



Cyprus National Reform Programme 2011

Europe 2020 Strategy for: Smart, Sustainable and Inclusive Growth



PLANNING BUREAU

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TABLE OF CONTENTS

1. INTRODUCTION	3
MEASURES UNDER THE EURO PLUS PACT	5
2. MACROECONOMIC SCENARIO.....	8
3. MACROECONOMIC SURVEILLANCE	11
4. INNOVATION	19
Current situation.....	19
National target.....	21
Key measures to reach target and tackle bottlenecks.....	21
5. EDUCATION	24
Current situation.....	24
Key measures to reach targets.....	25
6. DIGITAL SOCIETY	29
Current situation.....	29
National priorities and key measures.....	32
7. CLIMATE, ENERGY AND MOBILITY	39
Current situation.....	39
Key measures	42
8. COMPETITIVENESS	48
Current situation.....	48
Key measures to tackle bottlenecks	50
9. EMPLOYMENT AND SKILLS.....	54
Current situation.....	54
Key policy areas to tackle bottlenecks.....	57
Key measures to reach target and tackle bottlenecks.....	58
10. FIGHTING POVERTY	76
Current situation.....	76
National targets	77
Key measures to reach target and tackle bottlenecks.....	78
11. HORIZONTAL AND METHODOLOGICAL ISSUES	83
Public consultation.....	83
Monitoring mechanisms.....	84
Structural funds and EU2020 strategy	87

1. INTRODUCTION

Within the framework of the European Semester, Cyprus submits its National Reform Programme (NRP) on EU2020 for smart, green and inclusive growth (along with the submission of the Stability Programme), in conformity with the Integrated Guidelines for economic and employment policies agreed by the European Council on 17 June 2010.

The NRP presents the structural reforms that aim to boost growth, employment and social cohesion. Having been prepared in collaboration with all pertinent Ministries and in consultation with social partners, the NRP sets out the measures to address the weaknesses that hamper economic growth and promote the achievement of the five quantitative national targets for smart, sustainable and inclusive growth.

The key challenge now, especially against the background of the uncertainties surrounding the economic developments in the euro area, is to consolidate the recovery, promote growth in the medium term and strengthen fiscal consolidation, while maintaining social cohesion. Increasing labour market participation and **creating employment opportunities** for the highly **skilled workforce** remain high in the agenda of the Cyprus Government, especially at a point of time where unemployment has increased substantially, at levels unprecedented for the country.

The corrective measures that will be promoted in the context of the NRP for improving competitiveness and enhancing growth centre on the following:

The promotion of innovation, ICT and new technology usage capacity: As there is a limited capacity for Cyprus to increase R&D, mainly due to the weakness of the private sector to invest in R&D (given that the vast majority of enterprises are micro enterprises, specialising mainly in services), efforts have been switched to increasing the involvement of business in innovation activities and the upgrading of their technology usage capacity. In order to overcome the bottlenecks in research and innovation, the National Strategy for Research and Innovation 2011-2015 will be finalised.

The **digital society** comprises a predominant factor of innovation in Cyprus, allowing it also to connect to the rest of the EU and benefit from the Single Market, partly overcoming the shortcomings caused by its insular nature and its geographical position. Focus will be placed on the finalisation of the Digital Strategy for Cyprus within 2011, which will give clear guidance for driving Cyprus into a digital era. In this respect, the full broadband coverage of the country will be completed by the end of 2011, prices of electronic communications services will be reduced, spectrum for the establishment and the operation of wireless networks with high quality and high speed broadband services will be introduced and a digital government will be pursued for smart, sustainable and innovative public services. Furthermore, the Digital Strategy will aim at empowering human capital in e-skills and the promotion of green culture through ICT.

The **educational system** has an important role to play in meeting future labour skills and society's challenges in the 21st century. The Education Reform, now under implementation, focuses on improving the equity of the educational system and on encouraging lifelong learning.

Even though Cyprus has a good performance in educational attainment, resulting into a very highly qualified labour force with 44,7% of people aged 30-34 years, having completed tertiary education, an important challenge of the system lies in increasing participation in the technical - vocational education, especially at the post-lyceum level. For this reason, the establishment of post-secondary institutes for Technical and Vocational Education will be a priority, so as to offer to students an intermediate level of education between upper secondary and tertiary education.

Increasing energy efficiency in connection with addressing the adverse impacts from climate change, like prolonged droughts and water scarcity that the country is already experiencing, is a top priority that needs to be addressed urgently. The main challenges therefore include the promotion of RES and energy conservation, the introduction of natural gas as an alternative energy source, the reduction of greenhouse gas emissions and the promotion of environmental sustainability. Diversifying the energy mix will decrease the high dependency on imported oil for energy production, will alleviate the adverse effects of having a small and isolated energy grid and thus decrease the risk of a high Current Account deficit in case of high volatility of oil prices.

Increasing **labour market participation** will be promoted through active labour market policies, with emphasis on the most disadvantaged groups, the reconciliation of work and family life, the promotion of gender equality, the improvement of the link of education and training systems and the implementation of immigration policies for combating irregular immigration, illegal and undeclared employment and helping towards the integration of third country nationals.

The promotion of **social inclusion and the fight against poverty** constitute an important and integral part of the socio-economic model on which the Cyprus economy has relied. The Cyprus Government is strongly committed to the promotion of social inclusion, in particular through reducing the poverty rate, increasing employment and providing better standards of living for all citizens legally residing in the country. Promoting access to employment for the vulnerable groups of the population is a priority, as having a job is the safest route out of poverty in combination with a sound social protection system ensuring access to essential services including housing, health and long-term care. Integration of migrants and antidiscrimination policies are also basic the priorities.

Despite the fact that the NRP sets out **realistic and ambitious targets**, it also needs to be acknowledged that the euro area is currently going through a very challenging time. Consequently, **its implementation will greatly depend on the fiscal consolidation and macroeconomic stability conditions**. The Stability Programme envisages, albeit modest by historical standards, acceleration of GDP growth in 2011 of 1,5% compared to the previous years' and a gradual acceleration to 3% by 2014. Similarly, employment is expected to grow on average by only 0,8 % per annum, thus keeping the unemployment rate at a relatively high level of above 5% at least until the year 2014.

The Government aims at re-directing available resources towards achieving these challenges and promoting growth for the production of wealth that will ensure better living conditions for all citizens of Cyprus. Although the financial crisis is restricting fiscal flexibility, social cohesion still remains high in the Government's agenda, with additional resources allocated in favour of vulnerable groups.

MEASURES UNDER THE EURO PLUS PACT

In conformity with the **Euro Plus Pact**, the Government of the Republic of Cyprus commits to implement specific measures towards fostering competitiveness, employment, sustainability of public finances and financial stability. The measures will be promoted in the context of the NRP and the Stability Programme (SP) accordingly, as presented below.

I. Fostering competitiveness

1. The **containment of public sector wages** is one of the measures that are being discussed with stakeholders with a view to address competitiveness challenges. Possible policy options include zero contractual salary increases in the public sector during the next year, the initiation of a public dialogue with trade unions for a containment of public sector payroll in the medium term and the re-designing of the system of Cost of Living Allowance (COLA) in order to limit increases in higher income groups, thus making it more equitable. (Under SP)
2. **Concerning corporate taxation**, Cyprus intends to maintain its current system which is characterised by low tax rates and a broad tax base, in line with broadly accepted principles of effective and fair taxation systems. (Under SP)
3. To **strengthen the competitiveness of SMEs** an incentive scheme to be co-funded from EU Structural Funds, aiming at upgrading their technology, promoting innovation and creating high value-added jobs, is under evaluation.
4. **Enhancing digital economy** is instrumental in connecting Cyprus to the rest of EU and in reaping the benefits of the European Single Market. Therefore, Digital Society will be strengthened with the finalisation by 2011 of the National Digital Strategy, which includes measures for 100% broadband coverage of Cyprus with at least 2Mbps Internet access by the beginning of 2012.
5. **Measures for energy efficiency and promotion of RES**: The almost exclusive dependence of the economy on imported oil is a great instability factor for both inflation and competitiveness. To decrease the quantities of imported oil, the support Schemes for the Promotion of Energy Conservation have been resumed again as of April 2011. Furthermore, a new legislation will be introduced within 2011, which will be the legal basis for the promotion of RES.

II. Fostering Employment

1. **Exploit job creation possibilities by improving the competitiveness of enterprises.** To face the mismatch between the highly skilled labour force and the great number of vacancies for low skilled jobs, filled mainly by foreigners, two new schemes will be promoted in 2011- 2012, for enhancing the competitiveness of enterprises, encouraging them to undertake more innovative activities, as a means of creating more and better jobs, especially for the highly qualified national force (includes I.3 above).

2. Labour market **reforms to reduce undeclared work.** The great influx of legal and illegal migrants, makes it necessary to improve the management of immigration and asylum issues, through a comprehensive immigration and asylum policy. In this respect, further measures to strengthen prevention and inspection mechanisms will be promoted, in order to combat illegal and undeclared work, associated with the large inflows of third-country nationals and asylum seekers.

3. **Strengthening the links between technical vocational education, training and the labour market:** Post Secondary Institutes for Technical and Vocational Education and Training are envisaged to be established by 2012, in order to increase the number of people attending Technical Vocational Education so as to decrease skills mismatch.

III. Contributing further to the sustainability of public finances

1. Dialogue on the **restructuring of the public pension system** is currently taking place, to be concluded by the end of 2011. The dialogue is based on concrete proposals, including the gradual introduction of contributions of civil servants towards pensions, changes in the calculation method of pension levels and a change in the indexation of pensions.

2. A **Budgetary Framework (BF)** is being gradually established. Towards this end a Bill is being prepared. The BF, among others, includes the introduction of national fiscal rules (include an expenditure rule) and the application of a binding MTBF. The BF is envisaged to be approved by the Council of Ministers during autumn of 2011 and subsequently adopted by Parliament by the end of the year. (Under SP)

IV. Reinforcing Financial Stability

1. **Close monitoring of the Financial sector:** The Cypriot financial sector is sound; the overall position of the banking sector is considered healthy, with a strong liquidity position and a comfortable capital adequacy as well as sufficient profitability. There is a continuous and close monitoring of **the liquidity and capital adequacy position of financial institutions** by the supervisory authorities. Moreover, an ad hoc committee has been set up, with the participation of the Central Bank, in its capacity as supervisor of banks and responsible for the overall financial stability, as well as with the other supervisors, which monitors closely the developments of the financial sector (Under SP).

2. **A framework draft law for dealing with financial crises has been prepared**, to enable the Cypriot Council of Ministers to take, measures ‘in a period of a financial crisis’, intended to address liquidity or insolvency problems affecting financial institutions, in full compliance with the relevant acquis framework. Such measures will be proposed by the Minister of Finance, after taking into account the opinion of the Governor of the Central Bank of Cyprus (CBC) and after having secured the approval of these measures by the House of Representatives. (Under SP)

3. In relation to **banks and cooperative credit institutions, the imposition of a special tax** has been decided, expected to yield around €60 mln per annum for the next 2 years, with the establishment of a fully independent Financial Stability Fund, within the next 6 months. Part of the generated revenues (25/60) from the above tax will constitute part of the said Fund. The Independent Financial Stability Fund will be set up, with a view to supporting and facilitating the resolution of distressed credit institutions (Under SP).

2. MACROECONOMIC SCENARIO

The Cyprus economy has not been directly affected by the financial crisis, due to the negligible exposure of the financial sector to toxic products. However, the economy has been affected in an indirect manner, due to its small size and open nature. As a consequence, the Cyprus economy exhibited a contraction in 2009, at a rate of 1,7%, before rebounding to about 1% in 2010.

The impact of the world financial crisis on the Cyprus real economy is mainly attributed to the sluggishness of export demand, which mainly affected the sectors of construction, real estate and tourism. The economic contraction in UK in 2009 had a major impact in the tourism sector of Cyprus, since, roughly, half of the total number of tourists visiting Cyprus originate from the UK. Similarly, a contraction in the construction sector has been observed, given that the foreign demand for secondary residence in Cyprus stems mainly from UK citizens. Additional factors explaining the downturn in 2009 were confidence effects, which affected private consumption, as well as the correction in the construction sector, following the period of overheating in 2007-2008.

Following the adverse developments in 2009, some encouraging signs have been observed in 2010. Economic growth is estimated to be in positive territory, amounting to about 1%. The economic activity is expected to further accelerate, albeit to moderate by historical standards levels, reaching some 1,5% in 2011 and 3% in 2014. This modest improvement is projected to emanate from a rise in export performance, especially in the area of export of services.

The Current Account balance at last years' level, 7,8% of GDP Exports, in particular export of services, expanded at satisfactory level, reflecting the comparative advantage of Cyprus in this area. However, imports also increased at high rates, while the deficit in the income account was maintained at high level. The situation in the Balance of Payments requires close monitoring.

Public finances have worsened during 2009-2010, leading to the initiation by the Council of the Excessive Deficit Procedure for Cyprus on the 13th July 2010. This is, mainly, attributed to the economic downturn and the precipitous adjustment of the real estate and construction sectors and consequently of public revenues linked to these activities. Public expenditure developments also contributed to the increase of public deficit, owing, largely, to higher social transfers.

The general government nominal budget balance in 2010 reached a deficit of around 5,3% of GDP, compared to a deficit of some 6% in 2009. This has affected public debt, which reached some 60,9% by the end of 2010, compared to 58% by the end of 2009.

During 2010, the Government has taken measures, mainly of permanent nature, to contain public expenditure. The number of civil servants employed by the Central Government was reduced by 1.000, while other public consumption expenditure was reduced in absolute terms.

Following many years of tight labour market conditions, characterised by a significant inflow of foreign workers, the slowdown of economic activity has visibly affected employment growth and

unemployment. For 2010, the unemployment reached around 6,2%. The areas hit the hardest in terms of unemployment are the new entrants into the labour market as well as trade, tourism and construction. It is noted, though, that employment exhibits a positive growth of some 0,5%, which is expected to lead to stabilisation and subsequently to a decline of unemployment.

Wages growth has moderated, reflecting the effect of slow-down of economic growth on collective bargaining agreements. In particular, moderation was observed in the sectors mostly affected by the economic crisis (construction, manufacturing, tourism). As a consequence, real unit labour cost declined, containing the trend of deterioration of competitiveness observed in previous years.

After registering a very small increase in 2009 of the order of 0,2%, inflation accelerated in 2010 to 2,6%, reflecting the rise in the price of commodities, mainly of oil. However, even though the headline inflation rate has been on the rise, core inflation remains under control.

In the table below, the main macroeconomic indicators are being presented for the years 2009-2014.

Table 1: Medium-term macroeconomic scenario

	2009	2010 (est.)*	2011 (proj.)*	2012 (proj.)*	2013 (proj.)*	2014 (proj.)*
Real GDP (%)	-1,7	0,9	1,5	2,5	2,7	3,0
Unemployment (%)	5,3	6,2	6,0	5,8	5,5	5,3
Inflation (HICP, %)	0,2	2,6	3,4	2,1	2,3	2,5
Fiscal Deficit (% of GDP)	-6,0	-5,3	-4,0	-2,6	-2,0	-1,6
Public Debt (% of GDP)	58,0	60,9	61,6	62,0	61,3	60,1

* Revised projections compared to the Stability Programme 2009-2013

Notwithstanding the high degree of uncertainty for the short-term and medium-term prospects of the economy of Cyprus, the medium-term scenario incorporated in the SP envisages a gradual recovery towards a lower, compared to pre-financial crisis period, potential GDP growth. This macroeconomic scenario takes a conservative stance with regards to the recovery prospects in 2011, and in particular of key sectors of the economy such as tourism, while it foresees further adjustment and contraction in construction.

This profile is reflected in key determinants of demand. In exports, a gradual recovery is foreseen, in line with the envisaged rebound in foreign demand. For other key components of demand, primarily investment in construction, the SP assumes a further downward correction. On the other hand, the SP assumes that private consumption will grow in line with disposable income, thus allowing for some rebalancing of household balance sheets, especially compared with the past few years when consumption expanded briskly.

Against this background, the Current Account deficit is expected to register a gradual downward trend throughout the programming period, reflecting the implied improvement in the public savings investment balance.

In the labour market, the medium-term scenario envisages further, albeit relatively small, employment gains compared to pre-crisis period, mainly resulting from increased participation of foreign workers and a gradual increase in the participation rate of female and old-aged workers. While employment growth will remain positive in some sectors, in other sectors more directly exposed to the foreign demand, such as hotels and restaurants and construction, some increase in unemployment is forecasted. Overall, the gainfully employed population is forecasted to continue increasing at around 0,8% on average per annum. The unemployment rate is expected to fall to around 6% in 2011 and decline thereafter to 5,3% as growth resumes in 2014. Productivity growth is expected to average 1,6% per annum over the medium term, which is above the performance recorded over the period 2004-2008. Real earnings are forecasted to rise by 1% in 2011-2014 and real unit labour costs will remain negative over the same period.

The measures for ensuring the quality and the sustainability of public finances are analysed extensively in the SP which is submitted with the NRP, for the first time, in the context of the “European semester”.

3. MACROECONOMIC SURVEILLANCE

In order to facilitate growth and deliver Europe 2020's objectives, the European Council has highlighted the need to address bottlenecks constraining growth at national and EU level, including those related to infrastructure and to the working of the internal market. The focus is on medium to long-term challenges and specifically the macro-structural bottlenecks to growth. This encompasses both framework conditions to growth at macro level (budgetary, macro-financial, external imbalances) and growth drivers at macro level (labour utilisation, investment, productivity, competitiveness). The macro-structural bottlenecks to growth have been agreed by the European Commission and each respective Member State. For Cyprus the following **five** bottlenecks have been identified:

1. Reducing the high general government structural deficit and ensuring the long-term sustainability of public finances in view of population ageing

“Ensuring the quality and the sustainability of public finances” (Guideline 1)

1.1 Fiscal Consolidation

The key policy objective is to promote growth and further enhance social cohesion while, at the same time, safeguarding macroeconomic stability, through a sound budgetary strategy. Within this framework, the Government has adopted concrete measures, with a view to containing the fiscal deficit below 3% of GDP in 2012, as recommended by the Council and required by the Stability and Growth Pact.

Particular emphasis is placed on the need to curtail current expenditure and restructure public spending, in favour of capital expenditure, IT, health and education, which can boost the economy's growth potential. Redirecting resources towards infrastructure is particularly important at this juncture, taking into consideration the expected negative growth of the construction sector. Emphasis is also attached to enhancing the effectiveness of social spending, through better targeting in favour of the disadvantaged social groups, based on income and other criteria.

The concrete measures adopted by the Government are the following:

Expenditure Measures

- Phasing out of fiscal stimulus measures introduced during 2009-2010.
- Reduction in personnel numbers.
- Cuts in operating expenditure.

Revenue Measures

- Application of the reduced VAT rate on foodstuffs and pharmaceuticals.
- Increase of the excise duty rates levied on petroleum products used for transportation purposes.
- Increase of the excise duties levied on tobacco products.

Additional measures have been agreed with the parties supporting the Government and are planned to be implemented, during 2011, following consultations with stakeholders. These measures include:

- Application of appropriate tariffs on the consumption of water (EU acquis).
- Levies on the deposits of banks for two years (subject to a minimum profitability).
- Dialogue with social partners for wage moderation in the broad public sector.

Furthermore, the Government initiated a dialogue with social partners, with a view to strengthening the viability of the government pension system. In this context, an agreement has been reached with the social partners to appoint an independent actuarial firm, to evaluate the impact of the government pension scheme on public finances. The findings of this study will form the basis for discussions on measures required to improve the viability of the government pensions.

Medium-Term Budgetary Framework

The Government, in line with the Council's Recommendation is proceeding with the phased adoption of a 3-year Medium Term Budgetary Framework, which foresees overall expenditure ceilings for each Ministry. The Medium Term Budgetary Framework is still at an early stage of implementation. At this early stage, it has an indicative non-binding character. Furthermore, it is not based on explicit fiscal rules. The Government intends to gradually introduce binding fiscal rules, in order to strengthen the framework.

1.2 Reform of the Pension system

Following the parametric reforms introduced in previous years, which have led to a noteworthy extension of the viability of the social security scheme to about the year 2048, draft legislation has been prepared aiming at upgrading the investment framework for the reserve of the Social Insurance Fund. Moreover, the Government deposited the amount of €400 mln in two instalments, in order to gradually establish €1 bln real reserve by 2013.

According to the social insurance legislation, every three years an actuarial valuation exercise takes place primarily to assess the financial position of the Social Insurance System (SIS) in the long-term. If the study indicates that reforms are required, the Minister of Labour and Social Insurance, after consultation with social partners, may submit proposals to secure the long-term viability of the SIS. Currently, a new actuarial study is being undertaken.

1.3 Reform of the Health Care System

- **Public Hospitals Transformation (Autonomisation/ Reorganisation)**

To be able to adapt to anticipated challenges, exercise effective cost control on health spending and improve the quality of health care provision, the Ministry of Health aims at the transitioning of public hospitals from state – owned to autonomous hospitals. To this end, draft legislation was prepared as a starting point, to serve as a basis for a productive dialogue with stakeholders. However, the whole process is delayed mainly because of uncertainties concerning the change of the current employment status of employees in public hospitals.

- **Implementation of the National Health Insurance System (NHIS)**

The kick-off date of NHIS is repeatedly postponed and the implementation of the scheme is rather slow due to mainly three reasons: a) the government’s need to reassess the implementation of the scheme, especially as regards its costs implications, b) the negative impact the world financial turmoil had on the economy and the need of the government to ensure sound public finances and c) the unpredicted time consuming tender procedures associated with the introduction of the new system.

In spite of the slow overall progress of the scheme, the Health Insurance Organisation is working on the dialogue with the physicians of the private sector with regard to global budgeting and updating cost evaluation of the scheme taking into consideration current developments in the health sector.

1.4 Medium-Term Budgetary Framework

A Medium-Term Budgetary Framework (MTBF), which commenced in 2006, is intended to lead to a containment of expenditures by line ministries and, at the same time, promote the reallocation of expenditure in favour of growth - enhancing activities, consistent with the priorities set by the NRP.

More specifically, budgetary reforms require that ministries and other government spending agencies enter a process of redesigning their annual budgets, using the new Medium-Term Budgetary Framework (MTBF) and Programme and Performance Budgeting (PPB) methods.

These new methods are being introduced progressively from 2007, with all spending agencies being required to prepare rolling over three-year budget of indicative nature. The first steps for introducing the new PPB framework were taken in 2007, with the implementation of pilot projects, covering three ministries. In 2008, the number of ministries and spending agencies, adopting this approach, increased and it is expected that all agencies will prepare their financial year (FY) 2013 budgets according to both the traditional (input-based) budget method and the new PPB/MTBF format. This will enable all spending agencies to have at least two “trial” years, in which the new methods can be developed, tested and refined.

During this trial period, the Treasury Department has been upgrading the accounting software Financial Management Accounting System (FIMAS) to a newer version that is capable of supporting the new budgetary methods and classifications. The new MTBF/PPB approach will become the official (and only) budget method from FY 2014 onwards.

Overall, the MTBF budgeting should enable managers to plan activities more effectively, by incorporating the amount of financing required to sustain a particular government policy, budget activity or expenditure project over several years.

The Budgetary framework described above as well as additional fiscal rules will be embedded in national legislation covering the preparation and implementation of forthcoming Budget Laws thus increasing its effectiveness and binding nature.

2. Improving efficiency of public spending and ensuring a reallocation of public expenditure towards growth-enhancing items including weakness in energy and transport infrastructure

“Ensuring the quality and the sustainability of public finances” (Guideline 1)

Improvement in the quality of public finances is an important element of fiscal policy for realising the growth potential and ensuring long-term sustainability of public finances. Considerable attention is being paid to the quality aspects of public expenditure to ensure that growth-enhancing budgetary items are not squeezed out by uncontrolled expenditure costs or by the growth of inefficient expenditure categories.

The spending priorities include infrastructural investment, with emphasis on energy and transport, IT-development, innovation, research, education and health.

On the revenue side, Government policies aim at preserving the current system, characterised by low marginal tax rates and a wide tax base.

A number of structural reforms will assist in the development of strong and flexible public finances, in order to resist any external shocks. The phased introduction of a MTBF is destined to help in containing expenditures by line ministries and, at the same time, promoting the reallocation of expenditure in favour of growth-enhancing activities.

3. Ensuring wage and price adjustment to regain and sustain competitiveness

“Addressing macroeconomic imbalances” (Guideline 2)

“Reducing imbalances within the euro area” (Guideline 3)

The environment within a common currency area, such as the euro area, is challenging, given that the exchange rate is exogenously determined and it affects competitiveness vis-à-vis third countries. Moreover, competitiveness divergences among the members of the Euro zone cannot be corrected via exchange rate adjustments, therefore price and wage developments play a crucial role in this respect.

During the post-euro period, the appreciation of the real effective exchange rate (REER) in Cyprus is largely due to movements in the nominal exchange rate, particularly the euro/sterling exchange rate. The observed real appreciation of the REER within the euro area is mainly attributed to the fact that wages growth surpassed the average productivity growth, thus leading to increased unit labour cost.

However, during the last years, the accelerated influx of foreign workers into the Cypriot labour market, has exercised a downward pressure on wages, thus containing the deterioration of competitiveness.

In terms of the level of labour productivity, Cyprus was ranked 15th among the EU27 in 1998 and 16th in 2008 but getting closer to the EU27 average (82% in 1998 compared to 88% in 2009).

The evolution of the Current Account balance shows large disparities between net trade in goods and services. The high deficit in goods and the relatively high surplus in services reflect the shift of the structure of the Cyprus economy towards the tertiary sector.

The Current Account deficit has increased considerably in recent years, reaching 18% of GDP in 2008, due to a combination of factors, which include (i) intensified competition in tourism from low cost destinations, (ii) overheating of the economy, caused by a boost of imports and (iii) rising oil prices.

During 2009-2010, the Current Account balance improved markedly, reflecting the satisfactory performance of exports of services other than tourism (mainly business and financial services) and the containment of import demand, reflecting the slowdown of economic growth. Nevertheless, the deficit remains relatively high and close monitoring as well as corrective measures are needed in order to bring about a sustained improvement.

Based on the above, in order to address macroeconomic imbalances and safeguard the competitiveness of the Cyprus' economy, the Government aims to adopt a number of measures such as:

- Containing public consumption in order to contain import demand, through the adoption of a restrictive stance in budgetary expenditures during the forthcoming years.
- Initiating a public dialogue with trade unions for the containment of public sector payroll and the re-designing of the Cost of Living Adjustment (COLA) towards a fairer and more balanced wage indexation system (in the context of the Euro Plus Pact).
- Promoting non-price competitiveness measures, such as upgrading the tourist product, by either upgrading existing facilities or building new ones (golf, marinas etc).
- Developing further comparative advantages in business and other services in order to remain competitive.
- Promoting energy efficiency and energy savings in the private and public sector, as this is very important given Cyprus' huge reliance on importing oil for electricity.
- Ensuring efficient functioning of the market for more competitive price setting.

4. Promoting innovation and ICT capacity mainly of the private sector to support investment, diversification of the economy and orientation towards high value-added production and services

Guideline 4: Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy

R&D spending as a percentage of GDP remains at particularly low levels, in spite of rapid growth in absolute terms, mainly due to underinvestment by the business sector. This weakness of the private sector is attributed to the structure of the productive sector, where there is a significant number of small sized businesses specialising mainly in the service sector. The Government has introduced a series of measures to encourage the involvement of businesses in innovation activities, recognising that an increase in private R&D expenditures is unlikely in the near future. The **shift of emphasis from R&D towards innovation** led to the upgrade of the classification of Cyprus to the group of “Innovation Followers” according to the European Innovation Scoreboard 2009 with Cyprus ranking 13th amongst the 27 Member States.

In order to further improve the innovative capacity of enterprises, measures are envisaged in Chapter 4-Innovation, under the following categories :

- Encouragement of SME to employ young researchers in order to enhance market –driven research.
- Promote research and innovation of enterprises in services, given that 61% of enterprises in Cyprus operate in the service sector. Emphasis will be in health, education, tourism, shipping, financial and legal services and ICT.
- Creation of cooperation and networking with SMEs and researcher institutions, including with foreign researchers.
- Introduction of innovation, both technological and non-technological ones, in the public sector in order to improve the quality of the services provided as well as increase the demand for innovative products.

On the other hand, in the area of ICT, several initiatives and actions are promoted:

- A Digital Strategy is being prepared and a draft is under internal consultation with the involved departments. The Digital Strategy aims for a full broadband coverage, so that all citizens and businesses have access to information society and benefit from its use.
- Public and private partnerships to develop high speed broadband electronic communications networks in all geographic areas will be promoted.
- Other important measures to be included are the reduction of the price of electronic communications services, the online establishment of businesses, and the online use of government services (More analysis under Chapter 6 - Digital Society).

5. Restructuring the economy with emphasis on high-skilled jobs and the training of the low skilled and disadvantaged groups

Guideline 8: “Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning”

One of the greatest challenges of the Cypriot economy is to successfully face its structural problem and shift its specialisation from low-skilled, low-technology sectors towards high growth activities with emphasis on high-skilled jobs, thus correcting a chronic competitiveness problem. It is evident that the limited use of advanced technology and innovative working methods, especially in the private sector, has resulted in the development of low-growth sectors relying on low-skilled jobs, which to a great extent are covered by employing low-skilled foreign workers (mainly from third countries).

The increasing number of low-skilled foreign workers has had a dampening effect on both wages and productivity in the sectors where these workers are being employed. Even though Cyprus has the second best most highly qualified labour force among EU27, with 34,5% having tertiary education, the economy cannot gainfully absorb them, leaving many young university graduates unemployed or underemployed. It must be noted that in 2010 the unemployment rate of young persons was more than double the general unemployment rate, climbing to about 20,4% (second quarter of 2010).

The Government is promoting several measures to help the private sector to shift from low to high-skilled jobs and increase labour productivity by investing in innovation, ICT, new technologies and by better utilisation of the highly qualified human capital. These measures include:

Improving the Competitiveness of the private sector and restructuring the economy (more details in Chapter 4 - Innovation, Chapter 8 - Competitiveness and Chapter 9 - Employment and Skills):

- Subsidy scheme for enterprises to develop and implement specific business plans in order to successfully re-organise their business and innovate their products and services.
- Scheme for grants to strengthen the competitiveness of SMEs by specialised guidance, training and consultancy services for enhancing their productivity.
- Schemes for the enhancement of women and youth entrepreneurship.
- Jeremie Scheme to improve SMEs access to finance.
- Tourism Strategy 2011-2015 to upgrade the tourist product.
- Diversification of the Economy – Activities of the **Cyprus Investment Promotion Agency (CIPA) to encourage foreign investments.**
- Training and work experience programmes for unemployed, inactive people, newcomers to the labour market, young secondary and tertiary education graduates and persons in disadvantaged groups, in order to continuously improve the skills of the labour force.
- Studies and annual investigations for the better anticipation of the technical and vocational training needs of enterprises.
- Employment forecasts for green jobs.

Improving the Business Environment and the Efficiency of the Public sector

- Better Regulation: Decrease administrative burden by 20% by 2012.
- One Stop Shop & Point of Single Contact for faster set-up of companies.
- Electronic Public Procurement System (e-PS) and Sustainable public procurement.
- Promotion of the concept of Corporate Social Responsibility (CSR).

Other measures relating to Innovation and ICT proliferation are also promoted, as analysed under the respective chapters. It is hoped that the private sector will take advantage of the measures offered in order to move towards more promising sectors and activities and offer a better future to the highly qualified labour force and to the economy in general.

4. INNOVATION

National target:

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

Guideline 4: “Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy”

CURRENT SITUATION

Research and Development: While public efforts to improve research and innovation capabilities have been significantly enhanced during the last five years, the weakness of the business sector to undertake and invest in R&D activities did not help the country to increase its overall performance. As a consequence, Cyprus still ranks among the lowest performers among the EU members in terms of R&D expenditure as a percentage of GDP. Meanwhile, innovation policy has evolved rapidly, albeit in a rather fragmented way, with considerable progress leading to the classification of Cyprus among the “Innovation Followers” countries since 2009.

Gross domestic expenditure on R&D (GERD) increased to €73,4 mln in 2008, which accounts for 0,42% of GDP, compared to €70,1 mln and 0,44% in 2007. This percentage ranks Cyprus last among the EU members, despite its efforts to increase considerably its expenditure in absolute figures, at a record 12% average annual growth during the last five years; one of the highest rates in the EU.

The main driver of the increase in R&D expenditures was public investment with a share of 64% of GERD, whilst the investment of businesses in R&D was only 18% of GERD, and funds from abroad accounted for 15%. The major source of external funds is the EU Framework Programmes for RTD, as well as other European Research Programmes.

Higher Education Institutes are consistently the major performers in R&D with a share of 44% of GERD, with the University of Cyprus conducting about 80% of Higher Education research activities in 2008. The expansion of research activities of the higher education institutions has been diminishing in the last years. In 2008 the increase observed was only 1% compared to 2007, which could be interpreted as an indication that the major research institutions are approaching their full capacity utilisation. Public sector’s performance on R&D has also been declining during the last five years and dropped to 23% of GERD in 2008 compared to 36% in 2004. Businesses’ share on R&D activities is recorded stable in the last years around 23%, with Information and Communication Technologies (ICT) being the major sector of business performance (47%). An upward trend has been observed during the last five years in the private non-profit organisations, as its share of R&D performance reached 11% in 2008 from 7% in 2004.

On the basis of international collaboration agreements, and bilateral agreements with distinguished institutions and research centres of excellence from third countries, new Research Institutes and Research Centres have been created in Cyprus, which conduct high quality research. They primarily concentrate on research areas where Cyprus and the Mediterranean region in general face common challenges, such as water shortage, energy inefficiencies, climate change etc.

Emphasis on Innovation: As there is a limited capacity for Cyprus to increase private R&D, due to the considerable number of micro enterprises, operating mainly in the services sector, supplementary efforts will be placed on enhancing the involvement of businesses in innovation activities.

Cyprus' efforts to broaden the relatively small base of high technology industry brought tangible results during the last few years, with the establishment of a number of innovative companies that export to Europe and to the USA. Most of these companies have graduated from the business incubators programme.

As indicated by the Innovation Union Scoreboard-IUS (2010) as well as by previous European Innovation Scoreboards (2007-2009), Cyprus has demonstrated a consistent gradual progress, which allowed the country to upgrade from a "Catching-up country" in 2007 to an "Innovation Follower country" since 2009. In 2010, Cyprus continues to show a performance close to that of the EU27 (0,516) with a score of 0,495, which ranks Cyprus 12th among EU27 (ranked 13th in 2009).

According to the Innovation Union Scoreboard 2010, the main relative strengths of Cyprus fall within the category "Innovators" where Cyprus is ranked 4th among EU27. "Linkages & Entrepreneurship" is another category where Cyprus scored high, significantly above the EU27 average (ranked 6th). On the other hand, relative weaknesses are observed mainly in the categories "Finance and Support" and "Intellectual Assets" and to a lesser extent in category "Open, excellent and attractive research systems". Regarding the category "Finance and Support", Cyprus is underperforming on "Public R&D expenditure" while there is no market of venture capital, which is a common characteristic of most of the "smaller" EU members. It should also be noted that in the category "Firm Investments" Cyprus records a rather impressive IUS score in "Non R&D innovation expenditure" (ranked 2nd), while in "Business R&D expenditure" it appears as the worst performer.

Cyprus experiences both a top-5 rank in the IUS and high growth in the following categories: "Public-Private co-publications", "Community Trademarks", "Sales of new products" and "International scientific co-publications". However, a strong decline is observed for "PCT patent applications in societal challenges" and "Community designs". Finally it can be derived that there is potential for improvement in human resources, doctorate graduates in particular, in EPO patents and Community designs, as well as in business R&D expenditures.

An important recent development is the reform of the National Research and Innovation System of Cyprus, which envisaged the establishment of two new autonomous entities; namely the National Research and Innovation Council (NRC) and the Cyprus Scientific Council (CSC). The NRC is responsible for adopting long-term strategies in research and innovation, while the CSC

is the advisory board to the NRC and its mandate is to formulate research strategy proposals. The two bodies held their first meetings in 2010. At the same time, innovation activities were taken up by the Research Promotion Foundation (RPF), which is the major funding agency for the implementation of the National Research and Innovation Strategy. It is also important to quote that approximately 45% of the RPF National Framework Programme 2008-2010 is expected to be financed by EU Structural Funds.

Bottlenecks: As indicated in the Peer Review of Cyprus 2010, the major constraints in the development of the research and innovation sector in Cyprus are:

- (a) Limited human capacity available for research:
 - Small number of researchers.
 - Low number of new doctorate graduates.
 - Restricted demand from industry and businesses for researchers and PhD holders, which prevents students to pursue researcher's career.

- (b) Limited engagement of enterprises to research activities:
 - The absence of significant size industries in Cyprus and the very small size of Cypriot businesses, 94% of which employ less than 10 persons.
 - Limited research activities in the services sector, which accounts for about 75% of GDP.
 - Lack of awareness (and culture) of enterprises for the potential benefits of innovation.
 - Lack of availability of seed capital and market exit capitalisation for R&D businesses.
 - Limited number of high-tech companies in the country.

NATIONAL TARGET

The national target for R&D expenditures as a percentage of GDP has been set to reach 0,50% by the year 2020, from 0,42% in 2008. This target has been derived on the basis of statistical analysis of historical data on R&D expenditures, taking seriously into consideration the particularities of Cyprus in terms of both the size of the research community, as well as the structure of the productive web (lack of big manufacturing firms) and the very small size of the Cypriot enterprises. It is important to note that the attainment of the 0,50% target implies that the overall annual research spending will increase in absolute figures from €73,4 mln in 2008 to nearly double in 2020, reaching €140 mln.

KEY MEASURES TO REACH TARGET AND TACKLE BOTTLENECKS

A National Strategy for Research and Innovation 2011-2015 is currently under preparation. In order to overcome the bottlenecks of the research and innovation sector, it is intended to focus the national strategy on the following pillars:

(a) Increase of research human capital

Emphasis will be attached on efforts to encourage young people to enter the research market, as well as to attract foreign researchers to perform activities in Cyprus. Concerning young researchers, it is imperative to promote the research career in schools and universities, which will grow the number of PhD students. A basic prerequisite to achieve this is the increase of the demand for PhD students, which will mainly derive from new opportunities in enterprises as well as from long-term research positions in Research Centres and Research Institutes.

With regard to overseas researchers it is intended to focus on Cypriot researchers working abroad as well as on researchers from third countries, who are seeking to perform research activities in an adjustable and highly reliable research environment, in the area of the Middle East and North Africa.

(b) Strengthen the Scientific Base

The strengthening of the scientific base would be channelled through the enhancement of both the existing physical research infrastructures, as well as through the development of new infrastructures, aiming to create critical mass of researchers in specific scientific fields.

(c) Promote International Cooperation

Due to the small size of the research community of Cyprus and the relatively short history of the country in R&D and innovation achievements, the cooperation and networking with foreign researchers and researcher institutions has been given primary importance. Apart from attracting foreign researchers in Cyprus, emphasis will be maintained on promoting the participation in various European programmes for RTD and innovation. In addition, it is envisaged to focus and invest, both financially and in terms of human capital, on a small number of bilateral international agreements in science and technology.

(d) Introduce innovation in the public sector

The potential for innovation in the public sector is high, due to the large size of the sector, the variety of services provided and of the procedures entailed. Introducing innovations, both technological and non-technological ones, will aim to improve the quality of the services provided as well as the efficiency and effectiveness of procedures. Particular emphasis would be attached on the engagement of public sector in pre-commercial procurement, which creates a great potential for innovation, as it increases not only the demand but also the supply of innovative products and services through the spillover effect thus, creating a positive feedback development of innovation (See also Chapter 6 - Digital Society).

(e) Promote research and innovation in enterprises

It is important for businesses to be informed on the various forms of innovation other than technological innovation, including innovation in design, in processing, in organisational reform, in public procurement etc. The public pre-commercial procurement will create the demand for innovation that has to be matched by increased activity in research in order to be effective. In

addition, it is believed that a market driven research will encourage more enterprises to get involved in R&D activities, due to more tangible benefits produced.

Considering that 61% of enterprises in Cyprus are operating in the services sector, which is the largest productive sector in Cyprus with 80% share of GDP, it is recommended to focus the research and innovation policies to services, in the fields of Information and Communication Technologies, Health, Education, Tourism, Shipping, Financial and Legal services.

(f) Prioritisation of research fields

Due to the limited resources available, in terms of physical, human and financial capital, it is worthwhile considering focusing research activities on a small number of research fields. The selection of fields, following the European paradigm, should be based on societal challenges at national and European level, such as environment, climate change, health, energy etc. These fields could be combined with ICT, which is the highest R&D performing sector in Cyprus. An important tool in this respect is the participation of Cyprus in relevant European programmes, such as Joint Programming Initiatives, European Innovation Partnerships etc.

(g) Exploitation of innovative ideas and launching them in the market

Measures will be taken to provide financial support to entrepreneurs for developing their ideas into products/services and placing them in the market, and for patenting their ideas in a manageable way with less cost. In this respect, it is important to review and reconsider the implementation of measures such as the incubators scheme, a scheme for the development of new high-tech companies, development of a local Business Angels network etc.

Concluding Remarks

The implementation of the abovementioned measures as well as the attainment of the national target on R&D expenditures is based on a 6 - 7% average annual increase of public expenditures, reaching €55 mln, €59 mln and €62 mln in years 2011, 2012, and 2013 respectively. However, the current strict fiscal measures taken by the Government, in order to reduce public deficit have had a negative impact on the public budget for Research and Innovation, especially in years 2010 and 2011. As a consequence, it is expected that the pace of increase in R&D expenditures will be lower and the implementation of some of the planned measures is very likely to be postponed for a couple of years.

5. EDUCATION

National Target:

Reduce the dropout rate to 10% by 2020 from 11,9% in 2009 and increase the share of the population aged 30-34 having completed tertiary education to at least 46% by 2020 from 44,7% in 2009.

Guideline 8: “Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning”

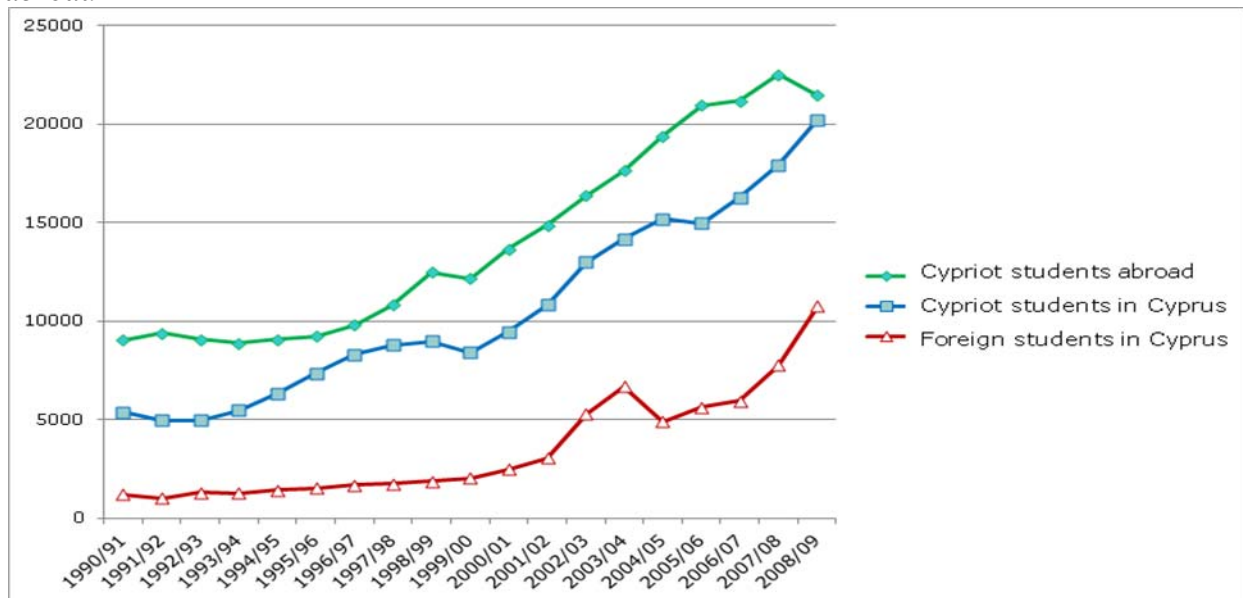
Guideline 9: “Improving the performance of education and training systems at all levels and increasing participation in tertiary education”

CURRENT SITUATION

Cyprus has a good performance in educational attainment resulting into a very highly qualified labour force. Public expenditure on education, at about 7,8% of GDP is very high by international standards with an additional private expenditure estimated at about 3% of GDP.

Even though education is not compulsory for children over the age of 15, the rate of enrolment of children in the 15-18 age groups is about 95%. People who have dropped out of school have a second chance to complete their schooling and obtain a high school certificate by attending an evening gymnasium or technical school.

Figure 1: Numbers of Higher Education Students in Cyprus and abroad



Demand for higher education is high: 82% of the students completing their upper secondary education seek placements at Institutions of Higher Education. The Cyprus Government covers the cost of tuition for European Union students studying at Public Institutions of Higher Education in Cyprus, at both university and non-university level. Due to the rather limited supply of places in Cyprus, about 55% of Cypriot students study in other countries, with the most popular destinations being Greece, the United Kingdom and the United States of America. Currently three public Universities are operating in Cyprus: the University of Cyprus, the Open University of Cyprus and the Cyprus University of Technology, as well as three private Universities absorbing 45% of tertiary education students.

Great importance is also placed on the promotion of lifelong education by the implementation of several measures for enhancing adult education and providing opportunities for access to programs of lifelong learning for all citizens.

The comprehensive Lifelong Learning Strategy for Cyprus, covering the period 2007–2013, is steadily implemented with the Lifelong Learning (LLL) rate having improved from 5,6% in 2005 to 7,8% in 2009. The national target is for the LLL rate to reach 12% in 2020.

The ongoing Educational Reform is an effort for a comprehensive introduction of changes and innovations at all levels and all aspects of the educational system. The aim is to turn into reality the vision of a better educational system that would meet pupils' future needs and society's challenges in the 21st century. This will be done by improving the equity of the educational system, by encouraging lifelong learning throughout the stages of the educational system, by reinforcing the content of education and training and upgrading the infrastructure with an emphasis on the cultivation of lifelong learning competences from the early years of compulsory education. We envision offering flexible, multifaceted programmes, which combine general education, enriched, to a certain extent, with elements of technology education, in order to satisfy the needs of contemporary citizens. The participation of all education stakeholders in the dialogue for educational reform is an innovative feature which aims at building consensus to the highest possible degree and the continuity of educational policy, through extensive discussion of the main issues. Furthermore, the increased demographic changes, as a result of the current influx of both EU and third-country nationals constitute a challenge for the education system, which needs to adapt to new realities.

KEY MEASURES TO REACH TARGETS

A. Reduce the rate of early school leavers to 10%

In order to meet the national target of reducing the rate of early school leavers by 2020, the following priority measures are envisaged, which aim at facilitating the integration of students at risk and increasing the attractiveness of technical education, thus offering to students alternative paths:

- **Restructuring the education system and modernising the content of education by modernising and upgrading the curriculum for all public schools (from Pre-Primary to Upper Secondary Education):**
 - Introduction of new curricula which focuses on the development of new skills and key competences with the aim to improve the openness and relevance of education and training systems.
 - Introduction of new timetables in line with the new curricula that provide for individualised instruction and consolidation time.
 - Production of new educational materials (books, multimedia etc.)
 - Continuous professional development of teachers in relation to the new curricula.
 - The development of a new curriculum for Upper Secondary and Technical Vocational Education in order to facilitate the transfer of students between general education and VET.

Important milestones

- Full implementation of the new curricula to all public schools by September 2016.
- Continuous professional development courses for 3.000 teachers annually.
- The development of a new curriculum for Upper Secondary and Technical Vocational Education by 2015.

Estimated budget: €1.500.000 per year (2011-2016)

- **Measures facilitating the integration of students at risk to the school system:**
 - Measures to facilitate school enrollment and school success through schemes such as the Zone's of Educational Priority (ZEP).
 - Psychological support and Counseling.
 - Special induction programmes for migrants.
 - Early identification of literacy problems through specifically designed diagnostic assessment.
 - Setting up an Expert Committee for early identification of literacy problems to accomplish the goal of reducing school failure and dropout rates.

Important milestones: 15% of the total student population to be enrolled in an educational establishment that belongs to a ZEP.

Estimated budget:

- €11.000.000 for the schemes of the Zones of Educational Priority (for the period 2007-2015, co-financed by the ESF).
- €3.500.000 per year for the special induction programmes for migrants.
- €7.600.000 for other related programmes and actions (expected to be increased by €1.700.000 in 2012, as a result of the implementation of new curricula and timetables).

- **Upgrading vocational education and training:**
 - Improving the quality and attractiveness of the education and training systems.
 - Establishing mechanisms of lifelong guidance and validation of acquired skills.

- Providing alternative pathways to young persons and upgrading the Apprenticeships System.
- Facilitating the transfer of students between general education and Vocational and Educational Training (VET).

Important milestones

- Development of a new curriculum for Upper Secondary and Technical Vocational Education by 2015.
- Implementation of the unification of upper secondary general education with secondary technical vocational education.

Estimated budget:

- €19.000.000 for providing alternative pathways to young persons and upgrading the Apprenticeship System (for the period 2007-2015, co-financed by the ESF).

B. Increase participation in Higher education to 46%

In order to improve participation in Higher Education the following measures are promoted:

- **Strengthening the links between technical vocational education, training and the labour market:**
 - Establishment of Post Secondary Institutes for Technical and Vocational Education and Training, which could offer to learners, at affordable cost, programmes at an intermediate level, between upper secondary and tertiary education, complementary to the programmes offered by the private colleges.
 - Strengthening the contacts between VET, the social partners and the enterprises.
 - Promoting a culture of research and innovation.
 - Strengthening the efforts towards better and systematic collection of data, which includes VET related skills anticipation.
 - Upgrading vocational guidance services.

Important milestones

- Establishment of Post Secondary Institutes for Technical and Vocational Education and Training by 2011.
- Establishment of the National Forum on Career Guidance by 2011.

Estimated budget:

- €5.000.000 for the establishment and operation of Post Secondary Institutes for Technical and Vocational Education and Training (for the period 2007-2015, co-financed by the ESF).
- €100.000 for establishing mechanisms of lifelong guidance and validation of acquired skills.

- **Expansion and modernization of the higher education system**
 - Increase the number of people attending Higher Education (H.E.).

- Establishment of a strong student welfare system so as to enhance equity and widen access to higher education.
- Increase the number of students attending programs of studies related to science and technology.
- Improve the cooperation between High Education Institutions (HEIs), business, local industry and the labour market.
- Enhance the cooperation between the Ministry of Education and Culture and other competent ministries regarding the link of Higher Education to the labour market.

Important milestones

- Increase the capacity of the Universities and enhance quality assurance.
- Satisfy the social dimension issue for H.E.
- Enhance Technology and Innovation.

Estimated budget:

- €5-7.000.000 per year to increase the number of people attending Higher Education (H.E.).
- €12.000.000 per year for the establishment of a strong student welfare system so as to enhance equity and widen access to higher education.
- €1-2.000.000 per year to increase the number of students attending programs of studies related to science and technology.

• **Promoting transnational mobility**

- Establishment of a National Qualification Framework which will include recognition of prior learning procedures.
- Implementing EU tools such as the European Qualifications Framework (EQF) or linking to this the National Qualifications Framework (NQF), the European Credit Transfer System for Vocational Education.
- Increasing participation in EU programs such as the Lifelong Learning Programme that have a strong element of geographical mobility. Encouraging of all Technical and Vocational Schools and adults to actively participate in Leonardo da Vinci mobility action for initial and continued training and placements in enterprises abroad (currently only 50% of the technical schools are participating).
- Promotion of the mobility of students, educators, staff, apprentices and researchers.

Important milestones: Implementation of the EQF, NQF and the ECTS for Vocational Education by 2012.

Estimated budget: €200.000 (2011)

All relative measures are included in Table 3 in Chapter 9 - Employment and Skills.

6. DIGITAL SOCIETY

Guideline 4: “Optimising support for research, development and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy”

CURRENT SITUATION

Unleashing the potential of the digital economy is of paramount importance to the development of Cyprus into a regional service centre, since the isolation of the economy due to its insular nature can be overcome through the possibilities offered by the use of internet and the digital technology in general. Although Cyprus still ranks low in most information society indicators compared to the rest of EU27, the important policy decisions taken in 2009 (Council of Ministers Decision on 18/02/09 (Decision No 68.442)), the progress made in broadband penetration, the spread of ICT solutions in many sectors and a business environment with a good level of e-skills are laying the foundations for further development.

Additionally and despite the absence of a comprehensive National Action Plan for ICT, measures exploiting the opportunities offered by ICT have been promoted already, focusing mainly on the supply of public services offered through the internet to individuals and enterprises. Some of the major initiatives that have been implemented in the public sector are:

- (a) E-government:
 - The e-procurement system which went live in November 2009.
 - The road transport e-services system which went live in January 2007.
 - The e-Filing system (Companies Registration System), which allows for online registration of a new company, went live in February 2011.
 - The portal for the Single Point of Services (Services Directive) which has been developed and published since December 2009. The online submission of applications as well as the track & trace service will be possible within the year 2011.
- (b) E-inclusion: A study to propose a national e-inclusion strategy and action plan has been completed including an implementation time-table.
- (c) E-learning: The IT infrastructure in schools has been upgraded and all primary and secondary schools have been connected to the Internet. Also, the training of teachers in IT technologies has been almost (95%) completed (details in Objective 13 below).
- (d) E-health:
 - The Integrated Health Care Information System has been installed in the General Hospital of Nicosia and Famagusta and is operational, including modules such as patient administration, coding of diseases/operations/procedures, laboratory services,

prescription services, billing, electronic health records, inventory control and personnel management.

- The development of a Pharmaceutical Information System has been completed including a registration and price control system, an inventory control system and prescription processing and invoicing.

(e) E-commerce (details in Priority 14 below): A Strategic plan for the promotion of e-commerce has been prepared. The program is entitled “Business Online” and its duration is from May 2008 until April 2011. A web site has been launched with information about electronic commerce, seminars for consumers and companies were held and subsidies are being provided to SMEs to create new or upgrade existing websites.

The analysis of the indicators in the Cyprus profile of the European Digital Competiveness Report 2010 is most useful in delineating the new Digital Agenda.

Table 2:

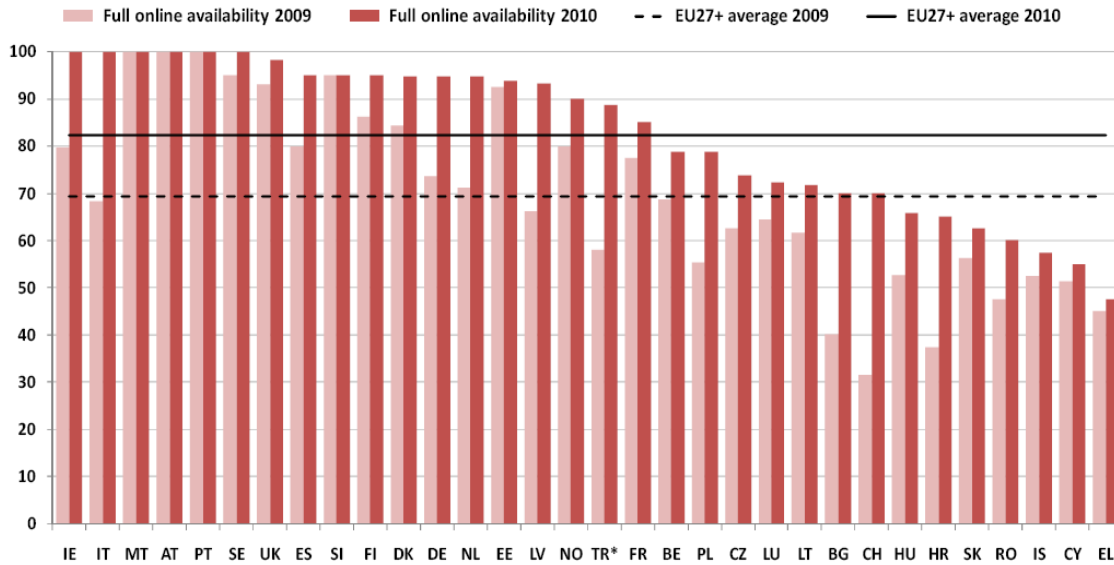
	Cyprus 2007	Cyprus 2008	EU27 (2008)	EU27 (2009)	Cyprus 2009	Cyprus ranking
Broadband:						
Broadband Penetration (% of population)	13,8	18,2	22,6	24,8	22,2	15
% of households with a broadband connection	20	33	49	56	47	21
% of enterprises with broadband access	69	79	81	83	87	9
Internet Usage:						
% of population who are regular internet users	35	35	56	60	45	22
eGovernment indicators:						
% of population using eGovernment services	20	16		30	22	20
% of enterprises using eGovernment services	54	65	68	71	72	17

Bottlenecks:

- **Usage of eGovernment Services:** The supply of e-government services in Cyprus is still below average compared to EU-27 (see Table 2 above¹), but there is a noteworthy improvement in electronic public services offered to citizens and enterprises. The major problem lies on the demand of e-government services which is even lower compared to the EU-27 average. Therefore Cyprus should continue to promote further the supply of e-government services, but emphasis should be placed on increasing the demand of e-government services.

¹ Digitising Public Services in Europe: Putting ambition into action, 9th Benchmark Measurement, December 2010

Figure 2: Full online availability of the basic public services



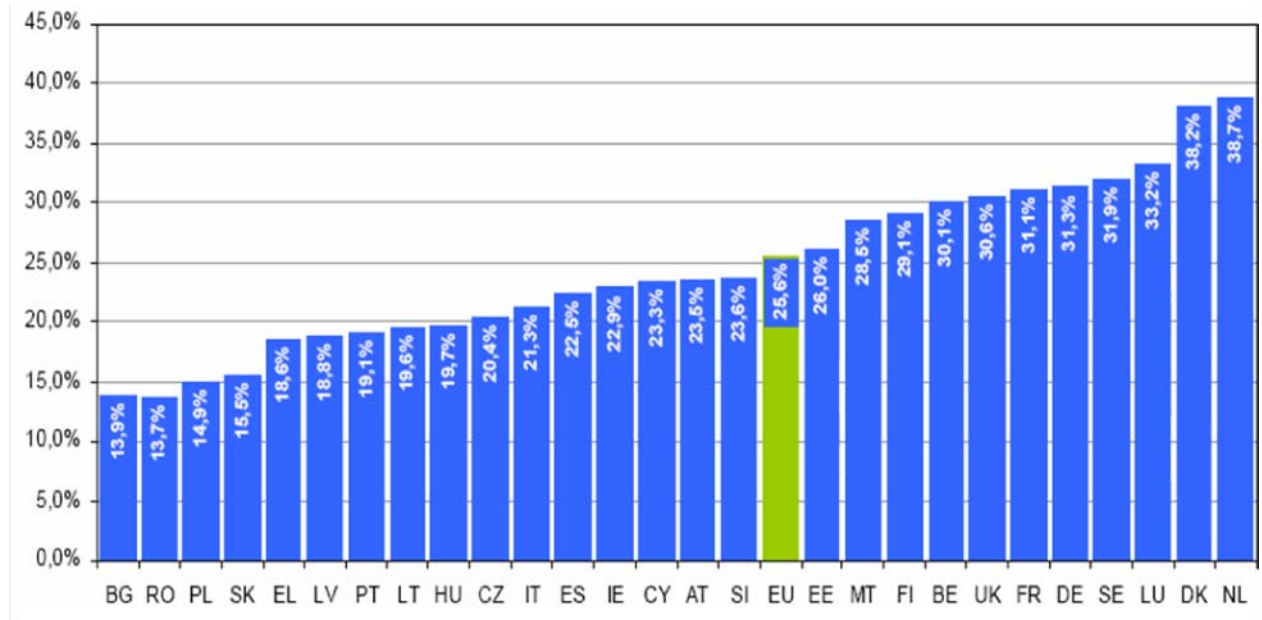
* Survey not implemented in 2009. The score of 2007 is used in the graph.

- Broadband growth, coverage and speed:** (i) Even though broadband penetration grew considerably to 23,3% in 2010 compared to 13,8% in 2007, broadband penetration in Cyprus still stands below the EU average of 25,6% (see Figure 3 below²). The situation concerning household penetration though is better at 64% (the figures provided in the Report for Cyprus are wrong). (ii) The incumbent maintains its strong share in the broadband market (of 80% in July 2009). Although there are regulatory measures in place, such as LLU and bit stream access, that allow alternative operators if they so wish to compete in the rural areas, the incumbent is the only operator that offers services in these areas, so far, even though alternative operators have expressed their interest in using bit stream access to serve rural areas. (iii) While in January 2010 the majority of fixed broadband lines were below 2 Mbps (74,7%) and around 25,2% of the total lines were in the range of 2-10 Mbps, thereby ranking Cyprus as one of the EU countries with low broadband access speeds being offered to the market, currently, new offerings of up to 40Mbps, considerably change this outlook. (iv) Although DSL broadband coverage (as % of total population) in rural areas was only 30% in 2009 and well below the EU average of 79,7%, the incumbent has been rolling out fiber optic network infrastructure that will enable offerings of at least 2Mbps to every community in Cyprus by 3Q2011. (v) While the median monthly cost for data download between 2Mbps and 4Mbps was €26,65 in the EU in December 2009, in Cyprus the minimum offering by the incumbent (512/256kbps) is about 33 euro per month (includes monthly rental for fixed line access, DSL service access and ISP services), while there are offerings by alternative operators in the range of 39 euro per month (internet and telephony - 4Mbps/512kbps) and triple play offerings with internet speeds 3Mbps/768kbps for 29 euro per month. (vi) A recent study by OCECPR shows that households in the rural areas of Cyprus are much less able and

² COCOM (COCOM10-29) Broadband access in the EU: situation at 1 July 2010

willing to pay for broadband services compared to households in urban areas. These findings focus on the need for actions that will result in increased broadband penetration, take-up of services, reduced broadband prices, increased competition in the rural areas.

Figure 3: Fixed Broadband Penetration, July 2010



- **Internet take-up and use:** The analysis of the Internet take-up and use indicators has shown that Cyprus should focus on actions to increase people’s awareness of the benefits of using the Internet.
- **Online Commerce and eTransactions:** The use of ICT and the usage of basic internet applications and electronic transactions from the enterprises in Cyprus are also below the EU-27 average; therefore Cyprus should focus on actions and measures to promote electronic commerce and electronic transactions on both the supply and demand sides.

The actions that have to be taken³ to overcome the abovementioned bottlenecks are being addressed in the draft Digital Strategy for Cyprus.

NATIONAL PRIORITIES AND KEY MEASURES

The Digital Strategy for Cyprus 2011-2020 is under preparation. The stated overall vision of the draft Digital Strategy is for “the information and communication technologies to support the development and competitiveness of the economy, and citizen participation in the social,

³ These actions may change as the draft Strategy goes through the approval process.

cultural and political domains”. Some of the key measures to attain the priorities and tackle the bottlenecks which are included in the draft Digital Strategy for Cyprus are presented below.

The Digital Strategy for Cyprus will be finalised following consultations with the Advisory Committee. Before its implementation, the Digital Strategy for Cyprus will be approved by the Minister of Communications and Works (responsible Minister for Information Society) and the Council of Ministers (frontloading – expected to be approved in 2011).

A. Driving Cyprus into a Digital Era

1. Full broadband coverage of Cyprus so that all citizens have access to information society services. A market-based national broadband approach will be adopted. The key elements of this plan are regulatory certainty, technological neutrality, promotion of the cooperation between the providers of electronic communications and close monitoring of the progress. The said approach aims at achieving the targets set out in the Digital Agenda for Europe, namely:
 - By 2013, all households and businesses will have access to the Internet with at least 2Mbps (frontloading this target is expected to be achieved at the beginning of 2012).
 - By 2020 all households and businesses will have access to the Internet with at least 30 Mbps.
 - By 2020 50% or more of the households will have access to the Internet with at least 100 Mbps.
2. Promote the installation of passive infrastructure where public civil works are performed. The measure, already in place, aims at reducing the cost of civil works for the network infrastructure operators and promotes duct sharing (currently under review within the context of the broadband market analysis procedure).
3. Seek further reduction of the prices of electronic communications services. During the analysis of the broadband markets, OCECPR will review the cost of the end-to-end wholesale cost components for the provision of broadband services at the retail level.
4. Promote the use of spectrum for the establishment and operation of wireless networks that provide high quality and high speed broadband services. Wireless technologies offer an easy and relatively cheap way of implementing electronic communications networks that can provide an alternative solution to fixed networks and also support mobility. We shall take advantage of these technologies to provide broadband coverage to remote areas where wired technologies are not cost effective and also to further promote competition in the electronic communications sector. A licensing plan (with specific timeframes) will be prepared for the authorisation of radio frequencies designated for electronic communications services. This plan will also include provisions related to technology neutrality, avoidance of spectrum hoarding, etc, in line with the Radio Spectrum Policy Programme. Imposing specific obligations, where appropriate, such as like geographical coverage and access speeds, shall also be considered.

5. The Government through the use of ICT aims to become smart, sustainable and innovative. By using ICT for its internal functioning the Government aims to become paperless, more effective and efficient and also open and friendly to citizens and businesses by providing citizens and businesses all services online. Some of the major measures that are promoted are:
- (a) Revision of Information Systems Strategy (ISS): The aim is to refine the strategy for achieving the Cyprus Government objectives up to 2015 for productivity and growth whilst being in line with the EU policies and directives. The necessary budget has been approved and will be co-financed by the ERDF. The project is expected to be completed in 2012.
 - (b) 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 necessary budget has been approved. The project will be co-financed by the ERDF.
 - (c) Development of a Central Government Data Warehouse: The ultimate aim of this project is to create a central Government Data Repository, which will constitute the base for the development of Business Intelligence systems. The Government Data Warehouse will be a single cohesive database with a subject-centric approach, in order to provide a consolidated view of Civil Service data, optimised for reporting and analysis. With the implementation of this project, the data of the Government Information Systems will turn into high-quality information for policy, strategy and management decision making. The necessary budget has been approved and the project is expected to be completed in 2015. The project will be co-financed by the ERDF.
 - (d) Development of a Government Secure Gateway: The Government Gateway will provide the foundation/cornerstone for delivery of the vision for a "Joined-up Government" and will constitute the central passage to all electronic transactions between citizens, businesses, institutions and the Government. It will comprise a highly secure environment, a resilient "always on" service and a capacity to handle high volumes. In terms of functionality, it will incorporate a unified registration and authentication service, allowing users to conduct their transactions with the relevant Government Organisations over the Internet in a secure manner, with a single set of credentials, using any application, any device, anytime, anywhere. The necessary budget has been approved and will be co-financed by the ERDF. The project is expected to be completed in 2013.
 - (e) Web-enabled version of the Office Automation System (eOAS): The ultimate aim of eOAS is the electronic management and administration of all documents of the Civil Service, as well as the automation of the procedures and regulations that rule their creation, archiving, security, confidentiality grading, distribution and disposal, including their final destruction or long-term preservation for future accessibility by the public and researchers. This project is under way and so far it has been installed and is operational in 7 Government Departments. The necessary budget has been approved and the project is expected to be completed in 2016.
 - (f) Setting up and operating a call center: The objective of this call center is the delivery of administrative information and/or the handling of cases that relate to the competences of a large number of civil service organisations from a point of filling a request to the point

of the delivery of a service through a central telephone number. An agreement was signed with a Subject Matter Expert who will prepare the tender document for the project.

- (g) Establish more Citizen Service Centers (CSCs) all over the island: the aim of the CSCs is to provide multiple services from one point of contact/location based on one-stop-shop, using ICT. Additionally some of the CSCs can be equipped with virtual collaboration systems in order for citizens to be served by the regional CSCs through the virtual CSCs.

(More measures in Chapter 8 under “Improving the efficiency of the public sector”).

- 6. The local authorities through the use of ICT aim to provide quality, innovative electronic services to citizens and businesses and improve the communication between local authorities and citizens and local authorities and government.

The Cyprus Municipalities Union is in the process (initial stages) of creating a centralised management system that will be used to serve all municipalities. Each municipality will be able to utilise applications of its choice for administrative support services (e.g. accounting, registry, etc.) as well applications for electronic services to their citizens (e.g., web portal services, e-learning, e-payment, e-billing, etc.) without depending on the technical infrastructure available to the municipality.

- 7. Combat the distribution of illegal content both online or by other electronic communications networks, address cyber threats and strengthen security in the digital society. Some of the measures to achieve this objective are:

- (a) The OCECPR has published a policy paper regarding the establishment of a Computer Security Incident Response Team (CSIRT) with executive arms the Department of Information Technology Services (DITS) and the Cyprus Research and Academic Network (CyNet). On the basis of this policy document, the OCECPR has adopted an Order which establishes the DITS and CyNet as CSIRTs.
- (b) In this direction DITS will proceed with the required procedures (training, acquire of software etc.) in order to establish the Cyprus Government CSIRT within the year 2011.
- (c) In this direction CYNET plans to proceed with the employment of an officer, attend related trainings and in close cooperation with other already established CERTs to
- (d) Organise the activities for the establishment of the academic/research CERT in Cyprus by the end of 2011.

- 8. Restructure the health sector with the use of ICT, in order to modernise the health care system so that all citizens (including citizens who belong to vulnerable groups), regardless of their geographical location, are able to have access to quality health services.

The Ministry of Health is preparing a Digital Strategy that promotes the establishment of an Integrated Health Care Information System. The Integrated Health Care Information System covers the key elements of the hospital procedures in order to control both quality of service to patients and hospital cost. The Integrated Health Care Information System has already been installed in the General Hospital of Nicosia and Famagusta and the plan is to be installed in all other public hospitals. With the Integrated Health Care Information System

the Ministry of Health will achieve the standardisation of hospital procedures to all public hospitals (the public hospitals will work the same way).

9. Offer digital boost to the two main pillars of the economy, tourism and services, for increasing the competitiveness of the Cyprus economy.
10. Upgrading of the infrastructure of the public tertiary education (e-University). Within the framework of the Operational Programme “Sustainable Development and Competitiveness 2007-2013”, three projects have been approved regarding the three public Universities: the University of Cyprus, the Cyprus University of Technology and the Open University of Cyprus. The projects aim towards the upgrading and development of technological infrastructure that will provide the tools for integrated, automated and quality services for students, academic and administrative personnel. The projects will be co-financed by the ERDF.

B. Empowering Human Capital

11. Promote the digital literacy of all businesses, workers and unemployed people with the ultimate goal of their electronic integration, the improvement of the quality of their lives as well as their skills.

Training programmes in ICT skills that lead to international certification will be developed. The target group of these programmes will be unemployed people of various educational levels who wish to be employed in sectors that use ICT, individuals who possess the necessary background and wish to become specialists in ICT (IT specialists), as well as entrepreneurs and professionals with limited knowledge on ICT. Some measures in this direction are:

- (a) The Cyprus Productivity Centre has been offering since June 2010 the possibility, via its Learning Management System “e Gnosis”, free access to educational programmes on e Skills, which are based on the 7 units of ECDL (European Computer Driving License).
 - (b) The “e-Volve Project” has been implemented by the Cyprus Productivity Centre within the framework of the European Social Fund since March 2010. For the period 2010 – 2013, approximately 2.500 SMEs will receive training and consultancy services on e Business issues.
12. The enrollment of all citizens in lifelong learning programmes. Programmes that provide lifelong learning in ICT, which are open to all citizens will be developed. These programmes can run on existing training centers or mobile training units. The mobile training units will be specially designed and equipped to train social groups that do not have easy access to educational centers, such as people living in remote areas, soldiers in the camps, prisoners, etc. The mobile training unit should be specially configured and equipped to support training programmes for groups with mobility problems (eg. elderly and paraplegic). Additionally, the educational programmes may be offered on-line in the form of “open school”. The educational programmes can include courses for the basic use of computers, email, browsers, social networking, making electronic purchases and other transactions such as e-banking or using e-government services.

13. The enhancement of the ICT competences and skills of all public sector employees.
14. Promote the Digital Education by using ICT as a dynamic tool aiming at the upgrade, the enrichment and the reform of the educational process. Some of the measures to achieve this objective are (the approved budget for 2011 is €7,5 mln):
 - (a) One or more computer and multimedia labs to be operated in each school. These laboratories will be standardised, depending on the school level. The laboratories will be used for access to the Internet and digital applications of the Ministry of Education and Culture.
 - (b) Complete the development of the Educational Intranet.
 - (c) Complete the structure cabling in all schools. For the moment the structure cabling was completed in primary and technical education schools in 2005 and 2007 respectively, whilst in secondary schools is currently 50% and is expected to reach 100% in 2012-13.
 - (d) Develop digital Educational Content for the majority of primary and secondary schools. For the moment 17 courses of the lyceum have been prepared.
 - (e) Install interactive whiteboards.
 - (f) Increase the number of personal computers (PC) in each school in order to achieve one PC per student. For the moment the ratio of PCs to the number of pupils in the primary education is 1:4, in secondary education is 1:2 and in technical/vocational education is 2:3.
 - (g) Expand the Implementation of the Learning Management System in all secondary and technical schools. The Learning Management System enables students and teachers to access Digital Educational Content prepared by the Ministry both from school or home. It also enables the communication between teachers, students and parents on issues like absences, homework, examination grades etc. This platform was launched on a pilot basis in 7 schools in April 2009.
15. Promote digital entrepreneurship so that businesses use ICT extensively to support their functioning and educate their employees in ICT in order to increase their productivity and become more competitive in domestic and international markets. Moreover, promote research and innovation in the ICT sector in order to increase public and private spending on ICT research and development. Some of the measures to achieve this objective are:
 - (a) The existing Strategic Plan for e-commerce (see Paragraph Current Situation-Point (e)) will be expanded in duration. Furthermore, the obligation to take into account the directive WCAG 2.0 in the development of the websites that are sponsored by this Plan will be added, so that pages will also be accessible by vulnerable groups.
 - (b) A new programme for the introduction of innovative products or services from small businesses exclusively in the field of ICT will be introduced. The programme will place special emphasis on creating products and services that will target vulnerable groups. This project will bring investment from private enterprises in research and innovation in the ICT sector and a sizeable number of innovative products or services.
 - (c) A new programme to award pre-commercial procurement by research and innovation businesses or research organisations exclusively in the ICT sector will be introduced. A public organisation might have needs for innovative products that can be covered by pre-

commercial agreements (for example the Social Welfare Services can use this programme for the development of innovative devices for vulnerable groups).

C. Promotion of Green Culture

16. Encourage the economic institutions of Cyprus, including the government, to use technologies and equipment or implement policies and practices that are environmentally friendly both in production cycles and operations.

A programme to give incentives to businesses to use technology/equipment or implement policies and practices environmentally friendly both in production and operation, and generally in the exercise of any economic activity, will be introduced. These incentives may include the use of specially designed equipment that consumes less energy, the operation of “smart buildings” that use ICT to substantially reduce energy consumption.

17. Expand the use of ICT to confront the most pressing problems of the economy like water supply, public transport, health etc. Some of the major objectives and measures that are promoted are:

- (a) Use Intelligent Transport Systems (ITS) more extensively in order to make transport more efficient, faster, easier, more reliable and more environmentally friendly. Measures to achieve these objectives are: (i) the signing of a Service Level Agreements by all Governmental Departments that are involved in the management of the road traffic and associated incidents (ii) the establishment of an open electronic platform to be used by all stakeholders (private and public sector) to exchange information and promote their cooperation for the development of ITS (iii) the preparation of a national ITS strategy.
- (b) Use ICT for the effective management of water resources of Cyprus that will help to improve the chronic water problem faced by Cyprus.

7. CLIMATE, ENERGY AND MOBILITY

National targets:

- Achieve an increase of 14,3% (463 ktoe) in energy savings in the projected primary energy consumption of the year 2020
- Reduce greenhouse gas emissions by 21% in the installations included in the Emissions Trading System (ETS) and by 5% for the sectors that are not included in the ETS (transport, waste, agriculture) by 2020
- Increase of the contribution of Renewable Energy Sources (RES) to 13% of the total energy consumption by the year 2020

Guideline 5: “Improving Resource Efficiency and reducing greenhouse gases”

CURRENT SITUATION

Cyprus has set the increase of energy efficiency in connection with addressing the impacts from climate change as one of its top priorities, given that the country is already experiencing the adverse impacts of climate change. The severe droughts caused by climate change have led to one of the lowest per capita rainfall levels and have forced the Government to turn to desalination to meet the drinking water needs of the country. Desalination units aggravate further the already serious emissions that results from the high energy and the CO₂ intensity of the private sector.

On the other hand, the rates of energy consumption have been relatively high in the last decade, due to high rates of economic and social growth and the high influx of tourists. During the decade 2000-2010, the final energy and electricity consumption increased by 1,7% and 6,0% at an average annual basis respectively, while during the same period the GDP showed an average annual increase of 3,2%. Due to the climate conditions and the fact that Cyprus is a tourist destination, energy demand in summer, doubles compared to that in winter.

Cyprus is also endowed with a rich fauna and flora including elements of the continents that surround the country, and thus, the protection of its biodiversity is of high importance, becoming even more important considering the island’s dependence on tourism.

Bottlenecks: Cyprus faces obstacles to developing RES, especially wind energy due to the limited potential for wind energy generation and land planning problems. Similarly, severe constraints exist in the production of bio fuels, due to the limited suitable agricultural land, water scarcity and high dependence on imports to satisfy the indicative and mandatory targets, which are imported at a very high cost, much higher than that of imported oil.

Given the strain already imposed on public finances, the implementation of the relevant environment projects is considered to be a challenge for the island's economy. Such projects include the establishment of infrastructure for the sound management of solid and liquid waste, which according to the country's obligation towards the EU should be completed by 2013 and which will be co-financed by the Structural Funds.

Cyprus, being heavily dependent on imported oil for its energy supply (96% in 2010) and having a small and isolated system, without interconnections to European or other energy networks and no indigenous energy sources, except for a small contribution from renewable sources, has set energy efficiency as a top priority.

Figure 4:

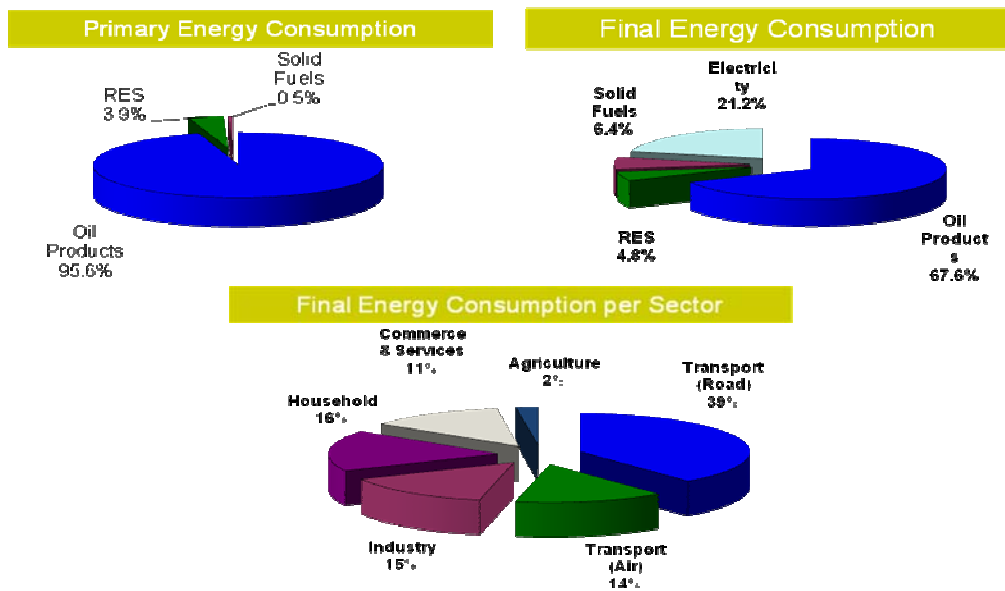
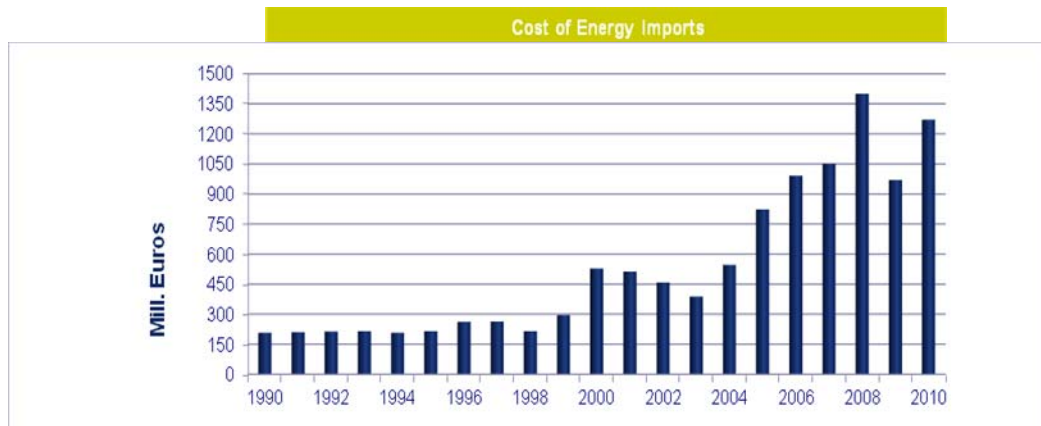


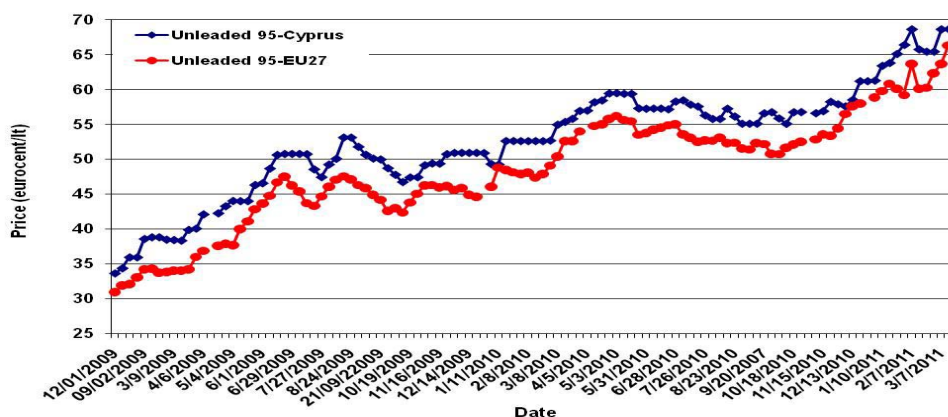
Figure 5:



In 2010, the energy import cost was €1,27 bln, representing 19,7% of the country’s total import cost or 6% of GDP. Thus, the Current Account deficit was recorded at 7,8 as a % of GDP in 2010 while the Current Account deficit excluding imports of oil for home use was recorded at 1,8 for the same year.

Fuel selling price (prior taxation) of diesel and petrol in Cyprus are on average higher (reaching up to 6 cents) than the corresponding EU27 prices, causing an increase to the cost of living. The transport sector in Cyprus absorbs 55% of the final energy consumption, (40% road, 15% air). This is mainly due to the lack of public transport but also due to the fact that Cyprus, being an island, air transport is the only connection to the rest of the world. Overall, facing the energy problem is one of the two greatest challenges to improving competitiveness.

Figure 6:



NATIONAL TARGETS AND TRAJECTORIES ON:

- **Energy Efficiency:** Based on a recently completed study, that assessed the projected primary energy consumption for the year 2020, **the national potential on energy saving on national primary consumption could reach 14,3% (463 ktoe)** compared to the national reference scenario (business as usual scenario anticipates that in 2020 primary energy consumption will reach 3253 ktoe). However, it is considered essential to clarify that for Cyprus, the introduction of natural gas in power generation is considered as a key energy efficiency measure and not as a “business as usual” situation. Otherwise, the national saving potential on national primary consumption for 2020 would not exceed the 6,4% (192ktoe).
- **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 for the commitment period of 2008-2012. Yet, with the new climate and energy package of the EU, Cyprus has been allocated the target of 21% reduction in the installations included in the ETS and 5% reduction for the sectors that are included in (ETS) (transport, waste, agriculture etc).

- **Renewable Energy sources:** Cyprus is committed to increase the contribution of RES to the gross final consumption to 13% by 2020. To achieve the above target Cyprus has to follow the indicative trajectory which includes increase of the RES contribution to the gross final consumption finally to 4,92% by 2012, 5,93% by 2014, 7,45% by 2016, 9,47% by 2018 and final 13% by 2020. Cyprus has already exceeded the first indicative target for the period 2011-2012 since the contribution of Renewable Energy Sources (RES) to the gross final energy consumption, in 2010 was 5,3%. Moreover, Cyprus has to increase the share of energy from renewable sources to the final consumption of energy in all forms of transport in 2020 to 10%. In 2010 the share of energy from renewable sources to the final consumption of energy in all forms of transport was 2%.

KEY MEASURES

Measures to promote energy efficiency

- **Energy efficiency improvement in the transformation sector with the introduction of natural gas and the combined cycle technology in power generation:** It has been decided at a political level to import natural gas to Cyprus and use it mainly as fuel for power generation purposes. It is estimated that once an appraisal of our offshore hydrocarbon potential is performed through an exploratory drilling to take place in October 2011, the pipeline carrying natural gas to Cyprus could be constructed in five years time. The development of the local gas transmission/distribution network has been granted a €10 mln funding under the European Economic Programme for Recovery (EEPR). The total investment is anticipated to be around €60-70 mln. In addition, an Open Season procedure to assess the local market demand for natural gas has been initiated and successfully completed by Cyprus Energy Regulatory Authority (CERA). CERA has given its permission to DEFA to proceed to the Open Season 2nd Step in order to facilitate DEFA in conducting the interested End-Users for further negotiations in order to sign a relevant gas supply agreement.
- **Implementation of the 3rd internal market energy package:** All the necessary measures are taken in order to transpose the provisions of the two Directives (2009/73/EC and 2009/72/EC) to the national law, by making appropriate use of the relevant derogations and exemptions for the “small and isolated system” and “emergent and isolated market”.
- **Implementation of energy performance of buildings directive:** The transposition of the recast of EPBD (Directive 2010/31/EC) in the national legislation by July 2012 will set more ambitious targets in improving the energy efficiency in new and existing buildings. The implementation of stringent minimum requirements is expected by 2013. In order to exploit the full potential of energy saving in the building sector, the subsidy scheme for the building sector is being revised. Seminars are organised for the candidate Accredited Experts and the computational program SBEMcy, which is used for issuing the EPC and giving it to the interested parties free of charge.

- **Implementation of the National Energy Efficiency Action Plan (NEEAP):** NEEAP was submitted to the European Commission, in June 2007. The NEEAP describes the programmes, actions and schemes related to energy efficiency that will be applied for the achievement of the 10% target of the mean final energy consumption for nine years (2008-2016). Cyprus is currently working on evaluating the materialisation of the interim indicative target (3% energy saving for the years 2008-2010), based on methodologies recommended by the EU and by developing national methodologies. The 2nd NEEAP will be submitted to the European Commission in June 2011 for achieving the target of 2016 and onwards. The 3rd NEEAP will be submitted in June 2014 and will evaluate the implementation of measures included in the 2nd NEEAP.
- **Exploitation of the economic potential for combined heat and power technology in compliance to the Directive 2004/8/EC and specification of the sectors where co-generation can be applied with an economically efficient way (e.g. cement industry):** A study has been prepared for this purpose by the Ministry of Commerce, Industry and Tourism (MCIT) which concluded that the national co-generation potential for the year 2020 is 228MWe (electricity production) and up to 454 MWth (heat production). The study also suggested the introduction of additional measures (feed-in-tariffs, subsidies) for the increase of the contribution of co-generation into the energy mix of Cyprus. For this reason, economic incentives for the promotion of the high efficiency co-generation installations are included in the Grand Scheme for investments in the sector of the energy saving (see next section).
- **Energy Audits and Effective Operation of Energy Service Companies (ESCOs):** In order to ensure the availability of efficient and high-quality energy audit schemes, designed to identify potential energy efficiency improvement measures, energy audits should be carried out in an independent manner to all final consumers. A set of Regulations and Ministerial orders have been prepared for implementing an energy audit scheme, including a Technical Guide to be followed by the energy auditors. It is expected that an effective Energy Audit Scheme will start operating in Cyprus by the end of 2011 under the competence of the Energy Service.
- **Energy Efficiency in Public Buildings:** A project which will be co-financed by the European Structural Funds and the Government of Cyprus aims to the improvement of the energy efficiency of the Presidential Palace by the installation of renewable energy systems, the insulation of the building and the replacement of the old mechanical equipment for heating and cooling. The total cost is expected to be €1 mln. The project is expected to be completed by the end of 2011. The project for the installation of 65 photovoltaic systems to public schools, army camps and public buildings in order to cover part of the buildings' needs, was completed in June 2010. This project was co-financed by the European Structural Funds and the Government of Cyprus. The total cost of the project was €5 mln. Part of the project was the distribution of 50 educational photovoltaic modules to schools.

Measures to promote the utilisation of RES and Energy Conservation

- **Implementation of the National Renewable Energy Action Plan (NREAP):** NREAP was submitted to the European Commission in July 2010. The NREAP sets the national targets for the share of energy from renewable sources consumed in transport, electricity and heating/cooling in 2020 and describes adequate measures to be taken to achieve those national targets. The NREAP takes also into account the effects of other policy measures relating to energy efficiency on the final consumption of energy. According to the NREAP the distribution of RES electricity production between 2011-2012 is expected to come mainly from wind power (3,27%), biomass (0,87%) and photovoltaic systems (0,28%). The first Wind Park of 82MW has been fully commissioned and five other projects of a total capacity of 75,5 MW have signed the subsidy agreement with the Special fund and are in the stage of implementation. For the years 2009-2013, approximately 85 wind power generators are expected to be installed, in several parts of Cyprus, with a total capacity of 165 MW. Moreover, regarding the electricity production from biomass, including biogas from landfills, already eleven CHP units of 7,9MW have been installed and two more units of 25MW have been approved. Finally, photovoltaic systems of 6,3 MW have been installed so far and more are expected. The total budget for the implementation of NREAP for the years 2010-2020 is estimated to be around €1,3 bln.
- **Support Schemes for the promotion of the utilisation of RES and Energy Conservation:** The schemes provide financial incentives in the form of governmental grants or/and subsidy for the materialisation of investments in the field of Energy Conservation (EC) and the promotion of the utilisation of RES. It is financed through a Fund specifically allocated for this purpose, deriving its revenue from a levy of 0,44 eurocent/KWh on the consumption of electricity. The new support schemes cover investments regarding utilisation of RES for electricity production, heating/cooling, cogeneration and investments under three different schemes. The total budget of the RES FUND for the implementation of the support schemes 2010-2020 is estimated to be €454 mln (already included in the cost figure of €1.3 bln above).
- **Introduction of a new legislation for the utilisation of RES:** The Cypriot Government aims in introducing a new legislation for the utilisation of RES in order to enforce the provisions of the Directive 2009/28/EC on the promotion of the use of energy from renewable sources and the subsequent repeal of the existing national law 33(I)/2003. The Energy Service of the MCIT is taking all necessary measures to transpose the provisions of the new Directive during 2011.
- **Accelerating the Implementation of RES investments:** RES investments will be further promoted 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.

Measures to reduce CO₂ emissions

- **A modern and efficient public transport scheme:** Public Transport services are of very low quality, thus covering only 2% of total daily trips, resulting to extensive use of private cars (85% of trips) with extensive increased cost to the economy and increased emissions. Therefore, the Government decided to introduce a new Public Transport Programme with the aim to increase the use of public transport to at least 10% by 2012. Thus, on the 5th of July 2010 the new bus companies, one per district of Cyprus, commenced their operations offering better service with longer hours, more frequent and shorter itineraries as well as new bus routes. The new companies are able to operate all urban and rural routes in that district (as well as some cross-district routes that will be agreed), but also have the obligation to finance the renewal of their bus fleet within two years. Furthermore, a feasibility study will examine the possibilities of introducing two light rail services in Cyprus for connecting Nicosia to Limassol and Limassol Port, via Limassol centre and for connecting Nicosia to Larnaca Airport and Larnaca city. The study, which is part of the Trans European Networks in Cyprus, was commenced during the current year, in the beginning of 2011, and is expected to be completed in early 2012. The implementing authority is the Ministry of Communications and Works.
- **Subsidy scheme measures for the promotion of emissions reduction:** Cyprus intends to offer the exemption of taxation for the use of bio fuels in the transport sector. The approval is expected by the European Commission. All suppliers of automotive fuels in Cyprus are obliged to mix 2% of bio fuels into conventional fuel based on their energy content. In addition, the new taxation policy for cars provides low registration fees and circulation license for electric & hybrid cars and for cars with low CO₂ emissions. The excise duty for vehicles, also takes in consideration the CO₂ emissions & the engine capacity of the vehicle.

Measures to promote environmental sustainability

- **Adaptation to climate change:** Cyprus is already experiencing the main impacts of climate change which are associated with increase in temperature and reduction of precipitation. Several studies have already been completed, including (a) combating desertification, (b) the future of agriculture in Cyprus, (c) the effects of reduced irrigation, increased sunlight and temperature on specific crops, (d) the impact of climate change on the forests of Cyprus (in progress), (e) design and implementation of a rehabilitation plan to rainfall levels to cover the water needs (in progress). Based on these studies a National Adaptation Plan is currently being developed in a phased approach, with the aim to pave the way for preparing a comprehensive adaptation strategy to be implemented starting as of 2013.
- **“Natura 2000” Sites:** or the preservation of biodiversity, 40 sites have been included in the “Natura 2000” network, as Sites of Community Importance (SCI’s) and 29 sites as Special Protection Areas (SPA’s) of which 8 of them are both SCI and SPA. The management plans for many of the “Natura 2000” sites have already been completed, while the implementation of various actions in these areas has commenced.

- **LIFE+ Projects:** number of LIFE+ Projects are currently being implemented aiming at the conservation of certain species and habitats. They have an overall budget of €2,8 mln.
- **Solid Waste Management:** Infrastructure projects for the sustainable management of solid waste are being implemented and must be completed by 2013 in response to the aquis commitments. In order to promote popular acceptance of the projects and the engagement of local communities in their implementation, new more participative practices have been introduced. Out of the four new Installations that need to be constructed for solid waste management, only one has been completed and has been in operation since April 2010, whereas, the second is planned to be completed by 2013. Construction of the other two Plants will begin in October 2011 and are expected to be completed by 2014. All three Integrated Installations will be in full operation by the end of 2015, whereas, the completion of the Installations, the accompanied landfills rehabilitation and the construction of the eight green points (for regulated waste disposal) will cost about €302 mln. The projects will be co-financed by the Cohesion Fund for the programming period 2007-2013. The competent authority is the Solid Waste Management Sector of the Ministry of Interior.

Measures to promote sustainable consumption and production

- **EMAS and ECOLABEL:** The Environmental Management and Audit Scheme (EMAS) as well as the ECOLABEL are two voluntary environmental tools which can be adopted by the private and public sector and aim at the promotion of legal compliance as well as technological/ecological innovation. For this purpose a total budget of €250.000 and €110.000 was allocated in 2010 and 2011 respectively. The competent authority is the Environment Department.
- **Green Public Procurement:** Regarding the Green Public Procurement, the Action Plan that was approved by the Council of Ministers in 2007, is currently under revision. The Action Plan aims primarily at the further introduction of environmentally friendly products and services into the market, and thus stimulates sustainable production and consumption patterns. The competent authority is the Environment Department.

8. COMPETITIVENESS

National Targets:

- The promotion of Cyprus as an attractive regional centre for the provision of high value added services, including in the financial, legal, health and education sectors
- Strengthening the productivity of the economy so that the total labour productivity reaches the EU27 average
- Reduction of the administrative burden on national legislation by 20% by 2012

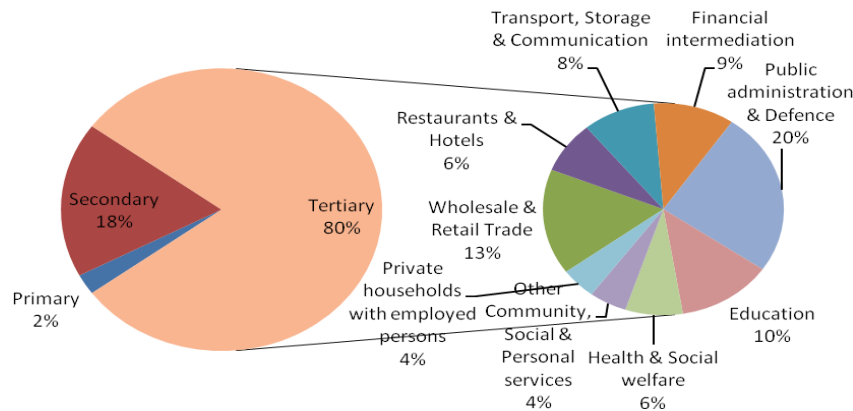
Guideline 6: “Improving the business and consumer environment and modernising the industrial base in order to ensure the full functioning of the internal market”

CURRENT SITUATION

Strengthening the competitiveness of the economy is a basic prerequisite for economic development and for the promotion of Cyprus into a regional service centre. According to the Global Competitiveness Index of the World Economic Forum, in 2010, Cyprus ranked 15th among the EU27 and 40th among 138 countries internationally. Its productivity stands at 88% of EU27, ranking 16th among the EU members. Even though Cyprus has the second best most highly qualified labour force among EU27, with 34,5% having tertiary education, the economy faces chronic competitiveness problems relating to the specialisation in low-skilled, low-technology sectors, making extensive use of low skilled labour, mainly from third countries, whereas many young university graduates remain unemployed/underemployed. One of the main policy priorities therefore is the restructuring of the economy by shifting the emphasis towards high-skilled, high value-added activities, mainly in the services sector, including tourism, health and education. Improving entrepreneurship and the business environment is crucial for the achievement of this challenge.

The economy is mainly service oriented with the tertiary sector comprising 80% of GDP, the secondary 18% and the primary only 2%. However, in terms of employment the primary sector absorbs 7,5%, the secondary 20% and the tertiary 72,5%.

Figure 7: Distribution of Value GDP, 2009



Concerning the **tourism sector**, it continues to constitute an important component, accounting to 12% of the Cypriot GDP in 2009, even though losing in importance compared to the 20% share in 2000. Inbound tourism had reached a plateau during the period 2006-2008 with 2,4 mln tourist arrivals per year, before recording double-digit losses (-11%) in 2009, as a direct result of the worldwide financial crisis. The final 2010 figures, suggest a slow return to growth with arrivals increasing by 1,5%. Similarly, tourism receipts were also affected with the 2009 figures showing a 17% decrease, while the final results for 2010 indicate a 3,8% upturn.

From the tourist destination point of view, Cyprus continues to be in a disadvantageous position *vis a vis* its competitors, especially due to the high cost of living which raises prices and staff costs. As a tourist destination, Cyprus has to address weaknesses which relate to delays in the implementation of large-scale projects, ageing of the tourist product, increasing operational costs and employment of non-native speakers, lack of strong brand image and aggressive competition from competitive East Mediterranean destinations, which are not bound by EU state aid restrictions, thus being in a position to influence organised tourist traffic to the area. At the same time, the fast pace with which the changes in the external environment are evolving such as the climatic changes, the attraction of foreign investments, the increasing bargaining power of the tour operators, the competitive position of destinations with the same product offer, seasonality, the foreign exchange fluctuations which is especially the case for big tourist markets, constitute the main factors that are taken into account, while currently finalising the Tourism Strategy for the period 2011-2015.

With respect to **the business environment**, there has been some improvement, with Cyprus moving from the 18th position in 2006 among EU27, to the 13th in 2010,⁴ mainly due to the setting up of the One Stop Shop, the simplification of procedures for registering a company and the maintenance of a stable and favourable tax system.

⁴ Data from “the Lisbon Review 2006” & 2010 of the World Economic Forum

More effort is required towards improving **the efficiency and effectiveness of the public sector**. Along with the efforts to reduce administrative burden by 20% until the year 2012, measures to increase e-government, reform the civil service, public transport, health and education are envisaged.

The **high energy and CO₂ intensity of the Cypriot business sector**, in combination with the heavy dependence on imported oil for energy generation represent a potential risk in case of high volatility in oil and CO₂ prices. Promoting energy efficiency and the generation of energy from renewable sources remain strategic priorities for Cyprus. It suffices to note that an increase of \$10 in the price of oil results to 0.6 pp increase in the inflation index, so decreasing the dependence on imported oil is of paramount importance to improving competitiveness.

Various steps are being made in the context of the **promotion of Corporate Social Responsibility (CSR)** in an effort to encourage the business sector to undertake more actions towards achieving the targets on climate change, improving the working conditions of employees, providing high quality work and increasing trust among consumers.

Another important bottleneck to growth and to the competitive position of Cyprus is the small, island character of the economy that leads to comparatively limited competition and non-competitive pricing practices in certain sectors. The increased transportation costs of imports tend to raise the prices of locally produced commodities as well.

The promotion of quality and the implementation of quality assurance in all sectors of economic activity represent decisive tools towards the increase of their competitiveness.

KEY MEASURES TO TACKLE BOTTLENECKS

A number of measures are promoted to increase the competitiveness of both the private and the public sector and tackle the bottlenecks.

Improving the Competitiveness of the private sector and restructuring the economy

- **Scheme for the promotion of innovation:** The MCIT is currently working towards the design and operation of a new scheme aiming at the support of SMEs which will innovate through the production of innovative goods or high added value services.
- **JEREMIE Initiative:** In order to improve SMEs access to finance a total budget of €20 mln from the EU Structural Funds was allocated, for the implementation of the JEREMIE initiative for SMEs in Cyprus. Through an agreement signed with the European Investment Fund (EIF) in April 2009, two products have been designed, the “Funded Risk Sharing Product” (FRSP) and the “First Loss Portfolio Guarantee Product” (FLPG), with the aim to offer new loans to SMEs with lower interest rates, longer loan repayment and grace periods and potentially lower collateral requirements. Calls for Expression of Interest have been already completed for both products.

The first Call resulted in an Operational Agreement between the EIF and the Bank of Cyprus (BoC), which was signed in September 2010, followed by the launching of the FRSP in the market in January 2011. Based on this Agreement new loans of €20 mln, up to €100,000 per enterprise, are being provided to Micro and Small enterprises in Cyprus with the co-financing of the JEREMIE funds (€10 mln) and the BoC's own resources (€10 mln). Within the first 4 months of implementation (given a 2 years availability period), the Bank has already approved more than €5 mln of new loans under this product.

With regards to the 2nd product promoted (FLPG), the EIF is now at the final stage of its negotiations with the financial intermediary that will implement this product in Cyprus, which is expected to be launched in the market by mid-2011. Given the coverage provided by JEREMIE resources of €8 mln (covering up to 50% of potential losses on a loan-by-loan basis, and up to 31%-33% on a portfolio basis), the selected bank is expected to provide new loans of around €50 mln to the micro and small enterprises in Cyprus, especially start-ups, with significantly improved collateral requirements.

- **Subsidy scheme to facilitate the shift from low productivity jobs to high productivity jobs:** A scheme, aiming at empowering enterprises to replace low value added employment positions with higher value added ones, is promoted by the Cyprus Productivity Centre (CPC). The scheme, which is co-financed by the European Social Fund calls for the enterprises to formulate a plan for innovation, business re-organisation, adoption of new technology, all actions that create high quality jobs that are partly subsidised. The first call for proposal was announced in May 2009, whereas, the actions that will be selected will be implemented by July 2013 and will cost €3 mln. (See also Chapter 9 “Employment and Skills”).
- **Scheme for grants to strengthen the competitiveness of SMEs in the manufacturing sector:** The scheme aims at the financial support of the companies in the manufacturing sector in order to upgrade their technology and to promote innovation. The total budget is €23 mln for the programming period 2007-2013 (co-financed by Structural Funds (85%) and the Republic of Cyprus (15%)).
- **Schemes for the enhancement of women and youth entrepreneurship:** The schemes aim to the financial support of women and young people who wish to engage in the sectors of manufacturing or in specific activities in commerce, services and tourism. Total budget for the programming period 2007-2013 is €11 mln. This amount will be co-financed, 85% by the Structural Funds of the EU and 15% by the Republic of Cyprus. The implementing authority is the Ministry of Commerce Industry and Tourism (MCIT).
- **Grant scheme for the modernisation of units for the manufacturing and trading of agricultural and forestry products:** The scheme aims at the financial support of enterprises operating in the sectors of manufacturing and trading of agricultural and forestry products, in order to invest in new machinery/equipment and the transfer of know-how. The scheme aims at the creation of new and viable SMEs as well as the creation of new jobs especially in rural

areas. The scheme will be financed by the European Agricultural Fund by 50%. The total budget for the programming period 2007-13 is €24 mln.

- **Tourism Strategy 2011-2015:** It aims at the enrichment, upgrading, modernisation, and enhancement of the tourist-product and services, within the scope of sustainable tourism development. It focuses on marketing, product development and quality-value added and is in line with the directions of the Commission Communication 352/2010, and its four axes in particular. Emphasis is given on (a) shaping-up a multi-dimensional tourist offer, (b) actions towards increasing accessibility and the use of electronic marketing, (c) enhancing the regional dimension by redefining the role of the regional tourism bodies, (d) maximising the potential for funding opportunities from EU structural and other funds for tourism actions.
- **Attracting Increased Foreign Investment:** The Government in its effort to promote Cyprus as an attractive international investment centre, created the Cyprus Investment Promotion Agency (CIPA), which contributes to the promotion of Cyprus as an international investment and business centre. The Agency also places Cyprus on the international business radar screen as a competitive regional hub in a wide range of sectors, thereby facilitating foreign investment in these sectors. CIPA is committed to providing extensive assistance to foreign companies and individuals who wish to invest in Cyprus, and to providing aftercare services to foreign companies already established in Cyprus.

Improving the Efficiency of the Public sector

- **Better Regulation:** A National Action Plan has been set up for the reduction of the administrative burden (AB) on national legislation by 20% by 2012. A project for the reduction of AB in all existing legislation relating to enterprises, with emphasis on national priority areas is currently being implemented, using the methodology of the Standard Cost Model. With the completion of the project, Cyprus will be able to undertake reforms to meet its EU commitment for achieving its national target of 20% reduction of AB in national legislation, by 2012. A simplified mechanism for impact assessment, through a standardised questionnaire revised in July 2009, is in force. The implementing authority is the Ministry of Finance.
- **Electronic Public Procurement System (e-PS):** The Government in its effort to create a helpful and user-friendly website regarding the public procurement developed the e-procurement system (e-PS). e-PS is a secure and interoperable web-based application of the Republic of Cyprus, which constitutes a total solution for the implementation of electronic procedures in conducting public procurement competitions. The system is managed by the Public Procurement Directorate of the Treasury of the Republic of Cyprus. **Sustainable public procurement** is also promoted through the revision of the National Action Plan for Green Public Procurement, which was initially adopted in 2007. Its main aim is to include environmental considerations in the public procurements so as to boost the consumption of green products and services.

Transposition of the Services Directive into national law

- **Adoption of the Services Directive:** Cyprus has chosen to implement the Services Directive by way of a Horizontal Law, that is the law entitled “Freedom of Establishment of Service Providers and Free Movement of Services Law of 2010 (N.76(I)/2010)”, which entered into force on 16 July 2010. In addition, a number of sector-specific amending laws and regulations have been adopted, whilst some are pending before the Parliament and a small number is undergoing preparation/legal vetting with the objective to submit them to the Parliament. The majority of amendments in sector specific legislation are not directly necessary for compliance with the Services Directive and are done mainly for the purposes of: (a) safeguarding cohesion with the Horizontal Law, (b) introducing provisions which are allowed, but not required, by the Services Directive and (c) providing for exceptions, where this is justified, to the rules imposed by the Horizontal Law.
- **Point of Single Contact (PSC):** The Point of Single Contact of Cyprus (PSC Cyprus) has been set up through the upgrading and expansion of the One-Stop Shop, operating under the auspices of the MCIT. A specialised web portal has been designed and developed. The PSC Cyprus portal provides information mainly relating to procedures and formalities needed for the access to and exercise of service activities that fall within the scope of the Services Directive, including the basic procedures and formalities for setting up of a business in the Republic of Cyprus, such as income tax registration, VAT registration, Social security registration, registration of companies, temporary residence and employment permits. The electronic completion of procedures is gradually being implemented. Through the personal space, accessible within the PSC Portal, registered service providers would be able to submit online applications forms (direct data entry), attach supporting documents and e-sign the whole application package, utilising the Austrian tools MOCCA and MOE, which are based on the Austrian Trusted List.

Promotion of the concept of Corporate Social Responsibility (CSR)

Promoting CSR is among the priorities of the Planning Bureau as the National Coordinator for CSR. Promoted activities will comprise two priority sectors: (A) Promoting CSR as part of business’ sustainable development and, (B) Socially responsible actions by the Government. Furthermore, campaigns will be undertaken, in cooperation with all social partners, to inform businesses, consumers and workers concerning CSR issues and intends to **encourage accountability**, namely any reference to actions of the companies in their annual reports. The Social Excellence Awards is an annual scheme directed towards businesses of all sizes, aiming to promote equal opportunities in the workplace and work-life balance. Similarly, the **awards of businesses** established by the Government are granted on a bi-annual basis to enterprises that promote environmental protection and sustainable development in general.

9. EMPLOYMENT AND SKILLS

National target:

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

Guideline 7: “Increasing labour market participation and reducing structural unemployment”

Guideline 8: “Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning”

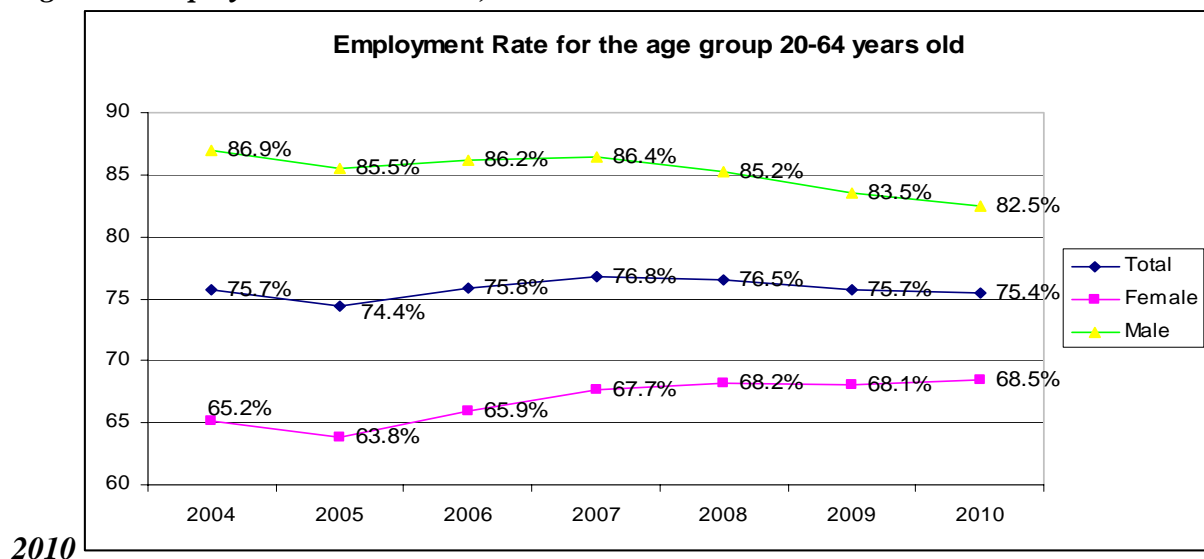
CURRENT SITUATION

Until the end of 2008 and for over three decades Cyprus enjoyed a GDP growth averaging around 4%, while in 2009 due to the economic recession which hit the island’s economy with a delay, GDP contracted by 1,7% and in 2010 expanded by a mere 0,9%. The projection for the current year is that GDP will further expand at a rate of 1,5% and at 2,5% in 2012.

Due to the economic recession, the unemployment rate between 2008 and 2010 rose from 3,7% to 6,2% (forecast average for the year). The substantial increase in unemployment is a new and unfamiliar phenomenon for the country, which has traditionally enjoyed conditions of almost full employment.

The overall employment rate between 2009 and 2010, remained unchanged at 75,4% (for the age group 20-64 years), but is lower than the 2008 level of 76,5%.

Figure 8: Employment Rate Trends, 2004-



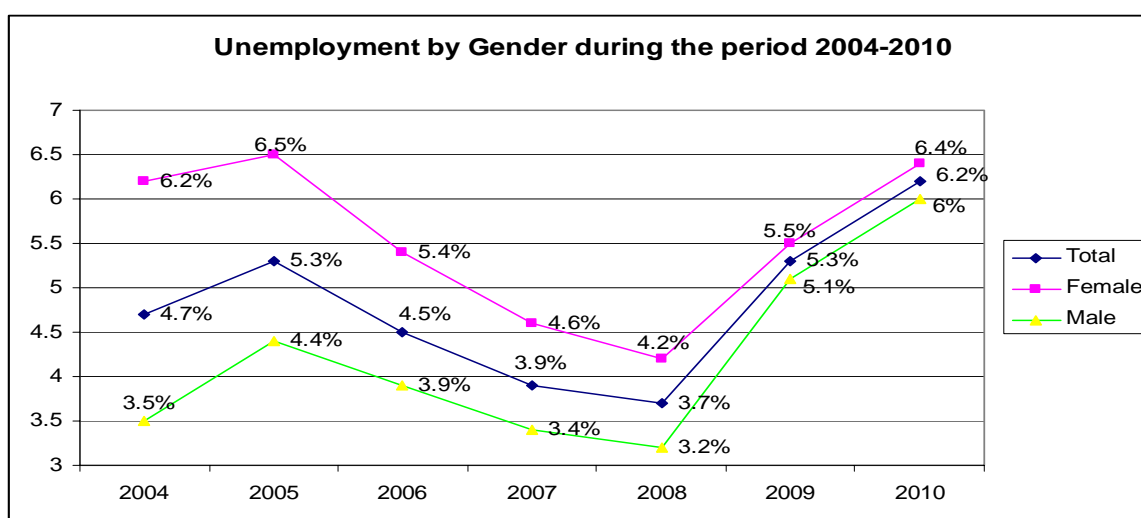
2010

During 2009, the first year of the recession, more male than female workers lost their jobs, a phenomenon attributed to the economic downturn, which affected primarily male-dominated occupations, namely, construction, real estate and tourism. By the end of 2010, the unemployment rate for male workers stood at 6,0% and for female workers at 6,4% (forecast average for the year), while the respective employment rates were 82,9% and 68,9% (4th quarter of 2010 for the age group of 20-64 years).

The population of the age group 15-24 is around 92.000, out of which 53.000 are “inactive”, as workforce, mainly because they are in education. The unemployment rate among the above age group reached a peak of 14,5% in the fourth quarter of 2010, while the overall average rate for the same year is expected to be 16,7%, which is above that of 2008 by 4,2 percentage points (pp).

According to the latest results of the Labour Force Survey (4th quarter of 2010), EU nationals represent 12,5% of total employment (a 1.7 pp increase since 2009) and third country nationals 8,7% (1.5 pp increase since 2009). The majority of non-Cypriots in employment are either low skilled or unskilled, while the majority of third country nationals are employed as domestic workers (in private households).

Figure 9: Unemployment Rate Trends, 2004-2010



Bottlenecks:

Labour Market Participation

- Labour market participation is still considered to be low, given the challenge of ageing population. Increasing female labour market participation in order to achieve the national employment target seems to be a feasible solution, since the male participation rate is already high and difficult to increase further.

- Factors that discourage women's labour market involvement include gender inequality of pay and persistent occupational gender segregation. Gender stereotypes and traditional attitudes regarding the roles of women and men in the family and society impose further obstacles to the increase of labour supply.

Work-Life Balance

- Insufficient provision of high quality and affordable care facilities for children and other family dependents hinders labour market participation, especially of women. The cost of childcare in relation to average wages is relatively high while the recently restructured public transport network needs more time in order to fully cover the needs of the population.
- The number of people using flexible forms of employment is still very low compared to European averages and consists mainly of women, despite the efforts for promoting flexible forms of employment that started during the previous programming period 2004-2006 and continue during the current period.

Active Labour Market Policies

- Despite the efforts for increasing the capacity of the Public Employment Services (hiring contracted staff), the triple increase in unemployment has led to compromises in the quality of service.
- The small size and segmentation of the labour market constitutes an obstacle to the introduction and/or prioritisation of cost effective activation measures.

Skills supply and productivity/education and training systems

- Although there are well-developed and flexible structures for providing training, the small size of the labour market, the limited mobility of the labour force together with the highly diversified economy, limit the possibility for the provision of adequate and cost effective training opportunities.
- The employment of low skilled or unskilled workers for almost two decades, originally from third countries and more recently from EU Member States, has resulted on the one hand in the delay of the modernisation of the local enterprises, in terms of the use of advanced technologies and new/innovative working methods and their diversification to high added value activities and on the other hand in maintaining low-skilled jobs. Non-Cypriots amount to 21,5% of the labour force (12,9% EU nationals and 8,6% from third countries). The large increase of foreign workers had a dampening effect on wages and kept productivity in the relevant sectors low. The large numbers of foreign workers together with the influx of asylum seekers (mainly due to the fact that the Cypriot

Government does not have effective control of the whole territory of the island) are often associated with undeclared and/or illegal employment.

- Cyprus is the third country in the world in terms of tertiary education graduates relative to its population. Yet, the economy, due to the above-described situation, does not create sufficient high-skilled jobs for university graduates and at the same time the island suffers from brain-drain (at an estimated rate of 20%). In addition, the economy is becoming greener at a very low pace.
- Unattractive working conditions and stereotypes lead to avoidance of certain occupations, such as technical and care-related, hence the low attractiveness of technical and vocational education.

KEY POLICY AREAS TO TACKLE BOTTLENECKS

Increase labour market participation

Promote the improvement, in terms of quality and quantity, of the job matching, job searching and career guidance services for achieving rational use of the labour force and combating segmentation, facilitating at the same time the participation of specific groups such as the young and the female labour force, the low-skilled and the disadvantaged groups in the labour market and utilising education and training as a major tool for matching the economy's needs.

In order to increase labour supply, of women in particular, the issue of balancing work and family life will be addressed, including a scheme providing support to women to re-enter the labour market (see also Chapter 10 "Fighting Poverty").

Improve management of immigration and asylum issues through a comprehensive immigration and asylum policy, including the integration of legal immigrants into the society while bearing in mind the small size of the local labour market and the volatility that such small size entails and aiming to keep admission inflows to numbers and volumes corresponding to the country's employment needs and reception capacity. Combat illegal and undeclared work associated with the large inflows of third country nationals and asylum seekers by strengthening prevention and inspection mechanisms.

Exploit job creation possibilities

Enhance the competitiveness of enterprises, improve their adaptability and increase their productivity as a means of creating more and better jobs. Exploit the potential of the economy for green jobs, white jobs and knowledge-based services not only for the purpose of increasing general demand but also for creating high-skilled jobs for the utilisation of the highly-qualified indigenous labour force.

Encourage entrepreneurship as a means of creating more and better jobs, and contributing to the diversification of the economy.

Improve the education and training systems

Restructure the education system to enable it to respond more effectively to the changing work environment, improve the attractiveness of technical education and reduce the number of early school leavers. Strengthen the link between the education and training systems with labour market needs and facilitate the adaptation of the labour force skills to the labour market needs, within the lifelong learning strategy, in order to match supply and demand more effectively (see also Chapter 5 “Education”).

Make work more attractive

Address all forms of discrimination in the labour market, and also the gender pay gap, through comprehensive measures for tackling, in an integrated way, social, occupational and educational causes that underlie this gap and relevant discrimination. Pay also attention to the working environment, including the improved operation of health and safety committees at the workplace.

KEY MEASURES TO REACH TARGET AND TACKLE BOTTLENECKS

1. Increase Labour Market Participation

The measures planned along this policy area, to be implemented between 2009 and 2014, have a total budget of €48,4 mln and the target for the number of beneficiaries is 9.500 persons. From the above mentioned amount €37,9 mln will be drawn from the European Social Fund (ESF). The measures mentioned above are categorised in two groups as shown below:

Measures introduced in response to the recent economic recession, with a three-year time-frame implementation, 2009-2011. The aim of these measures is to facilitate the return of the unemployed back to employment. They include (i) training schemes, aiming mainly to raise the level of their transferable skills, (ii) schemes offering assistance and guidance to employers for individualised on the job training of recruited unemployed and (iii) subsidised employment schemes targeting again the unemployed. By the end of 2010 more than 4.250 unemployed persons had participated in the above schemes/measures. **Other measures** planned within the context of the National Employment Strategy, not directly related to the recent recession, can be subdivided into subgroups such as:

- Training schemes targeting the inactive women and the unemployed (with priority to the long-term unemployed) for improving their employability by raising their skills level on horizontal/transferrable skills and acquiring work experience.

- In company/on the job training programmes targeting employed persons and organised by individual enterprises in order to satisfy their specialised needs. More than 44.000 employed people participate in these programmes every year.
- A scheme for the facilitation of employment and training of young tertiary graduates, which provides placement and on the job (in company) training of the specific target group.
- Subsidised employment schemes targeting disabled and vulnerable people, including the youth, the 50+ and the long-term unemployed.
- Promotion of flexible forms of employment, as a means of attracting into the labour market those who choose to stay away from the labour market because normal working arrangements are an obstacle.
- Scheme to facilitate inactive women, who choose to stay away from the labour market because they are responsible for the care of children, disabled and elderly members of the family, to re-enter the market.

Measures for further enhancement of the Public Employment Service, aiming to improve its capacity and the quality of services offered to job seekers and to employers.

2. Exploit job creation possibilities

Measures foreseen under this policy area will be implemented until the year 2014 with a total budget of about €29 mln, out of which €19,5 mln are expected to be drawn from ESF while the expected outcome will be 1.000 employed persons to retain their jobs and additionally about 1.850 enterprises to benefit.

The measures include schemes for the enhancement of employment, schemes for the enhancement of women's and youth entrepreneurship and schemes for the improvement of the competitiveness and the productivity of the enterprises mainly of the micro and the small and medium ones. Additionally and in order to facilitate the greening of the economy a study for anticipating the green skill needs of the economy has been conducted and concluded at the beginning of 2011. The main objective of the study is to provide forecasts on the employment needs in the green economy in Cyprus for the period 2010-2013. The study provides estimates for both the areas of economic activity and for the occupations associated to the green economy and is expected to be utilised by many public and private institutions and agencies dealing with the broad subject of human resources. In addition, this information will be a helpful tool for organisations and individuals dealing with matters of vocational guidance for young people.

3. Improve the education and training systems (see also Chapter 5 – “Education”)

The measures planned to be implemented along this policy area can be summarised under four groups and are foreseen to be concluded by 2015.

- Restructuring of the education system, with the co-financing of ESF, which will include the following:
 - Modernisation of the curriculum for all pre-primary up to lower secondary public schools for improving the openness and relevance of education and training systems. By 2015, 10.000 educators will be trained on the implementation of the new curriculum covering all public schools.
 - The establishment and implementation of a training system within the context of lifelong learning, for addressing the educators' and school leaders' training needs throughout their entire career.
 - The facilitation of the integration of students at risk (including children of migrants, asylum seekers and refugees).
 - The improvement of the attractiveness of technical and vocational education by developing a new curriculum for upper secondary and technical vocational schools and by establishing of post-secondary educational institutions for technical and vocational training, aiming to achieve effective linkage between education system and the labour market.
- Improvement of the training system with a total budget of €26,2 mln, out of which €20,2 mln are expected to be co-financed by the ESF. The measures are foreseen to be concluded by 2015 and the expected outcome is that 7.500 individuals and 700 enterprises will benefit. These measures include the implementation of the second phase of the competency-based Vocational Qualifications System which has been developed (targeting 6.000 persons), the enhancement of the training infrastructure of enterprises and training institutions, the certification of training providers, the promotion of innovation in training and the establishment and operation of a new/modern Apprenticeship Scheme which will absorb 90% of the above budget.
- Knowledge of the anticipated needs of the economy in terms of employment and training needs through a series of annual and ad hoc studies and surveys, such as the surveys for the identification of technical and vocational training needs of enterprises, the attractiveness of Vocational Education Training (VET) in Cyprus, the study for the identification of the skill needs of the economy and the long-term employment forecast.
- Raise the skills levels and adapt the skills of the labour force to labour demand through training measures with an expenditure of €6,2 mln in 2011 and a target of 43.500 employed persons and newcomers and an additional €3,1 mln until 2015, out of which €2,5 mln will be co-financed by the ESF with a target of 2.800.

4. Improve Attractiveness of Work / Gender Equality:

Reducing gender pay gap through the promotion of a broad mix of measures which include specialised training programmes for equal pay inspectors, the establishment of a gender equality Certification Body, as well as measures for eliminating occupational and sectoral segregation, such as interventions in education issues, campaigns for raising awareness on

equal pay, training programmes for trade unions and employers associations, and development of manuals, guides and codes of practice for managers and human resource professionals.

The above activities are laid down in the National Action Plan for reducing gender pay gap covering the period 2010-2015 with a budget of €3,5 mln (co-financed by the ESF). The set target is to reduce by 2015 the gender pay gap by 5 pp, down to 18% from 23% where it stood in 2009.

5. Immigration policies

Implementation of the Immigration Strategy which has been formulated aiming to regulate legal immigration on the basis of the National Employment Strategy and the labour market needs in general, to integrate legal immigrants into the society under conditions of increased social cohesion, to combat irregular immigration and illegal and undeclared employment, to provide international protection to people in need and at the same time combat the abuse of the national asylum system, to combat trafficking and to guarantee human rights and dignity for all members of society and fight racism and xenophobia.

Implementation of the action plan for the integration of third country nationals, adopted in 2010 on the basis of the abovementioned strategy, which includes actions in a number of sectors of everyday life, such as education, vocational training, learning of the Greek language, health, information and more.

In its effort to implement the measures and actions dictated by the above strategy, the country will make use of the European Solidarity Funds, expecting to draw annually from them the amount of €8,5 mln.

Table 3: ACTIONS UNDERTAKEN UNDER THE ADOPTED MEASURES FOR ACHIEVING THE TARGETS AND TACKLING THE BOTTLENECKS IN THE LABOUR MARKET

Name of measure	Policy Area	Competent Authority	Description	Implementation Period	Budget - ESF Contribution	Internal monitoring system	Quantitative Target
1. Increase Labour Market Participation							
Scheme for the improvement of the employability of economically inactive women	Increase labour market participation	Human Resource Development Authority (HRDA)	The scheme aims at the improvement of the employability of the economically inactive women through offering opportunities for participation in training activities and work experience. The scheme offers opportunities for participation in training programmes on information technology, English language and secretarial skills, as well as work experience programmes in enterprises of 8-10 weeks duration.	2010 – 2014	€4.000.000 Co-financed by ESF (70%) and HRDA (30%) as National contribution		1.500 women
Scheme for the improvement of the employability of the unemployed	Increase labour market participation	Human Resource Development Authority (HRDA)	The scheme aims at the improvement of the employability of the unemployed through offering opportunities for participation in training activities and work experience. The scheme offers opportunities for participation in training programmes on information technology, English language and secretarial skills, as well as work experience programmes in enterprises of 8-10 weeks duration.	2010 – 2014	€8.000.000 Co-financed by ESF (70%) and HRDA (30%) as National contribution		2.200 unemployed
Job placement and training of unemployed tertiary education young graduates	Increase labour market participation	Human Resource Development Authority (HRDA)	This scheme aims at strengthening the management capacity of enterprises and organisations through the employment and training of young university and other tertiary education graduates. The measure provides incentives to enterprises to provide employment, practical training and work experience to young graduates. HRDA provides subsidies to employers for the delivery of in-house training programmes to young graduates (6 or 12 months duration). The in-house training of graduates is enhanced by the participation in other training courses, aiming at specialising and fulfilling their knowledge.	On going	€5.100.000 for 2011		600 persons in 2011

National Reform Programme of Cyprus EU2020
EMPLOYMENT AND SKILLS

Training programmes for upgrading the skills of unemployed people (Measure in response to the crisis)	Increase labour market participation	Human Resource Development Authority (HRDA)	The HRDA, in partnership with the Public Employment Service, the Cyprus Productivity Centre and the Higher Hotel Institute, organises, as from May 2009, upgrading training programmes for unemployed people. These programmes cover important horizontal skills, which help people to return to productive employment. They are offered free of charge to unemployed people. For the duration of these programmes participants are entitled to training allowances from the HRDA.	2009-2011	€1.000.000 for 2011		1.000 persons in 2011
Job placement and training of unemployed Cypriots and EU nationals to fill vacancies and / or replace labour from third countries (Measure in response to the crisis)	Increase labour market participation	Human Resource Development Authority (HRDA)	The aim of this scheme is to minimise the effects of the crisis. It provides incentives to employers in the form of subsidy and guidance for the employment and individualised training of unemployed people, in order to fill vacancies or to replace labour from non-EU countries with Cypriot or other EU nationals.	2009 – 2011	€4.500.000		1.000 persons in 2011.
Scheme providing incentives for employment of the unemployed in the private sector (Measure in response to the crisis)	Increase labour market participation	Department of Labour	Financial aid of 60% of the yearly wage cost with maximum amount of €7.200 per person per semester is provided. The subsidy is granted only for the first 6 months of employment	27/11/2009 - 31/08/2011	€6.000.000 Co-financed by ESF (70%) and the Cyprus Government (30%)		1.200 unemployed
Scheme providing incentives for hiring individuals with disabilities in the private sector and Local Authorities	Increase labour market participation	Department of Labour	Financial aid of 75% of the annual wage cost with a maximum amount of €15.000 per person per year is provided for the first 24 months of employment. Additionally, financial aid up to 25% of the eligible costs with a maximum amount of €5.000 per person, for adapting premises, adapting or acquiring equipment, or acquiring and validating software for use by disabled workers, where the beneficiary provides sheltered employment, the costs of constructing, installing or expanding the establishment concerned, and any costs of administration and transport which result directly from the employment of disabled workers	29/09/2009 - 30/06/2014	€1.000.000 Co-financed by ESF (70%) and the Cyprus Government (30%)		120 unemployed with disabilities

*National Reform Programme of Cyprus EU2020
EMPLOYMENT AND SKILLS*

Scheme providing incentives for hiring disadvantaged individuals in the private sector and Local Authorities	Increase labour market participation	Department of Labour	Financial aid of 65% of the annual wage cost with a maximum amount of €13.000 per person per year is provided for the first 12 months of employment. Additionally an allowance for transportation costs to and from the workplace will be offered to employees	19/03/2010 - 30/06/2014	€9.000.000 Co-financed by ESF (70%) and the Cyprus Government (30%)		750 disadvantaged unemployed
Incentives Scheme for attracting people in the labour market through flexible forms of employment	Increasing labour market participation, (Reconciliation of work and family life)	Cyprus Productivity Centre (CPC)	Subsidy scheme for the promotion of flexible forms of employment, for attracting and assisting economically inactive and unemployed people who need flexibility for family reasons to enter and remain in the labour market.	May 2010 – April 2014	€3.000.000 Co-financed by ESF (70%) and the Cyprus Government (30%)	Developed according to ESF rules, approved by the ESF Unit of the Min. of Labour & Social Insurance and described in the Scheme's Implementation Guidelines.	500 individuals to be employed in approx. 350 companies
Provision of services for covering social care within the framework of family and employment reconciliation	Increase labour market participation, (Reconciliation of work and family life)	Social Welfare Services (SWS)	As a part of work-life balance policies geared towards raising employment rates the SWS have targeted the group of unemployed women who are responsible for children under the age of 4 ^{8/12} , elderly and disabled people. In order for these women to enter the labour market the SWS will finance part of the cost of the daily care provided for those mentioned above.	February 2011- September 2015	€3.679.700 Co-financed by ESF (70%) and the Cyprus Government (30%)	There will be an ex-post evaluation by an independent expert of the impact of the Programme and there will be an internal on-going monitoring (as regards the targets and budgeting) by a Monitoring Committee.	1.200 women

National Reform Programme of Cyprus EU2020
EMPLOYMENT AND SKILLS

Further enhancement and modernisation of Public Employment Services (PES)	Increase Labour Market Participation (ALMP)	Department of Labour	Within the framework of this measure, implemented by the Department of Labour, actions will be promoted towards: strengthening PES administrative and technical capacity, improving the monitoring of developments in the labour market, upgrading the quality of services provided by private employment agencies and further geographical expansion of the PES network. Furthermore, it includes actions to strengthen the individualised guidance services offered by PES to unemployed as a response to the negative impact of the economic crisis.	2010 - 2015	€6.900.000 Co-financed by ESF (75%) and the Cyprus Government (25%)	The project will be monitored and evaluated through the mechanisms foreseen by ESF	
2. Exploitation of Job Creation							
In-company / On-the-job training programmes (Measure in response to the crisis)	Enhancing labour market flexibility and security, combating segmentation-stepping up social dialogue.	Human Resource Development Authority (HRDA)	Under this measure the HRDA helps employers to retain their employees instead of laying them off, by utilising their idle time through training. In particular, the HRDA helps employers to design and implement training programmes that meet their specialised needs and subsidises their eligible costs, including the wages of the participants for the duration of the training. The promotion of these in-house training programmes has been suitably adjusted to focus on the sectors of the economy which are mostly affected by the economic recession and where the possibility of employee lay-offs was imminent. Such sectors are Hotel and Catering, Retail Trade and Construction.	On going	€5.220.000 for 2011		44.350 persons in 2011.

*National Reform Programme of Cyprus EU2020
EMPLOYMENT AND SKILLS*

Schemes for the Enhancement of Women's and Youth Entrepreneurship (2 schemes)	Exploiting job creation possibilities Gender Equality	Ministry of Commerce, Industry and Tourism (MCIT)	The aim of the programmes is to develop, support and encourage the entrepreneurship of women between the ages of 18–55 and young people between the ages of 20-39 respectively, who wish to engage in the sectors of manufacturing and in specific activities in commerce, services and tourism.	2007-2013	For women: €5.000.000 For Youth: € 6.000.000 Co-financed by ESF (50%) and the Cyprus Government (50%)	All the necessary documents are sent to the Unit "Planning for Industrial development" for audit and payment.	
Company Incentive Scheme for the enhancement of employment (Introduced in response to the crisis)	Exploiting job creation	Cyprus Productivity Centre (CPC)	The scheme, introduced in response to the crisis, provides for subsidies to enterprises for the development and implementation of a specific business plan that will lead to the improvement of their competitive advantage and competitive ability, and through this improvement to the quantitative and/or qualitative enhancement of employment within the specific enterprise.	March 2010 – September 2011	€8.000.000 Co-financed by ESF (85%) and the Cyprus Government (15%)	Developed according to ESF rules, approved by the ESF Unit of the Min. of Labour & Social Insurance and described in the Scheme's Implementation Guidelines.	88 enterprises to be supported by the scheme
Scheme to facilitate the shift from low productivity jobs to high productivity jobs	Exploiting job creation (Productivity)	Cyprus Productivity Centre (CPC)	The scheme is part of the National Productivity Programme. It provides for subsidies to enterprises to develop, design and implement a business plan for improving their productivity by replacing low productivity with high productivity jobs.	May 2009 – December 2013	€3.000.000 Co-financed by ESF (85%) and the Cyprus Government (15%)	Developed according to ESF rules, approved by the ESF Unit of the Min. of Labour & Social Insurance and described in the Scheme's Implementation Guidelines.	Subsidisation of 42 projects

*National Reform Programme of Cyprus EU2020
EMPLOYMENT AND SKILLS*

Scheme for the improvement of the productivity of small and medium-size enterprises employing 5-249 persons.	Exploiting job creation	Human Resource Development Authority (HRDA)	This scheme, which is implemented by the HRDA and is co-financed by the ESF, involves the provision of consultancy services by competent consultants to small and medium-size enterprises employing 5-249 employees. The scheme aims at improving their productivity and strengthening their competitiveness, through the improvement of systems and practices they apply and fuller utilization of their resources.	2010-2012	€1.550.000 Co-financed by ESF (50%) and the Cyprus Government (50%)		250 SMEs
Scheme for the enhancement of the competitiveness of micro-enterprises employing 1-4 persons	Exploiting job creation	Human Resource Development Authority (HRDA)	The scheme, which is implemented by the HRDA and is co-financed by the ESF, involves the provision of specialised guidance and training to Microenterprises (MEs), employing 1-4 persons, and generally at strengthening their competitiveness. The scheme aims at improving the functioning and efficiency of the MEs through the systematic diagnosis by appropriate advisers/trainers of the weaknesses/problems they are facing and then through training/development and fuller utilization of their owner/director and staff.		€4.500.000 Co-financed by ESF (85%) and HRDA (15%) as national contribution		1.200 MEs
3. Improve the Education and Training Systems							
Accelerated initial training of newcomers and other unemployed people	Improve Training System	Human Resource Development Authority (HRDA)	Under this scheme, the HRDA organises accelerated initial training courses that are implemented by the CPC and the Higher Hotel Institute, which aim at giving theoretical and practical training in occupations which are currently in demand. These courses are offered free of charge to persons who want to embark on a career in such occupations. The participants on the programmes receive training allowance from the HRDA.		€1.000.000 for 2011		400 persons in 2011

National Reform Programme of Cyprus EU2020
EMPLOYMENT AND SKILLS

Employment and Social Integration of Persons from Vulnerable Groups	Improve Education and Training Systems	Social Welfare Services (SWS)	The SWS will implement a programme for improving the social skills of the Vulnerable. On the basis of their needs they may participate in specialised skill training and or educational programmes. Additionally they will be directed to the PES to be promoted for employment	February 2011 – September 2015	€2.000.000 Co-financed by ESF (70%) and the Cyprus Government (30%)	Ex-post evaluation by independent expert and internal on-going monitoring	1.300 people from vulnerable groups of the population
“e-Volve”	Improve Education and Training Systems	Cyprus Productivity Centre (CPC)	A training and consultancy scheme for companies and organisations designed to provide them with the necessary support in order to improve the level of their e-Learning, e-Government and e-Business skills.	September 2009 – December 2013	€1 mln Co-financed by ESF (85%) and the Cyprus Government (15%)	Developed according to ESF rules, approved by the ESF Unit of the Min. of Labour & Social Insurance and described in the Project Fiche.	1.500 individuals 1000 enterprises 125 training programmes 10 preparatory training programmes 8 specialised seminars in e-Commerce 24 seminars in 8 specialised e-business topics.
Survey on “Identification of the technical vocational training needs of Cypriot enterprises”	Improve education and training systems	Cyprus Productivity Center (CPC)	The survey aimed at investigating and identifying the training needs of Cypriot enterprises for technical vocational training.	November 2009 - November 2010	€32.200		
Survey on “The attractiveness of VET in Cyprus”	Improve education and training systems	Cyprus Productivity Center (CPC)	The aim of this survey, which was carried out among young students in their last compulsory school year, is to investigate the factors causing the low participation in VET in Cyprus, and to explore and test measures and policies that can correct this negative situation.	April 2009 - December 2010	€5.000		

National Reform Programme of Cyprus EU2020
EMPLOYMENT AND SKILLS

Study on the anticipation of green skills needs	Improve Education and Training Systems	Human Resource Development Authority (HRDA)	The study conducted in 2010 identifies the skills and provide employment forecasts for green jobs in the Cyprus economy for the period 2010-2013. The results will be used for the promotion of the acquisition of green knowledge and skills through a variety of targeted measures that are directed towards enterprises, employees and unemployed.	2010			
Long-term employment trends and forecasting in Cyprus	Improve Education and Training Systems	Human Resource Development Authority (HRDA)	The HRDA provides 10-year employment forecasts on a regular basis (every 2 to 3 years). The latest set of employment forecasts for Cyprus has been completed in 2010 and covers the period 2010-2020.	2010-2020			Forecasts for 46 sectors of economic activity and for around 200 occupations
Annual study for the identification of skill needs with the involvement of the social partners	Improve Education and Training Systems	Human Resource Development Authority (HRDA)	This annual study provides information of the imbalances (surplus or deficit) expected to appear during the next year for specific occupations. On the basis of these estimates suggestions are put forward for the implementation of Multicompany Initial Training Programmes. In the study, the views of Employers' organisations, Trade Unions, District Labour Offices of the Ministry of Labour and Social Insurance and the Cyprus Tourism Organisation are collected through a specially designed questionnaire and analysed.				

National Reform Programme of Cyprus EU2020
EMPLOYMENT AND SKILLS

Development of a Vocational Qualifications System (NQF)	Improve education and training systems	Human Resource Development Authority (HRDA)	The development of a Competence-Based System of Vocational Qualifications, which will constitute an integral part of a future NQF is a high priority objective for Cyprus. The system has been established and will be implemented in two phases. During the 1st phase in the period 2006-2009, 5 Standards of Vocational Qualifications at level 2 have been developed in the 3 economic sectors of Hotel and Restaurants, Construction and Retail trade for the occupations of waiter, cook, receptionist, construction mason and sales person. Opportunities for access are provided to employees only. During the 2nd phase, which covers the period 2007 – 2013 and is co-financed by the ESF, the development of 72 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.	2 nd phase 2007 - 2013	€1.330.000 for 2011		6.000 persons will benefit from the system in 2011.
Further support for the enhancement of training infrastructure of institutions and enterprises	Improve Education and Training Systems	Human Resource Development Authority (HRDA)	A new scheme entitled “Scheme for the support of Infrastructure and Systems for the Development of Human Resources” will replace the existing scheme. The new scheme aims to provide incentives for the development of centres providing services to enterprises and organisations, for the development of cooperation amongst enterprises, for the establishment of certified assessment centres, the development of training infrastructures and systems and the development of appropriate infrastructure and common technologies.		€400.000 for 2011		31 training institutions / enterprises will benefit from the scheme in 2011
Assessment and certification of training providers	Improve Education and Training Systems	Human Resource Development Authority (HRDA)	Introduction of a system for the assessment and certification of training providers including trainers, which is one of the strategic objectives of the HRDA. The project is expected to be completed in 5 stages over a period of thirty-six months.		€212.000 for 2011		

*National Reform Programme of Cyprus EU2020
EMPLOYMENT AND SKILLS*

Scheme for the promotion of innovation in training and development of the human resources	Improve Education and Training Systems	Human Resource Development Authority (HRDA)	The HRDA promotes a new scheme which aims to encourage enterprises and organisations to prepare and implement proposals that will include research and development of innovative ideas for the training and development of the human resources.		€500.000 for 2011		
New Modern Apprenticeship (NMA)	Improve Education and Training Systems	Cyprus Productivity Centre (CPC)	Establishment and operation of a NMA scheme, 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	August 2010 – December 2015	€19.335.595 Co-financed by ESF (85%) and Cyprus government (15%)	Developed according to ESF rules, approved by the ESF Unit of the Min. of Labour & Social Insurance and described in the Project Fiche	175 apprentices at the preparatory level 245 apprentices at the first year of the Core Apprenticeship 197 at the second year of the Core Apprenticeship 158 at the third year of the Core Apprenticeship
Subsidy scheme aiming to promote the employment and in company training of Apprenticeship System Students in companies of the private sector	Improve Education and Training Systems	Cyprus Productivity Centre (CPC)	The scheme was launched in July 2010 and is designed to improve the quality of in-company training by subsidising companies for part of the salary of the in-company trainer who is responsible for training the Apprentice. The subsidy also covers the social insurance contributions for the Apprentice.	Jul 2010 – Aug 2015	€4.500.000 Co-financed by ESF (85%) and the Cyprus Government (15%)	Developed according to ESF rules, approved by the ESF Unit of the Min. of Labour & Social Insurance and described in the Scheme's Implementation Guidelines.	Placement of 830 apprentices in approximately 500 employers

National Reform Programme of Cyprus EU2020
EMPLOYMENT AND SKILLS

<p>Restructuring the education system and modernising the content of education by modernising and upgrading the curriculum for all public schools (From Pre-Primary to Lower Secondary Education)</p>	<p>Improving Education and Training Systems</p>	<p>Ministry of Education and Culture</p>	<p>The new curriculum focuses on the development of new skills and key competences to improve openness and relevance of education and training systems</p>	<p>August 30th 2010 - September 2015</p>	<p>National Funds -Part of the teachers' training will be funded by ESF (2007-2013 programming period)</p>	<p>An evaluation Committee has been appointed by the Minister of Education</p>	<p>-Full implementation of the new measure to all public schools by September 2015. - 10.000 to be trained in the implementation of the new curriculum by 2013.</p>
<p>Designing, developing and implementing a new system of pre-service and in service training for educators and school leaders</p>	<p>Improving Education and Training Systems</p>	<p>Ministry of Education and Culture</p>	<p>To address the individual needs of educators at all levels and through of their entire career</p> <p>To enhance the managerial and leadership skills of school leaders</p>	<p>September 2009 - September 2015</p>	<p>-National Funds -Part of the teacher training is funded by ESF (2007-2013 programming period)</p>	<p>The Center for Educational Assessment and Evaluation is responsible for the assessment of the program after its three year implementation</p>	<p>Full implementation of the measure by 2015</p>

National Reform Programme of Cyprus EU2020
EMPLOYMENT AND SKILLS

<p>Measures facilitating the integration of students at risk in the school system</p>	<p>Improve Education and Training Systems</p>	<p>Ministry of Education and Culture</p>	<ul style="list-style-type: none"> - Establishing reception classes, offer support services and special induction programs for migrants, asylum seekers and refugees. - Identification of literacy problems through early diagnosis. - Creation of e-learning communities and enhancement of e-networks between teachers and students of small communities. - Extending Educational and Career Counseling Services to help students from diverse social background and with different learning abilities. - Upgrading vocational education through mechanisms of lifelong guidance and validation of acquired skills. - Expansion of the Zones of Educational Priority (ZEP). In the ZEP schools a series of extra support measures are implemented. - Establishment of a Committee of Direct Intervention to address the problem of violent and antisocial behavior in a holistic approach. 	<p><u>September 2009</u> The ZEPs were expended to 20 schools (8 kindergartens a, 8 elementary schools 4 gymnasiums)</p> <p><u>September 2010</u> An additional ZEP was established in the area of Lemesos.</p> <p><u>September 2012</u> The ZEPs will expand to cover also upper secondary education (Lyceum)</p>	<p>-National Funds -Part of the operational costs for the ZEP is financed by ESF (2007-2013 programming period).</p>	<p>15% of the total student population to be enrolled in an educational establishment that belongs to a ZEP.</p>
<p>Restructuring Secondary Technical and Vocational Education</p>	<p>Improve Education and Training Systems</p>	<p>Ministry of Education and Culture</p>	<p>Adoption of the labor force skills to labor demand restructuring.</p> <p>Increase attractiveness of TVE and match the specializations offered with the current needs of the labor market.</p>	<p>September 2008 - September 2011</p>	<p>National Funds The option of including the aforementioned action to the 2007-2013 EFS programming period is currently examined by MOEC.</p>	<p>-The establishment of Post Secondary Educational Institutions for Technical and Vocational Training.</p> <p>-The development of a new curriculum for Upper Secondary and Technical Vocational Education by 2015.</p>

4. Improve Attractiveness of Work/Gender Equality							
Health and safety at work	Improve attractiveness of work	Human Resource Development Authority (HRDA)	The HRDA supports financially a large number of training programmes which are delivered by training institutions and companies on the issue of health and safety at work. The HRDA also implements an accelerated training scheme for newly recruited people in the labour market in the construction, quarrying and port sectors on this issue.	On-going	€50.000 for 2011		500 persons in 2011
Reduce gender pay gap	Improve attractiveness of work (Gender equality)	Department of Labour Relations	Reducing gender pay gap through the promotion of a broad mix of measures which include specialised training programmes for inspectors, with the purpose of establishing an effective inspection mechanism for the enforcement of equal pay legislation, the establishment of a gender equality Certification Body, as well as measures for eliminating occupational and sectoral segregation, such as interventions in education issues, campaigns for raising awareness on equal pay, training programmes for trade unions and employer associations, and development of manuals, guides and codes of practice for managers and human resource professionals	2010 - 2015	€3.300.000 Co-financed by ESF (75%) and the Cyprus Government	The implementation of the measure will be done by the appointed Monitoring Unit	1.000 Inspections to Reduce Gender pay gap to 18pp by 2015

Implementation of the “Gender Equality Action Plan”	Improve attractiveness of work (Gender Equality)	Ministry of Justice and Order	The National Action Plan on Gender Equality it incorporates a holistic approach to gender equality addressing six priority areas, namely: employment, education, decision making, social rights, violence and gender stereotypes. Under the chapter of Employment it covers, among others issues like gender pay gap, reconciliation of family and working life, the enhancement of women’s entrepreneurship, as well as awareness raising programmes and activities in this field.	2007 - 2013	Measures which are listed above and are contributing in this direction, represent the contribution of the respective Ministries/ departments in the implementation of the Action Plan	An interim evaluation of the progress achieved so far in the implementation of the Action Plan has been assigned to an external consultant/evaluator	
5. Immigration Policies							
Implementation of the Immigration Strategy and the implementation of the Action Plan for the integration of third country nationals	Regulate legal immigration	Ministry of Interior	Based on the National Employment Strategy and the labour market needs in general, the Immigration Strategy aims to integrate legal immigrants into the society under conditions of increased social cohesion, to combat irregular immigration and illegal and undeclared employment, to provide international protection to people in need and at the same time combat the abuse of the national asylum system, to combat trafficking and to guarantee human rights and dignity for all members of society and fight racism and xenophobia. The Action Plan for the integration of third country nationals includes actions in a number of sectors such as education, vocational training, and learning of the Greek language, health, information and more.	2010 onwards	€8,5 mln annually. The measure is co-financed by the ESF		

10. FIGHTING POVERTY

National target:

Reduce the number of people at risk of poverty and social exclusion⁵ by 27.000 people or decrease the percentage of people at-risk-of-poverty and social exclusion from 22,4% to 19,3% by 2020.

Guideline 10: “Promoting social inclusion and combating poverty”

CURRENT SITUATION

The Cyprus Government is strongly committed to the promotion of social inclusion and the fight against poverty with targeted policies. The goal of Cyprus for the decade 2010-2020 is the promotion of social inclusion in particular through reducing the poverty rate, increasing employment and providing better standards of living for all citizens legally residing in the country.

In 2009, 176.000 people were at-risk-of poverty and social exclusion. 128.000 people were at-risk-of-poverty, 62.000 people were living in conditions of severe material deprivation and 26.000 people were living in households with very low work intensity⁶.

During the last 5 years, Cyprus has shown a steady at-risk-of-poverty rate. According to 2009 data, the at-risk-of-poverty rate for Cyprus was 16,2% compared to the EU27 of 16,5%. However, this rate has presented fluctuations during the past few years for certain groups of the population. In particular, the at-risk-of-poverty rate for people 65+ has decreased from 51% in 2005 to 48,6% in 2009, for children aged 0-17 it has increased from 11,5% in 2006 to 13,6% in 2008 and dropped to 12% in 2009, for single parent households with at least one child it has decreased from 34,4% in 2006 to 31,5% in 2008 but rose to 37,1% in 2009 whereas for households with 2 adults with 3 or more dependent children it has increased from 14,1% in 2005 to 19,7% in 2008 and 22,2% in 2009. Furthermore, women exhibit higher at-risk-of-poverty rate than men.

⁵ 2008: 174.000 persons, or 22,4% of the population, were at-risk-of-poverty and social exclusion.

⁶ It should be noted that the main indicator (at-risk-of-poverty and social exclusion) refers to the union of the 3 sub indicators (at-risk-of-poverty, people living in conditions of severe material deprivation and in low work intensity households). Thus, for the purposes of the main indicator a person who may be presented in the statistics in more than one sub-indicator is only counted once.

People living in severe material deprivation⁷ have decreased from 8,2% in 2008 to 7,9% in 2009, however, in the sub-indicator ‘arrears (mortgage or rent, utility bills or hire purchase)’ there has been an increase of 7,5% from 13,2% in 2008 to 20,7% in 2009. People living in households with very low work intensity⁸ decreased by 0,1% from 2008 to 2009. It must be noted that 6.736 (0,9%) people are at risk of poverty, deprived and jobless, whereas 12,1% are only at risk of poverty, 4,4% are only deprived and 1,4% are only jobless⁹.

Bottlenecks:

Before the financial crisis, when Cyprus was functioning in near full employment, conditions for achieving social cohesion were more favourable. However, low growth and the rise of unemployment rate in 2009 and 2010 to 5,3% and 6,2% respectively, necessitated the Government to follow a strict fiscal policy, and it put considerable pressure on public spending and social protection.

NATIONAL TARGETS

To achieve the national target of reducing the number of people at-risk-of-poverty and social exclusion by 27.000 people (or reducing the percentage of people at-risk-of-poverty and social exclusion to 19,3%), four sub-targets have been put in place:

- Decrease the at-risk-of-poverty rate after social transfers (2008: 16,2%, 128.000 people). It should be noted that in Cyprus there is a trend of high rates of house ownership (according to the Census 2001 data, 86,2%¹⁰ of the population reside in non-rented houses) and in parallel there is a trend for people to have savings, which significantly contribute to a higher standard of living and a more comfortable life.
- Decrease the number of people living in households with very low work intensity (WI≤0.20, 2008: 3,4%, 27.000 people), especially for those farthest from the labour market, by targeted actions to encourage active participation in the labour market.
- Decrease severe material deprivation (lacking 4/9 material deprivation items, 2008: 8,2%, 64.000 persons). Cyprus exhibits comparatively higher risk rates in three deprivation items – keeping the home adequately warm, ability to pay for one week’s annual holiday away from home and capacity to face unexpected financial expenses. Further investigation is needed, in

⁷ The collection "material deprivation" covers indicators relating to economic strain, durables, housing and environment of the dwelling. Severely materially deprived persons have living conditions severely constrained by a lack of resources, they experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone.

⁸ People living in households with very low work intensity are people aged 0-59 living in households where the adults work less than 20% of their total work potential during the past year.

⁹ Jobless refers to the low work intensity indicator.

¹⁰ 2001 Census.

order to find the reasons for high risk in the area of ‘keeping the home adequately warm’ as well as for the ‘ability to pay for one week’s annual holiday away’ deprivation items, given that Cyprus has a mild climate and is a tourist destination.

- **Poverty gap:** The aim of the Cyprus Republic is not only to decrease the at-risk-of-poverty rate but also to decrease poverty intensity and thus the depth of poverty. The relative median at-risk-of poverty-gap was reduced from 19,4% in 2005 to 16,6% in 2008.

KEY MEASURES TO REACH TARGET AND TACKLE BOTTLENECKS

Towards achieving the national target, Cyprus has identified the following target groups for prioritising its actions:

1. People aged 65+

Despite the decrease in the at-risk-of poverty rate for the age group 65+ in 2009, this group exhibits the highest at-risk-of poverty rate among all age groups.

- **Income support:** In order to minimise the effects of poverty among this age group, Cyprus will continue to provide income support to pensioners whose income is below the poverty line. This is a cash benefit scheme that was initiated in 2009 with a budget of €60 mln up to October 2010 and is addressed to pensioners’ households whose total annual income is below the poverty threshold. This measure replaces the special allowance given to pensioners whose pension is below a fixed amount. It must be noted that the household income taken into consideration for the provision of this benefit refers to the income of all individuals within the household deriving from: pensions from any source (within and outside Cyprus), existing special allowance granted to pensioners, employment or self-employment, rent income, interest, and dividends.

Another income support policy measure is the annual Easter allowance provided to pensioners whose income is not exceeding €13.000 per year.

- **Health and long-term care services:** Cyprus has a high rate of life expectancy and also a high rate of healthy life expectancy at birth but relatively low healthy life expectancy rate at age 65. This poses a challenge on future care service provision. Currently, social care is provided by the private sector and the community, i.e. NGOs or local authorities. Home care is also provided and supported by the State. Within 2011, it is expected that a consultation for reforming long-term social care provision will be promoted. This consultation will address service provision as well as means for financial support of its users (see reform of the public assistance legislation below) and the revision of the existing framework of quality standards for social care. Furthermore, one of our long-term priorities is to promote preventative and curative measures in order to safeguard an increase in the healthy life expectancy rate.

2. Children experiencing poverty and social exclusion

Tackling child poverty and social exclusion is a priority for Cyprus. It includes providing quality child care services to address the needs of the child and working families, measures to address intergenerational transmission of poverty as well as measures to promote high educational participation levels of children and young people (see chapter 5 “Education”). Within 2011, it is also expected that a consultation for supportive measures for lone parents will be initiated (see reform of the public assistance legislation below).

- **Child benefit:** This is a cash benefit scheme, implemented since 2002, covering all families with children residing in the Republic of Cyprus. The benefit is awarded according to the number of children (basic benefit) and the family’s annual income (supplementary benefit). The budget for 2010 was €180 mln.
- **Care services:** A new measure that is planned to be implemented in 2011 concerns the reimbursement of part of the cost of care services for children, older people and people with disabilities. The aim is twofold: to motivate economically inactive or unemployed women to enter the labour market and to minimise the burden of care cost for women who (re) enter the labour market. This measure will be co-financed by the ESF with a budget of €3 mln for the period 2011-2015.

Furthermore, the role of the local authorities is essential in this field. There is a close cooperation with local authorities with the aim of enhancing their legislative capacity to contribute even further in this field. A dialogue regarding the type of cooperation, financing etc. is planned to commence in 2011.

- **Education:** Conditions of poverty can lead to low education attainment and subsequently to lack of employment opportunities. Early identification of learning difficulties, promoting integration programmes for migrants as well as promoting programmes for vocational education are among the priorities (see Chapter 5 “Education”).

3. Working poor

Revision of Minimum Wage: The minimum monthly wage upon recruitment was revised on 1st April 2010 to €835 (compared to €791 in 2009), while the minimum monthly wage for employees who have completed a six month period of employment at the same employer, was revised to €887, compared to €835 in 2009. As a result of the significant revisions during the last few years, the minimum wage is currently estimated to have exceeded the target of 50% of the national median wage. This increase in minimum wages favours women who usually hold the working positions covered by the Order¹¹.

¹¹ The Ministerial Council Order specifically covers 9 working posts

Within the framework of the reform of the public assistance legislation (see reform of the public assistance legislation below) a consultation process will be initiated on the financial support of the working poor through a specific scheme.

4. Unemployed and inactive population (employable people)

Safeguarding equal opportunities to employment is the best guard against poverty and social exclusion. There is a direct correlation between employment and combating poverty. Within the scope of combating poverty, a key priority of the Cypriot Government is the provision of opportunities to people from disadvantaged backgrounds (such as with low educational or technical qualifications), through further training and lifelong learning programmes, to acquire the necessary skills to cope with the labour market needs. For people farthest from the labour market specialised services are planned to be reinforced (for more elaboration on labour market measures including training for the unemployed please refer to Chapter 9 “Employment and Skills”).

During 2010, a scheme for hiring disadvantaged individuals in the private sector and local authorities was initiated. The scheme encourages employers to recruit disadvantaged individuals by providing financial aid of 65% of the annual wage cost with a maximum amount of €13.000 per person per year for the first 12 months of employment. An additional allowance for transportation costs to and from the workplace is offered to employees. The target is the employment of 750 unemployed disadvantaged individuals. The project is co-financed by the ESF. The timeline of the scheme is 2010-2014 with a budget of €9 mln.

Special note should be given to a new project to be promoted in 2011 for enhancing the social skills of disadvantaged individuals in order to prepare them to enter further vocational training or find employment. Additionally, this project includes the promotion of a programme for financing local authorities or local authorities in cooperation with NGO for the implementation of Street Social Work addressing people who are farthest from the labour market and other societal institutions. The project is co-financed by the ESF with a budget of €2 mln for the period 2011-2015.

In addition, provision of care services are of equal importance and safeguarding affordable care services can be an incentive for inactive parents, especially women (see measure 2.2 above).

5. Vulnerable groups of the population experiencing poverty and social exclusion

- **Safeguarding a week’s holiday for vulnerable groups:** Towards this aim, schemes for providing holiday allowance to pensioners, people with low incomes, people with disabilities and public assistance recipients are being successfully implemented. The purpose of these allowances is to subsidise the cost for holidays for vulnerable groups of the population, mainly people with low income.
- **Ensuring proper housing for low incomers:** Loans and grants-in-aid for the construction, renovation or improvement of homes have been provided since 2007 through the Unified

Housing Scheme. The scheme targets large families, people with disabilities and people wishing to reside in specified areas i.e. small or distant communities, communities along the Green Line in Nicosia and communities along the Buffer Zone. Furthermore, Cyprus intends to investigate new methods for covering the cost of rent for vulnerable people (see reform of the public assistance legislation below).

- **Labour market integration of Persons with Disabilities:** The development of a system for the Assessment of Disability and Functioning is in progress. Through this new system, people with disabilities will pass a credible and reliable assessment in order to document the necessary interventions (including training and employment) for their social inclusion. The timeline for the development of this system is 2010-2013 with a budget of €6 mln. In parallel, a project has been initiated and is in progress for the establishment of an Organisation for the Vocational Training and Employment of People with Disabilities that will promote new training programmes combined with supported employment or social entrepreneurship programmes for persons with disabilities. The timeline for setting up this organisation is 2009-2012.

People with disabilities who fulfill certain objective criteria are entitled to be recruited in public organisations up to a quota of 10% of vacant posts through the new Law for the “Recruitment of People with Disabilities in the Wider Public Sector” which was approved in 2009.

Financial aid of 75% of the wage cost with a maximum amount of €15.000 per person per year is provided to employers who employ people with disabilities for the first 24 months of employment. Additionally, financial aid up to 25% of the eligible costs with a maximum amount of €5.000 per person, for adapting premises, adapting or acquiring equipment, or acquiring and validating software for use by workers with disabilities, where the beneficiary provides sheltered employment, the costs of constructing, installing or expanding the establishment concerned, and any costs of administration and transport which result directly from the employment of disabled workers. The target is the employment of 120 unemployed people with disabilities. The project is co-financed by the ESF. The implementation period of the scheme is 2009-2014 with a budget of €1 mln.

As regards people with mental health problems, the MERA programme was extended in 2010. This programme provides specialised vocational rehabilitation in order to facilitate their integration in the labour market as well as support to individuals while they are at work in order to safeguard their adjustment.

Within the reform of the public assistance legislation, people with disabilities are among the groups of the population that will be addressed (see the reform of public assistance legislation below).

- **“Social Card” benefits for disadvantaged groups of the population:** Benefits for holders of the “Social Card” which is issued to all persons aged 63 or over and to invalidity pensioners regardless of age, include free transport by bus in rural and urban areas, free

theatre tickets, reduced fares for cruises, reduced hotel fees and reductions for social events. Enlarging the scope of the benefits of the Social Card to include free access to museums and archaeological sites, reduced tickets for sport and other events, is under consideration.

- **Integration of Migrants:** Several actions are being promoted within the programming period 2008–2013 of the European Refugee Fund which ends on 30.6.2015 and targets the integration of beneficiaries of international protection (refugees and persons with subsidiary protection). More specifically, a number of actions are currently in progress or about to restart, covering all the main cities. These actions include Greek language programmes, orientation and vocational training programmes, as well as a programme for raising awareness and informing the public about the target group.

Furthermore, actions promoting the integration of third country nationals are co-financed by the European Integration Fund for Third Country Nationals and the Republic of Cyprus. These actions include among others, Greek language programmes for adults and children, multicultural camps, training seminars for public officials and research on migration issues. Future actions will include a public awareness campaign, publication of informational guides regarding Cyprus in various languages and programmes promoting third country nationals' awareness on traffic rules.

- **Income Support measures and other services for the most vulnerable groups of the population**
 - **Reform of the Public Assistance:** Through the years, the current system for public assistance provision has become so complex that it has led to disfunctionalities and distortions which dictate its reformation. We are currently under consultation for a framework which will better address the needs of vulnerable groups. The timeline of this reform is 2011-2012.
 - **Compensatory Measures for a VAT imposition on foodstuffs and medicines:** Due to the recent VAT imposition of 5% on foodstuffs and medicines (of previously zero rate) a new package of compensatory measures amounting to approximately €19,1 mln for 2011 was recently introduced, targeted at low income pensioners, low income working households and long-term unemployed households, people with disabilities and public assistance recipients.

11. HORIZONTAL AND METHODOLOGICAL ISSUES

The National Reform Programme (NRP) of Cyprus presents the structural reforms for growth and social cohesion under eight priority chapters, one for each flagship initiative of the Strategy EU2020 and one on macro- structural changes. The rationale for including the two additional chapters on Digital Society and on Competitiveness is their great significance to achieving the EU2020 overall goals in Cyprus and the fact that, all of these priorities are interconnected and they have all been identified in the Communication of 3rd March 2010 (COM (2010)/2020) as crucial for the achievement of smart, green growth without inequalities.

The NRP has been prepared in collaboration with all pertinent Ministries and in consultation with social partners and political parties. The Programme was also presented on the 4th of April 2011 by the Minister of Finance to the Parliamentary Committee on European Affairs, in the presence of the social partners, who expressed their satisfaction with the degree of their involvement in the preparation stage. They have also expressed the request to be equally involved in the implementation process as well, which the Government committed to continue. The main results from the public consultation are analysed below.

PUBLIC CONSULTATION

On the 8th of February 2011 a public consultation was held with all stakeholders (political actors, social partners and civil society), where the draft NRP was presented and the participants were asked to come forward with any comments and recommendations for potential new measures or priority areas for the final NRP. Some general comments raised were the following:

- Wage-setting has always been the result of collective agreements that always take into account the conditions in the economy. MS should be allowed to a certain degree to take into account their national specificities and different starting points.
- Concerted effort should be exerted towards ensuring conditions of perfect competition,
- Wages in the public sector should be contained whereas wages in the private sector raised.
- More emphasis should be put on the implementation of the National Health Insurance System and the reorganisation of hospitals.
- Incentives and possible exemptions should be given to companies for investment in research, with special emphasis on the use of solar energy, given the high potential of solar energy in Cyprus.
- In the tertiary education focus should be given to the improvement of technical education, and the development of a higher degree of technical and vocational education for the provision of upgraded professional and technical knowledge.

- **Digital society** should be promoted; e-government and digital society should be further promoted in education, whereas the integration of healthcare information systems is of great importance.
- A new energy and environmental policy and the reform of the public transportation system are vital to decrease the dependency of the Cypriot economy on imported oil and further promote RES.
- Suggestions were also made for the merger of the various competent authorities that are involved in environmental/energy policy and the formation of a central body for the efficient management of the energy issues.
- Recommendations concerning **employment and skills** include the promotion of a tertiary level technical and vocational education, the wider application of employee mobility in the public sector, more efficient inspections for the employment conditions of illegal immigrants, more incentives to businesses to develop friendlier working conditions for working parents and especially for working women, incentives to businesses for recruiting young graduates and for creating employment positions related to the green economy and renewable energy.
- Allocate more funds to the local authorities to promote care services for children and the elderly in communities.
- Flexicurity should not be interpreted as a deregulation of employment that undermines the role of collective agreements or as the application of certain forms of employment that reduce the labour cost for employers and increase the exploitation of employees.
- Social cohesion should be a key priority of the EU2020 strategy and not the outcome of achieving the macroeconomic goals of the strategy

All submitted contributions have also been posted on the web-side of the Planning Bureau.

MONITORING MECHANISMS

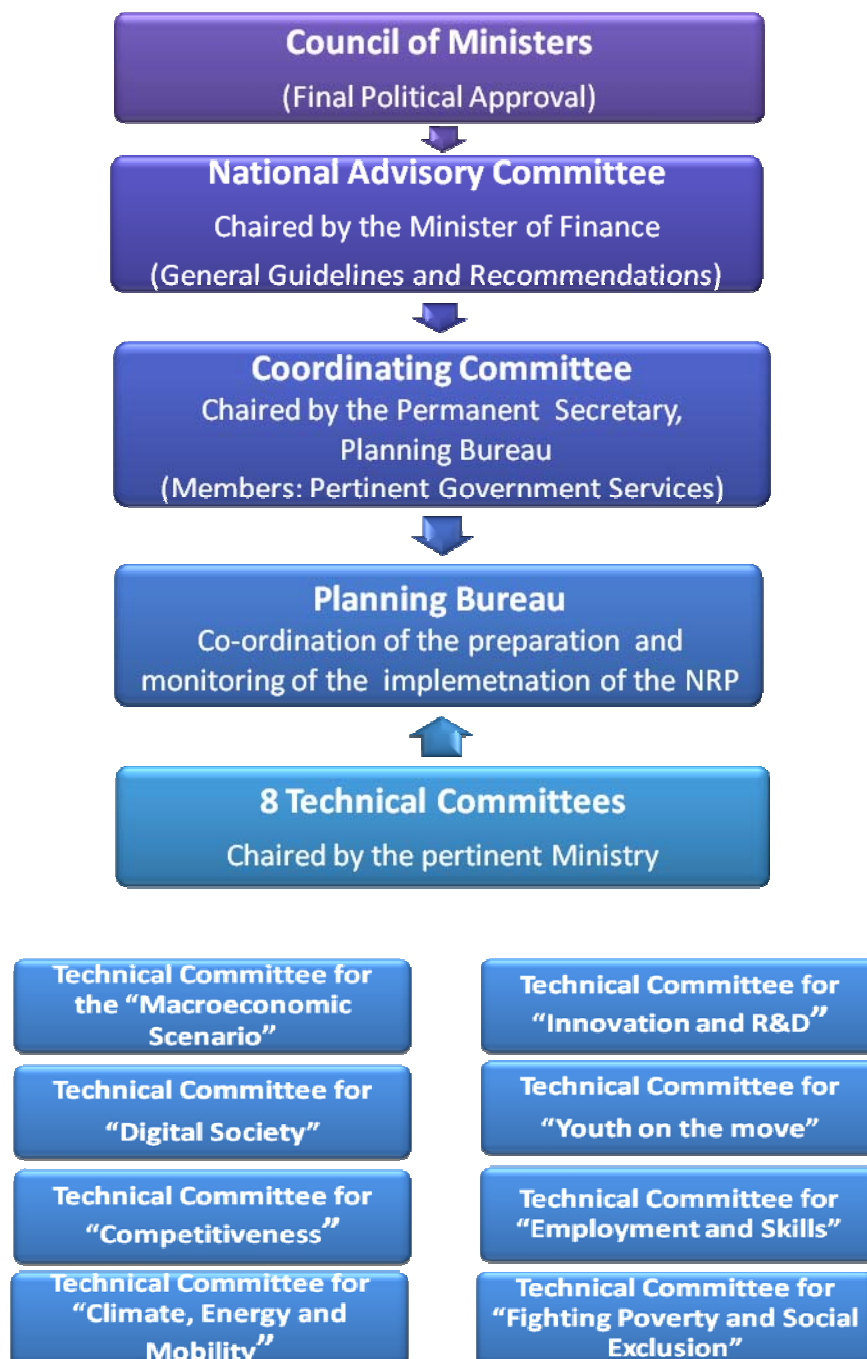
The monitoring structure has been set up with a view to better coordinate the preparation and implementation of the NRP for EU2020. In this structure all stakeholders are involved in order to maintain ownership and ensure the efficient implementation of the measures outlined in the Programme (see Figure 10 below).

There are eight **Technical Committees** responsible for every main chapter/priority of the NRP, coordinated by the Planning Bureau. The Ministry chairing the particular technical committee is responsible for the formulation and implementation of the policy, for coordinating all other services involved and holding discussions with social partners for the preparation of the specific policy chapter.

The **Coordinating Committee** is chaired by the Permanent Secretary of the Planning Bureau, in his capacity as National Coordinator at the technical level and is composed of the chairpersons of the Technical Committees whereas, representatives of the involved Ministries also participate. Its role is to advise the National Coordinator on the preparation and implementation of the NRP, to review progress and contribute towards preparing the reports/meetings with the EU.

Figure
10:

MONITORING MECHANISM FOR THE EU2020 STRATEGY



Co-ordination by the Planning Bureau: The Planning Bureau, operating under the Minister of Finance who is the political coordinator, has the overall co-ordination for the preparation and implementation of the NRP and of the contacts with the EU. It also monitors the on-going progress and coordinates the submission of reports to the EU, after appropriate political approval. It organizes public consultations with social partners on the overall priorities and progress, informs the Parliament and promotes publicity through the media, in order that the NRP will incorporate the proposals of social partners and ownership be enhanced.

For the more efficient monitoring of the implementation of the NRP, measurable indices are being prepared to allow for the better evaluation of progress. On the basis of the LAF methodology (Lisbon Assessment Framework), the Planning Bureau monitors progress through the analysis of several indicators.

Furthermore, better alignment of the NRP with the Stability and Convergence Programme is promoted for better coordination of the policies and more effective implementation of the reforms.

The **National Advisory Committee** is chaired by the Minister of Finance, as the Political National Coordinator and is comprised of representatives of employers associations, trade unions, NGO's representatives of local authorities and other organised groups as well as political parties. The members of the National Advisory Committee are informed by the Minister of Finance, about twice a year, on EU2020 Strategy issues and provide comments and recommendations with respect to the proposed policy and measures.

STRUCTURAL FUNDS AND EU2020 STRATEGY

The contribution of the EU funds towards achieving the aims of the Lisbon Strategy and of the EU2020 is considerable, given that about 60% of the funds allocated to Cyprus have been earmarked for the Strategy's priorities. Overall, the whole process of absorbing the EU funds within specific deadlines, contributes to the timely implementation of programmes promoting the EU2020 Agenda.

1. Cohesion Policy: Programming Period 2007-2013

The overall development strategy of Cyprus for the period 2007-2013 is incorporated in the Strategic Development Plan (SDP) 2007-2013, adopted by the Republic of Cyprus in 2007, which sets out medium-term strategic objectives, with analysis of priority actions and measures, both those that will be co-financed by European funds in the framework of the EU Cohesion Policy and other EU Policies and those that will be entirely financed by the national budget. The main objective of the SDP 2007-2013 is the sustainable economic development in a context of social cohesion. The National Strategic Reference Framework (NSRF) 2007-2013, which includes that part of the country's development strategy that will be co-financed by the EU Structural Funds (SF) and the Cohesion Fund during the period 2007-2013, contributes towards this way through its general strategic objective of "achieving real convergence with the EU through high rates of sustainable economic growth", which comes upon three separate but

interrelated specific strategic objectives, namely (i) enhancing competitiveness, (ii) achieving full and quality employment and embed social cohesion and (iii) promoting sustainable development.

The NSRF is co-financed with a sum of €612,4 mln from the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF) of EU, and it's being implemented through two Operational Programmes (OP), namely:

- OP “Sustainable Development and Competitiveness” (OP SDC), co-financed by the ERDF and the Cohesion Fund.
- OP “Employment, Human Capital and Social Cohesion” (OP EHSCS), co-financed by the ESF.

Moreover, for the objective “European Territorial Cooperation”, €28 mln have been allocated to Cyprus by ERDF for joint actions that will be co-financed at a trans-national level.

The NSRF for the Cohesion Policy 2007-2013 and consequently the Programmes mentioned above were formulated in order for their strategies and priorities to contribute to the maximum possible extent, to the objectives of the NRP 2005-2008 for the Lisbon Strategy. 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 corresponds to earmarked categories of intervention is estimated to around 60% for the period 2007-2013. More detailed analysis is presented in Table 4 below.

In the following sections, more information is given on the priorities and objectives of each Programme, their progress of implementation as well as their contribution to the objectives of the Lisbon Strategy through the earmarking process. Additionally, Table 5 below presents the coherence between the NRP 2011-2013 and the OPs implemented in Cyprus within the framework of the EU Cohesion Policy, through some indicative co-financed measures.

2. OP “Sustainable Development and Competitiveness, 2007-2013”

The Strategic Objective of the Programme is “the Improvement of the Competitiveness of the Economy within Conditions of Sustainable Development”. This Strategic Objective aims at addressing the development weaknesses, by exploiting the country's comparative advantages mainly in the areas of entrepreneurship, tourism, environment and transport and will be pursued through three interrelated General Objectives which are:

- Improving the attractiveness of the country, through the creation and upgrading of basic infrastructure.
- Promoting the knowledge society and innovation and improving the productive environment.
- Creating sustainable communities in urban and rural areas.

The strategic and general objectives of the Programme will be achieved through five Priority Axes, related to:

1. Basic Infrastructure in the Environment and Energy Sectors.

2. Basic Transport Infrastructure.
3. Knowledge Economy and Innovation.
4. Productive Environment.
5. Revitalisation of Urban and Rural Areas.

3. OP “Employment, Human Capital and Social Cohesion, 2007-2013”

The Strategic Objective of the Programme is the “Full and quality employment, development of human capital and the strengthening of social cohesion and equal opportunities conditions”. The Strategic Objective of the Programme aims at developing human capital and facing the structural weaknesses of the labour market, focusing on upgrading the skills of targeted population groups and promoting them in employment. This Strategic Objective will be pursued through two General Objectives which are:

- Improvement of Human Capital and Increase of the Adaptability of the Private and Public Sector.
- Attracting and Maintaining More People in the Labour Market and Reinforcement of Social Inclusion.

The strategic and general objectives of the Programme will be achieved through two Priority Axes, related to the:

1. Development of Human Capital and Adaptability.
2. Expansion of Labour Market and Social Cohesion.

4. Progress in the Implementation of the Operational Programmes

Since the beginning of the current programming period and by the end of March 2011, all necessary actions were taken in order to ensure the timely and smooth implementation of the OPs and the approval of projects with added value to achieve the targets and goals set in the OPs.

More specifically, the following actions were undertaken:

- (i) The OPs were fully activated with the publication of all scheduled calls for proposals. In total, 34 calls for proposals were issued for both OPs, in addition to the launching of 30 calls for proposals for Grant Schemes.
- (ii) By the end of March 2011, about 2.100 projects with a total budget (eligible public expenditure) of €783 mln have been approved, corresponding to 107% of the OPs total budget.
- (iii) The Managing Authority issued all necessary detailed guidelines to ensure the correctness of operations and sound financial management. All procedures have been computerised and the Management Information System is fully operational. Moreover, intensive training and workshops were organised by the Managing Authority to enhance the administrative

capacity of all involved Authorities and a help desk has been set up to support all authorities involved in the management of the OPs.

The projects already selected within the framework of the OPs contribute to a great extent to the priorities and objectives of the NRP. Below, the last column of Table 4 presents the funds already committed to projects under earmarked categories of expenditure. The total committed expenditure up to the end of March 2011 corresponds to 57,2% of the total community contribution of the OPs. More, specifically, the broader categories of earmarked codes are as follows:

Table 4: Earmarked Categories of Expenditure

Category	Community Contribution (€)	Contributing Operational Programme	Share of Category to total Community allocation (%)	Funds already committed (€)
Research and Technological Development, Innovation and Entrepreneurship	121.800.000	OP SDC	19,9	62 .996. 629
Information Society	15.300.000	OP SDC	2,5	16 .469. 460
Transport	51.109.484	OP SDC	8,3	137. 039. 144
Energy	5.950.000	OP SDC	1,0	5. 222. 561
Environmental Protection and Risk Prevention	45.870.000	OP SDC	7,5	34. 007. 389
Increasing the adaptability of workers and firms, enterprises and entrepreneurs	11.050.000	OP EHCSC	1,8	13. 391. 773
Improving access to employment and sustainability	21.258.419	OP EHCSC	3,4	18. 377. 952
Improving the social inclusion of less-favoured persons	13.670.000	OP EHCSC	2,2	9 .044. 643
Improving Human Capital	69.943.025	OP EHCSC / OP SDC	11,4	43. 659. 058
Investment in Social Infrastructure	9.670.000	OP SDC	1,6	10. 198. 768
Total Community financial allocation		612.434992	100%	
Total Community financial allocation to earmarked categories (Programming stage)		365.620.928	59,7%	
Projects approved		350.407.377	57,2%	

Notes:

- 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 for the EU2020 Strategy and in accordance with Article 9.3 of the said Regulation two further categories have been incorporated in the above categories, namely Code 75 – Educational Infrastructure and Code 50 - Rehabilitation of industrial sites and contaminated land.
- OP SDC: Operational Programme “Sustainable Development and Competitiveness”
- OP EHCSC: Operational Programme “Employment, Human Capital and Social Cohesion”

5. OPs / Structural Funds Contribution to NRP for EU2020

The OP “Sustainable Development and Competitiveness, 2007-2013”, as described in Section 2 above, mainly promotes the objectives of the EU2020 strategy that are included under:

- Guideline 4: Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy,
- Guideline 5: Improving Resource Efficiency and reducing greenhouse gases, and
- Guideline 6: Improving the business and consumer environment and modernising the industrial base.

The OP “Employment, Human Capital and Social Cohesion, 2007-2013”, as described in Section 3 above, mainly promotes the objectives of the EU2020 strategy that are included under:

- Guideline 7: Increasing labour market participation and reducing structural unemployment,
- Guideline 8: Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning,
- Guideline 9: Improving the performance of education and training systems at all levels and increasing participation in tertiary education, and
- Guideline 10: Promoting social inclusion and combating poverty.

Table 5 presents an indicative list of measures implemented within the context of the two OPs, which contribute to the achievement of the national targets set out at the NRP 2011-2013 as well as addressing bottlenecks.

Table 5: The Operational Programmes contribution to the NRP for EU2020

EU 2020	NRP 2011-2013	NSRF 2007-2013		
Integrated Guidelines	National Targets (NT)/ Priorities (NP)	Contributi on OP SDC	Contributi on OP EHCSC	Indicative Co-financed Measure/s
G 4 – Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy	NT – Increase R&D expenditures as a percentage of GDP to 0,50% by the year 2020	√		Innovation activities promoted by the Research Promotion Foundation (i.e. National Framework Programme 2008-2010)

National Reform Programme of Cyprus EU2020
HORIZONTAL AND METHODOLOGICAL ISSUES

<p>G 8 – Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning</p> <p>G 9 – Improving the performance of education and training systems at all levels and increasing participation in tertiary education</p>	<p>NT – Reduce the dropout rate to 10% by 2020 (from 11,9% in 2009) and increase the share of the population aged 30-34 having completed tertiary education to at least 46% by 2020 (from 44,7% in 2009)</p>	<p style="text-align: center;">√</p>	<p style="text-align: center;">√</p>	<p>Several co-financed projects are promoted, such as, the Programme against early school leaving, school failure and delinquency in Zones of Educational Priority (ZEP), Programme for Greek language teaching for migrants and other foreign language speaking residents of Cyprus, Modernization and upgrading of the Apprenticeship System, Enterprise Liaison Offices in Universities, E-learning curricula, Pre-Service Training Programme for Candidate Teachers of Secondary Education and On-going Training Programmes for Teachers, Upgrading the infrastructure of the public tertiary education.</p>
<p>G 4 – Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy</p>	<p>NPs:</p> <p>A. Driving Cyprus into a Digital Era</p> <p>B. Empowering Human Capital</p> <p>C. Promotion of Green Culture</p>	<p style="text-align: center;">√</p>		<p>Several e-Government measures (e.g. Revision of Information Systems Strategy, Setting up of a Help-Desk System, Development of a Central Government Data Warehouse, Development of a Government Secure Gateway, e-Filing in Companies Registration System) as well as measures aiming at upgrading the infrastructure of public tertiary education (i.e. e-University)</p>
<p>G 5 – Improving Resource Efficiency and reducing greenhouse gases</p>	<p>NTs:</p> <p>i. Achieve an increase of 14,3% (463 ktoe) in energy savings in the projected primary energy consumption of the year 2020.</p> <p>ii. Reduce greenhouse</p>	<p style="text-align: center;">√</p>		<p>Projects for the installation of photovoltaic systems or solar thermal systems for heating and cooling on public buildings</p>

National Reform Programme of Cyprus EU2020
HORIZONTAL AND METHODOLOGICAL ISSUES

	<p>gas emissions by 21% in the installations included in the Emissions Trading System (ETS) and by 5% for the sectors that are not included in the ETS, (transport, waste, agriculture) by 2020</p> <p>iii. Increase of the contribution of Renewable Energy Sources (RES) to 13% of the total energy consumption by the year 2020</p>			
<p>G 6 – Improving the business and consumer environment and modernising the industrial base</p>	<p>NTs:</p> <p>i. The promotion of Cyprus as an attractive regional centre for the provision of high value added services, including in the financial, legal, health and education sectors</p> <p>ii. Strengthening the competitiveness of the economy by “The acceleration of the national productivity improvement rate, so that the total labour productivity reaches the EU27 average”</p> <p>Reduction of the administrative burden on national legislation by 20% by 2012</p>	√	√	<p>Several measures co-financed by ERDF aim to support SMEs and enhance the productive environment in Cyprus, such as Grant Scheme for strengthening competitiveness of SMEs in the Manufacturing Sector, Grant Schemes for the enhancement of women and youth entrepreneurship, Enhancing competitiveness of the tourism sector (e.g. promotion of thematic tourism in urban areas – Agrotourism Scheme), Supporting SMEs access to finance through JEREMIE Initiative. A Scheme to facilitate the shift from low productivity jobs to high productivity jobs, is also promoted with the co-financing of ESF.</p>
<p>G 7 – Increasing labour market participation and reducing structural unemployment</p> <p>G 8 – Developing a</p>	<p>NT: 75% - 77% of the population aged 20–64 should be employed by 2020</p>	√	√	<p>Several ESF projects contribute to this purpose, through measures aiming at the enhancement of employment services and training structures, improving the link</p>

National Reform Programme of Cyprus EU2020
HORIZONTAL AND METHODOLOGICAL ISSUES

<p>skilled workforce responding to labour market needs, promoting job quality and lifelong learning</p>				<p>between education and employment, attracting people in the labour market through flexible forms of employment, training of unemployed, grant schemes for unemployed and other vulnerable groups of population, facilitating women to enter or re-enter the labor market etc. ERDF projects also work towards increasing job creation and competitiveness of enterprises, as well as supporting women and youth entrepreneurship.</p>
<p>G 10 – Promoting social inclusion and combating poverty</p>	<p>NT: Reduce the number of people at risk of poverty and social exclusion by 27.000 people or decrease the percentage of people at risk-of-poverty and social exclusion from 22,4% to 19,3% by 2020</p>		<p style="text-align: center;">√</p>	<p>Incentive schemes promoting the employment of unemployed people with disabilities, scheme providing incentives for the employment of vulnerable groups of population, like disadvantaged individuals, in the private sector and local authorities</p>