practice in four main fields: human resource management, society, environment and the market place. The survey was completed in autumn 2007 and showed that SME’s are promoting a number of CSR activities but may not be aware that this comprises a CSR action.

4.15.1.2 Business incentives: The Cyprus Employers and Industrialists Federation (CEIF) has recently been recognised as the licensed international partner of the Investors in People (IIP) standard, which provides a framework that helps organisations to improve performance
and realize objectives through the effective management and development of their employees. It presents awards to businesses for their actions in the field of social responsibility: the innovation award, the social excellence award (especially for work–life balance actions) and the corporate social responsibility award. All awards are financed by the government. A Risk Assessment Service has been established since 2003 which provides entrepreneurs with sectoral risk assessment projects, resulting in awareness raising and cost minimisation on health and safety issues.

4.15.1.3 Strategies and Tools to Promote Responsible Investment: The Planning Bureau, in cooperation with other three research institutions, is promoting within the next 18 months a programme entitled: “Strategies and Tools to Promote Responsible Investment”, which will cost about €150 000 with 80% of the cost being a grant from the European Commission. The main activities of the programme are the followings:

- Research and comparative review of Social Responsible Investments (SRI) practices across Member States.
- Development and testing of a non financial performance assessment tool.
- Prepare dissemination and awareness-raising workshops for the investment community, national regulatory authorities and business organizations.
- Organisation of the 1st Euro-Mediterranean Forum. The Forum is scheduled to be organised in Cyprus in 2009. The aim of the Forum is to promote the idea of CSR not only among local SME’s but also to those in the European, neighboring Arab and Northern African countries around the Mediterranean, that form close trading partners of the EU and would be beneficial to get acquainted with socially corporate practices.

5. EXPANSION AND UPGRADING OF BASIC INFRASTRUCTURE

“To expand, improve and link up European infrastructure and complete priority cross-border projects” (Guideline 16)

5.1 Policy Priority: Improving Road Transport Infrastructure

5.1.1 State of Play / Overall Progress
Transport is served, to a large extent, by a modern road network, according to the indicators relating to the capacity, the physical and geometrical characteristics of the roads, the spatial layout and the transport needs of persons and goods. The increase in the island’s population has been associated with greater mobility and car ownership. This in conjunction with the increase in freight and tourism and the decline of public transport use, has placed an enormous strain on the road infrastructure of the island.

In particular, congestion levels mainly in the urban areas have been increasing continuously with the situation in some areas becoming critical. The lack of a coherent strategy and investment in public transport and the delay in the development of an urban network of walkways and cycleways has increased the dependency on the use of private car. The public transport is confined to urban and rural buses as well as to inter-urban taxi services and its use has been steadily declining to less than 2% of the total number of trips.

Intensified efforts have hitherto been put forward, in promoting and upgrading the road network. All cities and other major centres are linked with motorway standard roads, while accessibility of rural areas to major urban road centres has also been improved. Cyprus covers a total area of 9,250 km$^2$ and its total road network consists of 7,842 kilometres. This number includes a total of 257 km of motorways in 2007.

Regardless of the improvements in the road network infrastructure, a total of some 2,500 road accidents occur and on average 100 people die in Cyprus annually. The number of actual road deaths reached 111 in 2000 (or 16 per 100,000 inhabitants) and 117 in 2004 (or 15.9 per 100,000 inhabitants). Following the implementation of a number of actions included in the Strategic Action Plan for Road Safety in 2006 it dropped to 86 (or 11.4 per 100,000 inhabitants) but there was a small increase in the number of road deaths to 89 in 2007. It is important to emphasize that road safety remains a priority for the Government.

Despite the considerable progress achieved in the completion of the road network at different levels and the operation of the system, there are still weaknesses, the main ones being:

- Inadequacy of road bypasses of large urban centres or other significant communities,
- Traffic congestion in the urban areas at peak hours, mainly due to the rapid increase in the use of private cars, the low utilisation of public transport and shortages in parking facilities,
- Comparatively high fatal and serious accident rates,
- Extremely low rate of usage of public transport with a continuous fall in demand and worsening of the level of services,
- High average age of public service vehicles,
- Insufficient infrastructure for environmentally friendly means of transportation (bicycle, pedestrians).
- There has been satisfactory progress in the road transport subsector, as a number of important projects have been completed or are in the phase of implementation as foreseen in the NRP. Indicatively:
  - The upgrading of five out of a total of six Limassol roundabouts to grade-separated junctions were completed by June 2007, whereas the upgrading of the remaining is finishing by the end of October 2008 (co-financed by the Cohesion Fund in the Programming Period 2004-2006).
• The procurement process is expected to take place in early 2009 for the construction of a 4-lane dual road, between the Limassol Port and Limassol-Paphos Motorway. This project is part of the Trans European Road Network (TEN-T) and will be co-financed by the Cohesion Fund, in the Programming Period 2007-2013.

• Recently (September 2008) the negotiations with the selected bidder commenced for the construction via the PPP method, of the Paphos-Polis Chrysochous road.

• The Council of Ministers approved a programme of action for the enhancement of public transport in Cyprus. The decision, set up a Steering Committee, appointed a project manager and called for the creation of a project management unit. The Cypriot authorities shall prepare a pilot project (amounting to €45 mln) for public transport in Nicosia, which will be co-financed by the Structural Funds for the Programming Period 2007-2013. For the timely implementation of the project, the above mentioned project management unit is gradually being established.

• In the area of Road Safety, there was a slight increase in 2007 in the number of road deaths to 89, compared to 86 in 2006, but the number of serious and slight injuries decreased by 18%.

**Inventory of Progress**

5.1.2 Expansion of the Primary Network in Urban and Inter-Urban Areas

5.1.2.1 Construction of a new road that will connect Paphos and Polis Chrysochous: The successful bidder was selected and the negotiations commenced in September 2008. The construction of the road is anticipated to commence in 2009 and be completed by 2014. With regard to this road in particular, there are severe road safety issues under the current situation. Thus, with the construction of the new road linking Paphos to Polis the total number of accidents as well as the average travel time from Paphos to Polis are expected to be reduced significantly.

5.1.2.2 Upgrading of the Limassol roundabouts to grade-separated junctions: The sixth and last roundabout is under construction and is expected to be completed by the end of October 2008. The whole project will thus be completed by the end of October 2008. According to the projections of the studies for the above project, the grade-separated junctions are expected to reduce traffic congestion, lead to a decrease of accident rates by approximately 60%, and to a reduction of the average travel time from Nicosia to Paphos, via Limassol.

5.1.2.3 Construction of a highway from Kokkinotrimithia to Astromeritis and then to Euryhou: The second phase of the project, from Akaki to Astromeritis, passes through the cease fire line and requires consent of the UN forces, which until today has not been granted. Under these circumstances, the third phase of the highway, from Astromeritis to Euryhou, will proceed ahead of the second phase. Preparation of tender documents, evaluation and award of tenders for the design for the third phase will take place in early 2009. The design of the project is expected to take two years (mid 2009 to mid 2011). The execution of the project is expected to last two years (2012-2013). The new road is expected to remove traffic from residential areas through which the old road was passing, reduce travel time and decrease the accident rate. Also, it will improve the accessibility to the mountainous region of Troodos.
5.1.2.4 Construction of the Nicosia Perimetric Motorway: The design of the project will be split in five phases and is expected to take two years. The execution of the project will be carried out in five phases with the first phase starting in 2011. The first two phases are expected to be completed in 2014. The overall completion of the whole project depends on the availability of financing. The construction of the Nicosia Perimetric Motorway (bypass) is expected to remove through traffic and as a result reduce traffic on the secondary road network, as well as travel time.

5.1.2.5 Construction of the link between Limassol Port and Limassol – Paphos motorway: This 4-lane dual road will be part of the Trans European Road Network (TEN-T) and will replace the existing access to the Limassol port that passes through a residential area. The contract documents have been prepared. The procurement process is expected to take place in early 2009 and the evaluation of tenders and the appointment of the successful contractor, in mid 2009. Construction is expected to commence in late 2009 and be completed in two and a half years. For this project, an environmental study has been completed. The techno-economic study is at a draft-final stage. It will improve significantly the access to the Limassol Port and will relieve congestion, and reduce accidents and noise impact in the area.

5.1.2.6 Construction of the Nicosia – Palechori Road: The design of the project started in mid 2008 and is expected to take two years (till mid 2010). The execution of the project is expected to last three years (2011-2013).

5.1.2.7 Construction of the Limassol – Platres Road: The feasibility and environmental impact studies were completed in 2008. Preparation of tender documents, evaluation and award of tenders for the design will take place in early 2009. The design of the project is expected to take two years (2009 to 2011). The award of tenders for the construction is expected to take place in early 2012. The execution of the project is expected to last three years (2012-2014).

The latter two projects are expected to improve the access to mountainous areas, facilitate commuting to urban areas, reduce the overall travel time and lead to a fall in accident rates.

5.1.2.8 New Measure: Widening of the Nicosia – Limassol Motorway, Section Alambra to Nicosia: The project is divided in two phases. The first phase comprises the construction of a new grade separated junction with the necessary network adjacent to GSP Football Stadium. For this phase the tender documents were prepared recently and the evaluation and award of tenders for the construction is expected to take place in late 2008. The execution of the project is expected to last two years (mid 2009-mid 2011). According to the projections of the studies for the above project, the widening of the road and the new grade-separated junction are expected to reduce traffic congestion, lead to a decrease of accident rates by approximately 28%, and a reduction of the average travel time from Nicosia to the outskirts of Nicosia District.

5.1.3 Elimination of Congestion in Urban Areas
5.1.3.1 Undertaking of a study on Intelligent Transport System (ITS) financed by the Transition Facility of the EU: The execution of the project is proceeding, with the completion date being 12 November 2008. The study will result in the design of an ITS for Cyprus in line with the European ITS Framework by examining the existing situation in Cyprus, in terms of legal and policy frameworks, needs and priorities and make suggestions for changes to allow the smooth implementation of ITS.

5.1.3.2 Implementation of the ITS, based on the recommendations of the preceding study: The decision to proceed as well as the contract implementation method will be taken at the end of ITS study. The implementation of ITS in Cyprus will facilitate the effective management of the road network in real-time. ITS has multiple benefits which include reducing congestion, improving information flow to users and to critical services such as police, fire brigade and ambulances, enhancing safety, managing emergencies and generally providing other network services.

5.1.3.3 New Measure: Free transport of students in schools by bus in the urban centres - pilot programme: This measure started as from September 2008 and provides for all students of secondary and technical public schools that live more than 500m from their schools into the towns that they will be carried to their schools by buses that will be paid by the Government. Originally the measure will cover 62 schools in the whole island, which cover 70% of the secondary student’s population of Cyprus. The measure will gradually cover all public schools within the next two years. This measure is additional to the measures that cover the whole population of students, primary and secondary education, that live in the rural areas of Cyprus. The free transfer of secondary school students in the urban centres will offer social and economic benefits to the Cypriot family. Also, it will benefit the environment, but above all it will reduce the congestion in the city centres.

5.1.3.4 New Measure: Bus service connecting Larnaca airport to the main cities of the island-pilot programme: The private service started operating from July, 2008 and it will be assessed during autumn. The service will benefit the environment and reduce the congestion in the city centres.

5.1.4 Promotion of Urban Public Transport

Over the last few years Cyprus has been facing an increasing traffic congestion problem, especially in urban areas. This is mainly the result of the increase in car ownership (from €0.2 mln in the early 1980’s up to €0.52 mln in 2004); and the inadequate bus service offered to the public, resulting in Nicosia in a low 2% modal share of public transport (calculated from all modes including walk mode). Public transport in Nicosia carried 12,8 mln passengers in 1980 but only 3.5 mln in 2004. Bus lanes have not been implemented due to the fear of increasing traffic congestion. Frequency is not satisfactory, with intervals of 30 minutes or more, many times increased by the consequences of traffic congestion. Consequently:-

5.1.4.1 Strategic Action Plan for Pubic Transports: In May 2007, the Council of Ministers approved the programme of actions for the enhancement of public transport in Cyprus with the overall objective to enhance the public transport system (in terms of capacity and quality) and increase its attractiveness so that its use increases from 2% in 2006 to 10% by 2015. More specific objectives also include the following:
- Reduce the bus journey times and the average passenger journey time and cost;
- Increase the number of bus routes and bus stops so that the maximum walking distance to a bus stop would be 500 m approximately;
- Increase the frequency of operation of the buses both during daytime and at peak periods (no more than 20 minutes interval during off-peak hours);
- Increase the service amplitude (during off-peak periods, night and week-end);
- Reduce the average level of harmful gases emissions by buses;
- Facilitate the use of public transport by people with impediments, or reduced mobility;
- Establish a comprehensive parking policy in order to facilitate public transport.

The Cypriot authorities and the Management Unit of the Project are in the process of preparing a Pilot Project not exceeding €45 mln in total which will test the effectiveness of some of the measures identified to improve the situation, which address the most urgent needs and can be implemented relatively quickly. The Pilot Project has been included in the list of those that will be funded from the allocation made to Cyprus under the Structural Funds, for the programming period 2007-2013.

The remaining proposals which include projects of an estimated budget cost of over €500 mln, like pavements and other main roads will be financed by the national budget. In order to identify, analyse and plan all the measures, it was decided to develop integrated mobility master plans for the urban conurbations. In the case of Nicosia, the study has been procured and the contract will shortly be awarded. In addition to its main purpose, the Nicosia study will, in its early stages, assist in formulating the Pilot Project that will be funded under the Structural Funds.

5.1.5 Increasing Road Safety

5.1.5.1 Implementation of the Strategic Action Plan for Road Safety, for the period 2005-2010: Target Set: Decrease the number of road deaths by 50% by 2010 i.e. from 102 in 2005 to 50 in 2010. The most important new and continuing actions which were implemented in 2007 and early 2008 were the following:

- The Road Traffic legislation was widely amended and is now harmonised with the current status and conditions on the roads.
- Daytime Running Lights for motorised two wheelers has been made mandatory.
- Increased police enforcement (especially on Friday and Saturday nights) for speed, drink-and-drive, seat belt and safety helmet use.
- Road Safety Education was adopted as an “emphasis target” in public schools for the school years 2006-2007 and 2007-2008, and the 3rd and final Road Safety Education book for 5th and 6th grade primary school students was printed and sent to the schools.
- Seminars were held for the training of teachers in Road Safety Education methods.
- A project for the design of remedial measures at accident black spots was concluded and the implementation of the measures is in progress.
- Crash cushions have been and continue to be installed at motorway exits.
- Motorway intersections have been and continue to be equipped with road lighting.
- Road Safety Inspections on the main road network have been established.
The procedures for the technical inspection of motorised vehicles have been enhanced.

The above actions in addition to other established road safety practices, led to a decrease in the number of road deaths by 2006 and 2007 as follows: 2005: 102 fatalities, 2006: 86 fatalities and 2007: 89 fatalities.

5.2 Improving Ports Infrastructure

5.2.1 State of Play / Overall Progress

Cyprus’ ports have been developed into major cruise ship centres while, their role as transhipment centres serving international third country trade has been declining due to various factors, notably the embargo imposed by Turkey on Cypriot flagged ships and on ships of any nationality having landed in Cyprus. Following the accession of Cyprus into the EU, the need for expansion and upgrading of the port infrastructure has become imperative, as Cyprus ports are now the gateways of Europe in its southeast corner.

Cyprus is a permanent base for a large cruise fleet, which carries out excursions in the region on a regular basis. However, the number of passengers moved through Limassol and Larnaca ports in 2007 was down by 5% as compared to 2006.

In the ports sub-sector the enlargement of the western container stacking area has been completed, whereas concerning developments relating to the construction of a modern passenger terminal at Limassol port, dredging of the Limassol port and redevelopment of the Larnaca port and marina into a mainly passenger port on a PPP basis exhibited signs of delays. Projects in the Limassol Port may be co-financed by the Cohesion Fund of the Programming Period 2007-2013.

5.2.2 Construction of a modern passenger terminal at Limassol port: The construction of the new passenger terminal (a project partly financed by the EU-Trans-European Networks) is expected to be completed around December 2011, instead of mid 2008 as foreseen in the National Lisbon Programme, due to various logistical problems. The new passenger terminal is expected to (a) increase the passenger capacity of the port by 150%, (b) improve the quality of rendered services, (c) conform to the requirements of the acquis communautaire according to the Schengen Convention, as well as to the provisions of the International Ship and Port Facilities Security Code and, (d) create favourable conditions for achieving one of the strategic goals, i.e. the establishment of Cypriot ports as cruise centres.

5.2.3 Dredging of the Limassol port to 16m: The execution of the project started at the end of January 2008 and is expected to be completed before the end of 2008. The delay of the completion of the project (foreseen to finish in the first half of 2006 in the National Lisbon Programme) is due to the fact that dredging of the port increased to 16m instead of 15m as was originally planned. The project has the following advantages: (a) It is expected to increase the capacity of the Limassol port to handle trade, especially transit trade, (b) it is
expected to create favourable conditions for the Cyprus Ports Authority to achieve one of its strategic goals, i.e. the establishment of Cypriot ports as cargo distribution and transhipment centres in the wider region and, (c) The Limassol port will be able to respond to technological changes in shipping and modern requirements of commerce (i.e. serving ships of 4th generation).

5.2.4 Implementation of the project for the redevelopment of the Larnaca port and marina into a mainly passenger port on a PPP basis: Construction is expected to start within 2009. This project will make Larnaca port a major cruise ship centre in the region and will provide an economic boost to the city of Larnaca due to the tourist influx in the area. Also its development into a mainly passenger port together with the redevelopment of the Larnaca International Airport will introduce the “fly and cruise” concept in the area, thus positively boosting the tourist sector in Cyprus.

5.3 Improve Airports Infrastructure

5.3.1 State of Play/Overall Progress

With the Nicosia airport being inoperative since 1974, the Larnaca airport was hastily developed to serve as the Island’s main airport. However, the airport was developed without a proper master plan and as a result lacks the necessary capacity and functionality to accommodate the increasing traffic. The Paphos airport was developed in 1983 to facilitate tourist development of the western part of the island. It also faces problems of capacity, but its major problem is the extreme seasonality of its traffic. Whilst periodical improvements of the facilities have offered some relief, the existing infrastructure is not considered adequate to accommodate further traffic growth in the future, as problems of congestion and delays are already regularly observed during the summer months.

In the particular area, there was a very significant development in May 2006 with the signing of the final Concession Agreement between the government and the HERMES AIRPORTS LTD, signalling the launching of the redevelopment of the two airports, using the PPP method. In the meantime, as from 2006 the selected consortium took over the operation of the two existing airports, whereas the construction works for the redevelopment of the two airports started in June 2006.

Inventory of Progress

5.3.2 Airports Redevelopment: Phase 1 of the redevelopment of the 2 airports, which includes the development of new passenger terminals at Paphos and Larnaca, with a significantly expanded passenger capacity, is expected to be completed by the end of 2008 and 2009, respectively.

The redevelopment of the Larnaca airport will increase substantially the passenger capacity of the airport from about 5,1 mln passengers in 2005 to 7,5 mln passengers per year in 2010.
(the respective figures for Paphos are 1.9 mln in 2005 and 2.7 mln passengers per year in 2009). It will also make Larnaca a regional hub in the area serving aircrafts going to destinations in the Middle-East, Far East and Africa. The project will also have an immediate economic impact as over €500 mln will be invested in the first phase, over a period of 3 years.

6. SUSTAINABLE ENERGY PRODUCTION AND CONSUMPTION

6.1 State of Play / Overall Progress

The 2007 Spring European Council committed itself to transform Europe into a low carbon economy with secure, sustainable and competitive energy. It agreed on ambitious targets to cut greenhouse gas emissions by at least 20%, increase energy efficiency and boost the share of renewable energy to 20% by 2020. For Cyprus, the need for an effective tackling of the
challenges in the energy field are all the most pressing since the energy system is almost entirely dependent on imported oil.

Electricity generation is based on petroleum products and absorbs on average, 43% of the total primary energy consumption. In view of the comparatively high increase in electricity demand, there is a need for further expansion of the system. It is noted, in this respect that over the past few years, electricity demand has been rising on an average of 6,5% per year.

Apart from the very high degree of dependence on imported oil, other weaknesses, from the point of view of the infrastructure and operation of the energy system, are the limited oil storage capacity and the energy intensiveness of the economy, particularly in the passenger transport sector and the limited use of renewable energy sources. It is noteworthy that Cyprus has energy intensity above average which indicates a modest scope for improvement. Since Cyprus is almost exclusively dependent on oil imports, the energy dependency rate is also one of the highest amongst the EU 27.

In fact, in terms of primary energy consumption\textsuperscript{4}, oil imports constitute 96,8% of the total. This is because energy electricity generation is almost 100% oil fired. Furthermore, the energy system of Cyprus is heavily dependent on oil imports for its final consumption\textsuperscript{3} (75,4%). The remaining 24,6% is covered by electricity (20%), imports of coal (1,8), used oil and tyres (0,41%) and by renewables (2,4%) mainly solar energy used for heating water in the household and tertiary sector (e.g. hotels).

With regard to security stocks of petroleum products, their level is set by directive 2006/67 EEC, according to which member states should maintain at all times, at least stocks equal to 90 days of average daily internal consumption. In February 2008 Cyprus fulfilled its obligation regarding the increase in the level of security stocks from 60 to 90 days of consumption.

With a view to effectively tackle the challenges in the energy field, all the measures included in the NRP are being promoted. Additional other measures have also been introduced such as the formation of New Support Schemes for electricity generation from large scale wind and photovoltaic systems, concentrate solar power systems, biomass and biogas installations.

Moreover, there was a simplification of the submission and evaluation procedures for the measures targeted at promoting Renewable Energy Sources (RES) and ECon and an enrichment of the scope and intensity of existing measures in these same fields. Based on the large number of the submitted applications for RES and ECon, the grand schemes give promises for very fruitful results.

Despite the low contribution of renewables to energy supply (2,4%) the use and manufacturing of solar water heating systems is extensive in Cyprus. Around 93% of households are equipped with solar water heaters and 53% of hotels have installed large / central solar water heating systems. The EU Study “Sun in Action” ranks Cyprus first with 0.86m\textsuperscript{2} (with tendency to 1m\textsuperscript{2}) of installed solar collector per capita.

\textsuperscript{4}: Total primary energy consumption 2007: 2,66mln toe
\textsuperscript{3}: Total final energy consumption 2007: 1,88mln toe
Generally, there has been good progress in the energy field. The level of security oil stocks have been maintained to at least 90 days of consumption, the process for the establishment of the Energy Centre has progressed and there has been an increased interest from the general public in the utilization of the various measures targeting the promotion of RES and Energy Conservation.

Cyprus is committed to reach the following targets:

- Increase of the contribution of RES from 2,1% (as of 2006) to 4,2% to the total energy consumption by the year 2010.
- Increase of the electricity generation from RES from 0,03% (as of 2006) to 6% to the total electricity consumption by the year 2010, 9% in 2015, and 12% in 2020. The distribution of RES production in 2010 is expected to come mainly from wind power, (4,59%) and biomass (1,18%)
- Decrease of 1% yearly of the total energy consumption through the Energy Conservation measures. The base year being 2006.
- Reach the obligatory target for the use of 10% of biofuels in transports by 2020.

In the section that follows, the progress achieved over the period September 2007-August 2008, is presented for each separate measure as classified under each of the priority areas.

6.2 Policy Priority: Security and Diversification of Energy Supply

6.2.1 Increasing the Level of Security Stocks of Petroleum Products: In February 2008 Cyprus fulfilled its obligation regarding the increase in the level of security stocks from 60 to 90 days of consumption. Due to lack of storage space in Cyprus the stocks of the Republic of Cyprus are stored in Greece and the Netherlands. New overseas agreements are being negotiated for storage in Italy, Germany and Denmark.

6.2.2 Diversification of the energy supply sources-Establishment of the Vasilikos Energy Centre (VEC): The establishment of the VEC will lead to diversifying the energy supply sources, basically through the introduction of gas as an energy source. The energy centre will comprise “two terminals in one”: (a) A terminal for importation/storage/vaporization of the economic and environmentally friendly Liquefied Natural Gas (LNG) and (b) A terminal for importation/storage of petroleum products. The operation of the VEC will enable the importation of natural gas to the island for the first time in the form of LNG, thus contributing towards more efficient power generation and to the reduction of greenhouse gases and emissions. Due to the mutual and amicable termination of the contract of the

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4: Based on new methods of calculation, the contribution of renewable energy sources for 2005 was 2,1% of the final Energy consumption. Other methods of calculation, estimate this contribution to 4,7 %. The indicative target of 9% was therefore revised to 4,2%.
Republic of Cyprus and a consortium of consulting companies, it has been decided to tender for new consultants and a project manager. Tenders were invited in August 2008 for the project management services of the onshore terminals. The VEC is expected to commence its operation by the year 2013.

6.3 Policy Priority: Promotion of the utilization of Renewable Energy Sources (RES) and Energy Conservation (ECon)

6.3.1 Implementation of a Programme with a view to promoting Energy Conservation (ECon) and Renewable Energy Sources (RES) Utilisation: The Programme is ongoing and was implemented as from 2004. It provides financial incentives in the form of investment, operational aid in the fields of Energy Conservation and the promotion of Renewable Energy Sources utilisation. It is financed through a special Fund which derives its revenue from a levy of 0.22 eurocent / KWh on the consumption of electricity. In the beginning of 2006 - taking into consideration the increased importance attached to energy issues in the first progress report issued by the European Commission on the Lisbon Strategy and the continued rise in the price of oil – measures were adopted in order to make the Programme more efficient, flexible and manageable, including simplification of procedures, broadening of eligible fields, as well as an obligation of the Electricity Authority of Cyprus to buy in priority the RES electricity produced by independent producers. The Programme has been divided into two distinct areas of investments: (a) for individuals/households and non profit organizations and (b) for companies and other legal entities.

These measures became very popular and this is evident from the fact that the total number of the submitted applications in the programme reached 28 000 in the period 2004-2008. Specifically, during 2008, 5 543 applications have been submitted from which 1 710 were examined (approved or rejected), whereas 465 applications were paid. The approved and paid applications reached 15 423 until July 2008.

Moreover, the Support Scheme for electricity production from biomass, including biogas from landfills that was implemented for the year 2007, was welcomed with great enthusiasm from interested investors. Already four CHP units of 2MWe have been installed amongst a total of 6MWe applications. Until 2010, it has been estimated that potentially 60 GWh/ year will be generated, meeting the indicative target of 1.2% national electricity consumption from biomass and contributing to the overall indicative target of 6% national electricity consumption from renewables.

The National Biomass Action Plan of Cyprus has been assigned to the Centre of Renewable Energy Sources (CRES) in September 2007. The preliminary draft of study was delivered in December 2007, while the final study is expected to be delivered by the end of October 2008.

The Action Plan will cover the three main axis of the European Biomass Action Plan: biomass for electricity production, biomass for heating and cooling and biofuels for transport, will identify the indicative national targets for electricity production from biomass and
heating/cooling and will suggest ways to reach the obligatory target of the use of 10% of biofuels in transports by 2020.

6.3.2 Implementation of a five year Programme (Action Plan) for the period 2006-2010 for the Promotion of Energy saving in the Public and Private Sector: The above five year Programme was approved by the Council of Ministers in October 2005 and it is being implemented as from the beginning of 2006. The Programme is expected to contribute towards the achievement of the target set for a decrease by 1% per year of the total energy consumption. Based on the experiences that have been gained through the eligible investments of the Support Programmes, it has been concluded that energy saving can be achieved through Thermal Insulation (about 25% – 50% of current energy used can be saved), Energy Conservation systems (in general) in existing enterprises (10% – 44%), Solar Thermal Space Heating (28% – 56%), Solar Thermal Swimming Pool Heating (47% – 61%) and Large / Central Solar Thermal Systems (28% – 63%).

The Programme includes the following measures:

- Provision of incentives for the purchase of hybrid vehicles, fuel-flexible/double propulsion vehicles and electric vehicles;
- Financial support for the installation of thermal insulation to households in regions with altitudes higher than 600 meters above sea level;
- Financial support for energy conservation investments in public buildings and services;
- Promotion of the use of biofuels through the adoption of a zero excise duty on biofuels;
- Expansion of the use of the school bus;
- Provision of Compaq Florence lamps (CFL) (low electricity consumption) to the consumers for free;

6.3.3 “One Stop Shop” for Renewable Energy Sources investments: In order to facilitate investors in the area of renewable energy sources, via accelerating the whole procedure for the submission and evaluation of the applications and the securing of necessary licences and permits, a One Stop Shop was set in operation as from May 2006. It is constituted of authorised officers from the competent authorities that are involved in the related procedures regarding the applications (Ministry of Commerce, Industry and Tourism, Ministry of Interior, Ministry of Agriculture, Natural Resources and Environment, Electricity Authority of Cyprus, Cyprus Energy Regulatory Authority and Transmission System Operator). The Ministry of Commerce, Industry and Tourism coordinates and chairs the One Stop Shop. This measure has shown very fruitful results up to this point, accelerating the licensing of six wind parks.

6.3.4 Increase of the subsidised capacity of Photovoltaic Systems from 5 KW to 20 KW: The maximum subsidised capacity of photovoltaic Systems was increased from 5 KW to 20 KW. Photovoltaic systems of 1,5MW have been installed so far and they cover 0,1% of the total electricity consumption. Another 1,0 MW have been approved and is to be installed within 18 months from the date of approval. Within the year 2009 another 1,0 MW is
expected to be installed in government buildings, schools and army camps. Cyprus currently has the highest installed photovoltaic power amongst the 12 new EU members.

6.3.5 Electricity Production from Wind Power: An assessment of the RES on the basis of cost effectiveness indicates that the most important contribution of RES to the electricity consumption of the island will be the use of wind power, (4.59% by installing approximately 133MW) as the cost for the generation of electricity via the wind power is substantially lower compared to other forms of RES, such as photovoltaics or solar thermal for electricity production. It is noted that a total of 27 applications were submitted by the end of 2006. Out of these, 22 applications were approved for financial support during 2007 with a total capacity of about 837 MW that would be sufficient for covering the 6% production of the total electricity consumption from RES in 2010. The installation of 163 MW of Wind Power has been approved by the Special Fund for RES, but so far, no installations have been erected, mainly due to community reaction. The Ministerial Committee has approved the payment of compensatory benefits to neighbouring communities in order to induce them into accepting such projects (see also paragraph 8.3.7).

It should be further pointed out that, the current electricity grid of the Electricity Authority of Cyprus – EAC (currently the sole installer and owner of the grid) has constraints as to the maximum capacity of external power it can absorb. A study was carried out by the Transmission System Operator, in order to assess the maximum electric capacity of wind power that can be interconnected to the grid system without causing any problems to the network. The study concluded that the system can accommodate 31% of a total restore capacity, namely 325 MW, without any stability problems.

6.3.6 New Measure: New Support Schemes for Renewable Energy Sources Promotion and Energy Conservation: (A Proposal is pending to the Council of Ministers is pending and is expected to be approved by the end of 2008). The new support scheme provides state aid to encourage the:

- Small scale photovoltaic systems, geothermal heat pumps, solar thermal installations for heating/cooling purposes.
- Generation of electricity from large scale wind and photovoltaic systems, concentrate solar power systems, biomass and biogas installations, in order to realise the target of producing 6% of electricity from RES by 2010.

The new Support Schemes include:

- Revision of wind systems’ Support Schemes (extensions of the contract period from 15 to 20 years, compensatory benefits to neighborhood communities at 2% of the total incomes, increase of the unit feed-in tariffs(≈46%), constant subsidy for all the duration of the contract)
- Revision of Biomass’s and biogas’s Support Schemes (extensions of the contract period from 15 to 20 years, compensatory benefits to neighborhood communities at 2% of the total incomes, increase of the unit feed-in tariffs (≈12%))
- Revision of photovoltaic systems Support Schemes (extensions of the contract period from 15 to 20 years, constant subsidy for all the duration of contract, increase of the subsidised capacity of Photovoltaic Systems from 20 KW to 100 KW)
- New Support Schemes for Concentrate solar power systems (contract period 20 years). The creation of a solar power station of 50 MW is expected.
- Revision of geothermal heat pumps Support Schemes (increase the grant ceiling from 45 to 55%, increase the maximum grant ceiling)
- Revision of energy conservation’s Support Schemes for existing enterprises (increase the maximum grant ceiling at about 47%).

6.3.7 New measure: Constitution of Ministerial Committee: The committee is comprised by the Minister of Commerce, Industry & Tourism, Secretary, the Minister of Interior and the Minister of Agriculture, Natural Resources and the Environment. The committee’s purpose is to take measures and decisions in resolving problems and promoting RES facilities. The committee has already proceeded with some decision taking, which will help to further promote RES. One of those decisions was to provide motives to the communities neighbouring with new big RES installations in the form of setting compensatory benefits at 2% of electricity sales.

6.3.8 New measure: Preparation of a Master Plan for the Vassilicos Area: This will include an examination of the current situation of the area, a general strategic assessment of how the current establishments can be improved to operate more effectively and efficiently, a record of future establishment in collaboration with the other competent authorities/organizations and other entities involved and an examination, utilising a scenario-based approach, whether the proposed future establishments and the general development of the area will be compatible with current facilities, based on risk, safety and environmental considerations.

6.3.9 New measure: European Structural Funds Projects: Solar thermal station for electricity generation, (budget ~18 million Euros)
- Installation of PV systems in Schools, Governmental Buildings, Military Camps (budget ~3-5 million Euro)
- Solar Heating/Cooling Systems in Governmental Buildings (budget ~1 million Euros)

6.4 Policy Priority: Reduce gas emissions (Kyoto Targets)

6.4.1 Provision of incentives for the purchase of low CO₂ emissions vehicles up to 120 g /Km: The purchase of both hybrid and electric cars is subsidised (€1 197 and €684). In addition, incentives are offered in order to encourage the purchase of smaller cars that use less energy. The incentives involve 30% reduction of the registration and road tax payments for vehicles with CO₂ emissions up to 120g/Km; 20% reduction for vehicles with CO₂ emissions greater than 120 and up to 165 g/Km; 10% reduction for vehicles with CO₂ emissions greater than 165 and up to 200 g/Km; 10% increase for vehicles with CO₂ emissions greater than 200 g/Km.
emissions greater than 200 and up to 250 g/Km and 20% increase for vehicles with CO₂ emissions greater than 250 g/Km.

6.4.2 New measure: Biofuels: The target of 1% by 2010 that was set in 2007 was revised. Cyprus has set a target of replacing 2.5% of conventional fuels with biofuels based on energy content for the years 2008-2010 for transport. Also, there is a study underway that analyses the possibility of enforcing a specific commitment to the oil companies to include a percentage of biofuels in their products.

7. ENVIRONMENTAL SUSTAINABILITY

7.1 State of Play / Overall Progress

The overall environmental situation in Cyprus is characterized by deficiencies in environmental infrastructure, particularly in the area of urban waste water treatment, and solid and hazardous waste management. Moreover, a continuous degradation of the natural environment, particularly in the coastal areas is observed, mainly because of the economic pressure for tourist development. Conflicting and competitive demands for space and
pressure on scarce land resources are also taking their toll on natural habitats and species. In addition, the high energy intensity of the economy has contributed to further degradation of the environment.

The deficiencies in infrastructure are difficult to resolve, and no doubt, substantial effort has to be made in order to meet the commitments taken particularly with regard to the Urban Wastewater Directive. The financial implications for the implementation of the urban wastewater and waste management via the necessary infrastructure are significant. The timely implementation of the commitments taken is facilitated via co-financing from the Cohesion Fund in the new programming period 2007-2013 and is considered to be a priority.

Since October 2007, effort has been intensified regarding the promotion of the priorities set in the environmental field in the National Reform Programme. The complexity of some of the issues involved, however, coupled with time-consuming procedures such as tendering, evaluation, public consultation and public acceptance has delayed certain projects.

In general, the implementation of the urban wastewater projects (i.e. the expansion of the present sewerage networks of urban conurbations to service the whole of the population of urban areas) has been according to schedule. The progress achieved for the rural wastewater projects is considered satisfactory, despite some delays in the tendering procedures, mainly due to social and legal issues.

Significant progress has also been made in the management of solid wastes (domestic, packaging and hazardous) with recycling programs up and running, providing very promising results. Stable progress has been made in the area of hazardous waste management, with much more to be done in the coming period.

Good progress has also been made in promoting the internalization of environmental costs, which included the implementation of the Environmental Technologies Road Map, the Action Plan to promote green public procurement, and promotion of EMAS and ECOLABEL. Promising investments have been made through the allocation of the economic resources towards the promotion of Sustainable Development of research. Satisfactory and according to the timetables set, is the progress achieved in completing the management plan for the protection of coastal zones, as well as in the completing the management plans for the Natura 2000 sites and the overall protection of the natural environment through various legal instruments. Moreover, seminars and other awareness programs whose main target is to raise the environmental awareness of the public have been intensified.

**Inventory of Progress**

In the section that follows, the progress achieved over the period October 2007-September 2008 will be presented for each separate measure as classified under each of the priority areas of the NRP.

7.2 **Policy Priority: Creation / Expansion of the Environmental Infrastructure for a Sustainable Management of Resources and Waste**
7.2.1 Installation of Sewerage Systems in Rural Communities with a population greater than 2 000 people: According to the requirements of the UWWTD, sewerage networks and wastewater treatment plants have to be installed in communities with a population (p.e) (permanent, seasonal and tourist population) exceeding 2 000 people. In 2005, Cyprus identified and submitted to the European Commission its National Implementation Programme (NIP-2005) for the UWWTD, which represents a list of 36 rural communities with p.e. greater than 2 000, that fall within the provision of the Directive. From the 36 rural communities, only 6 communities are provided today with centralised collection systems and wastewater treatment facilities. For the remaining 30 communities, there has been certain progress in the last 12 months for implementing their wastewater infrastructure, but this is intangible, since there was not considerable construction, but rather administrative, procedural, legal and financing progress. In summary, the current state of affairs and the progress achieved in the implementation of the wastewater infrastructure for the 30 communities is as follows:

It is estimated that the financial burden for the Government for the entire rural sanitation project (for the above mentioned 30 communities) is approximately €300 mln, out of the total estimated cost of the project of €380 mln. Negotiations between the Government and the European Investment Bank started in early 2008 for the possible financing of 50% of the rural sanitation project. It is worth noting that in 2008, following the issue of a Guidance Document by the European Commission, Cyprus started the revision and update of the National Implementation Programme (NIP-2008) for the UWWTD, which is estimated to be submitted to the European Commission by the end of October 2008.

The updated NIP-2008 will include additional communities with p.e. greater than 2 000, over and above the 36 aforementioned communities of the original NIP-2005. For these additional communities tenders will be called in early 2009 for the techno-economical studies, EIA and design.

The expected impact from the installation of sewerage networks and treatment plants will be the following:

- Reduction of the pollution of the groundwater, as currently urban wastewater is disposed via septic tanks and absorption pits.
- Reduction of the risks to public health by uncontrolled disposal of sewage.
- Provision substantial quantities of treated effluent to be reused in the sectors of agriculture, recreation and tourism, with a considerable reduction of the pressure on the very limited drinking water quality resources of the country.

7.2.2 Expansion of sewerage facilities in all major municipalities and in 36 rural communities with a population equivalent exceeding 2 000 inhabitants: In general, the progress in the urban areas was mainly according to schedule, where construction is already underway. In the rural areas, there has been certain progress but this is intangible, since there was not considerable construction, but rather administrative and procedural progress.
According to the Greater Nicosia Sanitary Sewerage Project, the sewerage system will serve the entire Greek Cypriot Community of the Greater Nicosia area, which by the year 2009 is expected to be in the range of 240 000. The Greater Nicosia Sanitary Sewerage Project provides for the design and construction of two Urban Waste Water Treatment Plants (UWWTP), one west and one east of Nicosia, a collection system and eight main pumping stations with associate forcemains and main gravity sewers. The construction of phase 1 for the UWWTP at Vathia Gonia (east of Nicosia) to serve a population of approximately 130 000 is expected to be completed by December 2009. The collection system for the Greater Nicosia Sewerage Project is expected to be completed by the end of 2010.

In Limassol, construction works for stage 1 of the sewerage system has been completed and is in operation since October 2007. It is expected that the construction of the stage 2 of the UWWTP will be completed by the end of October 2008. The contract for the design and supervision of the construction of the sewerage networks was signed in March 2007. Sewerage networks staged tendering is expected to commence by end of 2007 with staged completion by 2012.

In Larnaca the pre-selection of the design consultant for the detailed design of the sewerage networks, the preparation of tender documents of the networks and the UWWTP and the supervision of the construction was completed in May 2006. The design is expected to be completed in stages in 4 packs, by the end 2009. The staged completion of the sewerage networks is expected by 2012.

In Paphos the staged completion of the sewerage networks is expected to be completed by 2011.

In Paralimni and Ayia Napa in July 2007, a UWWTP extension was awarded, to reach a total capacity of 21,000 m³/day, in view of the prospect that the surrounding communities will also be served by the common UWWTP in the near future.

7.2.3 Implementation of a Strategic Plan of the Management of Solid Waste: It includes the establishment of four regional centres (one per administrative district) for integrated management of solid waste as well as the restoration of the existing landfills. Specifically, the Larnaca and Famagusta regional centre will be completed by March 2010. Regarding the Paphos district regional centre, the sanitary landfill is under operation since July 2005 (Phase A), and the whole project is planned to be completed by 2010 (Phase B). For the Limassol and Nicosia regional centres, the related studies are now under revision and as soon as they are completed, construction will begin by March of 2010, with a timeframe for completion the year 2012.

Restoration of existing landfills: the studies have been completed, which identified 113 uncontrolled or semi-controlled landfills under operation. The target set is to close the landfills and restore the impacted areas by the end of 2012.

The Ministry of the Interior is under the procedure of tendering for the construction of about 80 Green Points, with a timeframe for completion the end of 2011.

7.2.4 Preparation of a management plan and the construction of a Central Treatment Facility for Hazardous Wastes in Cyprus: The management plan is under examination and is expected to be completed by the end of the current year. Based on this plan, the construction of the central hazardous waste facility is planned to start in early 2009 and be completed about 18 months later. The operation of the central treatment facility is expected to
lead to a substantial improvement of the environment and the reduction of possible ill-effects on public health, as these wastes shall be properly managed.

7.2.5 Establishment of a system for the collection, transport, segregation, recovery and recycling of the packaging waste from some of the main municipalities: Green Dot Cyprus, the first collective management system for packaging waste (paper/cardboard, plastic, glass and metals), started its operation in October 2006 for the commercial and industrial business, and by February 2006 in 5 municipalities. By the 15th of December 2007, the programme expanded its operation to 4 more municipalities covering approximately 400,000 people. Today, the system covers all the municipalities of the two biggest districts of Cyprus, Nicosia and Limassol.

The government is focused on the following specific issues:

- to achieve by 2012 the quantitative targets set by the Directive 94/62/EC for packaging waste
- to extend the life of landfills
- to deal with the problem of increased volume of waste in tourists areas
- to involve 200,000 more people to the recycling programs covering the remaining districts of Cyprus.

In order to deal with the above issues, the Government of Cyprus will partly support financially Green Dot’s effort of environmental education, in order for Green Dot to be able to expand by the end of the year to two more districts of Cyprus.

In addition, the governmental programme for the management of packaging waste that has been operating since September 2006, ended in August 2008. The programme’s aim was to increase the quantities of packaging waste collected and treated in order to fulfil the targets of the Directive mentioned above, since no collective management system was yet in place. The programme’s results were satisfactory as seen from the results reported in 2005, since the recycling rate was 11,1%, and in 2006 the rate increased to 25,2%. Specifically, for each material the recycling rate was: for glass 7,6%, for plastic 14,5%, for paper and board 38%, for metals 73,8% and for wood 23,1%. The areas served by the governmental programme are being covered as from September 2008 onwards, by the Green Dot programme.

7.2.6 Management of Drought Repercussions: The acute prolonged drought conditions faced by the Republic of Cyprus during the past three years have led to the depletion of the island’s water resources and have had significant socioeconomic impacts and negative effects on the quality of life and the environment, posing risks for public health.

The Cyprus Government has reacted with the application of drastic Drought Mitigation and Response Plan, which foresees, inter alia, for the first time in the history of Cyprus an almost 100% prohibition of water supply to agriculture from the government water works, the importation of water on a daily basis by the use of tankers and the restriction of water supply for domestic use to a mere three times per week for a total of 36 hours per week.
In addition to the above, a series of measures are under consideration by the Government with a total cost to the economy of the order of €1,1 bln for the period up to 2013. These measures aim at addressing the current emergency situation and the prevention of similar crises occurring in the future, a danger which for the region of Cyprus is steadily increasing, considering the adverse predictions concerning the repercussions of climate change in the forthcoming years.

Among these, a series of immediate and short-term emergency measures are being taken aiming at the amelioration of the crisis through the increase of water supply and the further limitation of demand. Their cost amounts to €447 mln. At the same time, a series of medium-term measures is under programming with a cost calculated at 624 mln, of which €438 mln is the estimated cost for the implementation of the Urban Waste Treatment Directive and use of recycled water for irrigation.

7.3 Policy Priority: Protection, Preservation and Management of Coastal Areas

7.3.1 Implementation of the Coastal Area Management Programme (CAMP): The Republic of Cyprus in collaboration with UNEP-MAP, has implemented the Coastal Area Management Programme (CAMP Cyprus) as a National Strategy for the incorporation of its proposals into the national policy and institutional framework. The final conference, held on 13 June 2008, in the presence of UNEP-MAP representatives, international consultants, national specialists, governmental departments, NGOs and local administrations, adopted the reports prepared for the six activities and the final report which summarises the conclusions of the six activities and proposes policy reforms.

CAMP Cyprus delivered longer term beneficial results and improvements for sustainable coastal management in Cyprus. These include policy changes in key fields of decision-making, supporting an Integrated Coastal and Marine Area Management; cooperation between the competent authorities and private stakeholders; awareness of the value of coastal and marine resources; capacity for implementation of the ICZM Protocol of UNEP-MAP; and strategy of the ICZM Recommendation in Europe.

7.4 Policy Priority: Reduction of Greenhouse Gases Emissions

7.4.1 Implementation of the Strategic Plan for the Reduction of Greenhouse Gases Emissions: Cyprus does not have any greenhouse gas emission reduction or limitation obligations under the Kyoto Protocol or under Decision 2002/358/EC. However, Cyprus is taking concrete steps to reduce the greenhouse gases emissions of the country, for which the larger increase in emissions between 1990 and 2006 of all EU25 was observed. Accordingly, a number of demand side measures (energy efficiency), improvement of transport and supply side measures (renewable energy) are already being applied.
Specifically, Cyprus’ stated target under the Directive 2001/77/EC on the promotion of electricity production from renewable energy sources is to generate 6% of its electricity from renewable energy sources by 2010. A number of measures and incentives are in place to promote investment in renewable energy technologies including wind power, biomass and solar photovoltaic and are presented in the energy section of the report. These measures are already generating substantial interest, and it is clear that the contribution of renewables will increase over the next few years. Also considerable is the contribution of energy production from the treatment of animal waste through production of biogas. Simultaneously, the construction of the new landfills proceeds, that will allow the reduction of greenhouse gases produced by solid wastes.

Furthermore, there are plans to establish an Energy Centre in Cyprus that will introduce Liquefied Natural Gas (LNG) as a major fuel for electricity production by the year 2013 (see also paragraph 8.2).

7.5 Policy Priority: Internalization of External Environmental Costs

7.5.1 Elaboration and implementation of an Environmental Technologies Action Plan: As planned, the Cyprus Environmental Technologies Action Plan was prepared and submitted to the European Commission, in December, 2005. The Action Plan describes the ongoing activities taken by Cyprus in promoting environmental technologies. The size and structure of the economy do not provide substantial opportunities for extensive basic research in environmental technology. Despite the above limitations, the Action Plan includes a number of actions aiming at promoting the development and dissemination of eco-innovations and environmental technologies. In addition, an ad-hoc committee for updating the ETAP action plan has been established and has commenced reviewing of the existing road map.

7.5.2 Framework Programme for Research, Technological Development and Innovation 2008 (DESMI 2008) of the 21st of February 2008. For the design of its research Framework Programmes, the Research Promotion Foundation (RPF) has taken into consideration the Lisbon Strategy and the EU’s Sustainable Development Strategy through the National Reform Programme (NRP), its progress and the allocation of the economic resources towards the promotion of Sustainable Development. The design of the new Framework Programme of the RPF (2008-2010) gave the opportunity for discussions and consultation with stakeholders and the elaboration of public debates on the priorities that should be promoted towards Sustainability. In almost all Actions of the new Framework Programme of the RPF (2008-2010), the thematic priority “Sustainable Development” or the “Environment” are included. More specifically, DESMI 2008 includes research programmes supporting the submission of proposals in the field of environmental technologies. Those are the following:

- Programme “Technology”
- Programme “Sustainable Development”
- Programme “Eureka Cyprus”
- Programme “Innovation”

The “Sustainable Development” Programme aims at developing collaboration between research organizations, academic institutes, small-medium enterprises and non-profit organizations for the elaboration of interdisciplinary research projects of high quality, the
production of innovative products and services, the sustainable management of environmental problems and natural resources, the promotion of sustainable development at the National Level, the improvement of life quality within the island and the projection of natural disasters. Within the “Sustainable Development” Programme and following the deadline of the first call of proposals in May 2008, 70 project proposals have been submitted, of which more than 20 passed the eligibility check and scientific evaluation procedures and were considered eligible to receive funding.

7.5.3 Environmental sustainability ERA-NETs. These projects are: URBAN-NET, MARIFISH and ERA-CO-BUILD.

URBAN-NET aims to structure and coordinate research on urban sustainability in Europe by identifying and addressing trans-national requirements for research and sharing of good practice, in order to support the implementation of the ERA in the urban research field as well as other European legislation, policy and strategies related to sustainable urban development. The Programme has a five year duration and the budget allocation for Cyprus is €72 600.

MARIFISH brings together the major European national funding agencies for marine fisheries research, to form an effective working partnership. The programme has a five year duration and the budget allocation for Cyprus is €34 320.

ERACOBUILD aims at strengthening and enlarging the strategic networking of RDI programmes in the field of “sustainable construction and operation of buildings” initiated in the previous ERABUILD coordination action. ERACOBUILD gathers 34 programme owners or managers coming from 17 EU Members States, 4 Associated Countries and 1 European Region. The new countries will benefit from the experience and results of the 15 programmes’ owners/managers (10 countries) which already launched 6 joint calls in ERABUILD and agreed on two future trans-national programmes on “Sustainable renovation of buildings” and “Value driven construction process” to be implemented in ERACOBUILD. The budget allocation for Cyprus is €32 400.

7.5.4 ENERGAL Project: The Institute of Agricultural Research finished in 2008 the project called ENERGAL (TEXNO/0104/11) that was financed by the Cyprus’ Research Promotion Foundation and the consortium included the National Technical University of Athens and the Energy Service and the Cyprus Institute of Energy. In terms of this project, the properties of the following energy crops in Cyprus were determined: a. Sweet sorghum, b. Rape, c. Sugar Beets, d. Sunflower, e. Maize, f. Barley, g. Potato and h. Wheat. The results of ENERGAL were not very optimistic for the prospects of cultivating those plants in Cyprus, due to the severe water shortage, unavailability of good agricultural land and the competition of these plants with animal feed. The study on Energy Plants continued in 2008 with a research project on the potential use of biomass for biofuel (biodiesel, bioethanol, biogas and solid fuels) and energy production under Cyprus conditions financed by the ARI budget. The project, which has a budget of €106 700 for 2008 including equipment, aimed at the selection of appropriate energy plants that produce oil seeds, sugars, starch or woody biomass with minimum irrigation water requirements that do not interfere with the animal feed chain, and in the technical and economic evaluation of the whole process of production. It will be continued in 2009 with an estimated budget of €51 700.
7.5.5 Incentives for the promotion of EMAS and EU-Ecolabel: The Ecological Management and Audit Scheme as well the EU-Ecolabel, are two environmental voluntary tools which can be applied to industry and services and promote legal compliance as well as technological/ecological innovation. Responsible authority for their promotion is the Environment Service. For both issues, promotion seminars are being conducted, leaflets and brochures prepared and direct communication with companies potentially interested is sought. For EMAS a subsidy is given for the establishment of the system for consultancy services as well as for the verification of the system.

7.5.6 Preparation of an Action Plan to promote Green Public Procurement (GPP): To the purpose of preparing the Action Plan, a committee was set-up, whose terms of reference are:

(a) To identify, the areas where GPP could be implemented within the public sector, local authorities, bodies governed by public law and organizations operating in the utilities sector, such as the Electricity Authority of Cyprus.
(b) Evaluate the above areas and set priorities, as well as short and medium term targets, aiming at sectors where quick and tangible results can be obtained.
(c) Prepare awareness and information material and organize the necessary training courses and seminars for purchasing authorities.
(d) Inform suppliers and the industry in general, of the determination of the Government to promote GPP, so as to give them adequate time to adjust appropriately to the new state of affairs.
(e) Encourage the private organizations, such as banks and large companies to adopt GPP practices.

An Action Plan for the Promotion of GPP has been approved by the Council of Ministers in May 2006. The implementation of the Action Plan aims, primarily, in assisting through public procurement, environmentally friendly products and services to enter the market, thus contributing to environmental protection by stimulating more sustainable production and consumption patterns. Meetings of the Committee set up for GPP have already taken place.

Until today several actions have taken place in order to enhance the dissemination of information to the public and local authorities as well as to public and semi public organizations. These include the organization of a seminar through TAIEX targeting to the exchange of experiences with other member-states, the publication of a newsletter describing latest developments in the field in Cyprus as well as in other member-states and several internet and bibliographical searches in order to formulate the technical criteria for the green tenders.

7.5.7 Screening of approved subsidy schemes: The screening of all approved subsidy schemes by the Environment Service is underway, in order to establish whether any of these subsidies have adverse environmental impacts. According to the findings, the necessary recommendations shall be made to the appropriate authorities, in order to establish procedures and a timetable for their possible withdrawal. The screening is expected to be completed in 2007.

7.5.8 “Natura 2000” sites: At present, 38 sites have been included in the E.U. “Natura 2000” network, the main priority being the preparation of the management plans for these areas,
which will ensure a high level of local biodiversity management and protection. The management plans for eight “Natura 2000” sites, being financed under the Transition Facility of the E.U, have already been completed. The preparation of the management plans for four other sites, funded by the LIFE Nature Program of the E.U as well as the promotion of specific actions for the protection of the species and habitats involved, are expected to be completed by the end of October 2008. Furthermore, the European Commission has approved the funding of the preparation of management plans for another 13 sites included in the “Natura 2000” Network, through the Transition Facility programme. These management plans are expected to be completed by the end of 2009.

7.5.9 Enforcement of the Law on the Protection and Management of Nature and Wildlife (153(I)/2003): The most important species and habitats of the island are protected and managed through the provisions of Law No. (153(I)/2003). Moreover, the law focuses on the control of import and export of endangered, threatened and invasive species as well as monitoring and promoting measures aiming at the protection and management of biodiversity.

7.5.10 Completion of the SPA list (Birds Directive-79/409/EC): It covers all Annex I species and regularly occurring migrants in the Republic and is almost finalized. Up to now, a total of 26 areas have been approved and designated as Special Protection Areas. (7 areas since 2005, 12 areas within 2007 and 7 areas in 2008). This will result to an increasingly effective coverage and protection of the most important habitats for the above species, as well as to the creation of wildlife corridors connecting important sites. The completed SPA list is expected to be ready by the end of 2008. The inclusion of 2 important wetland type areas is also expected to be completed within 2008 (Paralimni and Oroklini lakes). Nevertheless, the preparation of Management Plans for all NATURA 2000 sites is essential to support biodiversity conservation and the sustainable use of ecosystems involving local bird communities.

7.5.11 Strict enforcement of Law 152(I)/2003: It relates to illegal bird trapping and hunting policy and will eventually phase out illegal, indiscriminate bird trapping of migratory passerines which pose a serious threat to bird diversity. Present measures have reduced the massive capture of small migrants by about 70 - 80% but the effort should continue as long as trapping remains a significant conservation issue. This effort, tied up with wildlife education in schools, as well as public awareness, will help uproot this problem entirely in the next decades.

Biodiversity conservation is threatened by the introduction of exotic and invasive species of flora and fauna. There is an undergoing effort to control and eradicate invasive plants hosted by sensitive habitats. Finally, the increased trade of wild flora and fauna species observed in the last decade, poses a potential threat for the fragile ecosystems of the island. Biodiversity and wildlife is also threatened by habitat destruction, habitat loss and habitat degradation due to urban sprawl, and scattered housing / tourism resort construction. The construction of golf courses & resort development is a serious concern. Also expanding road network (asphalted, gravel and forest roads) have encroached in many undisturbed habitats, increased fragmentation and disturbance levels. The control of land use remains the single most important factor which will highly determine the ecological balance and conservation of wildlife resources in Cyprus.
Systematic wildlife **bird population monitoring** and **protection of other wildlife species** (such as the endemic Cyprus mouflon) throughout the year constitute important parts of wildlife conservation. Close population monitoring shows species population status and provides warning for possible factors of decline. Furthermore, monitoring indicates possible habitat degradation and shows whether conservation actions have a positive effect on target species. Systematic monitoring continues for some game species (i.e. chukar, hare etc.) as well as some important Annex I Bird Species and big birds of prey like the Bonelli’s eagle, the long-legged buzzard and the goshawk.

7.5.12 **New Measure: Raising environmental awareness** is decisive in facilitating public participation and ensuring the successful drafting and implementation of environmental policies and legislation. In recognition of this, the Environment Service has in place an annual environmental awareness and information programme. Every year, activities are organized for the European Green Week and the World Environment Day in June, centered on the distribution of information material to the general public. The Environment Service is responsible for the coordination of the European Mobility Week and the preparation of information material on sustainable transport and the annual theme of the Mobility Week. Activities promoting more sustainable modes of transport are organized by the Local Authorities with the support and funding of the Environment Service. Information material on the various environmental themes and legislations is widely distributed at the Agricultural Fair which takes place biannually, the last one having taken place in 2007.

Through its programme, the Environment Service financially supports the environmental awareness raising and educational activities of NGOs, such as seminars, events, participation in international seminars and conventions, etc. The funding covers a maximum amount of €2 565. In 2007, a total amount of €38 800 was funded to NGOs, local authorities and schools for environmental awareness campaigns. Additionally, an annual funding amount is offered to organizations active in the field of environmental protection. In 2007, a total amount of €59 750 was paid as annual funding to 27 NGOs. In 2008 the amount of €59 800 will be available to the NGOs that will apply for the annual funding. A further €25 629 was paid in 2008 to the Organization of Environmental and Ecological Organizations of Cyprus as annual funding to support its activities, which are largely centered on raising environmental awareness on a number of critical environmental issues.

7.5.13 **Promoting the sustainability of spatial planning policy:** Local Plans are currently being enriched and strengthened through the introduction of more detailed provisions that specify the manner of implementation of their strategies and policies. The goals and objectives of the current Strategic Development Plan have been integrated into the spatial planning policy formulation process. These reports are the main strategic level documents and are expected to form the basis on which the sustainable spatial development of both the urban areas and the countryside will be promoted and controlled in an integrated way.

Furthermore, the Town and Country Planning Law has been recently amended, in terms of the spatial development plan making process, to include provisions for Public Hearings and to increase the stages at which written representations by stakeholders can be submitted. In addition, through the implementation of the Strategic Environmental Assessment Directive, spatial development plans are subject to the appraisal of all environmental and social parameters, thus integrating at an early stage the principles of
sustainable development and increasing public awareness regarding the need for sustainability.
III. EMPLOYMENT CHALLENGES

8. ENHANCEMENT OF HUMAN CAPITAL AND OF SOCIAL COHESION

8.1 Introduction

8.1.1 State of Play

During the last three years and particularly in 2007, the strong economic performance contributed to exceptional performances in the labour market with an increase of employment by 5.8% and a decrease of the unemployment rate to 3.9%. During the same year, Cyprus has made its best progress towards the EU Lisbon targets for an overall employment rate of 70% and for female employment rate of 60%. Specifically, the overall employment rate of persons aged 15–64, increased to 71.0% (from 69.6% in 2006) exceeding, for the first time, the target set by the EU. More than half, actually 53% of the job positions created, was filled by female labour causing an increase in the employment rate of women to 62.4% from 60.3% in 2006. An increase was also observed in the employment rate of men (80% from 79.4% in 2006). The most impressive increase (by 5.8 percentage points) was observed in the employment rate of older workers, 55-64 years old, which increased to 55.9% from 53.6% in 2006 and since 2004 remains steadily above the corresponding EU target (of 50%).

With respect to the employment targets, Cyprus has exceeded all the targets set by the Lisbon Strategy for 2010 and in some cases exceeded even the national targets which are more ambitious. Thus:-

- The employment rate for the elderly reached 55.9% exceeding both the national target of 53%, the Lisbon target of 50% and the EU27 of 44.7%.
- The overall employment rate reached 71% in 2007, matching the national target and exceeding both the Lisbon target of 70% and the EU27 of 65.4%
- The employment rate for women reached 62.4%, (compared to 58.3% of EU27) being above the Lisbon target of 60% but slightly lacking from the national target of 63%.

| Table 4: EU and national targets’ achievement rate |
|-----------------|---------|---------|---------|---------|
| Indicator       | EU Target | National Target | EU-27 2007 | Cyprus 2007 |
| Overall employment rate | 70% | 71% | 65.4% | 71% |
| Employment rate of women | 60% | 63% | 58.3% | 62.4% |
| Employment rate of older workers | 50% | 53% | 44.7% | 55.9% |

Another basic characteristic of the labour market is the employment of a large number of foreign workers, particularly in unskilled or low-skilled occupations. According to the Labour Force Survey, in 2007, 85.8% of total employed were Cypriots (out of whom about 0.9% were Turkish Cypriots working in the Government-controlled areas), 5.5% EU Nationals and 8.7% were third country nationals.
8.1.2 Challenges / National Targets in Relation to the European Employment Strategy

The main objectives of the employment policy in Cyprus, in line with the European Employment Strategy, are to implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion. In addressing these objectives, in the period 2008-2010, action will be concentrated on the following challenges:

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</table>
1. Maintain high rates of increase of labour supply, particularly by raising old-aged and female participation rates, and reduce gender inequality;
2. Increase the flexibility and security in the labour market;
3. Orderly management of economic migration issues to serve the economic and social needs of the country;
4. Further development of human capital;
5. Enhance further the conditions of social cohesion.

**8.1.3 Country Specific Recommendations, Points to Watch related to Employment**

The EU has set a recommendation with respect to Life-long learning and a point to watch related to gender pay gap as follows:

**COUNTRY SPECIFIC RECOMMENDATION**

“It is recommended that Cyprus:

- enhances life long learning, and increases employment and training opportunities for young people by implementing the reforms of the vocational, education, training and apprenticeship system. “

**POINT TO WATCH:**

“It will be important for Cyprus to:

- Address the very high gender pay gap.

Measures undertaken to address these issues are analysed in detail in Part 1 of these Report, but they are also mentioned in this Part, even though under somewhat different categorisation. In brief, significant progress has been achieved with respect to the Life-long learning recommendation, depicted both in basic indicators, as well as in concrete progress in the implementation of the relevant measures.

With respect to the **education and training indicators:**

- Life–long learning has increased from 5.9% in 2005 that the NRP started being implemented, to 7.1% in 2006 and to 8.4% in 2007, decreasing the gap between the EU 27 which is at 9.7% (2007).
- The ratio of early school leavers decreased from 18.2% in 2005 to 16% in 2006 and dropped down to 12.6% in 2007, being lower than the EU27 average of 14.8%
- The educational attainment (20-24) kept increasing from 80.4% in 2005 to 83.7% in 2006 and reaching 85.8% in 2007, being well above the EU27 of 78.1%.
- Youth unemployment dropped from 13.9% in 2005 to 10% in 2006 and reached 10.2% in 2007, being well below the EU27 of 15.5%.

Progress with respect to **measures:** Despite the fact that in a context of almost full employment, the need for life-long learning becomes less pressing, the Government continued with vigour all the measures promoting more and better employment and also more actions to enhance life-long learning:-
• The national Life-long learning Strategy (LLL) was approved on 7\textsuperscript{th} November 2007 and a Monitoring Mechanism (a National and Technical Committee) have been appointed to monitor its implementation. Already assessment of progress during the first year of implementation is under way.

• The Foundation for the Management of European life-long learning programmes which was also established on 17\textsuperscript{th} January 2007, has been adequately staffed and with a budget of more than half a million euros is managing the integrated EU LLL programmes.

• The educational and vocational reform continued with the implementation of numerous measures analysed below, but also with measures to make the Secondary technical and Vocational Education more attractive, reform the curricula using ICT create a national Qualifications Framework and also by accelerating vocational training programmes.

• The New Modern Apprenticeship scheme was approved on 21\textsuperscript{st} of November 2007, to offer an alternative form of training and development to young persons aged 14-25 years old and meet the needs of the labour market. Following discussions to clarify implementation aspects, it is expected to begin by the end of the year.

• Four new universities started operations in September 2007 and this year they have increased both their intake and the number of programmes offered, thus increasing the chances of young people to higher education.

With regard to reducing the gender pay gap and promoting gender equality, the completion of a comprehensive study and the proposal of the measures with a projected total cost of €4,5 mln to reduce the pay gap, measures on strengthening women’s entrepreneurship, on promoting training and employability of economically inactive women, measures on care services, on the reconciliation of family and personal life and the implementation of the National Action Plan for Gender Equality.

8.2 **Maintain high rates of increase of labour supply, particularly by raising old-aged and female participation rates, and reduce gender inequality**

“Promote a lifecycle approach to work” (Guideline 18)

8.2.1 **State of Play / Overall Progress**

The shortages in the labour market and the gradual ageing of the population increase the need for attracting idle labour force into the labour market. Despite the relatively high participation and employment rates, as compared to other EU averages, there is still potential for their further increase and a better utilization of the idle endogenous labour force. Moreover, gender gaps in employment and unemployment and pay, are still widespread in Cyprus. The problem lies primarily in the gender pay gap (24 percentage points in 2006), the main reason for which, is sectoral or occupational segregation.

Taking account of the impact of technological change and ageing populations, the necessary steps must be taken to anticipate future needs. The objective of more and better jobs can be achieved by improving the matching of labour market needs in response to new competence requirements.
Moreover, it is necessary to build employment pathways for young people and reduce youth unemployment, which is much higher than the national unemployment average.

**Inventory of Progress**

**8.2.2 Policy Priority: Increasing female participation**

**8.2.2.1 Scheme for the encouragement, strengthening and reinforcement of women’s entrepreneurship:** The scheme has been completed for the programming period 2004-2006 and has been included in the new programming period 2007-2013 with a total budget of €5 mln and will be co-financed by the ESF. Two calls for participation are scheduled for the period 2007-2013.

The first call for participations to the program, with a budget of €2,5 mln was announced in February 2008 and expired in May 2008. The applications are currently being examined by the competent authority and the approved candidates will be announced by the end of 2008 or beginning of 2009.

**8.2.2.2 Scheme for the promotion of training and employability of economically inactive women, co-financed by the ESF:** The Human Resource Development Authority (HRDA) has proceeded with the implementation of the Scheme. The tender procedure was completed in October 2007. The target for participation in the Scheme over the period 2006-2008 was 800 women, approximately, 200 for placements and 600 for participation in training programmes. So far, approximately 530 women have benefited. The Scheme will be fully implemented before the end of 2008.

**8.2.2.3 Continuation of the Grants in aid scheme to NGOs and local communities for the development of family support services (SWS):** The Grants-in-Aid Scheme is an ongoing measure and it continued to be implemented with an expenditure in 2007 of €7 956 721 and a budget of €8 218 373 for 2008.

During 2007, grants were provided to 213 organisations for the operation of 314 services, i.e.: 54 day-care centres for children of pre-school age, 61 centres for school-aged children, 54 programmes for people with special needs, 97 services for older persons and 48 services for other vulnerable groups of the population. Grants for 2008 have so far been provided to 210 organisations for the operation of 292 services.

**8.2.2.4 Expansion and improvement of care services for children, the elderly, the disabled and other dependants, co-financed by the ESF (SWS):** During 2007-2008, grants co-financed by the ESF were provided to 31 care programmes developed through partnerships between NGOs and local authorities. During this period, about 60 work positions were created to cover the needs of the programmes and approximately 200 women benefited from the care facilities. A study on the role of local authorities in the promotion of care policies for the reconciliation of work and family life has recently been completed. The measure will be fully implemented by December 2008.
8.2.2.5 Implementation of a measure, co-financed by the ESF, in the current programming period under the Community Initiative EQUAL, aiming at the reconciliation of family and professional life (PB): This measure included three projects, i.e. “Open Doors”, “Pandora” and “New Routes for Women Employment”.

The Common Action Framework (CAF) includes the following five thematic priorities:

1. The first Thematic Priority concerns the creation of an Integrated System to Support the Counseling of the Unemployed.
2. The second Thematic Priority includes actions aiming at creating awareness on issues of female employment and self-employment and at connecting entrepreneurship with employment support structures.
3. The third Thematic Priority includes actions to activate and upgrade social parties in order to promote the reconciliation of professional and family life.
4. The fourth Thematic Priority concerned the organization of a Forum on Employment, with focus on Women. The Forum was organized on the 11th of September 2008.
5. The fifth Thematic Priority concerns actions that enhance the networking and complementary character of the implementation of the common goals, which is built in a “step by step” and grass-root approach of the activities undertaken by the agencies which constitute and at the same time activate the National Thematic Network for Employability in Cyprus.

The measure will be fully implemented by the end of October 2008.

8.2.3 Policy Priority: Promote Gender Equality

8.2.3.1 New Measure – Preparation of a National Action Plan for Gender Equality (NAPE): The NAPE has been prepared and approved by the Council of Ministers, on the 29th of August 2007. In accordance with this decision, all government departments are responsible to implement the measures which come under their competence. The NAPE covers the period 2007-2013, and constitutes the framework of policies, actions and measures that need to be taken, by all actors involved. It consists of 6 chapters on (a) equality in employment, (b) equality in education, (c) equal participation in political, social and economic life, (d) violence against women including trafficking, (e) equal access and equal implementation of social rights and (f) stereotypes and change of social attitudes.

The NAPE has been published, widely distributed to the public and all involved actors, and is also available on the National Machinery for Women’s Rights (NMWR) webpage. In November 2007, a seminar was organized that dealt specifically with the NAPE and the chapter on equality in the labour market. The subcommittees of the NMWR have set their priorities according to the NAPE and already began implementation. Priority will be given from the NMWR budget, for the subsidization of NGO’s implementing measures and actions included in the NAPE. The measure was completed in July 2008.

8.2.3.2 Increase of the public funds allocated to NGOs from the budget of the National Machinery for Women’s Rights to promote and implement gender equality programmes: This is an on-going measure. The annual funds provided to NGO’s – members of the NMWR - was doubled, from €8,545 in 2007, to €17,090 in 2008, after a
relevant decision of the Council of Ministers on the 7th of November 2007. The Budget of the NMWR for funding programs of NGO’s that promote equality has also increased, from €150 000 in 2007 to €154 000 in 2008. The total amount available for funding in the Budget of the NMWR is €500 000 in 2008 and was €430 000 in 2007.

8.2.3.3 Undertaking of a comprehensive study with a view to identifying problems and defining possible ways, including best practices in other countries, in order to reduce the gender pay gap: The study was completed in November 2007. Drawing on the results of the study, the Ministry of Labour and Social Insurance has prepared a proposal of measures (with a projected total cost of €4,5 mln) for the starting programming period, aiming at reducing the gender pay gap.

8.2.4 Policy Priority: Promote Active Ageing

8.2.4.1 A restrictive wage policy for the public sector: The measure was completed and achieved to lead the economy to a fiscal surplus stance in 2007. For 2007, wage increases in the public sector were determined at 1%, in 2008 at 2% and in 2009 at 1,5%. The measure was completed in 2007.

8.2.4.2 Increase of the retirement age in the civil service from currently 60 to 63 years: The measure was completed in July 2008, except for the teachers in primary and secondary education, the Police and the Army.

8.2.4.3 Increase of the retirement age in the broader public sector from currently 60 to 63 years: Until early July 2008, 24 semi-governmental organizations completed the increase of the retirement age to 63 years. Ten (10) organizations are in the process towards increasing retirement age and nine (9) having not started yet.

8.2.4.4 Continuation of the scheme promoting the self-employment of elderly persons: This measure did not get the expected response from the public as only one (1) application was submitted in 2007 and two (2) in 2008. The Social Welfare Services are investigating the reasons for the reduced interest in the Scheme and in the mean time it will be incorporated in the scheme for vocational training and employment of vulnerable groups of the population, which has been proposed for co-financing by the ESF under the new programming period 2007-2013.

8.2.4.5 Study for identifying new actions in promoting active ageing: Following a tender procedure, this study was carried out for identifying new actions and implementing measures to promote active ageing. The study was a part of the project: Development of PES network, which was co-financed (50%) by the ESF. The measure was completed in 2006.

8.2.5 Policy Priority: Build Employment Pathways for Young People

8.2.5.1 Continuation of the Scheme for Youth Entrepreneurship: The scheme has been completed for the programming period 2004-2006 and has been included in the new programming period 2007-2013 with a total budget of €6 mln and will be co-financed by the ESF. Two calls for participation are scheduled for the period 2007-2013.
The first call for participations to the program, with a budget of €3 mln was announced in February 2008 and expired in May 2008. The applications are currently being examined by the competent authority and the approved candidates will be announced by the end of 2008 or beginning of 2009.

8.2.5.2 Scheme for the promotion of training and employability of young secondary education school graduates, co-financed by the ESF: The HRDA has proceeded with the implementation of the Scheme. The tender procedure was completed in February 2008. The target for participation in the Scheme over the period 2006-2008 was 550 persons, approximately 200 graduates for placements and 350 graduates for participation in training programmes. So far, approximately 50 persons have benefited from the Scheme. The Scheme will be implemented before the end of 2008.

8.2.6 Policy Priority: Build Employment Pathways for the Unemployed

8.2.6.1 Scheme for the promotion of training and employability of the unemployed, co-financed by the ESF: The HRDA has proceeded with the implementation of the Scheme. The tender procedure was completed in February 2008. The target for participation in the Scheme over the period 2006-2008 was 700 persons, approximately 200 for placements and 500 for participation in training programmes. So far, approximately 600 persons have benefited from the Scheme. The Scheme will be implemented before the end of 2008.

8.2.6.2 Scheme for the enhancement of computer literacy of the unemployed, co-financed by the ESF: The Scheme aims to enhance the computer literacy of the unemployed, with priority attached to young unemployed, women unemployed as well as groups of unemployed threatened by social exclusion – e.g. older aged unemployed, in order to improve their employability. The HRDA has completed the tender procedure and the contractors have proceeded with the implementation of the Scheme. Approximately 540 persons participated in the Scheme. The Scheme was completed in February 2008.

8.3 Increase Flexibility in the Labour Market

8.3.1 Policy Priority: Promote flexibility combined with employment security (including the reduction of labour market segmentation)

Flexibility and security, known as flexicurity, is based on the premise that labour market flexibility can help not only enterprises but also working people; that the security of people in the labour market strengthens flexibility; and therefore, that the two of them (flexibility and security) can support each other and are not in conflict. The flexicurity approach reflects to a great extent the philosophy of social dialogue and cooperation; a philosophy based on the idea that the interests of enterprises and workers are quite compatible.

8.3.1.1 Flexible and reliable contractual arrangements: In Cyprus terms and conditions of employment are largely determined through collective bargaining between employers
and trade unions. Legislation provides a framework for industrial relations and employee contracts, determining basic rights and obligations while also setting minimum labour standards. The tradition of tripartite cooperation and the small number of central organizations of workers and employers render contractual arrangements quite flexible.

In the case of certain occupations, mainly characterised by weak bargaining power, an Order issued annually provides for a **minimum wage**, which has been raised gradually, by tripartite agreement, to 50% of the national median. This system, which involves dialogue and compromise, not only protects workers but also allows the labour market to be flexible.

The **tax system** is generally friendly with respect to labour, contributing to high employment rates. The total tax wedge, which measures the relative tax burden for an employed worker with low earnings, was estimated for 2006 at 11.9% (for a single person at 67% of average wage), which was the lowest in the EU-25. As mentioned in the Macro Chapter, the tax burden on labour was further reduced during the last two years, through two successive increases of the tax-free income.

**8.3.1.2 Comprehensive lifelong learning, effective active labour market policies and modern social security systems**

**Lifelong learning** measures for raising skills and improving the technical and vocational education and training systems, and their link to labour market needs, are outlined in other paragraphs of this Part.

**Active labour market measures**, e.g. for attracting inactive women to the labour market, promoting active ageing strategies, and improving the employability of early school leavers and the young in general, are outlined in other paragraphs of this section, and in sections 1, 4 and 5 of the present chapter.

**Modern social security and social protection systems:** While both, the national Social Security Scheme and the Termination of Employment Legislation have been revised from time to time, with the involvement of the social partners, so as to encourage both flexibility and security, several social welfare measures have been promoted, including the revision of the Public Assistance Legislation, as outlined mainly in section 5.

**Other flexibility factors:** Labour market flexibility also emanates from the self-employed, whose rewards and security of tenure depends on their own efforts, employees in non-unionized small and medium enterprises (SMEs), whose employment relationship does not provide job security, and foreign employees, who are on temporary contracts that usually last for no more than four years. Furthermore, a great proportion of the self-employed work in SMEs, which are normally competitive and flexible.
8.3.2 Policy Priority: Enhancement and Modernisation of the Public Employment Services-PES

“Improve matching of labour market needs” (Guideline 20)

8.3.2.1 Development of PES network, partly co-financed by the ESF: The implementation of the measure continued during the last year within the framework of providing active support to vulnerable groups including young unemployed, women wishing to enter the labour market, public assistance recipients and persons with disabilities through an individualised approach. The activities included in this measure divided into five axes as shown below and the following activities were carried out under each of the five axes:

(a) Operation of New Local Employment Offices: One new local employment office was being set in operation in the area of Kakopetria (rural area in Nicosia District). The operation of an additional office in the area of Ayios Nikolaos (urban area of Eastern Limassol) is expected to operate by the end of October 2008.

(b) Training and awareness building programs: An intensive training programme for PES staff was carried out during the period October 2007 – July 2008 which included seminars and study visits in six other European countries. An ex post evaluation of the programme has started and is to be completed in 2008. Awareness building seminars and an informational campaign for active ageing was planned for the period July 2008 – November 2008. Furthermore, educational seminars during the period July 2008 – November 2008 aiming at strengthening the involvement of local actors in the promotion of employment schemes at the local level.

(c) Provision of services to the unemployed: Specially trained employment counsellors continued to provide career guidance to unemployed and individualized counselling services, work placement and referrals to training and work experience programs.

(d) Commission of studies: The following studies were carried out with the help of the private sector, aiming at the scientific justification of future PES activities:

1. Evaluation System for the operation of PES
2. Targeted employment schemes for youth
5. Role and Operation of PES in Cypriot labour market
6. Guide/Manual for the operation of PES offices
7. Legislation regulating the operation of private employment agencies.

(e) Dissemination of project actions and results: A dissemination campaign of project actions was carried out during the implementation period of the measure which included a media campaign with placement of advertisements in electronic and print media and the hosting of four (4) local community events for awareness building, three (3) thematic project conferences, an employment week and a career guidance week. The measure will be fully implemented by the end of 2008.
8.3.2.2 Upgrading of the existing Candidate Placement System (CPS) and introduction of a new software and statistical system for the monitoring of flows, co-financed (50%) by the ESF: With the help of an external technical advisor and following a tender procedure, an IT company was assigned the task of developing the systems during the period September 2007 to December 2008. The measure will be fully implemented by the end of 2008.

8.3.3 Policy Priority: Promotion of Flexible Employment

“Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive” (Guideline 19)

8.3.3.1 Action aiming at the promotion of flexible forms of employment, co-financed by the ESF: (CPC) This measure was a pilot subsidy scheme aiming at the promotion of Flexible Forms of Employment in order to attract into the labour market unemployed or economically inactive women. Through this scheme, 195 women were employed in 145 different companies/organizations, out of which 150 are still employed. The measure will be fully implemented by the end of October 2008.

8.3.3.2 New Measure - Promotion of Flexible Forms of Employment (may be co-financed from the ESF in the Programming Period 2007-2013): This measure is an expansion of the subsidy Scheme in order to cover economically inactive or unemployed persons and other vulnerable groups. Two different schemes will be developed one of which is expected to be launched in May/June 2009 and the other in 2010.

8.3.4 Policy Priority: Ongoing Assessment of Labour Market Needs

“Improve matching of labour market needs” (Guideline 20)

8.3.4.1 Undertaking of three studies on long-term employment forecasts in the Cyprus Economy 2005-2015 (HRDA):

(a) Long-term employment forecasts 2005-2015
(b) Long-term employment prospect forecasts in higher level occupations 2005-2015
(c) Long-term employment prospect forecasts in middle level occupations 2005-2015

The three-above-mentioned studies, covering the period 2005 – 2015 were completed and disseminated to a wide audience of prominent stakeholders in a variety of ways, utilising both traditional and electronic channels of communication.

8.3.4.2 Undertaking of annual investigations for the identification of initial training needs, with the involvement of the social partners: The annual investigation for identifying the initial training needs for 2009 was completed in April 2008. The findings of the annual investigations are utilised by the HRDA every year in order to arrive at policy decisions for the promotion of appropriate initial training programmes for the next year. Dissemination to the public is achieved via the website of the HRDA.
8.3.5 Policy Priority: Further Promotion of Adaptability of Workers and Enterprises

8.3.5.1 New Measure - Incentive scheme to facilitate the shift from low- to high-productivity jobs (may be co-financed by the ESF of the new Programming Period 2007-2013): This scheme aims at improving labour productivity by facilitating the shift from low value added jobs to high value added jobs. It involves subsidies to enterprises for the implementation of specific changes that will lead to the required job reallocation. This is a new scheme which is expected to be launched by the end of 2008.

8.4 Orderly Management of Foreign Workers Issues to Serve the Economic and Social Needs of the Country

8.4.1 State of Play / Overall Progress

As already indicated, a large number of foreign workers is employed in Cyprus, particularly in unskilled or low-skilled occupations. The employment of foreign nationals plays a key role in addressing the immediate needs of the labour market and hence in maintaining high growth rates. Labour intensive sectors such as agriculture, hotel and catering and construction benefited the most.

In 2007, the new strategy for the effective management of foreign workers’ issues was set into implementation. It aims at a more effective management and control of inflows of migrants for employment and takes into account four important factors: the need for the diversification of the economy and relevant objectives set-out in the national Reform Programme, the potential labour force mobility from the other 26 member states given that no transitional measures are applied, future prospects of the economy and labour needs, and the potential labour force supply as a result of the new legislative framework based on EU directives (long-term residents, students etc).

Furthermore, integration to society of legal migrants, recognised refugees, persons entitled to international protection, and asylum seekers constitutes an important challenge.

After the implementation of the new strategy for two years, it will be evaluated and revised accordingly taking into consideration the current situation in the labour market and the factors affecting the labour supply.

Inventory of Progress

8.4.2 Management of foreign workers

“Improve matching of labour market needs through appropriate management of economic migration” (Guideline 20)

8.4.2.1 Implementation of the new strategy for the effective management of foreign workers’ issues (DL, MOI): Following new consultations among the competent ministries
and with the social partners, the new strategy was agreed and approved by the council of Ministers in June 2007. The implementation of the strategy has started soon after that. The measure was completed in July 2008.

8.4.2.2 Preparation of a new immigration law providing a comprehensive framework for immigration policy (MOI): This measure includes several actions which are described below:

The amending Law of the Immigration Law was approved by the House of Representatives via the amending Law whereas harmonisation has been achieved with the following EU Directives: (a) Council Directive 2003/86/EC, concerning the right of family reunification; (b) Council Directive 2003/109/EC, concerning the status of third country nationals who are long term residents; (c) Council Directive 2002/90/EC, defining the facilitation of unauthorised entry, transit and residence; (d) Council Directive 2003/110/EC on assistance in cases of transit for the purposes of removal by air; and (e) Council Framework Decision of 28 November 2002 on the strengthening of the penal framework to prevent the facilitation of unauthorised entry, transit and residence. This action was completed in February, 2007.

On the 2nd of November 2007 the Aliens and Immigration (Carrier’s Liability) Law of 2007 (L. 146(I)/2007) came into force. This Law is in compliance with Directives 2001/51/EC of 28/06/2001 concerning the obligations of carriers transporting foreign nationals into the territory of the Member States and 2004/82/EC of 29/04/2004, concerning the obligations on air carriers, transporting passengers into the territory of the Member States, to communicate passenger data. This action was completed in November 2007.

In 2007 the Aliens and Immigration Law was amended again as to transpose the Directive 2004/114/EC of 13/12/2004 concerning the conditions of entry and residence of third country nationals for study purposes, exchange of students, unremunerated trainees, or voluntary service into a national legislation - the Aliens Immigration (amended) (No.2). This action was completed in December 2007.

8.5 Further Development of Human Capital

8.5.1 State of Play / Overall Progress

The labour force constitutes the most important factor of production for the Cyprus economy and its development is therefore a high priority. Within this framework, particular importance is attached towards the continuous improvement of the quality of education and the flexibility of the educational system at all levels in order to secure its closer and more effective link to the labour market needs, as well as a continuous upgrading of the training / retraining programmes.

Cyprus has, generally, a comprehensive educational and training system, offering extensive opportunities for the acquisition of knowledge and skills. In recognition of the crucial role of education and training for the future course of the Cyprus economy, the Government is promoting major reforms at the upper secondary cycle of the educational
system, including the technical and vocational schooling. In this context, there is a systematic effort to develop a better balance between basic areas of learning and new technological developments related to the shift towards a knowledge-based economy and the needs of the labour market. Continuing education and training as part of a coherent system of lifelong learning is a key factor for maintaining a highly skilled and adaptable workforce and improving employability. A system of continuing education and training is well established in Cyprus and it is generally evident from the following indicators:

- The percentage of people aged 20-24 that have completed the Lyceum (upper secondary education) is 85.8%, which is higher than the EU average (77.8%), and has exceeded the European Employment Strategy (EES) target for youth attainment of 85% by 2010 (Statistics of Education, 2005/2006).
- The net participation rate in education for young persons of 12-17 years old is estimated at 95% (Statistics of Education, 2006/2007).
- Cyprus education is free up to the age of 18 and is compulsory up to the age of 15. 98.1% of the graduates of compulsory education continue their studies to upper secondary education (86.1% in secondary general and 12% in technical/vocational education). It is thus obvious that the participation rate in technical/vocational education is quite low, particularly for girls who comprise only 14.8% of the total population in the technical/vocational schools.
- Participation in the apprenticeship scheme is low, estimated at 1.1% of the total upper secondary education population.
- About 82% of the secondary education graduates continue their studies in tertiary education (37% in Cyprus and 45% abroad).
- The overall participation rate in life-long learning amounted to 8.4% for persons aged 25-64, lower than the EU average (9.7%) and considerably lower than the EES target of 12.5% by 2010.

The picture emerging is that education in Cyprus is strong in many fronts, yet there is room for improvement, especially as concerns facilitating access to initial vocational secondary and higher education and increasing the attractiveness of technical / vocational education and the apprenticeship scheme. Furthermore, additional efforts are required to increase the participation in training and lifelong learning and to reduce the number of early school leavers.

**Inventory of Progress**

**8.5.2 Policy Priority: Continuous Improvement of the Quality and Flexibility of the Educational System**

“Adapt education and training systems in response to new competence requirements” (Guideline 24)

**8.5.2.1 Educational Reform:** The Council of Ministers has approved the proposal of the Ministry of Education and Culture for the restructuring and the upgrading of the Ministry and the Pedagogical Institute and also the establishment of the Educational Research and Evaluation Centre.
Furthermore, the following Committees for the promotion of measures within the framework of Education Reform, were composed:

1. Scientific Council of Pedagogical Institute and Education Research and Evaluation Centre.
2. Scientific Committee for the formation of new curricula,
3. Specialists Committee to prevent schools’ antisocial behaviour
4. Specialists Committee to upgrade, modernise and unify the legislation of Universities and other Institutions of Tertiary Education.

8.5.2.2 Implementation of an action aiming at introducing modern technology in education, co-financed by the ESF: The program aims at reforming the curricula of all subjects with activities using ICT, providing schools with suitable ICT equipment and completing the infrastructure installations. The Ministry of Education and Culture has obtained ready – made software for the needs of some of the subjects taught at the Lyceum and Technical/Vocational level and started the procedure to obtain e-learning software for these subjects. The procedure to obtain ready-made software for the remaining subjects taught at Lyceum has already started and is expected to be completed by the end of October 2008. New tenders for ICT consulting services are under preparation. The implementation of the LAN cabling at 20 schools is processing normally and will be completed by the end of February 2009. The design of the LAN of another 20 schools is under development.

The Learning Management System (LMS) Platform is under installation and configuration. The LMS Platform will have the following capabilities: (a) Learning material according to the curriculum, some material has been loaded and is under testing (b) Email and calendar facilities for the students, the teachers and the parents (c) Space for personal WebPages for the students and the teachers (d) Lessons in synchronous (all students can use it at the same time) and asynchronous mode (any student can use it whenever is suitable for him/her). A pilot use of the LMS at four Lyceums, three Technical/Vocational schools and one primary school is expected to start in November 2008.

During the school year 2007-2008, schools were supplied with 7 495 colour laser printers whereas the delivery and installation of 10 826 personal computers has been finished. A piloting program for the use of Interactive Boards (IB) at schools was initiated. 29 IB were installed at various schools and the services of an external consultant were offered to evaluate the use of them and make recommendations as to how they can be used in all schools.

During the current school year 2007-08, computer subjects have been systematically included in the curriculum of “All Day” Primary schools, mainly the compulsory ones but to some extent also the voluntary ones. “All day” schools operate until 4pm instead of 1:05 (except Wednesdays.) A few extra subjects are taught in these schools and they often have subsidized lunch arrangements. There are 150 voluntary all day schools and 9 compulsory ones. Since compulsory all day schools are considered more successful, their number (15 for the year 2007-08) may be expected to increase following a three year pilot period ending in 2008.

8.5.2.3 Implementation of an action aiming at ensuring that primary and secondary education teachers will become digitally literate, partly co-financed by the ESF: The Ministry of Education and Culture launched in April 2005 teacher training programmes
based on ECDL (European Computer Driving License) standards. The programmes, which will provide participants with an ECDL certification, will continue to be offered at a rate of two programmes per year until September 2009. The percentage of Secondary and Vocational Education teachers who have already been trained on basic skills and how to implement ICT is 80% (4,958 teachers out of 6,200). The programme aims at training all the secondary and vocational education teachers on ICT.

In addition, the Ministry of Education and Culture introduced a special teacher training programme on ICT and e-learning in June 2005, for secondary and primary school teachers. These programmes will continue to be offered until December 2008. Up to now 650 teachers have participated.

Primary Education has launched an action aiming at in-service training of Primary School Teachers in Basic Computer Skills or the use of ICT in classroom. The percentage of primary school teachers already trained is 85% (3,757 teachers out of 4,200).

Finally, there is a development of Educational Training Material on ICT implementation in the learning process, with school based implementation of education scenarios.

### 8.5.3 Policy Priority: Increase Opportunities for University Studies in Cyprus

“Expand and improve investment in human capital” (Guideline 23)

#### 8.5.3.1 Introduction of new departments in the University of Cyprus:
This is an ongoing measure. The Department of Biological Science started offering pre-graduate studies and accepted its first students in the academic year 2007-08. In addition, for the academic year 2008-09 the Department of Law will accept its first students.

#### 8.5.3.2 New Measure: Establishment of Medical School:
The Council of Ministers decided the establishment of a Medical School, which will accepted its first students in the academic year 2013-2014.

#### 8.5.3.3 New Measure: University of Cyprus increased intake:
This is an ongoing measure. The Ministry of Education has presented to the Council of Ministers for a final decision a proposal for an increase of students’ intake to the University of Cyprus in the academic year 2008-09 by 18%, compared to academic year 2007-08.

#### 8.5.3.4 Operation of the Open University of Cyprus:
The offering of 1,000 new places for males undertaking national military services, is under evaluation. Post Graduate level subjects on Open and Distance Education, Adults Education and Teaching of Science have been introduced. In addition, a Graduate level subject on Administration Principles has also been introduced. The Open University started its operation in 2006.

#### 8.5.3.5 Operation of the Cyprus University of Technology:
The University accepted its first students in September 2007 and started its operation with five faculties and eight departments (30 students in each department). The Council of Ministers has approved the increase of students’ intake to the Cyprus University of Technology in the academic year 2008-09 by 15%, compared to academic year 2007-08.
8.5.3.6 Establishment of Private Universities, following the enactment of the relevant legislative framework regulating their operation in July 2005: Following the enactment of the law regulating the establishment and operation of private universities in Cyprus, the Council of Ministers approved, on the 12th of September 2007, the establishment and operation of three (3) new Private Universities. The three private universities with a total number of 7,581 students have increased the opportunities for university studies in Cyprus significantly.

8.5.4 Policy Priority: Continuous Upgrading of Skills to Labour Market Needs

“Expand and improve investment in human capital” (Guideline 23)

“Adapt education and training systems in response to new competence requirements” (Guideline 24)

8.5.4.1 Implementation of an action aiming at strengthening the quality and attractiveness of the Secondary Technical and Vocational Education (STVE) and improving the organisation of STVE, co-financed by the ESF: The development of the curriculum revision of the STVE is progressing. A dialogue between the members of the Administration for the abbreviation of subjects, the creation of new subjects and the upgrade of the profile of the Practical direction graduates according to the labour market needs is under way. The procedure with working groups for the development of a new curriculum has started. A proposal for the creation of a National Qualification Framework in Cyprus was submitted by the Ministry of Education and Culture to Council of Ministers in June 2008. A political decision is currently expected.

8.5.4.2 Implementation of an action aiming at upgrading the Apprenticeship Scheme, co-financed from the ESF and Establishment and operation of a New Modern Apprenticeship (NMA), designed to constitute a viable, alternative form of training and development for young people as well as to meet the needs of the labour market (may be co-financed from the ESF in the Programming Period 2007-2013): The Ministry of Education and Culture is in the process of obtaining new ready-made software for the curricula and the upgrading of the Apprenticeship Scheme as it was planned and based on the co-financing from the ESF.

After the approval of the proposal, for a New Modern Apprenticeship Scheme (on 21st of November 2007), the Ministry of Education and Culture expressed reservations regarding implementation aspects of the NMA. The Ministers of Labour and Social Insurance and Education and Culture along with officials of the two Ministries are holding high level meetings aiming at reaching consensus. The implementation of the proposal is expected to begin by the end of the year, on the basis of an agreement between the two Ministries.

8.5.4.3 Upgrading of the Human Resource Development Authority (HRDA) Training (Five Actions)

a) Undertaking of a special study aiming at evaluating the impact of the existing HRDA schemes on the labour market: The study has covered all the schemes of the HRDA that have been operated during the period 1998-2004. The study, which commenced in August 2005, was completed in 2006. In the light of the findings of the study, policy decisions have
been taken to modify/enrich the spectrum of schemes to be promoted by the HRDA in the future. This will lead to the further upgrading/enhancement of human capital development in Cyprus. The measure was completed in 2006.

b) Extension of the rendered training programmes HRDA: Introduction of five co-financed by the ESF Schemes and consultancy services and training to micro-enterprises. The progress achieved with regard to the four co-financed by the ESF Schemes for selected target-groups (inactive women, unemployed, young secondary education school leavers), have been described under the first employment challenge. With regard to the consultancy services and training to micro-enterprises employing 1-4 persons, the HRDA has completed the tender procedure and the contractors have proceeded with the implementation of the Scheme, which is expected to be completed before the end of 2008. The tentative target for participation in the Scheme over the period 2006-2008 is 600 enterprises. So far, approximately 400 micro-enterprises completed their participation in the Scheme. The measure will be fully implemented by the end of 2008.

c) Further support to the training infrastructure of institutions and enterprises: The design for the enrichment of the existing Scheme entitled “Training Infrastructure Support Scheme” started in June 2006. It will be completed after the examination of all pertinent findings / proposals from (a) the evaluation study entitled «Ex-post evaluation of the existing schemes of the HRDA» and (b) the Assessment and Certification System of Training Providers. The enriched Scheme is expected to become accessible to and be utilised by the training providers and enterprises from January 2009 onwards. So far the Scheme has been revised and approved as from the 1st of July 2007 in order to comply with the revised de-minimis aid regulation (1998/2006/EC).

d) Introduction of an Assessment and Certification System of Training Providers: Following a tender procedure, the project was assigned to the consortium of the National Accreditation Centre of Continuing Vocational Training (EKEPIS) and ICAP Business Information and Consulting Firm located in Athens. The implementation of the project started in October 2006. The project is expected to be completed in 5 stages over a period of thirty-six months. In August 2007, a draft paper of the system was extensively discussed with key stakeholders in Vocational Education and Training and interested bodies, in an effort to have the highest possible level of consensus. In July 2008, the Board of Governors of the HRDA decided to accept the proposed system and proceed with the next stage of the project, which is the preparation of a specification for the computerisation of the system.

e) Introduction of a Vocational Qualifications System (HRDA): The System of Vocational Qualifications is designed for the assessment and certification of the knowledge, skills and competences of a person to perform competently in a working environment under normal working or simulated conditions at a predetermined level of occupation; and is independent of how and when the relevant knowledge and skills were acquired. It is based on Standards of Vocational Qualifications that are developed with the involvement of stakeholders at central and sectoral levels.

The main functions of the System are the following:

- Development of the Standard of Vocational Qualification.
- Awarding of the Vocational Qualification, including diagnosis/initial assessment, testing and certification.
- Accreditation/ Recognition of Qualification

The system is being gradually established and implemented in two phases (1st phase 2006 extended to 2008, 2nd phase 2007-2013). During phase 1, 5 Standards of Vocational Qualifications at level 2 have been developed (waiter, cook, receptionist, construction mason, sales person-retail). In order to facilitate the standard setting process, technical sectoral committees of vocational qualifications were established in January 2006 in conjunction with the recruitment of standard developers. During the 2nd phase, which is expected to be co-financed by the European Social Fund (ESF), the development of 67 new standards in priority occupations at various levels is envisaged and opportunities for access are expected to be provided to employees, unemployed and economically inactive persons. The new standards to be developed will cover a broader range of occupations in the sectors of Retail and Wholesale Trade, Repairs of Motor Vehicles, Hotels and Restaurants, Construction, Manufacturing, Systems and Networks of Communication and Computers and Hairdressing as well as the occupation of the Trainer of Vocational Training. By the end of 2007, about 260 employees had submitted applications for participation (only 100 by the end of 2006). In May 2007, 41 certificates of vocational qualifications were awarded and in June 2008 another 91 certificates were awarded.

8.6 Enhance the Conditions of Social Cohesion

8.6.1 State of Play / Overall Progress

Even though Cyprus is generally characterized by conditions of social peace and broader social cohesion, social inclusion is high on the agenda of the Cyprus employment policy.

Table 6: Indicators on Social Cohesion (In percentage, unless otherwise specified)

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</thead>
<tbody>
<tr>
<td>Risk-of-poverty rate</td>
<td>16,3</td>
<td>15,3</td>
<td>16,2</td>
<td>16</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inequality of income distribution (S80/S20)</td>
<td>4,4</td>
<td>4,1</td>
<td>4,3</td>
<td>4,3</td>
<td>4,3</td>
<td></td>
<td></td>
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<tr>
<td>Gini Coefficient</td>
<td>0,29</td>
<td>0,27</td>
<td>0,29</td>
<td>0,29</td>
<td>0,29</td>
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<td></td>
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<tr>
<td>At risk of poverty after social transfers</td>
<td></td>
<td>15,3</td>
<td>16,2</td>
<td>16</td>
<td>16</td>
<td></td>
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<tr>
<td>Risk of poverty among elderly persons (over 65)</td>
<td>58,2</td>
<td>51,8</td>
<td>50,7</td>
<td>51</td>
<td>52</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Risk of poverty among children (under 17)</td>
<td>12,3</td>
<td>11,2</td>
<td>12,4</td>
<td>13</td>
<td>11</td>
<td></td>
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<tr>
<td>Early school leavers (18 to 24 years old)</td>
<td></td>
<td>18,5</td>
<td>17,9</td>
<td>15,9</td>
<td>17,4</td>
<td>20,6</td>
<td>18,2</td>
<td>15,3</td>
</tr>
</tbody>
</table>

6 Ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the population with the lowest income (lowest quintile).

7 The Gini coefficient ranges between 0 (full equality) and 1 (full inequality).

8 It is measured by the share of persons with an equivalised disposable income, before social transfers, who are below the risk-of-poverty threshold. That threshold is set at 60% of the national median equivalised disposable income, after social transfers.
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<tbody>
<tr>
<td>Long-term unemployment rate</td>
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<td></td>
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<tr>
<td>Children aged 0-17 living in</td>
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<tr>
<td>jobless households</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Public social protection</td>
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<tr>
<td>expenditure (% of GDP)</td>
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<td></td>
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<tr>
<td>Taxation of low wage earners</td>
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<td></td>
<td></td>
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<tr>
<td>(in %)</td>
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</tbody>
</table>

Economic inequality, poverty and social exclusion are not major problems in Cyprus, however pockets of exclusion do exist amongst the elderly, people with disabilities, the single-parent families and families whose bread-winning members have low educational qualifications. Therefore, an undeviating target of the Cyprus employment policy is increasing the employability of the unemployed and those furthest from the labour market, as well as ensuring an adequate standard of living for disadvantaged and vulnerable groups and encouraging their integration / reintegration into the labour market. (Relevant statistics in Table 6 above).

Under the priority of reducing the risk of poverty and social exclusion the following quantitative targets have been set:

- Further reduction of the risk of poverty from 16%\(^{11}\) to 14%.
- Reduction of the risk of poverty of the population aged 65+ from 52% to 40%\(^{11}\) by 2011.
- Reduction of the risk of poverty of people living in single households from 43%\(^{11}\) to 40%.
- Reduction of the risk of poverty among single-parent families from 34%\(^{11}\) to 30%.
- Reduction of the risk of poverty among people aged 18-64 from 11%\(^{11}\) to 10%.
- Reduction of the percentage of people aged 18-59 living in households where no member is working from 4,7%\(^{11}\) to 3,7%.

**Inventory of Progress**

### 8.6.2 Policy Priority: Ensuring an Adequate Standard of Living for Disadvantaged and Vulnerable Groups and Encouraging their Integration / Reintegration into the Labour Market

“Promote a lifecycle approach to work” (Guideline 18)

“Ensure inclusive labour market, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive” (Guideline 19)

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\(^9\) Eurostat definition may over-estimate figures for Cyprus, due to the high incidence of Cypriots of age 18-24 studying abroad or doing compulsory military service.

\(^{10}\) Tax wedge on labour cost: ratio of income tax plus employee and employer social contributions including payroll taxes less cash benefits divided by the labour costs for a single earner earning 67% of the Average Production Worker.

\(^{11}\) Data from the European Statistics on Income and Living Conditions (EU-SILC 2006)
Horizontal Measures:

8.6.2.1 Preparation of a National Report on Strategies for Social Protection and Social Inclusion (NSPI): The National Report on Strategies for Social Protection and Social Inclusion 2008-2010, is in the process of being prepared. Involved in the process are different government ministries and departments, NGOs, the social partners, the academia and the media. The Report, which will contain a national action plan on social inclusion, a strategy report for pensions and a strategy report for healthcare and long-term care must be submitted to the Commission by the 30th of September 2008.

8.6.2.2 Implementation of a measure aiming at facilitating access and return to the labour market for those who have difficulty in being integrated or reintegrated, co-financed from the ESF, under the Community Initiative EQUAL (Planning Bureau, PB):

This measure included three projects:

a) “Promoting of unemployed to employment through specialised training and skills certification (PRAXI)”
b) “Channels of Access” and
c) “Network for the promotion of Youth Employability (ARRIS)”.

Action 1: Setting up of Development Partnerships, development of a joint strategy and action plan, and agreement of a work plan for transnational cooperation was completed in 2006 and
Action 2: Implementation of the work programmes for the Development Partnerships was completed in March 2008.
Action 3: Thematic networking, implementation of the Common Action Framework and dissemination of good practices will be completed in the end of October 2008. The measure will be fully implemented by December 2008

Public Assistance Recipients:

8.6.2.3 Review of the legislation on public assistance (Public Assistance and Services Laws): Public assistance legislation has been revised. The new Public Assistance and Services Law of 2006 (Law 95(I)/2006) contains increased activation incentives for lone parents and people with disabilities, as well as provisions for harmonization with two EU Directives, namely Directive 2004/38/EC on the right of citizens of the Union and their family members to move and reside freely within the territory of the member states and Directive 2003/9/EC laying down minimum standards for the reception of asylum seekers.

The revision of public assistance legislation is reflected in the increase, since 2005, of the number of recipients of public assistance, as shown below:

<table>
<thead>
<tr>
<th>Table 7:</th>
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</tr>
</thead>
<tbody>
<tr>
<td>No. of recipients</td>
<td>17,646</td>
<td>19,731</td>
<td>21,346</td>
<td>21,642</td>
</tr>
<tr>
<td>No. of dependants</td>
<td>7,604</td>
<td>9,175</td>
<td>11,709</td>
<td>12,465</td>
</tr>
<tr>
<td>Total no. of beneficiaries</td>
<td>25,250</td>
<td>28,906</td>
<td>33,055</td>
<td>34,107</td>
</tr>
</tbody>
</table>
Further revisions are being studied and efforts are being made for the procurement of a consultant who can provide advice and information on best practices in other European countries.

8.6.2.4 Implementation of a scheme for vocational training and employment of recipients of public assistance partly co-financed from the ESF: During the period October 2007-October 2008, based on the results of the evaluation of training programmes, three (3) more training courses were promoted on advanced computer skills (completed March 2008), enhanced communication skills and self-development and on computers and information technology (in process). The measure will be fully implemented by December 2008.

Persons with Disabilities:

8.6.2.5 Implementation of a training scheme for the disabled, co-financed from the ESF (Department of Labour, DL): The implementation of this measure included the promotion of the following training programmes aiming at the vocational rehabilitation of people with disabilities:

- Vocational training program for persons with hearing impairment, completed in May 2008
- Computer Literacy training program for persons with severe motor disability, will be completed by the end of October 2008
- Computer Literacy training program for persons with visual impairment
- Computer Literacy training program for persons with hearing impairment
- Computer Literacy training program for persons with severe motor disability

This measure will be fully implemented by December 2008.

8.6.2.6 Implementation of a scheme providing incentives for the employment of people with disabilities, co-financed from the ESF (DL): Under this scheme 35 job placements of people with severe disabilities were made from 31 employers. This measure will be fully implemented by December 2008.

Older Persons:

8.6.2.7 Elaboration and implementation by the Ministry of Health of a 10-year action plan for the development of health care services for the elderly (Ministry of Health, MOH):

The main developments during 2007-2008 were the following:

(1) Two nursing officers, two physiotherapists and one doctor have undergone special training abroad (in Ireland) for the care of the elderly during the year 2007. Another team is agreed to receive training this year. Furthermore, a number of Health Professionals attended seminars related to elderly care training abroad. This action will be completed by the end of October 2008.

(2) The Ministry of Health signed an agreement with specialised old people homes to hospice patients with long term care needs. This will free hospital beds occupied by
the patients, reduce waiting times and improve quality of care. This action is expected to begin in October 2008.

(3) The Ministry of Health is in the process of preparing tender documents for the evaluation of the elderly care needs in Cyprus and the development of specialized clinics for the elderly. Announcement of tenders is expected in October 2008.

(4) The Ministry of Health has signed an agreement with a specialised non-profit rehabilitation hospital. In accordance with the agreement, a number of beds (six) are reserved for the needs of the elderly for rehabilitation after serious onsets like stroke.

(5) Further expansion of Community Nursing. The nursing care at home is now expanding in more areas (Nicosia, Ayios Dometios, Strovolos, Lakatamia and Kaimakli, and in the villages Kyprounda, Galata, Kakopetria, Chandria, Kato Amiantos, Dimes, Potamitissa). This is done with the help of the family environment of the people that need care and the Social Welfare Services.

(6) A primary health care team (doctor and nurse) are visiting at present five (5) government-owned old people homes on a regular basis to cover their primary health care needs. The aim is to transform some of old people’s homes in the private sector to geriatric clinics for rehabilitation purposes. Public hospitals have been closely cooperating with some of those clinics. This action was completed in July 2008.

(7) The MOH is planning the organisation of seminars so as to raise awareness of Health Professionals and other governmental and non-governmental parties regarding the health care of the elderly.

(8) Reestablishment of the Committee at the Ministry of Health specialised for the health care of the elderly people by November 2008.

(9) Provision of physiotherapy at the Government owned Old People’s Homes by the governmental physiotherapists as a pilot test program. After the completion of the report that will be made regarding the elderly care needs in Cyprus and the development of specialized clinics for the elderly, further actions will be promoted. The implementation of this action will be completed by January 2009.

8.6.2.8 Implementation of the National Action Plan for Older Persons: The Social Welfare Services (SWS) prepared a table of necessary actions and the Monitoring Committee will convene in October 2008 to discuss the measures that must be promoted by individual Ministries and Services.

Children and Families at Risk of Poverty:

8.6.2.9 Elaboration and implementation of a National Strategy for Children for the period 2007-2013: The elaboration of a National Strategy for children has been deferred in order to take into account the findings of the Study for the modernisation of the SWS and the evaluation of programmes, which will be conducted as part of a Project entitled “Improving the institutional and administrative capacities and the effectiveness of the Social Welfare Services” (under the new programming period 2007-2013 of the Structural Funds).

Drug Users:

1) The inclusion of social integration services in the treatment network and the elaboration of mechanisms for the reintegration of former users into the labour market, and
2) the promotion of the participation of former drug users in social rehabilitation and occupational re-insertion programmes.

With regard to the first action, the implementation of the “Plan for the Provision of Financial Support for the Rehabilitation of Drug Users in Treatment and Rehabilitation Programmes”, of the SWS of the Ministry of Labour and Social Insurance, in ongoing base, has benefited many former users. Further, elaboration of the specific measure is on progress and will provide, with its revised format, a better support for formal drug users.

Concerning the second action, former drug users benefit from the operation of three occupational re-insertion programmes which provide specialized vocational training to the majority of former users who benefited from the financial support plan mentioned above. Both actions mentioned above, have been implemented successfully during the period October 2007- October 2008.

The Cyprus Antidrugs Council (CAC) is in the process of drafting the new National Drug Strategy 2009-2012, through which special care will be given to social reintegration measures.

Asylum Seekers:

8.6.2.11 Reduce the possibility of social exclusion for asylum seekers, partly co-financed by the ESF, under the Community Initiative EQUAL: This measure includes the project “Social rights for asylum seekers- social rights for all”.
Action 1: It was completed in January 2006.
Action 2: Implementation of the work program of the Development Partnership has also been completed.
Action 3: Thematic networking, implementation of the Common Action Framework and dissemination of good practices will be completed by the end of October 2008. The measure will be fully implemented by December 2008.

Access to Housing:

8.6.2.12 Housing schemes: This is an on-going measure which includes various housing schemes aiming to assist:

- refugees,
- low-income families to acquire their own home. The government has unified the government non refugee housing schemes targeted at low income families, persons living in disadvantage areas and large families in an attempt to achieve uniformity and improvement of the criteria used, as well as of the provision of the various housing schemes. The new unified housing scheme was introduced on the 1st of January 2007.
During 2008, the Government decided to improve the criteria and provisions of both refugee and non-refugee housing schemes. The proposals have been agreed by the Council of Ministers and the improved Schemes were introduced on the 1st of July 2008.

In 2007 the actual funds allocated to refugees and non refugees housing schemes reached a total of €54,5 mln. The budget for 2008 is €71,8 mln.

8.6.3 Policy Priority: Safeguarding Affordable Access to Government Education and Health Services

“Promote a lifecycle approach to work” (Guideline 18)

Education is free up to the age of 18 years and it is compulsory up to the age of 15. No tuition fees for studies at the University of Cyprus. An annual student grant of €1,709 (in cases of non existence of fees) and €2,563 (in cases of fees) is provided to all persons studying in tertiary educational level institutions, in Cyprus or abroad.

There is free medical care in public hospitals for a very large percentage of the whole population. Eligible for free or reduced fees on medical care are all civil servants as well as people who meet specific income criteria. Free medical care in public hospitals is also provided to persons with chronic and serious diseases, such as AIDS.

The reform of the secondary technical and vocational educational system, including the apprenticeship scheme will significantly improve access of the lower income groups to education whereas the introduction of the General Health Scheme will considerably improve access of the lower income groups to education and health and enhance the provision of web-enabled services by the public sector. The gradual development of one-stop-shops on the civil services, presented in the microeconomic chapter, will facilitate access to government services to all.

In the context of reviewing the tax and benefit system to make work pay the following measures are provided:

- Reforming Labour Income Taxation
- Reform measures for welfare-related benefits
- Increasing Minimum Wage
- Addressing Inflationary Pressures

(See also Chapter 1 of Part 3, paragraph 1.8 and 1.9)
PART 4

CO-ORDINATION BETWEEN
THE NATIONAL REFORM PROGRAMME AND
THE STRUCTURAL FUNDS

CYPRUS
OCTOBER 2008
1. **Cohesion Policy: Programming Period 2004-2006**

1.1 **Absorption Funds**: For the period 2004-2006 Cyprus has secured an amount of €109,21 mln from the Structural funds and the Cohesion Fund. In order to ensure the timely absorption of the assistance received from the Structural and Cohesion Funds, for the Programming Period 2004-2006 there is continuous monitoring of the progress of all co-financed projects and all possible steps and measures for the acceleration of absorption have been taken. For the year 2007, the absorption target was achieved for all co-financed programmes, avoiding any de-commitment of funds. The relevant Services are now intensively working towards the successful completion of the projects and closure of the Programmes. On the basis of the current state of play, the expenditure already incurred and the set timetables of the projects that are currently being implemented, it is expected that by the end of the programming period 2004-2006 all Community funds allocated to Cyprus under the Structural and Cohesion Funds will be absorbed. More specifically, most projects approved in the framework of the Objective 2 Programme have been physically completed and Final Beneficiaries are now in the process of settling the final accounts of the contracts signed. For the Fisheries Programme, real expenditure incurred has reached 100%, whereas the Final Beneficiaries are now in the process of submitting their expenditure reports to be verified by the Intermediate Body. For the Objective 3 Programme and the Programming Document for Equal, all necessary measures are taken and there is closer monitoring of the implementation of the projects and the flow of payments, in order to ensure the timely absorption of the funds as well.

Concerning the overall reimbursement of funds, considerable progress has been made. To date, an amount of €71,9 mln (including advance payments) has been received by the EU representing 66% of the total EU contribution, whereas an additional amount of €1,4 mln has been certified to the Commission. Furthermore, the Final Beneficiaries have made payments pending for verification and certification amounting to € 32,9 mln.

Details regarding the implementation of the projects are given in the various Chapters of the current Progress Report.

2. **Cohesion Policy: Programming Period 2007-2013**

2.1 **Introduction**

The National Strategic Reference Framework (NSRF) for Cohesion Policy 2007-2013, is formulated in order to provide for its strategy and priorities to contribute, to the maximum possible extent, to the objectives of the National Reform Programme (NRP). Overall, the programming procedure was such as to guarantee the relevance of the programming documents, which are prepared for the Cohesion Policy, the NRP, the National Strategic Plans for Rural Development and Fisheries and the national policy priorities, in a single strategy framework.
The NSRF is implemented through two Operational Programmes, namely “Sustainable Development and Competitiveness” and “Employment, Human Capital and Social Cohesion”, which were approved by the European Commission in September and November 2007, respectively. The Operational Programme “Sustainable Development and Competitiveness” analyses the objectives, strategy, priorities as well as categories of interventions for the utilisation of the funds of the European Regional Development Fund and the Cohesion Fund, whereas the Operational Programme «Employment, Human Capital and Social Cohesion», for the utilisation of funds of the European Social Fund granted to Cyprus for the period 2007-2013, within the framework of the Objective «Regional Competitiveness and Employment».

The contribution of the interventions provided for under the two Operational Programmes to the attainment of the NRP objectives are the maximum possible, taking into consideration both the amount and structure of the Cohesion Policy funds available to Cyprus for the programming period 2007-2013 and the country’s particular development needs. The indicative quantitative contribution of the Operational Programmes to the implementation of the Lisbon Objectives is presented in the Annex.

Below an analysis of the coherence with the National Reform Programme is given, at Operational Programme level.

2.2 Consistency of the Strategy of the Operational Programmes with the National Reform Programme

2.2.1 Operational Programme “Employment, Human Capital and Social Cohesion”

In general, the strategy, objectives and interventions of the Operational Programme “Employment, Human Capital and Social Cohesion” contribute significantly, mainly, to the employment challenges but also to various microeconomic and macroeconomic challenges of the NRP. Table 1 below presents the level of consistency between the Priority Axes, through which the Operational Programme will be implemented, and the key challenges for the NRP.
Table 1: Consistency of the Priority Axes of the Operational Programme with the Challenges of the National Reform Programme

<table>
<thead>
<tr>
<th>NRP Challenges</th>
<th>Development of Human Capital and Adaptability</th>
<th>Expansion of the Labour Market and Social Cohesion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability of public finances</td>
<td>(\checkmark)</td>
<td>(\checkmark)</td>
</tr>
<tr>
<td>Increase the diversification of the economy towards higher value added activities via, mainly, an increased utilization of the comparative advantages of the island</td>
<td>(\checkmark\checkmark)</td>
<td>(\checkmark)</td>
</tr>
<tr>
<td>Promotion of R&amp;D and innovation and facilitation of ICT diffusion</td>
<td>(\checkmark)</td>
<td>(\checkmark\checkmark)</td>
</tr>
<tr>
<td>Structural reforms targeting at enhancing competition and improving the overall business climate</td>
<td>(\checkmark)</td>
<td>(\checkmark)</td>
</tr>
<tr>
<td>Further human capital development</td>
<td>(\checkmark\checkmark\checkmark)</td>
<td>(\checkmark\checkmark\checkmark)</td>
</tr>
<tr>
<td>• Enhancement of the links of the educational system to labour market needs</td>
<td>(\checkmark\checkmark\checkmark)</td>
<td>(\checkmark\checkmark)</td>
</tr>
<tr>
<td>• Development of a comprehensive national framework for lifelong learning</td>
<td>(\checkmark\checkmark\checkmark)</td>
<td>(\checkmark\checkmark\checkmark)</td>
</tr>
<tr>
<td>• Continuous upgrading and adaptability of skills to labour market needs</td>
<td>(\checkmark\checkmark\checkmark)</td>
<td>(\checkmark\checkmark\checkmark)</td>
</tr>
<tr>
<td>Further enhancement of the conditions of social cohesion</td>
<td>(\checkmark\checkmark)</td>
<td>(\checkmark\checkmark)</td>
</tr>
</tbody>
</table>

\(\checkmark\checkmark\checkmark\): Direct strong consistency / contribution  
\(\checkmark\checkmark\): Direct consistency / contribution  
\(\checkmark\): Indirect consistency / contribution

More specifically:
• Priority Axis 1: The “Development of Human Capital and Adaptability” has a strong and direct contribution to the challenge for further human capital development mainly through the reform of the vocational education, training systems as well as the apprenticeship system, with a particular emphasis on life-long learning, so that knowledge, skills/qualifications and specialisations of the labour force, and, in particularly, of youth, are being adapted to the current needs of the economic environment. In parallel, the Priority Axis promotes programmes for the adaptability of small and medium size enterprises through consultancy services and training to employees. Priority Axis 1, through the above interventions, also contributes directly, but to a lesser extent, to the challenges of diversification of the economy towards high value added activities as well as the further enhancement of the conditions of social cohesion. With regards to the latter challenge the contribution of the Axis is mainly towards preventing early school leaving. The upgrading of the administrative capacity of the Public Sector and the services promoted by this Priority Axis aiming at enhancing the ability of the Public Sector to design and implement effectively development policy constitutes an important parameter, in restructuring of the productive base of the economy and thus, contributes indirectly to the attainment challenge of the NRP for structural reforms targeting at enhancing competition and improving the overall business climate. The promotion of the use of new technologies and innovations to the productive and administrative operation of enterprises as well as the development of e-learning under the priority Axis contributes indirectly to the promotion of R&D and innovation and the facilitation of ICT diffusion.

• Priority Axis 2: The “Expansion of the Labour Market and Social Cohesion” contributes directly to the attainment of the objective further human capital development, mainly, through active employment measures including training and work experience programmes for the unemployed and, in particular, young unemployed and the inactive female population as well as interventions for upgrading the Public Employment Services. The Axis has also strong and direct contribution to the challenge of further enhancement of the conditions of social cohesion through active measures for the integration of people with disabilities and other vulnerable groups of population into the labour market and the provision of better access of inactive women to care services. The Axis also promotes programmes for the social integration of foreign-language immigrants. With regard to the challenge of promotion of R&D and innovation and the facilitation of ICT diffusion the Axis has also direct contribution, albeit to a lesser extent, through the integration of new technologies into training programmes. The Axis has indirect contribution to the challenges of structural reforms targeting at enhancing competition and improving the overall business climate as well as diversification of the economy towards high value added activities mainly through the continuous improvement and readjustment of the skills of the labour force according to the needs of the market.

• Both Priority Axes have indirect contribution to the sustainability of public finances through the creation of new and the maintenance of the current job positions as well as the effective operation of the labour market.

2.2.2 Operational Programme “Sustainable Development and Competitiveness”
The objectives and the Priority Axes, through which the Operational Programme “Sustainable Development and Competitiveness” is implemented, contribute substantially to the microeconomic challenges/objectives of the NRP. In Table 2 below the way in which the Priority Axes contribute to the achievement of NRP’s objectives is presented.

**Table 2: Consistency of the Priority Axes of the Operational Programme with the Challenges of the National Reform Programme**

<table>
<thead>
<tr>
<th>NRP Challenges</th>
<th>OP Priority Axes</th>
<th>Basic infrastructure in environment and energy</th>
<th>Basic transport infrastructure</th>
<th>Information society and innovation</th>
<th>Productive environment</th>
<th>Revitalisation of urban and rural areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase the diversification of the economy towards higher value added activities via, mainly, an increased utilization of the comparative advantages of the island</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promotion of R&amp;D and innovation and facilitation of ICT diffusion</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upgrading of basic infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security of energy supply, promotion of the utilization of renewable energy sources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

√√√: Direct strong consistency / contribution
√√: Direct consistency / contribution
√: Indirect consistency / contribution

More specifically:
• Priority Axis: The “Basic Infrastructure in Environment and Energy”, contributes to the challenge “Sustainable Development”, since this Priority Axis aims to implement part of the country’s policy in the sector of waste management as well as in the sector of energy, setting as priorities, the creation and expansion of basic infrastructure for the management of natural resources. Regarding energy, this Priority Axis contributes also substantially to the NRP objective “Security of energy supply and promotion of the utilisation of Renewable Energy Sources”, through the promotion of renewable energy sources.

• Priority Axis: The “Basic Transport Infrastructure” contributes to the objective of the NRP for the upgrading and expansion of basic infrastructure, in the framework of which, the upgrading of the motorway network, as well as the modernisation of the port infrastructure of the country is promoted, in order for them to function as Europe’s entry gates to the South East Mediterranean area.

• Priority Axis: The “Knowledge Society and Innovation”, contributes to the attainment of the objective of the NRP for the promotion of RTD, innovation and diffusion of Knowledge Society, in the framework of which, measures for the reinforcement of the scientific basis of the country, the promotion of private sector participation in RTD activities and the enhancement of the country’s research resources, are included.

• Priority Axis: The “Productive Environment”, mainly contributes to the attainment of the objective of the NRP for the diversification of the country’s economy through the enhancement of the production of products and services of higher added value, the diversification of the tourism product and the strengthening of the production base. This Priority Axis also has an indirect contribution to the NRP objective for the promotion of RTD, innovation and diffusion of Knowledge Society, since in the support of SME’s the use of new technologies is promoted.

• Priority Axis: The “Revitalisation of Urban and Rural Areas”, due to its territorial dimension has an indirect effect to many NRP priorities. Primarily this Priority Axis contributes to the NRP objective “Diversification of the economy” through the provision of incentives for the creation of SME’s in rural areas. Furthermore, in the urban areas through the enhancement of the public transport system and in the rural areas through measures for the protection of the environment, this Priority Axis contributes to the NRP objective “Sustainable development”. This Priority Axis also makes an indirect contribution to the achievement of the NRP Objective “Basic Transport Infrastructure”, through the upgrading of secondary road network in rural areas. Finally, this Priority Axis also has an indirect contribution to the NRP objective for the promotion of RTD, innovation and diffusion of Knowledge Society, through the support of SMEs in rural areas for the use of new technologies.
3. Progress in the Implementation of the Operational Programmes

The programming procedure for the utilization of Structural and Cohesion Funds for the period 2007-2013 was completed in November 2007. During the year 2007 and the first semester of 2008 the administrative structures were developed and all the necessary measures were taken, according to the EU Regulations, aiming at the effective and efficient implementation of the Programmes. The main actions were the following:

(i) Preparatory actions for the maturity of projects: The Council of Ministers took a decision for the speeding up of the preparation and maturity of projects that are eligible for funding under the approved Operational Programmes. Already, a number of these projects are pre-financed through the national budget.

(ii) Setting up of a joint Monitoring Committee for both Operational Programmes and approval of the project selection criteria. Specific selection criteria of a number of aid schemes have also already been communicated to the Monitoring Committee.

(iii) Designation of management and control authorities and of their detailed tasks and procedures through relevant decisions of the Council of Ministers.

(iv) Formulation of the Management and Control System, according to Article 58 of EU Regulation 1083/2006.

(v) Enhancement, through adequate and appropriate staffing of the administrative capacity of bodies involved in the management of Programmes.

(vi) Issuing, by the Managing Authority, of guidelines for the approval of projects and issue of calls of proposals discussed and approved by the Managing Authority.

The abovementioned actions are crucial for the timely implementation of the Operational Programmes and resulted in the maturing of the projects and the formulation of the Management and Control System. Furthermore, the official launch of Calls of Proposals started in June 2008 and already the first project proposals are being submitted by Beneficiaries.

The link of the implementation of the Operational Programmes and the achievement of the objectives of the National Reform Programme will continue to be closely monitored in the next NRP Progress Report. Once certified expenditure has occurred, a detailed analysis will be given on the financial resources spent for the achievement of those objectives.
ANNEX

Earmarking: The Operational Programmes contribution to EU priorities for growth and employment in terms of financial effort

Cyprus has always been committed, as analysed above, in using the highest possible proportion of cohesion policy funds for contributing to the achievement of the Lisbon Strategy Objectives (economic growth and employment), taking into account the specific territorial and socio-economic situation of the country.

Within this framework and despite the fact that Cyprus is not bound, according to Article 9(3) of Regulation 1083/2006, to participate in the earmarking process, the indicative allocation of EU contribution that correspond to earmarked categories of intervention is presented in Table 1 below. It is estimated that nearly 60% of the funds are earmarked for the period 2007-2013.

Table 1: Earmarked Categories of Expenditure

<table>
<thead>
<tr>
<th>CODE</th>
<th>Community Contribution (€)</th>
<th>Contributing Operational Programme</th>
<th>Share of Category to total Community allocation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Research and Technological Development, Innovation and Entrepreneurship</td>
<td>121 800 000</td>
<td>OP SDC</td>
<td>19,9</td>
</tr>
<tr>
<td>2. R&amp;TD activities in research centres</td>
<td>8 500 000</td>
<td>OP SDC</td>
<td>1,4</td>
</tr>
<tr>
<td>3. R&amp;TD infrastructure (including physical plant, instrumentation and high speed computer networks linking research centres) and centres of competence in a specific technology</td>
<td>19 000 000</td>
<td>OP SDC</td>
<td>3,1</td>
</tr>
<tr>
<td>4. Technology transfer and improvement of cooperation networks between small businesses (SMEs), between these and other businesses and universities, post-secondary education establishments of all kinds, regional authorities, research centres and scientific and technological poles (scientific and technological parks, technopoles, etc)</td>
<td>6 600 000</td>
<td>OP SDC</td>
<td>1,1</td>
</tr>
<tr>
<td>5. Assistance to R&amp;TD, particularly in SMEs (including access to R&amp;TD services in research centres).</td>
<td>15 750 000</td>
<td>OP SDC</td>
<td>2,6</td>
</tr>
<tr>
<td>6. Advanced support services for firms and groups of firms</td>
<td>8 500 000</td>
<td>OP SDC</td>
<td>1,4</td>
</tr>
<tr>
<td>7. Other investment in firms</td>
<td>51 850 000</td>
<td>OP SDC</td>
<td>8,5</td>
</tr>
<tr>
<td>8. Other measures to stimulate research and innovation and entrepreneurship in SMEs</td>
<td>11 600 000</td>
<td>OP SDC</td>
<td>1,9</td>
</tr>
<tr>
<td>Information Society</td>
<td>15 300 000</td>
<td></td>
<td>2,5</td>
</tr>
<tr>
<td>13. Services and applications for the citizen (e-health, e-government, e-learning, e-inclusion, etc)</td>
<td>15 300 000</td>
<td>OP SDC</td>
<td>2,5</td>
</tr>
<tr>
<td>CODE</td>
<td>Community Contribution (€)</td>
<td>Contributing Operational Programme</td>
<td>Share of Category to total Community allocation (%)</td>
</tr>
<tr>
<td>------</td>
<td>---------------------------</td>
<td>-----------------------------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>Transport</td>
<td>51 109 484</td>
<td></td>
<td>8,3</td>
</tr>
<tr>
<td>20</td>
<td>Motorways</td>
<td>24 709 484</td>
<td>OP SDC</td>
</tr>
<tr>
<td>30</td>
<td>Ports</td>
<td>26 400 000</td>
<td>OP SDC</td>
</tr>
<tr>
<td>Energy</td>
<td>5 950 000</td>
<td></td>
<td>1,0</td>
</tr>
<tr>
<td>40</td>
<td>Renewable energy: solar</td>
<td>5 950 000</td>
<td>OP SDC</td>
</tr>
<tr>
<td>Environmental Protection and Risk Prevention</td>
<td>45 870 000</td>
<td></td>
<td>7,5</td>
</tr>
<tr>
<td>50</td>
<td>Rehabilitation of industrial sites and contaminated land</td>
<td>16 150 000</td>
<td>OP SDC</td>
</tr>
<tr>
<td>52</td>
<td>Promotion of clean urban transport</td>
<td>29 720 000</td>
<td>OP SDC</td>
</tr>
<tr>
<td>Increasing the adaptability of workers and firms, enterprises and entrepreneurs</td>
<td>11 050 000</td>
<td></td>
<td>1,8</td>
</tr>
<tr>
<td>62</td>
<td>Development of life-long learning systems and strategies in firms, training and services for employees to step up their adaptability to change, promoting entrepreneurship and innovation</td>
<td>5 525 000</td>
<td>OP EHCSC</td>
</tr>
<tr>
<td>63</td>
<td>Design and dissemination of innovative and more productive ways of organising work</td>
<td>2 550 000</td>
<td>OP EHCSC</td>
</tr>
<tr>
<td>64</td>
<td>Development of specific services for employment, training and support in connection with restructuring of sectors and firms, and development of systems for anticipating economic changes and future requirements in terms of jobs and skills</td>
<td>2 975 000</td>
<td>OP EHCSC</td>
</tr>
<tr>
<td>Improving access to employment and sustainability</td>
<td>21 258 419</td>
<td></td>
<td>3,4</td>
</tr>
<tr>
<td>65</td>
<td>Modernisation and strengthening of labour market institutions</td>
<td>5 600 000</td>
<td>OP EHCSC</td>
</tr>
<tr>
<td>66</td>
<td>Implementing active and preventive measures on the labour market</td>
<td>11 880 000</td>
<td>OP EHCSC</td>
</tr>
<tr>
<td>69</td>
<td>Measures to improve access to employment and increase sustainable participation and progress of women in employment to reduce gender-based segregation in the labour market and to reconcile work and private life, such as facilitating access to childcare and care for dependent persons</td>
<td>3 778 419</td>
<td>OP EHSCS</td>
</tr>
<tr>
<td>Improving the social inclusion of less-favoured persons</td>
<td>13 670 000</td>
<td></td>
<td>2,2</td>
</tr>
<tr>
<td>71</td>
<td>Pathways to integration and re-entry into employment for disadvantaged people; combating discrimination</td>
<td>13 670 000</td>
<td>OP EHSCS</td>
</tr>
<tr>
<td>CODE</td>
<td>Community Contribution (€)</td>
<td>Contributing Operational Programme</td>
<td>Share of Category to total Community allocation (%)</td>
</tr>
<tr>
<td>------</td>
<td>-----------------------------</td>
<td>-----------------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>72</td>
<td>improving Human Capital</td>
<td>69 943 025</td>
<td>11,4</td>
</tr>
<tr>
<td>73</td>
<td>Design, introduction and implementation of reforms in education and training systems in order to develop employability, improving the labour market relevance of initial and vocational education and training, updating skills of training personnel, with a view to innovation and a knowledge based economy</td>
<td>16 150 000</td>
<td>OP EHSCS</td>
</tr>
<tr>
<td>74</td>
<td>Measures to increase participation in education and training throughout the life-cycle, including through action to achieve a reduction in early school leaving, gender-based segregation of subjects and increase access to and quality of initial vocational and tertiary education and training</td>
<td>44 893 025</td>
<td>OP EHSCS</td>
</tr>
<tr>
<td>75</td>
<td>Developing human potential in the field of research and innovation, in particular through post-graduate studies and training of researchers and networking activities between universities, research centres and business</td>
<td>8 900 000</td>
<td>OP SDC</td>
</tr>
<tr>
<td></td>
<td>Investment in Social Infrastructure</td>
<td>9 670 000</td>
<td>1,6</td>
</tr>
<tr>
<td>Total Community financial allocation</td>
<td>612,434,992</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Total Community financial allocation to earmarked categories</td>
<td>365,620,928</td>
<td>59,7%</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
(1) The categories presented in the Table are according to Annex IV of Regulation 1083/2006. However, taking into account the priorities identified in the National Reform Programme of Cyprus and in accordance with Article 9.3 of the said Regulation two further categories have been included, namely Code 75 – Educational Infrastructure and Code 50 - Rehabilitation of industrial sites and contaminated land.
(2) Abbreviations:
OP SDC: Operational Programme “Sustainable Development and Competitiveness”
OP EHSCS: Operational Programme “Employment, Human Capital and Social Cohesion”
APPENDIX 1

INTEGRATED GUIDELINES FOR GROWTH AND JOBS (2008-2010)

Macroeconomic guidelines

(1) Secure economic stability for sustainable growth.
(2) Safeguard economic and financial sustainability as a basis for increased employment.
(3) Promote a growth and employment orientated efficient allocation of resources.
(4) Ensure that wage developments contribute to macroeconomic stability and growth.
(5) Promote greater coherence between macroeconomic, structural and employment policies.
(6) Contribute to a dynamic and well-functioning EMU.

Microeconomic guidelines

(7) Increase and improve investment in R&D, in particular by private business.
(8) Facilitate all forms of innovation.
(9) Facilitate the spread and effective use of ICT and build a fully inclusive information society.
(10) Strengthen the competitive advantages of its industrial base.
(11) Encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.
(12) Extend and deepen the internal market.
(13) Ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation.
(14) Create a more competitive business environment and encourage private initiative through better regulation.
(15) Promote a more entrepreneurial culture and create a supportive environment for SMEs.
(16) Expand, improve and link up European infrastructure and complete priority crossborder projects.

Employment guidelines

(17) Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.
(18) Promote a lifecycle approach to work.
(19) Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job seekers, including disadvantaged people and the inactive.
(20) Improve matching of labour market needs.
(21) Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.
(22) Ensure employment-friendly labour cost developments and wage setting mechanisms.
(23) Expand and improve investment in human capital.
(24) Adapt education and training systems in response to new competence requirements.
APPENDIX 2

Implementation Structure of the National Reform Programme of the Republic of Cyprus

The implementation structure was set up at the beginning of 2006 with a view to promoting the implementation of the National Reform Programme. On the 19th of February 2007, certain modifications were effected to the original structure, taking into consideration the fact that the co-ordination of the Lisbon Strategy was assigned to the Planning Bureau. The new structure is presented herebelow:

(1) Council of Ministers

- It’s the body that takes the ultimate decisions on issues related to the NRP

(2) National Advisory Committee

❖ Composition:

- The National Advisory Committee is the Economic Advisory Committee extended with the participation of representatives of local authorities and other organised groups (farmers, consumers, NGOs) as well as political parties.

❖ Functions:

- The members of the National Advisory Committee are informed by the Minister of Finance, who is the coordinator at the political level, on Lisbon Strategy issues;
- Review of progress achieved in the implementation of the measures included in the National Reform Programme;
- Recommendations for the formulation of policy as well as general guidelines for the continuous improvement of the overall programme;
- Exchange of views regarding the additional measures which are needed to tackle effectively the challenges faced by Cyprus.

❖ Organisational issues / Operation:

- It is convened at least twice a year.
(3) Coordinating Committee

Composition:

• Chaired by the National Lisbon Coordinator, at the technocratic level, i.e. the Director of Planning, (Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I)) of the Planning Bureau.

• Representatives / coordinators from the following Ministries / Services:
  Planning Bureau
  Ministry of Commerce, Industry and Tourism
  Ministry of Labour and Social Security
  Ministry of Agriculture, Natural Resources and Environment
  Ministry of Communications and Works
  Ministry of Finance
  Human Resource Development Authority (HRDA)

Secretariat: Planning Bureau – Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I)

Functions:

• Submission of progress reports to the National Advisory Committee;
• Monitoring the work undertaken by the Technical Committees and the setting of priorities;
• Co-ordination and co-operation between the Planning Bureau and other Ministries and Services of the Public / Private Sector;
• Coordination and monitoring of the consistency and coherence between the NRP and the National Strategic Reference Framework;
• Monitoring the on-going progress and submission of reports / recommendations / proposals to the Minister of Finance;
• Informing and exchanging of views with the political parties. Informing the competent Parliamentary Committee at regular time intervals.

Organisational issues / Operation:

• It is convened every three months or earlier if needed for a comprehensive review of the matters of the Lisbon Strategy.
(4) Technical Committees

- Technical Committee on the Macroeconomic Challenges

  Composition
  
  - Chaired by the Ministry of Finance - Directorate of Economic Research and EU Affairs

  Participants:
  
  - Directorate of Budget and Fiscal Control
  - Central Bank of Cyprus
  - Planning Bureau
  - Ministry of Health
  - Ministry of Interior
  - Ministry of Labour and Social Insurance
  - Health Insurance Organization

- Technical Committee for the Promotion of R&D

  Composition
  
  - Chaired by the Planning Bureau - Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (II)

  Participants:
  
  - Ministry of Commerce, Industry and Tourism
  - Ministry of Finance – Directorate of Finance and Investments
  - Research Promotion Foundation
  - Cyprus Chamber of Commerce and Industry
  - Employers’ and Industrialists’ Federation
  - Agriculture Research Institute
  - Cyprus Institute of Neurology and Genetics

- Technical Committee for the Promotion of Innovation

  Composition
  
  - Chaired by the Ministry of Commerce, Industry and Tourism
Participants:

- Ministry of Finance – Directorate of Finance and Investments
- Planning Bureau
- Research Promotion Foundation
- University of Cyprus
- Institute of Technology
- Cyprus Productivity Centre
- Cyprus Chamber of Commerce and Industry
- Employers and Industrialists’ Federation
- ERMIS Research & Incubator Centre

• Technical Committee for the Facilitation of ICT Diffusion

❖ Composition

- Chaired by the Planning Bureau - Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (II)

Participants:

- Ministry of Finance – Directorate of Economic Research and E.U. Affairs
- Ministry of Commerce, Industry and Tourism
- Ministry of Communications and Works
- Ministry of Education and Culture
- Ministry of Health
- Office of the Commissioner of Electronic Communications and Postal Regulation
- Department of Information Technology Services
- Public Administration and Personnel Department
- Cyprus Computer Society
- Cyprus Information Technology Enterprises Association
- National Contact Point on Research for ICT

• Technical Committee for the Diversification of the Economy

❖ Composition

- Chaired by the Planning Bureau - Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I)
Participants:

- Ministry of Commerce, Industry and Tourism
- Ministry of Finance – Directorate of Economic Research and E.U. Affairs
- Cyprus Tourism Organisation
- Department of Town Planning and Housing
- Organised groups of Accountants and Lawyers
- Cyprus Chamber of Commerce and Industry
- Employers’ and Industrialists’ Federation

- Technical Committee for the Promotion of Reforms Targeting at Enhancing Competition and Improving the Overall Business Climate

  Composition

- Chaired by the Planning Bureau - Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I)

Participants:

- Ministry of Commerce, Industry and Tourism
- Ministry of Communications and Works
- Ministry of Finance – Directorate of Economic Research and E.U. Affairs
- Organised groups of Accountants and Lawyers
- Cyprus Chamber of Commerce and Industry
- Employers’ and Industrialists’ Federation

By the discussion of special subjects, participation is extended to include:

- Public Administration and Personnel Department
- Commission for the Protection of Competition
- Office of the Commissioner of Electronic Communications and Postal Regulation
- Cyprus Energy Regulatory Authority
- Commissioner for State Aid Control

- Technical Committee for the Expansion and Upgrading of Basic Infrastructures
Composition

- Chaired by the Ministry of Communications and Works

Participants:

- Ministry of Finance – Directorate of Budget and Fiscal Control
- Planning Bureau
- Cyprus Ports Authority


Composition

- Chaired by the Energy Service (Ministry of Commerce, Industry and Tourism)

Participants:

- Ministry of Finance – Directorate of Finance and Investments
- Planning Bureau
- Environment Service

Technical Committee for the Environmental Sustainability

Composition

- Chaired by the Environment Service (Ministry of Agriculture, Natural Resources and Environment)

Participants:

- Ministry of Finance – Directorate of Finance and Investments
- Ministry of Commerce, Industry and Tourism
- Ministry of Interior
- Planning Bureau
- Sewage Boards
- Department of Town Planning and Housing
- Commissioner for State Aid Control
- Department of Information Technology Services
- Institute of Technology
- Research Promotion Foundation
- University of Cyprus
- Agricultural Research Institute
• Technical Committee for Employment Issues
  o Chaired by the Ministry of Labour and Social Insurance

❖ Composition

Participants:

  o Ministry of Finance - Directorate of Economic Research and EU Affairs
  o Ministry of Education and Culture
  o Planning Bureau
  o Human Resource Development Authority (HRDA)
  o Labour Department
  o Social Welfare Services
  o Cyprus Chamber of Commerce and Industry
  o Employers’ and Industrialists’ Federation
  o Cyprus Workers’ Confederation
  o Pancyprian Federation of Labour
  o Democratic Labour Federation of Cyprus
  o Union of Cyprus Municipalities
  o Union of Communities
  o Youth Board of Cyprus
  o Cyprus Federation of Disabled

• Technical Committee on the Development of Indicators Assessing Progress in the Implementation of the National Reform Programme

❖ Composition

  o Chaired by Planning Bureau - Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I)

Participants:

  o Ministry of Finance – Directorate of Finance and Investments – Directorate of Economic Research and E.U. Affairs
  o Ministry of Labour and Social Insurance
  o Human Resource Development Authority (HRDA)
  o Statistical Service of Cyprus

The Committee is strengthened via the representation of the chairmen of the technical committees
Functions:

- The competent Ministry / Service chairing each Technical Committee is responsible to set up and convene the respective Technical Committee with the participation of the appropriate Services of the Public / Private sector;
- Monitoring of progress in the implementation of the measures;
- Recommendations for further measures;
- Submission of a progress report to the Coordinating Committee every six months.

Organisational issues / Operation:

- Meetings of the above Committees take place every two months or earlier if required.

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(5) Unit for the Lisbon Strategy under the Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I) – Planning Bureau

- Setting up since 19 February 2007, of a specialised unit in the Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I) at the Planning Bureau. It comprises of one Director and 4 officers, dealing mainly with issues concerning the Lisbon Strategy. (Before that date the Unit for the Lisbon Strategy, was operating at the Ministry of Finance).

Functions:

- Coordinating the work of the Technical Committees;
- Monitoring and promoting the implementation process for the actions included in the National Reform Programme;
- Contacts and consultation with the competent authorities of the European Union;
- Organisation, preparation and technical support of the meetings of the National Advisory Committee, Coordinating Committee as well as the meetings of the Technical Committees;
- Organisation of seminars and workshops to inform the social partners, political parties and journalists;
- Overall coordination in the preparation and final drafting of progress reports.