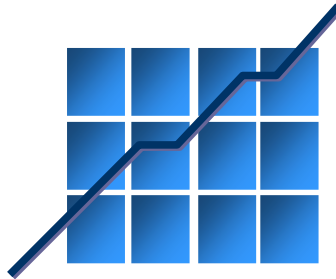




**NATIONAL REFORM PROGRAMME
OF CYPRUS
PROGRESS REPORT**



PLANNING BUREAU

OCTOBER 2007

**NATIONAL REFORM PROGRAMME OF CYPRUS
SECOND PROGRESS REPORT
OCTOBER 2007**

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SECOND PROGRESS REPORT
ON THE NATIONAL REFORM PROGRAMME OF CYPRUS (OCT. 2007)

I. EXECUTIVE SUMMARY

Following the evaluation of the first progress report of its National Reform Programme (NRP), by the European Commission, Cyprus has tried to concentrate in making progress in the implementation of its NRP, (taking due account of suggestions made by the Commission and the Council), in view also of the high costs of inaction or delay.

The continuation by the European Commission of last year's initiative to visit all member states and have an extensive exchange of views on the progress achieved in the implementation of the NRPs as well as to discuss issues concerning the evaluation of the first progress report and the preparation of the second one, has been helpful, and reflects the enhanced partnership between the European Commission and the member states.

With a view to linking the implementation of the Lisbon strategy, to the overall development effort of the country, the Government proceeded to the setting up as from 19 February 2007 of a dedicated unit at the Planning Bureau, (originally the responsibility for the co-ordination of the Lisbon Strategy, had been assigned to the Ministry of Finance), responsible for monitoring and promoting the implementation of the NRP and co-ordinating the work of the technical committees, which were set up for each challenge identified in the NRP¹. In this framework, an ad hoc technical committee was also set up, to develop indicators, with a view to assessing the progress achieved in the implementation of the NRP. It is noted, however, that many measures are in their initial phases and there will be a time lag in measuring and assessing their overall impact. Consequently, the results from their implementation will be evident over a longer term perspective. Moreover, according to the arrangements set up, progress reports are prepared, on a bi-annual basis, and submitted to the Council of Ministers.

In brief, over the period since the submission of NRP in October 2005, satisfactory progress has been achieved in the implementation of the NRP. Indicatively, 84 measures have been fully completed, for 129 measures there was satisfactory progress (roughly in line with the timetables set) for 38 measures there was some progress, whereas only for 3 measures there was no progress at all. All the above measures add up to 254, out of which 203 measures were included in the annexed tables to the NRP (submitted in October 2005) 20 measures were introduced in 2006 and 31 measures were introduced in 2007.

The progress made in relation to the country specific recommendations and points to watch is highlighted (in black) under the various challenges of this Executive Summary. A delay was observed with respect to the reform of the Social Insurance System, the introduction of a new performance appraisal system in the civil service, the construction of marinas as well as of certain infrastructural projects in the ports subsector.

The process in the implementation of the NRP is facilitated by the favourable macroeconomic environment. It is noted in this respect, that the Cypriot economy is growing at rates close to its production potential, under conditions of macroeconomic stability, despite the sharp rise in oil prices, whereas the fiscal targets set for 2006 were achieved and the targets for 2007 are within easy reach.

¹ The overall structure set up to promote the implementation of the NRP is presented in detail in Annex 11 of the progress report.

It is also noted, that following the evaluation of the first progress report of Cyprus by the European Commission and in the light of the 2006 Spring European Council's Conclusions, all relevant Ministries / Services were informed and requested to take additional actions in the areas identified by the European Commission as requiring more attention, i.e. the Commission's recommendations/points to watch, and the four priority areas agreed by the European Council in 2006 as requiring further action. (It should be mentioned in this context that the four priority areas, agreed by the 2006 European Council as requiring additional action to be implemented before the end of 2007, were already included as priorities in the Cypriot NRP, and they constitute a key part of the implementation efforts.) Concerning the 2007 Spring European Council, it focused its conclusions on the necessity of promoting measures that fall under areas that are of recognized importance by Cyprus, such as fiscal and economic policy geared towards growth and stability, enhancement of the internal market, and Europe's competitiveness, enhancement of innovation research and education, promotion of employment, as well as modernization and strengthening of the European social model, betterment of regulation and the promotion of an integrated policy of climate change and energy.

In brief, the progress achieved over the period under consideration can be considered as being satisfactory. More specifically:

Macroeconomic Challenges

Overall, there has been satisfactory progress, as evidenced by:

- A continuation of the fiscal consolidation with a further reduction of the fiscal deficit and the achievement of the fiscal targets set in the Convergence Programme. Fiscal consolidation has been the cornerstone of the Convergence Programmes and its effective implementation contributed to a positive decision by the European Council for the accession of Cyprus in the eurozone, as from January 1 2008.
- The introduction of a medium-term fiscal framework, as from 2007. The medium-term framework is expected to contribute positively towards the achievement of the medium-term fiscal targets, as well as to the redirection of public expenditure towards growth enhancing categories.
- **An intensification of the dialogue with the social partners, aiming at promoting parametric reforms of the Social Insurance System, in view of the urgent need for reforms. The social dialogue is expected to be completed by the end of 2007 and the measures under consideration to be implemented as from 1/1/2008.**
- **The implementation strategy of the National Health Insurance System in Cyprus was submitted to the Health Insurance Organisation (HIO), by its consultants, McKinsey & Co, in November 2006. The strategy contains all the activities that should be undertaken within a specific timetable to transit from the current system to the proposed new health care system. Measures have been taken, that will enable the National Health Insurance System to begin operations towards the end of 2008.**

Microeconomic Challenges

Promotion of the further Diversification of the Economy towards the Production of High Value Added Goods and Services – Strengthening the Competitive Advantages of its Production Base

The progress achieved in this area can also be considered as satisfactory, as evident from the following:

- A further expansion of the share of the services sectors to GDP (55.1% of GDP in 1980, 65.7% in 1990, 77.6% in 2006) and employment (45.8% in 1980, 57.2% in 1990, 71.0% in 2006).

- Indications for a further expansion of the activities of the international business sector, in a wide range of sectors, such as shipping, business services, trade, software development etc.
- A considerable increase of activity by the private sector, reflected in the implementation of relatively large projects in sectors, with a very favourable growth outlook, including the private education and the health sector. To this end, have contributed, the town planning incentives given by the Government, aiming at encouraging the creation of large, unified developments, of multi-purpose uses.
- The establishment and operation of the One Stop Shop as well as the setting up of the Cyprus Investment Promotion Agency (CIPA), at the Ministry of Commerce, Industry and Tourism.
- **The efforts undertaken to study SME's Access to Finance (venture capital – loan guarantee facility).**
- The implementation of the various actions aiming at upgrading and enriching the tourist product, included in the Strategic Development Plan for Tourism, the main exception being the delay in the construction of marinas.
- The implementation of the actions co-financed from the Structural Funds, and the EAGGF, targeting at enhancing the production base of disadvantaged areas, during 2004-2006. The preparation and the beginning of the implementation of the new Programmes to be co-financed by EU funds, during the period 2007-2013.

Promotion of R&D, Innovation and Facilitation of ICT Diffusion

There was satisfactory progress in this area, which is evident from the following:

- Increase of R&D expenditure as a percentage of GDP to 0.41% in 2005 from 0.37% in 2004, which is a positive sign towards the target set for increasing R&D expenditures to 1% of GDP in 2010.
- Structural Funds will finance the largest part of the RPF Framework Programme for Research, Technological Development and Innovation 2007-2010, whose budget is estimated at €60 mln.
- Both the Cyprus University of Technology and the Research Centre for Energy, Environment and Water commenced operations in September 2007 as planned, and three private colleges were upgraded into universities at the same time.
- The elaboration of a comprehensive Regional Innovation Strategy for Cyprus (RISC).
- Improvement in the usage of Information and Communication Technologies by both households and enterprises, in terms of internet access, broadband connection, and use of online public services.
- Completion of important eGovernment projects, such as the Government Portal, the upgrading of the social insurance system, and the first phase of the roll-out of the Office Automation System.
- Satisfactory implementation of the measures promoting eLearning, including the improvement of ICT infrastructures in schools, the training of teachers in basic IT skills and the use of multimedia in class, as well as the development of electronic content for the subjects taught.
- Improvement in the measures promoting eHealth, such as the introduction of the Integrated Health Care System in the general hospitals of Nicosia and Famagusta, and the development of the National Health Monitoring System.

Promotion of Reforms targeting at Enhancing Competition and Improving the Overall Business Climate

The following developments were observed:

- Over the recent past, the conditions of competition have changed in the utilities sectors (telecommunications and energy), by which there was until recently only one provider. In the

telecommunications sector there has been a significant increase of the share of other providers beyond the Cyprus Telecommunications Authority (CYTA) in the provision of communication services, whereas Cyprus enjoys some of the lowest prices for local and international fixed calls and mobile telephony among the EU25. Furthermore, a draft policy paper on promoting broadband competition and increasing broadband services penetration, is under preparation.

- In the energy sector, 35% of the electricity market was opened to competition, after Cyprus's accession to the EU. Despite the fact that until now, the Electricity Authority of Cyprus (EAC) is practically the only supplier, there is considerable interest by (private) suppliers, which are expected to enter the market by 2008. Additionally, the Framework for a Natural Gas Market has been regulated in line with the relevant E.U. Directive.
- The air transport sector was fully liberalised as from 1/5/2004, differentiating significantly the conditions of competition in the sector. The liberalisation has mainly affected the most popular routes, i.e. the routes to Greece and London, via an increase in the number of flights and a fall in fares.
- Furthermore there is a continuous enhancement of the administrative capacity of:
 - the Commission for the Protection of Competition (CPC),
 - the Office of the Commissioner for Electronic Communications and Postal Regulations (OCECPR) and
 - the Cyprus Energy Regulatory Authority (CERA).
- Three Citizen Service Centres (CSCs)/One Stop Shops were established.
- The procedures for filling posts in the public service, were simplified and accelerated.
- A specialized Unit for Better Regulation (BR) has been set up as from April 2007 within the Ministry of Finance, and it refers to a steering Committee. On July 25, 2007 the National Action Plan for BR was approved by the Council of Ministers and is currently under implementation.
- **A survey was carried out by the Commission for the Protection of Competition, concerning the state of competition in the various professional services. On the basis of this result and its own findings on the subject (Annex 7), the Planning Bureau (although it is of the opinion that the situation is actually better, compared to that depicted by the European Commission) it is preparing terms of reference for the recruitment of a consultant who will make suggestions for improving the existing situation.**

Expansion and Upgrading of Basic Infrastructures

Considerable progress has been achieved with regard to this challenge, as evidenced by:

- Completion of a number of important projects in the area of road transport.
- Implementation of a number of actions included in the Strategic Action Plan for Road Safety, which have been reflected in a considerable reduction in the number of road deaths by almost 15.7% in 2006 vis a vis 2005.
- The Council of Ministers approved a programme of action for the enhancement of public transport in Cyprus. The decision, set up a Steering Committee, appointed a project manager and called for the creation of a project management unit. The Cypriot authorities have prepared a pilot project (amounting to €45 mln) which has been included in the list of those that will be funded from the structural funds in the period 2007-2013. For the timely implementation of the project, the above mentioned project management unit, is gradually being established.
- Signing of the final Concession Agreement between the government and the HERMES AIRPORTS LTD, launching the redevelopment of the two airports in Cyprus, using the BOT method. The selected consortium took over the operation of the two existing airports as from May 2006, whereas the construction works for the redevelopment of the two airports started in June 2006.

Security of Energy Supply - Promotion of the Utilisation of Renewable Energy Sources and Energy Conservation

In the area of energy, taking into consideration the 2006 and the 2007 Spring European Council conclusions and the increased importance attached to energy issues, the following actions were taken:

- A more explicit and comprehensive energy strategy was elaborated.
- It was decided that “The security of energy supply and the promotion of energy saving and renewable energy sources” will constitute one of the main challenges of the NRP.
- Within the increased emphasis attached to energy issues, either existing measures have been or are in the process of being modified and enhanced or additional ones have been introduced so as to effectively tackle the challenges in the energy field.

Inter alia, due to the enhanced emphasis attached to the energy issues, the following positive developments did take place:

- There was a further increase in the level of security stocks to about 67 days of consumption.
- Launching of the process for the creation of an energy centre. The energy centre will be constructed via the PPP method and is expected to commence its operation by 2012. Until the completion of the onshore LNG terminal, the Government of Cyprus decided to investigate, as a bridging solution the possibility of the floating LNG unit/technology for a period of up to five years.
- An increasing interest in the utilisation of the various measures targeting at the promotion of RES and energy conservation. Noteworthy, is the hitherto approval of 7 applications for the generation of electricity using wind power (during 2007), which will be sufficient for covering 9% of the total electricity consumption in 2010.
- The setting up, in May 2006, of a “One-Stop Shop” for Renewable Energy Sources investments, with a view to facilitating investors in the area of renewables, via accelerating the whole procedure for the submission and evaluation of the applications and the securing of the necessary licenses and permits.
- A support scheme was introduced which aims to support with operating state aid the generation of electricity production from biomass and biogas from landfills.
- The preparation of a National Biomass Action Plan for Cyprus (to be completed until the beginning of 2008).
- New provision of incentives for the purchase of low CO₂ emissions vehicles.
- Increase of the subsidized capacity of Photovoltaic Systems from 5KW to 20KW.

Environmental Sustainability

Concerning this challenge, the following positive developments took place:

- Continuation of the expansion of the sewerage networks in all major municipalities according to the schedules set.
- Completion of the first phase of the landfill in the Paphos district and its operation as from June 2006, continuation of the process for implementing the 4 regional centers for solid waste, and restoration of the existing landfills according to schedule
- Successful operation of the system for the collection, transport, segregation, recovery and recycling of the packaging waste in the major municipalities, which started at October 2006.
- Implementation of the Environmental Technologies Road Map.
- Implementation of the Action Plan to promote Green Public Procurement, approved by the Council of Ministers in May 2006.

- Progress according to schedule regarding the implementation of the Coastal Area Management Programme.
- Implementation of the Strategic Plan for the Reduction of Greenhouse Gases Emissions which defines the national policies and measures which will limit or reduce greenhouse gas emissions with special emphasis on measures and incentives aiming at promoting investment in renewable energy technologies.
- The preparation of the 12 management plans for the Natura 2000 sites is underway, and the approval for the preparation of another 13 management plans is expected to be given by the end of the year.

Furthermore, the efforts have to be intensified, in the areas of wastewater treatment (particularly with regard to the sewerage networks in rural communities with a population exceeding 2000 inhabitants) and solid waste, so as to comply with the commitments taken vis a vis the EU. Compliance with the above commitments is associated with a significant budgetary cost. Use of the co-financing possibilities offered via the Cohesion Fund, will ease the pressure on the public finances.

Employment Challenges

Satisfactory progress has been achieved, as the following developments indicate:

- **Schemes to increase employability have developed, (including one for inactive women, one for young people and one for the unemployed), while a scheme was being implemented offering consultancy and training to micro-enterprises.**
- **A detailed paper for a comprehensive national lifelong learning strategy has been drafted in consultation with the social partners and the European Life Long Learning Programmes Management Foundation, was established.**
- **There have been significant developments in the tertiary education sector, concerning the University of Cyprus and the Open University, while the Technological University and three private universities have begun operation during this academic year, thus increasing both study opportunities and human capital development.**
- **The final draft of a study focusing on the organization of Secondary Technical and Vocational Education (STVE) was completed last August. External evaluations of both technical/vocational education programmes in general, and of the existing apprenticeship scheme in particular are in progress, with a view to improving curricula and other aspects of the systems.**
- **A detailed proposal on a “new modern apprenticeship” has been developed, in consultation with the social partners.**
- **Upgrading and evaluation of existing human resource development programmes have progressed, including policy decisions for their modification and enrichment.**
- **Improvements in ICT use in education, with special systems and special software, took place.**
- **Measures on care services, on balancing family with occupation, and on activation of older and younger persons progressed further, while a national action plan on gender equality was adopted, and a gender pay gap study was completed.**
- **The public employment services were enhanced and modernised, while the flexible jobs projects proceeded further.**
- **The strategy on foreign workers was agreed with the Social Partners while a series of acquis harmonisation laws were enacted.**
- **Various measures progressed in connection with vulnerable groups (including better targeted subsidies) and with access to housing, education and health, contributing to improved conditions for social inclusion.**
- **A strategic plan on educational reform issues, such as the quality of education, teacher training and assessment, and the curriculum up to the lyceum, has been**

prepared, and on the basis of a Council of Ministers decision, has been submitted in late September by the Minister of Education and Culture, within the context of the educational reform, to teacher organizations and other stakeholders, with a view to arrive in policy decisions, within the next few months.

Further, with a view to increase the effectiveness of the contribution of the Structural Funds to the achievement of the Lisbon objectives, besides strengthening the mechanism and procedures for the effective co-ordination between the NRP and the National Strategic Reference Framework, the Government of Cyprus, has taken a series of measures in order to enhance the administrative capacity of the bodies involved through additional placement of personnel and training. The efficiency of the implementation has also been enhanced through streamlining/simplification of procedures which have been reflected in the substantial increase of payments.

Lastly, the necessary budgetary provisions for the actions included in the microeconomic and employment section have been made in the budget for 2007 and the submitted, to the House of Representatives, budgetary proposal for 2008, thus securing the consistency with the overall fiscal consolidation programme as envisaged in the Convergence Programme of Cyprus. The net budgetary expenditure of the microeconomic and employment actions accounts for around 2% of GDP in 2007; this amount rises to around 2.7% of GDP in 2008 and 2009.

II. STATE OF PLAY OF GOVERNANCE AND OWNERSHIP

Cyprus supports the new governance cycle based on partnership and national ownership. Consultation and engagement of the national parliament, social partners, local authorities, and other stakeholders is being actively pursued for a real partnership and an enhanced national ownership of the reforms for growth and jobs.

In the case of Cyprus, the preparation and the implementation of the NRP has provided a much-needed platform for a constructive dialogue, with all stakeholders, on the broad reform agenda. (It should be noted in this context, that as from the 19th of February 2007, the Planning Bureau has undertaken the co-ordination of the Lisbon National Reform Programme).

Within this framework, the implementation mechanism which has been created, has ensured active participation and involvement of all stakeholders. More specifically:

- The National Advisory Committee which has been set up for the NRP with the participation of the social partners, political parties, local authorities, NGOs and organised groups of the private sector, is convened on a regular basis for an exchange of views on the NRP. The last meeting of this Committee has informed the social partners in detail on the progress achieved in the implementation of the NRP during the period under review and the contents of the new progress report to be submitted to the EU.
- There is a participation of the social partners, NGOs and organised groups of the private sector in the technical committees, set up for each challenge.
- Special sessions of the Parliamentary Committee on Economic and Budgetary Affairs on the NRP are being held on the Lisbon strategy, by which there is a broad exchange of views between the members of the Committee and the National Lisbon Co-ordinator, or the co-ordinator at the technocratic level and the chairpersons of the various technical committees of the NRP. The last briefing of this Committee has informed MPs about the progress achieved during the period under review and the contents of the new progress report to be submitted to the E.U.

Moreover, realising the importance of a broad communication of the need for reforms to all stakeholders and to the citizens, the Minister of Finance, in his capacity as the National Lisbon Co-ordinator, attaches due emphasis to the Lisbon strategy. The NRP constitutes, as reflected in many statements of the Minister, one of the two main pillars of the economic policy of the Government (the other being the Convergence Programme).

Furthermore, to increase the awareness of the broader public on the Lisbon issues, several actions have been taken such as:

- Delivery of speeches on the Lisbon strategy and the NRP by the Minister and the co-ordinator of the Lisbon strategy, at the technocratic level, at various fora (trade unions, employers' organisations etc.). The main message given is the need for an early promotion of reforms for effective tackling of the challenges faced, otherwise the cost of inaction or delay will be very high;
- Special programmes on the Lisbon Strategy in the media;
- Articles in the media on the Lisbon strategy and the NRP;
- Organisation of various seminars on specific issues with the participation of the social partners and the wider public, such as Flexicurity, Life Long Learning, Energy, Better Regulation. Moreover, a series of seminars on structural and other European Funds for the period 2007-2013 were organized by the Planning Bureau and the Cyprus Chamber of Commerce and Industry (CCCI) in all towns of the island. Finally many seminars took place and a lot of publications were issued about the euro (by the Central Bank, the Ministry of Finance, the CCCI and others).

It should be noted in this context, that Cyprus has utilized the experience gained from the governance cycle, based on partnership and national ownership also during the preparation of its New Strategic Development Plan 2007-2013 (of which Lisbon is an integral part), by organizing an extensive public dialogue in all cities of the island, and by inviting citizens to participate, as well.

III. MACROECONOMIC CHALLENGES

A. Macroeconomic Situation

The good performance of the economy of Cyprus during the last years, in spite of a challenging external environment, has resulted to the integration of Cyprus into the euro area from 1.1.2008. These achievements validate Cyprus Government economic policies during recent years, enabling Cyprus to meet all necessary preconditions for a successful accession to the eurozone.

Cyprus per capita income, in purchasing parity standards (PPS), is equivalent to 90.6% of the EU (25) average in 2007, rising from 85.6% in 2002. Real GDP growth reached 3.9% in 2005 and 3.8% in 2006 and is forecasted to remain at the same level in 2007, despite the escalating tendency of oil prices, with private consumption and the export of services being the main driving forces. However, the susceptibility of the economy to external shocks has been evident in the volatility of exports, which, in large part, are due to the impact from tourism.

Table 1. Key Macroeconomic Indicators

% annual change	1995-2004	2005	2006	2007 (proj.)
GDP	3.7	3.9	3.8	3.9
HCPI ²	2.8	2.6	2.3	2.0
Unemployment Rate	3.8	5.3	4.5	4.3
Employment Growth	1.8 (1996-2004)	3.0	2.7	1.5
Nominal Earnings	5.7	5.4	5.5	4.1
Productivity growth	1.6	1.7	1.5	2.4
Current Account Balance (as % of GDP)	-3.7 (1996-2004)	-5.6	-5.9	-6.1

Inflation, as measured by the Harmonised Consumer Price Index (HCPI), has remained relatively low, with HCPI expected to decline further, to 2% in 2007, from 2.6% in 2005 and 2.3% in 2006. HCPI core inflation (excluding volatile items) in 2007 is expected to remain subdued, at 2.2%.

Employment creation was robust, exhibiting a growth rate of above 2% per annum in most recent years. Labour market conditions remained tight, with the unemployment rate, based on the labour force survey, declining to 4.5% of the labour force, in 2006. The unemployment rate is expected to decline further to 4.3% in 2007. Labour shortages (e.g. in the sectors of hotels and restaurants, trade and construction and at the occupational level in technical and low skilled occupations) have been addressed, to a large extent, by an increased supply of foreign workers and Turkish Cypriots. It should be noted that the substantial increase of foreign employment in recent years does not appear to have, significantly, affected the unemployment rate among the unskilled domestic labour force.

Increases in nominal earnings are expected to decrease to 4.1% in 2007 compared to an averaged 5.7% over the decade 1995-2004 period, and falling to 5.5% in 2006 reflecting tight labour market conditions. With labour productivity growth being modest, unit labour costs expanded at an annual rate of 4% over the same period, adversely affecting competitiveness, in particular in labour intensive activities and inducing a reallocation of productive resources to less labour intensive activities i.e. services. However significant sectoral differences have been observed. The rapidly rising number of foreign and Turkish-Cypriot workers, has exerted a dampening effect on wages, which is reflected in the moderation of earning increases of 4.1% compared to 5.5% so far. The moderation trend is expected to become more pronounced in the coming years.

² Harmonised Consumer Price Index 1997-2004. For the year 1995 and 1996 data is not available.

The fiscal consolidation programme has been central to the successful efforts of the Government to bring about economic stabilisation. Indeed, fiscal consolidation has been the cornerstone of the Convergence Programmes and its effective implementation contributed to the positive decision of the European Council for the accession of Cyprus in the Eurozone, as from January 1 2008. The general government balance improved considerably over the period 2003-2006 which brought the deficit below the reference value in a sustainable and credible manner. The improvement of the general government balance is also reflected in the structural balance whereby, the structural deficit of 5% of GDP in 2003 was contained to approximately 1% in 2006. The improved outcome for the public finances is also reflected in the general government debt where its upward trend was reversed and put on a distinct downward path. The consolidation of the public finances is mainly due to the acceleration of GDP growth, particularly of the banking, international and property sectors impacting favourably on revenue performance and to the lower growth of government expenditure (Table 2).

Table 2. Selected Fiscal and Government Debt Indicators

In percent of GDP	2003	2004	2005	2006	2007 (est.)	2008 (proj.)	2009 (proj.)	2010 (proj.)
Government revenue	38.8	38.8	41.2	42.4	43.0	43.1	43.7	43.6
Government current expenditure	41.1	38.7	40.0	40.0	40.3	40.0	40.2	40.1
Interest payments	3.4	3.3	3.4	3.3	3.2	3.1	2.9	2.8
Government capital expenditure	4.0	4.2	3.6	3.9	3.7	3.6	3.6	3.6
Overall budget balance	-6.3	-4.1	-2.3	-1.5	-1.0	-0.5	-0.1	-0.1
Primary balance	-2.9	-0.8	1.1	1.7	2.2	2.6	2.8	2.7
Government debt	69.1	70.4	69.2	65.3	61.0	52.9	49.4	47.0

Furthermore, structural reforms in the goods and financial sector in the wake of the harmonisation process with the *acquis* as well as the radical tax reform, which led to lower tax rates, also supported the growth performance.

While the fiscal deficit has been reduced significantly, the current account deficit increased to 5.9% in 2006. Transitory as well as more structural reasons are behind the moderately high current account deficit. Rising oil prices have caused imports of oil-related products to be significantly higher. In addition, higher investment and related imports of capital goods and materials have raised the underlying current account deficit. While the transitory factors will dissipate in the medium term, the process of real convergence will tend to maintain the current account deficit at somewhat modest levels, which can however be financed by non-debt creating flows (net foreign direct investments in 2006 accounted for 4.7% of GDP), in particular if there is success in the efforts to boost productivity and enhance competitiveness. The current account deficit is expected to remain at around 6% of GDP in 2007.

Growth is expected to remain close to potential, of around 4%, in the next years amid buoyant private consumption and continued strong appetite for new homes among non-residents, the high investment of capital goods and materials, and the rapid credit expansion. The growth outlook remains subject to a number of risks however. Most important are the potential effects of higher oil prices, with Cyprus dependent on oil imports for its energy needs, the rate of growth in the rest of the EU, the primary market for Cypriot exports of goods and services and the deterioration of competitiveness due to the continued appreciation of euro against the most major currencies. Cyprus' economy is also relatively small and undiversified, which increases the risk of sector specific shocks. Tourism, which accounts for around 20% of GDP, is vulnerable to regional geopolitical events and increasing competition from cheaper Mediterranean destinations. Although tourism receipts recovered marginally in 2006, they remain considerably below their level prior to the events of September 11th 2001.

Over the longer term and following the adoption of the euro, the primary challenge will be to maintain economic competitiveness. The absence of national interest and exchange rate policies after euro adoption underscores the need for the strengthening of the role of sound macroeconomic policies for providing conditions of price stability. Key to addressing the competitiveness issue will be the implementation of structural reforms associated with EU's Lisbon Agenda.

B. State of Play / Overall Progress

The main macroeconomic challenges identified in the National Reform Programme of the Republic of Cyprus are the following:

- Fiscal consolidation and debt reduction;
- Improvement of fiscal management;
- Improve the quality of public finances via a redirection of public expenditure; Securing long-term sustainability of public finances;
- Ensuring that wage developments contribute to macroeconomic stability and growth (non-inflationary growth).

Overall, satisfactory progress in the key areas has been observed, as evidenced by the following.

1. Fiscal Consolidation and Debt Reduction

As already pointed out, via the implementation of a fiscal consolidation strategy, described in detail in the Convergence Programmes submitted to the European Commission, supported by satisfactory economic growth, the Government has managed to reduce the fiscal deficit from 6.3% of GDP in 2003 to 1.5% in 2006, in a sustainable and credible manner. Public debt as a percentage of GDP was put on a distinct downward path and fell from 69.1% of GDP in 2003 to 65.3% of GDP in 2006 and is anticipated to be reduced further to 61% by the end of 2007.

Cyprus is on track to exceed the fiscal targets set for 2007 and 2008. The favourable economic conditions have contributed to the acceleration of the fiscal consolidation process which is projected to be completed with the achievement of the national deficit medium-term objective, estimated at -0,5% of GDP, and the containment of the public debt below the reference value of 60% of GDP as from 2008.

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

- Control of government expenditure growth below the nominal growth of GDP, mainly through the introduction of ceilings on certain public expenditure categories, within a context of a medium term fiscal framework;
- Adoption of a restrictive policy on employment and wage increases in the broad public sector;
- Extension of the retirement age of civil servants from 60 to 63 years;
- Enhancement of public revenue performance, brought by broadening of the tax base via an improvement in tax efficiency and tax compliance;
- Improvement of the quality of public finances through the reallocation of expenditures in favour of growth-enhancing activities.

2. Fiscal Management

The envisaged improvement in fiscal management is pursued via the introduction of a medium-term budgetary framework (MTBF) for the central government. The introduction of a MTBF was approved by the Council of Ministers in May 2006. The first MTBF initially covered the period 2007-2009 and introduced, gradually, the implementation of a broad-based budgetary reform programme. The update

and extension for the period 2008-2010 will include specific expenditure ceilings for each Ministry, thus helping to safeguard the achievement of the medium term targets including the national medium term budgetary objective in line with the provision of the revised Stability and Growth Part (SGP). This new framework will enable the direct link of medium term targets and government priorities to the annual budgetary process.

3. Improve the Quality of Public Finances via a Redirection of Public Expenditure

The introduction of the MTBF does not aim only at the introduction of expenditure ceilings to each ministry, but it will also enable the authorities to reallocate expenditures in favour of growth-enhancing activities, in line with the priorities set in the National Reform Programme.

The budgetary process for 2008 required line ministries to provide forecasts on their expenditure needs for 2009 and 2010 as well. These forecasts were distinguished between current obligations and future needs. The additional available resources were allocated to the areas with high priority. The main areas that exhibit a marginal or no growth are agriculture, security and defence, transportation and public administration. In contrast to the above, as it can be seen by the breakdown of expenditure by function of the Budget for 2008, the sectors which are provided with high rates of growth in their allocations are education, research and technology and health, in line with the objective of redirecting public expenditure to growth-enhancing categories.

4. Securing Long-term Sustainability of Public Finances

The main pillars of the strategy, with a view to effectively secure the long-term sustainability of public finances are the following:

- Reduction of public debt as a percentage to GDP, via a continuation of the fiscal consolidation programme,
- Increasing labour supply, in particular among female and old aged persons, so as to raise potential output, through a number of measures presented in the employment challenges section of the progress report.
- Reforms in the pension and health care systems.

Policies to ensure long-term sustainability of the public finances take into consideration the projected sharp increase of pensions and healthcare expenditures, due to population ageing. As shown in an actuarial report, specifically undertaken by the Ministry of Labour and Social Insurance in July 2005, (analysed in last year's report) the debt-to-GDP ratio on a no policy change scenario, will exhibit an accelerated based trend peaking at approximately 280% (no reform scenario), whereas with the introduction of a set of reform measures in the social insurance system in two stages (1st wave of reforms scenario and 2nd wave of reforms scenario), in conjunction with the primary surpluses achieved through the consolidation of public finances, the debt-to-GDP ratio will record a further marked decline

4.1. Country Specific Recommendation - Reform of the Pension System:

Taking into serious consideration the EU recommendation, coupled with the results of the actuarial report above, the Government has intensified the dialogue with the social partners, aiming at introducing reforms in the social insurance system, which will secure its financial sustainability and at the same time, the adequacy of pensions. In April 2007, a written proposal of reform alternatives was submitted by the Ministry of Labour and Social Insurance to the social partners. The employers replied in June, whereas, the trade unions requested an extension until October 2007, to submit their views. The social dialogue is expected to be completed by the end of 2007 and the measures under consideration to be implemented as from 1/1/2008. The measures under consideration are presented in the section on the inventory of progress (Annex 1).

4.2. Country Specific Recommendation - Reform of the Health Care System:

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

On the 12/07/2007, the Council of Ministers following a decision in June 2006, on the approval of the principle of transforming government hospitals into autonomous bodies (legal person governed by public law), approved a set of guidelines to be incorporated in a draft bill currently under preparation. These guidelines concern issues such as the establishment of a legal entity to manage the government hospitals, other issues of a managerial nature, as well as human resource issues.

An implementation date whereby the transformation of public hospitals into autonomous establishments will be completed is difficult to be determined, as timing depends on political consensus.

As regards the implementation of the NHIS, a Strategic Plan has been prepared by the leading consultants, McKinsey & Company which was delivered to the Cyprus authorities on the 8th of November 2006. Based on this plan, which includes the master plan and a detailed map of the activities needed to implement the system, teams have been formed to work in the following areas:

- Family doctor concept
- Specialist doctors
- Pharmaceuticals
- Accident and Emergency Department
- Information Technology
- Finance & Global Budget
- Inpatient care
- Laboratory and Diagnostic Services

The National Health Insurance System is planned to begin operations towards the end of 2008. The first phase will include the provision of outpatients services and the second phase will include the provision of inpatients services. More details are given in the Inventory of Progress section. (Annex 1)

5. Ensuring that Wage Developments Contribute to Macroeconomic Stability and Growth

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

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

The authorities in Cyprus through the promotion of the structural reforms in labour and product markets within the context of the Lisbon Strategy, aim to enhance the functioning of the market mechanism, improving incentives and raising employability and upgrading the quality of human capital. In this framework, the wage bargaining system, while fully respecting the role of the social partners, is anticipated to lead to wage and cost developments that will be consistent with price stability.

IV. MICROECONOMIC CHALLENGES

1. Promotion of the further Diversification of the Economy towards the Production of High Value Added Goods and Services – Strengthening the Competitive Advantages of its Production Base

1.1. State of Play

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

In the period from the Turkish invasion in 1974 until the early 1990s increasing resources were channeled to the tourism sector. The hotels and restaurants sector's share to GDP rose throughout the 1980s (3.6% in 1980, 10.6% in 1990). During the 1990s and over the first five years of the new century, however, the sector exhibited fluctuations, and its share to production was contained to 7.1% of GDP in 2006, confirming its vulnerability to exogenous and imponderable factors. It is noted, that there is a dependency, to a certain extent of the economy on the broader sector of tourism, whose medium- and long-term prospects will depend, to a decisive extent, on the further success of the efforts for upgrading and enriching the tourist product.

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

The prospects in the sectors of business services, private tertiary education and health, financial services, shipping, trade and telecommunications seem particularly favorable, especially if production focuses on high quality services. Indeed, with the dynamism of these segments of the services' sectors, the share of private services value added, excluding restaurants and hotels, in GDP rose to nearly 50% in 2006 compared with under 48% in 2002.

In contrast to the increasing share of the services sectors, the agricultural sector's share to GDP has been declining (10% in 1980, 7.1% in 1990 and 3.1% in 2006). Particular restraining factors, constituted, the Turkish invasion and occupation of a significant percentage of its fertile land, the chronic scarcity of water for irrigation, as well as the small size of the agricultural units, hindering the utilisation of modern methods of production and the exploitation of economies of scale.

Another sector that exhibits a fall in its share to GDP since the early 1980s is that of manufacturing (18.2% in 1980, 14.7% in 1990, 8.5% in 2006), which is marked by problems of competitiveness, with the concentration of production on low value added activities, where quality, design, innovation and the level of specialization is low. A positive development in the sector, constitutes, the dynamism exhibited by certain sub-sectors such as pharmaceuticals, but also by manufacturing units in traditional sub-sectors, giving emphasis to the production of advanced technology and knowledge intensive products.

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

1.2. Overall Progress

There has been a continuous expansion of the share of the services sectors to GDP (55.1% of GDP in 1980, 65.7% in 1990, 77.6% in 2006) and to employment, (45.8% in 1980, 57.2% in 1990, 71.0% in 2006). Further positive developments are the indications for an expansion of the activities of the international business sector, in a wide range of sectors, such as shipping, business services, trade, software development etc. and the increased implementation of sizable projects in sectors with a growth potential, including the private education and the health sector. Indicative of the expansion of non-tourist private services, is the increase of their export share, from under 24% of GDP in 2000 to over 26% in 2005 and 2006.

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

Lastly, a further positive development constitutes, the satisfactory progress achieved in the implementation of the various actions included in the Strategic Development Plan for Tourism, the delay in the construction of marinas being an exception, as well as the implementation of the measures targeting at enhancing the competitiveness of the manufacturing sector and the production base of disadvantaged areas, according to the timetables set in the NRP.

1.3. Inventory of Progress

In the section that follows, the progress achieved until September 2007 will be presented, for each separate measure, as classified under each of the priorities identified in the NRP.

1.3.1. Further Promotion of the Restructuring and the Diversification of the Economy towards the Production of High Value Added Goods and Services

1.3.1.1. Expansion of the network of double tax treaties: During the period in question, negotiations with seven countries have started, as a result of which, 6 agreements were concluded, one agreement was signed and one has entered into force.

1.3.1.2. New Measure - Preparation of a study to promote high quality medical services in Cyprus: A study on how to make Cyprus a centre of providing high quality medical services, was conducted by a Committee chaired by the Planning Bureau, with the participation of various ministries and the social partners. Its recommendations were endorsed by the relevant Ministerial Committee. An Organogram of assigning responsibilities to the various Ministries, was also prepared. Actions included in the study, may be co-financed by the Structural Funds, in the Programming Period 2007-2013.

1.3.1.3. New Measure - Quality Assurance and Accreditation of Tertiary Education: In compliance with the Bergen standards and guidelines, specified in the context of Bologna Process for quality assurance in the European Higher Education Area, a proposal for the establishment of the Cyprus Quality Assurance and Accreditation Agency was approved by the Council of Ministers on 5.9.2007. The Agency is going to replace the existing separate evaluation and accreditation bodies by integrating their responsibilities into one sole body. The aim is to correct the weaknesses of the existing system (like duplication and contradictory decisions) while, at the same time, to extend the area of responsibility of the system so as to cover, in addition to private tertiary education institutions, the state ones, as well as to cover institutional and also internal evaluation and accreditation, in addition to programme quality assurance conducted by the present system. The Agency will also incorporate the functions that are currently performed by KYSATS – the Cyprus Council for the recognition of Higher Education Qualifications.

1.3.1.4. New Measure - Promoting Unified Developments for big and multipurpose uses: Town planning incentives are given by the Government, within the framework of a new town planning policy, aiming at encouraging the creation of large unified developments, of multi-purpose uses.

One company has already utilized these incentives and has proceeded with the development of an over one million square meters area in Yeroskipou, near Paphos, which includes two major strategic uses, one private University, and one private Hospital of international standards, as well as other cultural and environmental projects, sports facilities, parks and housing.

The cost of the project is estimated to be over £550 mln (€ 940.5 mln). It is estimated to present exchange rate profits of over £1 bln (€ 1.71 bln), in ten years, coming from various sources such as foreign students and patients. Furthermore, the project is estimated to contribute to an increase of the number of jobs by 8000, to an income increase by £175 mln (€ 299.2 mln) per year and to an increase of state and local authorities' income by £300 mln (€ 513 mln), during the construction period and £25 mln (€ 42.7 mln) per year after the completion of the project.

The project will provide permanent alternative activities and services, attracting alternative forms of tourism. It will also establish Cyprus as a Mediterranean Center of Services by attracting major companies.

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

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

Up to 10 October, 2904 companies have been registered in the One Stop Shop and 5383 names were approved. Also, the recruitment of the first employee takes place within the One Stop Shop and is an easy, quick and simple process. In addition, assistance is provided to the interested employers, for finding personnel through the system for recruitment of unemployed people.

1.3.1.6. Setting up of the Cyprus Investment Promotion Agency (CIPA): The Council of Ministers has decided for the establishment of the Cyprus Investment Promotion Agency (CIPA), adopting a more effective institutional framework for investment promotion. CIPA is already registered to the Registrar of Companies as a limited company by guarantee, with only shareholder the State. The Minister of Commerce, Industry and Tourism has already appointed the Board of Directors which has met a number of times. The Board has appointed the Secretary of the Agency and it has proceeded with the procedure for the appointment of the General Manager, the Operations Manager and the Office Administrator of the CIPA.

The main objectives of CIPA are:

- To play a vital role in attracting foreign direct investment in Cyprus, from the currently low level.
- To constitute itself as a central agency for the provision of information and support to interested investors.

- To develop and implement an investment promotion strategy.
- To liaise with any governmental, semi-governmental, municipal, local or other departments, services, agencies and authorities with a view to facilitate the process for granting any necessary permits, approvals, consents or other authorization, as may be required under any applicable law.

CIPA will fulfill a policy advocacy role by placing special focus on the Government's strategic priorities and in such other fields which may be deemed essential for the upgrading and enrichment of the productive fabric's competitiveness. Its institutional framework and operational structure will enable the Government to adopt flexible procedures and methodologies in order to effectively respond to the rapidly changing demands and challenges.

1.3.1.7. The Productivity and the Competitiveness Councils, are in operation, with the participation of social partners.

1.3.2. Upgrading and Enriching the Tourist Product

The new Strategic Development Plan for Tourism (2003-2010) aims at promoting the sustainable development of tourism and increasing significantly the receipts from tourism, via enriching the tourist product and addressing the problem of seasonality. The Plan focuses on marketing product development and quality-value added, with comprehensive actions in each area. It should be noted in this context, that beyond its qualitative goals, the Plan has also set quantitative targets as to the total receipts from tourism (which in 2006 have shown an increase of 2.3% (from £1.014 mln (€ 1.733 mln) in 2005 to £1.037 mln (€ 1.773 mln) in 2006)), the number of tourist arrivals and their yearly distribution, and the average spending per tourist (which has also exhibited in the year 2006, an increase of 5.1% in nominal terms and 2.5% in real terms as compared to 2005). The Tourism Development Strategy is at present being revised. Its priorities are being reexamined and the reviewed plan is expected to be finalized before the end of 2007.

The inventory of progress of the actions aiming at upgrading and enriching the tourist product is presented in Annex 2. Actions for the enrichment of the tourist product and the enhancement of competitiveness of the tourist sector, may be co-financed by the Structural Funds, in the Programming Period 2007-2013.

1.3.3. Enhancement of the Competitiveness of the Manufacturing Sector

1.3.3.1. Point to Watch New Measure – SME's Access to Finance (venture capital – loan guarantee facility): The use of venture capital in Cyprus, is still rather limited, whilst the Loan Guarantee Scheme, (operating since 2002), had attracted very limited interest, due to strict conditions to obtain a loan and was terminated on 31.01.07 by a Council of Ministers decision.

At present, a study is conducted by JEREMIE making a financing gap analysis and proposing the proper financing instruments for SMEs in Cyprus. A draft version has recently been submitted and the final study is expected to be completed by the end of December.

Based on the conclusions of this study, the government will proceed accordingly. It seems from the draft conclusions of the study, that the government will be encouraged to proceed with the setting up of a Loan Guarantee Facility, and to also examine further other financing instruments, such as venture capital. Such schemes may be financed from the Structural Funds, in the New Programming Period 2007-2013.

1.3.3.2. Provision of grants for the technological upgrading of SMEs (ongoing measure): The total grant allocated in 2005 amounted to £3 mln (€ 5.13 mln), whereas in 2006, the amount was increased to £4 mln (€ 6.14 mln). The scheme was terminated at the end of 2006.

1.3.3.3. New Measure - Introduction of a New Scheme for improving SMEs competitiveness of the manufacturing sector: The new Scheme for the enhancement of SMEs competitiveness in the manufacturing sector has been launched on the 6th of August 2007 and the first announcement will close on the 30th of November 2007. The purpose of the scheme is the support, reinforcement and promotion of the SMEs in the manufacturing sector.

More specifically the purposes of the scheme are:

- the improvement of the productivity of the existing manufacturing units
- the creation of new manufacturing units for the production of high value products
- the creation of new work positions
- the promotion of a balanced geographical development.

The budget is €11 mln for the 2007 announcement, and the total budget for the period 2007-2013 is €22 mln. The New Scheme, will cover the Programming Period 2007-2013 and will be co-financed by the Structural Funds.

1.3.3.4. Grants for relocation of Small Enterprises to authorized areas: This ongoing scheme (implemented as from 2002) aiming to motivate existing small enterprises to move from residential areas to authorized areas, has achieved the above objective and has ended in December 2006. Approved companies were allowed to submit all the necessary certificates, up to June 2007.

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

1.3.4. Enhancement of the Production Base of Disadvantaged Areas

1.3.4.1. Implementation of the measures co-financed by the Structural Funds in the Programming period 2004-2006

The Objective 2 Programme, that is co-financed by the European Regional Development Fund in Cyprus for the period 2004-2006, includes a number of actions aiming at the enhancement of the production base of rural areas. More specifically:

(i) Strengthening of the Economy of Rural Areas: The aim of this measure is the diversification of the economy in rural areas through support of the productive sector. The measure consists of two grant schemes to small and medium sized enterprises in the areas of rural tourism and manufacturing. The total budget for the two grant schemes is £14.85 mln (€ 25.39 mln) out of which £6.65 mln (€11.37 mln) is the co-financing from the European Regional Development Fund. Overall, with the implementation of the two schemes, the gross effect on employment will be 384 positions and the private financing to be used is estimated at £32 mln (€ 54.72 mln).

The scheme for promoting agrotourism is presented in Annex 2. The scheme in the Manufacturing Sector is presented below:

Grants for the expansion modernization/creation of viable business units in rural areas (Objective 2 areas of the Structural Funds) in the manufacturing sector: The scheme was announced in June 2005. 143 enterprises were approved, with a total grant amount of £9.0 mln (€ 15.39 mln) (50% of the budget is co financed by the Structural Funds). Up to August 2007, an amount of £4.198 mln (€ 7.178 mln) have been paid. Payments of grants will take place until 2008.

The scheme aims to support, develop and promote the manufacturing sector through grants for the expansion and modernization of existing or creation of new viable enterprises, which are located in specific rural areas.

(ii) Business Support Infrastructure: The aim of this measure is the promotion of the business support infrastructure, which will facilitate the diversification of the economic base in the rural areas. More specifically, the grant scheme for the promotion of rural tourism needs to be supported by related and complementary activities such as cycling routes, thematic routes, etc. The total budget of this measure is £4.1 mln (€ 7.011 mln), out of which £2.05 mln (€ 3.505 mln) is the co-financing by the European Regional Development Fund.

Five projects were approved, with a total budget of £3.8 mln (€ 6.498 mln). The projects that were approved and are now under implementation are:

- a cycling network for the rural areas,
- thematic wine routes,
- two local museums one of wine and one for koumandaria wine (they are currently in the phase of construction and are expected to finish in 2008).
- a marketing plan, supporting private and public investments in the objective 2 areas.

All projects are currently under implementation (more details on three of them can be found in Annex 2) and are expected to be completed between February and September 2008.

1.3.4.2. Measures that may be co-financed from the Structural Funds of the Programming Period 2007-2013 (Operational Programme on Sustainable Development and Competitiveness)

In the Programming Period 2007-2013, the enhancement of the production base, is one of the objectives of the Operational Programme «Sustainable Development and Competitiveness», to be co-financed by the Structural Funds, (Details in Chapter VI).

1.3.4.3. Implementation of measures included in the Rural Development Plan (RDP), Co-Financed by EAGGF

The overall aim of the RDP 2004-2006 is to promote the sustainable development of rural areas. More specifically, the following strategic goals have been set:

- Improvement of the competitiveness of the agricultural sector, via also an encouragement of the processing and marketing of agricultural products;
- Strengthening the socio-economic conditions of rural areas;
- Protection of the rural environment and sustainable management of natural resources;
- Restructuring of rural development policy and enhancement of implementation capacity

The Rural Development Plan includes, inter alia, the following measures, which will contribute positively towards enhancing the production base of rural areas.

Measure 1: Encouragement of small processing units of agricultural products by farmers: The measure aims at maintaining the traditional character of rural communities, through the creation of alternative and additional income for the rural families, the promotion of diversification of activities, and the provision of grants to small scale processing units of agricultural products by farmers. The scheme was introduced in June 2004. The total budget of this measure is £1.113 mln (€ 1.903 mln), out of which 50% will be co-financed from the EAGGF. According to the latest monitoring data 79 applications are expected to be approved which correspond to £ 1.818 mln (€ 3.108 mln). For that reason EU accepted the request for granting additional state aid (£700.000) (€ 1.117 mln). Payments of grants will take place until 2008.

Measure 2: Encouragement of the processing and marketing of agricultural products: Support is given to activities aiming at improving or rationalizing the processing procedures of marketing channels of agricultural products. The scheme was introduced in June 2004. The total budget of this

measure is £9.2 mln (€ 15.732 mln), out of which 50% will be co-financed from the EAGGF. It is estimated that 170 applications for support will be approved and financed under this measure. EU approved the request for granting additional state aid in order to support more applications. Payments of grants will take place until 2008.

The scheme was also introduced in July 2005 with a total budget of £3.0 mln (€ 5.13 mln). 22 enterprises were approved with a total grant amount of £3.0 mln (€ 5.13 mln). Payments of grants will take place until 2008.

Measure 3: Encouragement and support of small scale traditional handicraft activities: The measure aims at promoting small-scale handicraft and craftsmanship activities, in order to create alternative and additional employment opportunities for the members of the rural family and to revive the tradition of the countryside. The scheme was introduced in June 2004. The total budget of this measure is £2.065 mln (€ 3.531 mln), out of which 50% will be co-financed from EAGGF. It is expected that 39 applications for support will be financed under this scheme. Payments of grants will take place until 2008.

1.3.4.4. Preparation and Implementation of the Rural Development Programme 2007-2013, cofinanced by EAFRD

Cypriot authorities have prepared a new Rural Development Programme for the new programming period 2007-2013. The following three strategic goals have been set:

- Improvement of the competitiveness of the agriculture and forestry sector
- Improvement of the environment and the countryside
- Improvement of the quality of life in rural areas and encouraging diversification of the rural economy.

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

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

New Measure - Encouragement of the processing and marketing of agricultural products: The new Rural Development Programme 2007-2013 includes a measure for the encouragement of the processing and marketing of agricultural products. Support is given to activities aiming at improving or rationalizing the processing procedures of marketing channels of agricultural products. This measure also covers grants to small scale processing units of agricultural products in order to maintain the traditional character of rural communities. The total budget of the measure is around £24 mln (€ 41.04 mln), out of which 50% will be co-financed from EAFRD.

New Measure - Encouragement of tourist activities: The measure covers the creation of supporting infrastructures for rural tourism (e.g. thematic routes, information centres for tourism and culture, thematic museums) and supporting infrastructure of tourist interventions in the communities. The total budget of the measure is around £5.3 mln (€ 9.063 mln), out of which 50% will be co-financed from EAFRD.

New Measure - Conservation and upgrading of the Rural Heritage: This measure covers the regeneration and upgrading of infrastructures in the communities (e.g. squares, pedestrian zones), the development of local/social services centres (e.g. children and elderly centres, libraries) and the protection and promotion of traditional elements of the rural heritage (e.g. bridges, mills, fountains). The total budget of the measure is around £23.3 mln (€ 39.843 mln), out of which 50% will be co-financed from EAFRD.

2. Promotion of R&D, Innovation and Facilitation of ICT Diffusion

2.1. Increase and Improve Investment in R&D, in particular by Private Business

2.1.1. State of Play / Progress

The increasing trend observed in the period 2001-2004 in the sector of Research was also the case in the year 2005. R&D expenditure as a percentage of GDP increased to 0.41% in 2005 from 0.37% in 2004 and 0.35% in 2003, which is a positive sign towards the target set by the Government of Cyprus in the March 2006 European Council for increasing R&D to 1% of GDP in 2010.

Although this figure is among the lowest in the EU-25, Cyprus has on average one of the highest annual growth rates of R&D expenditure in the 5-year-period 2001-2005, which reaches 18%. Hence, it is evident that the low percentage of R&D expenditure to GDP is due to the high growth rate of Cyprus' GDP, which fluctuates around 4% in real terms.

Progress was also observed in the number of full-time researchers, which was increased to 1.157 in 2005 from 1.017 in 2004, that is an annual increase of 11%. On the other hand, the contribution of industry to R&D expenditure was only 17% in 2005 compared to 19% in 2004, which is well below the target set in Barcelona 2002 (two-thirds of R&D expenditure should be privately funded). Nevertheless, due to various measure taken (outlined below), the percentage contribution of the industry to R&D expenditure, is expected to increase, in the coming years.

Concerning the implementation of the actions included in the NRP with a view to promoting R&D, over the period October 2006-September 2007, there was satisfactory progress in all priorities and targets set. Specifically, it is noted that:

- Cyprus is on track of the ambitious target set for increasing R&D expenditure to 1% of GDP by 2010, as shown from the 18% average annual growth of R&D expenditure. It is expected that this growth rate will be higher in the forthcoming years, as the Government of the Republic of Cyprus approved a substantial increase in the funds allocated via the Framework Programme of the Research Promotion Foundation (RPF) for the year 2006 (£10 mln) (€ 17.1 mln) as well as for the new Framework Programme 2007-2010 (£60 mln) (€ 102.6 mln). An indication giving support to our expectations is given in the table below.

	2004	2005	2006
Number of Proposals	354	464	661
Number of Projects Financed	146	194	206
Total Amount of Financing (£ mln)	3.6	3.9	6.6
Total Amount of Financing (€ mln)	6.1	6.6	11.2

- It is foreseen that Structural Funds will finance the largest part of the RPF Framework Programme for Research, Technological Development and Innovation 2007-2010, which it is expected to be launched in the last quarter of 2007.
- An important contribution to the target set, is also expected through fund raising from the EU 7th Framework Programme for Research and Technological Development 2007-2013 (FP7), based on the success of Cypriot researchers in the previous two EU Framework Programmes, where the funds absorbed were €20m in FP5 and €27m in FP6.
- The establishment of the new research and academic institutions is progressed as planned. The Cyprus Institute for Environment and Public Health, which was established in 2005, is currently managing over 15 on-going research projects, and has already risen over US\$1.5mln in sponsored research. The Cyprus Institute has operated its first research centre in September 2007 as planned, whilst its second research centre, with focus on the field of Science and

Research in Archaeology, is expected to commence operations in the academic year 2008-2009, in the Paphos District. The Cyprus University of Technology has also commenced operations in September 2007 as planned, whilst in September 2007, three private colleges were upgraded into Universities.

- Despite the low contribution of industry to R&D expenditures in the period 2003-2005, which was only 18% on average, in 2006, an increasing interest was observed to the three RPF Programmes related to enterprises' participation in R&D activities. Specifically, 42 projects were financed in 2006 with a budget of £3.3 mln (€5.643 mln) compared with 34 projects with a budget of £2.02 mln (€ 3.45 mln) in 2004, and 9 projects with a budget of £0.28 mln (€ 0.47 ln) in 2003. The substantial increase of the budget of the RPF Framework Programme for Research, Technological Development and Innovation 2007-2010, will further enhance industry's participation in R&D activities, as the contribution of the public and private sector in these programmes is set to be 60% and 40% respectively.
- There was satisfactory progress in the research programmes concerning the enhancement of Human Research Capital, which are focused on the development of new researchers and the attraction of foreign researchers. In particular, 23 projects with a budget of £1.03 mln (€ 1.76 mln) were financed under the programme attracting young researchers, and 6 projects with a budget of £0.2 mln (€ 0.342 mln) were financed under the programme attracting foreign researchers.
- Satisfactory progress has been also achieved in the area of international cooperation, both in terms of bilateral agreements signed and in the preparation of the Cypriot Research Community for its participation in the FP7.

A detailed inventory of progress of all the measures included in the NRP on the promotion of R&D, is found in Annex 3.

2.2. Facilitate all Forms of Innovation

2.2.1. State of Play / Progress

According to the European Innovation Scoreboard 2006 (Strengths and Weaknesses Report), the Innovation performance in Cyprus is still below the EU average. Most of the available indicators for 2005 are below the EU-25 average. At the same time, youth education attainment and population with tertiary education contribute positively to the overall country's performance.

Community trademarks, in the group Intellectual property, and high-tech exports, in the group Applications, are two further strengths for Cyprus. R&D expenditures, in the group Knowledge creation, and patents, in the group Intellectual property, need to be improved in order to improve convergence to the EU25.

Despite the fact that the country's performance is still well below the EU25 average, its trend has been quite positive from 1998 to 2005. In particular, the group Applications has strongly increased in all indicators (high-tech exports above all). On the other hand, the groups on Innovation Drivers and Knowledge Creation did not record significant improvement and there is scope for increasing the numbers of S&E graduates and the level of public R&D, which are stagnating at a low level. A marginal increase occurred on a short time trend in business R&D expenditures, but the level is still far from the EU average.

With regards to the scope for increasing the numbers of S&E graduates, it is to be noted that in Cyprus there are no university courses in most of the physical sciences and engineering, thus Cypriots traditionally undertake such studies abroad. The practice until now, is that the number of Cypriot science and engineering students graduating from tertiary institutions outside Cyprus (mainly in the UK and Greece) is approximately four times the number of Cypriot science and engineering graduates from Cypriot tertiary institutions. It is expected that the establishment of new universities in Cyprus,

including the Cyprus University of Technology, as well as the opening of new research institutes will change this situation and will lead to a greater number of Cypriot Science and Engineering graduates working on innovation and related activities in Cyprus in the coming years.

Figure 1 herebelow shows the 5 categories and the 25 indicators for Cyprus.

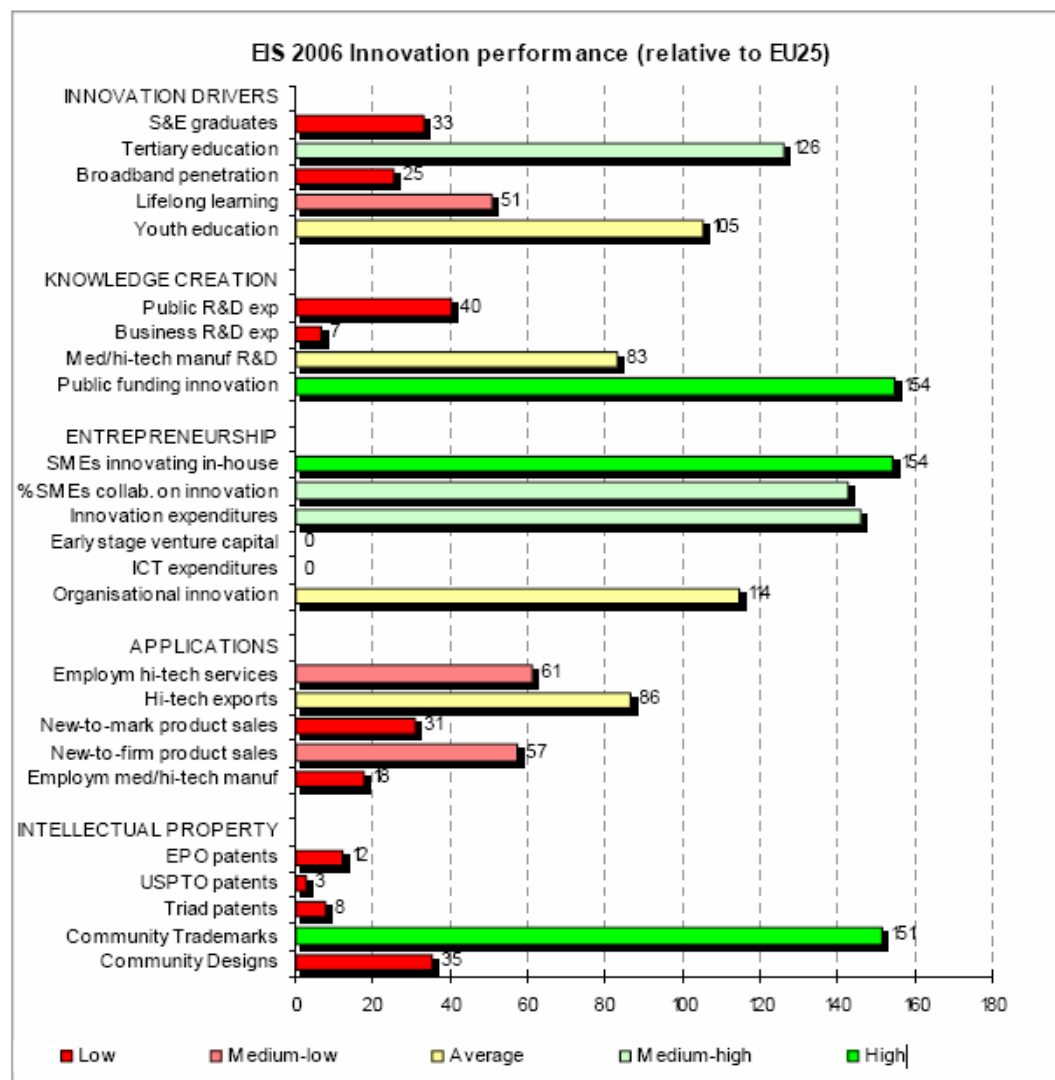


Figure 1: EIS 2006 Performance Indicators for Cyprus

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

Business Incubators

- Operation of four business incubators with a significant number of inventor teams housed in the incubators. Four companies housed in the incubators have graduated (unofficially³) during

³ The final evaluation of their results and performance is pending.

the reviewed period and are in the process of seeking partnerships with other private companies in an attempt to promote and further develop their products and services.

- The introduction of a Business Incubators Accreditation System. Though this was expected to be implemented as from the beginning of 2007, following a Decision by the Council of Ministers, the feasibility study for the introduction of the “Business Incubators Accreditation System”, must follow an evaluation study of the present Business Incubators Institution. In this connection, the relevant tender for consultancy services for the preparation of an evaluation study of the Business Incubators Institution, has already been assigned.

Establishment of a Science and Technology Park: The feasibility study which started in July 2006 is progressing and is expected to be completed before the end of 2007. The Science and Technology Park, may be co-financed by the Structural Funds of the Programming Period 2007-2013.

Regional Innovation Strategy for Cyprus (RISC): There was noteworthy progress in the **further** elaboration of a comprehensive innovation strategy for Cyprus. The overall objective is to improve the position of Cyprus on the Innovation Scoreboard and to assist the government’s goal of achieving a level of R&D spending of 1% of GDP by 2010, while at the same time enhancing the quality of such spending. The strategy is based on five pillars:

- Pillar 1: Strengthening of the Endogenous Capabilities of Enterprises, to Engage in Innovative Activities;
- Pillar 2: Bridging the Gap between Industry and Academia/Research Community – Strengthening of the Innovation Support System;
- Pillar 3: Improving Human Resources;
- Pillar 4: Development of Innovation Financing Mechanisms;
- Pillar 5: Innovation Culture and Increasing Awareness on RTD Issues.

The Action Plan elaborated on the basis of this strategy included the inception and preliminary design of a number of measures, under each pillar. Within the framework of the implementation of RISC, a number of new measures were implemented as from 2007. Noteworthy are the following:

Measures to promote the innovative activities of companies:

- “MENTOR”: Provision of long-term consultation to SMEs;
- “EVRESITEHNIA”: Safeguarding Intellectual Property Rights and Patent Registration;
- “Direct” Line for “Immediate” Problem Solving from experts to SMEs.

Measures to promote the creation of an innovation culture:

- Innovation Prize for Tourist Enterprises;
- Awareness Campaign for the Importance of Innovation and RTD;
- Virtual Promotion of Alternative Forms of Tourism.

Moreover, the 1st Competition for the Cyprus Innovation Award, which has been introduced in the beginning of 2006 by the Cyprus Employers and Industrialists Federation as a new measure in order to promote innovation culture within the enterprises, has been completed and the award ceremony took place on June 11, 2007.

A detailed inventory of progress of all the measures included in the NRP on the promotion of innovation is found in Annex 3.

2.3. Facilitate the Spread and Effective Use of ICT and Build a Fully Inclusive Information Society

2.3.1. State of Play / Progress

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

- **Increase in internet access from both households and enterprises. Specifically, internet access from households was 36.7% in 2006 compared with 31.7% in 2005, whilst in enterprises the respective percentage was 86.2% in 2006 and 84.6% in 2005.**
- **Great increase in broadband connection from both households and enterprises. For households, the indicator increased from 4.5% in 2005 to 12.5% in 2006, whilst the respective increase for enterprises was from 40% in 2005 to 54.6% in 2006.**
- **Slight increase in the regular use of internet by individuals from 26.2% in 2005 to 29.2% in 2006.**
- **Improvement in the use of online public services both by individuals and enterprises. Indicatively, the percentage of individuals who used online public services in 2006 increased to 12.7% from 11.4% in 2005, whilst the respective percentage for enterprises increased from 39.5% in 2005 to 44.3% in 2006.**

Despite the noteworthy growth in 2006, Cyprus is still among the lowest performers in Europe in information society. This can be easily extracted from the table below, where a great negative deviation is observed between national and European statistics. The latter leads to the conclusion that the rate of the sector's improvement in Cyprus, is much lower than that of Europe, hence there remains a vast potential for higher utilisation of the opportunities offered by information society.

Selected ICT Indicators

	2005	2006	EU-25 (2006)
Households:			
– Internet Access (%)	31.7	36.7	51
– Broadband Connection (%)	4.5	12.5	32
Individuals:			
– Regular Use of the Internet (%)	26.2	29.2	46.7
– Use of online Public Services (%)	11.4	12.7	23.8
Enterprises:			
– Internet Access (%)	84.6	86.2	93
– Broadband Connection (%)	40.0	54.6	74
– Use of online Public Services (%)	39.5	44.3	63.7

As far as the progress in the implementation of the actions included in the NRP, over the period October 2006-September 2007, is concerned, there has been, satisfactory progress in the areas of eLearning and eHealth. More specifically:

- In the area of eLearning,, the improvement of infrastructure in schools is progressing as planned, the training of teachers in basic IT skills is almost completed, whilst as from the academic year 2007-2008, teachers will be trained in the use of multimedia in class. The task of finding electronic content for curriculum subjects is progressing well, and it is anticipated that most of the subjects will have electronic content by the academic year 2008-2009. Finally, a new measure introduced, is that of the Learning Management System, which will enable the

communication between teachers, students and parents in issues like absences, homework, examination grades etc.

- In the area of eHealth, the introduction of the Integrated Health Care System has started in January 2007 and is expected to be completed in mid 2008; the implementation of the Monitoring System is expected to be completed in September 2007 as planned, whilst the development of a Pharmaceutical Information System is under consideration, as there are thoughts to provide some of its services through the Integrated Health Care System. Measures for e-health, may be co-financed by the Structural Funds of the Programming Period 2007-2013.

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

- Some of the eGovernment projects were completed as planned, such as the web portal, the upgrading of the social insurance system, and the first phase of the roll-out of the Office Automation System. Most of the remaining projects are progressing as planned, whilst there is a delay in the implementation of the Help Desk System. Moreover, a new action has been initiated, namely the development of eProcurement System, which will enable the online conduction of the public procurement process. These measures may be co-financed by the Structural Funds, in the Programming Period 2007-2013.
- In the area of eCommerce, there is a 9-month delay in the implementation of the Action Plan, due to the recruitment of the Project Manager in September 2007 instead of January 2007.
- There is a delay in the design of a National Information Society Strategy, which mainly arises from the lack of a sole entity responsible for the promotion of Information Society.
- There is also a short delay in the implementation of the actions included in the policy paper for Network and Information Security, which is expected to be implemented at the beginning of 2008 instead of the end of 2007.
- Finally, there is a delay in auctions for granting licences for both Digital Terrestrial Television Networks and Fixed Wireless Access Networks, which are now expected to be conducted in the first semester of 2008.

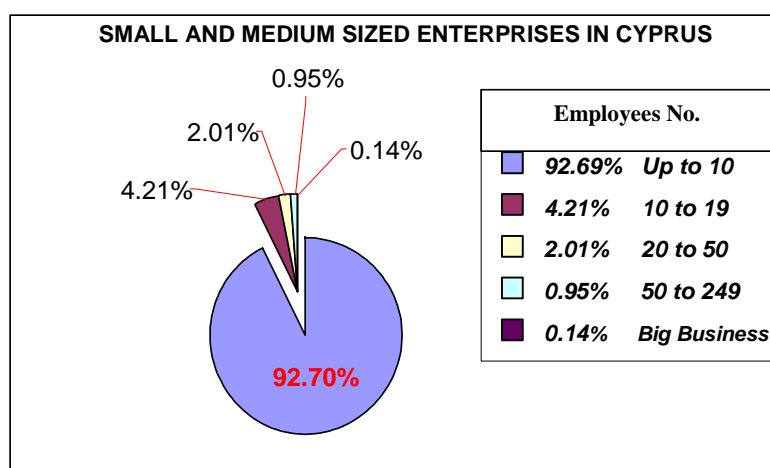
A detailed inventory of progress of all the measures included in the NRP on the promotion of facilitation of ICT diffusion is found in Annex 3.

3. Promotion of Structural Reforms Targeting at Enhancing Competition and Improving the Overall Business Climate

3.1. Further Enhancement of the Conditions of Competition

3.1.1. State of Play / Progress

The Cyprus economy is characterized generally, by conditions of intense competition, as reflected in the relatively large number of small enterprises (48.623 out of 52.454 or 92.7%) operating in the various sectors of economic activity. The striking majority of the enterprises operating in Cyprus (99.9%) are classified as SMEs according to the European Definition and only 70 companies or 0.14% are big businesses (more than 250 employees) mainly in the sectors of banking, manufacturing and construction.



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

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

In the sector of **electronic communication** there has been a gradual increase of the share of Other Licensed Operators (OLO's) for the period 2004-2006. The market share of the alternative operators for national calls originating from fixed network increased from 1.1% in 2004 to 6% at the end of 2006, while the market share of the OLO's for calls to international destinations reached 26.2% for 2006. In the mobile telephony, the market share of the alternative operator increased to 7.8% for 2005 and to 10.4% for 2006, compared to 1% in 2004. Furthermore, the market share of the alternative operators for the year 2006 in the provision of internet services based upon narrowband access reached 13.7%, while for the provision of broadband services with access to the internet and television it was 2.9% and 7.9% respectively.

In the **energy sector**, 35% of the electricity market was opened to competition, after Cyprus's accession to the EU. Even though the Electricity Authority of Cyprus (EAC) is still practically the only supplier, the Cyprus Energy Regulatory Authority (CERA) has already awarded a number of licenses to private suppliers, for the generation of electricity by conventional and renewable energy sources. The new suppliers are expected to enter the market by the end of 2008. These licenses

correspond to around 15% of the total licensed capacity by conventional means and around 100% by renewable energy sources. In addition, a number of applications from the private sector, with a large capacity for the generation of energy, are under consideration, awaiting approval. Concerning electricity prices, according to a relevant study undertaken by the European Commission, Eurostat⁴ – household prices went up in 23 EU Member states, remained stable in Bulgaria but reduced in Cyprus, Latvia and Slovakia. Furthermore, the electricity prices for industrial consumers went up in 24 EU Member states, remained stable in Belgium but reduced in Cyprus and Denmark. With respect to the level of prices in Cyprus, for household consumers, electricity prices on 1 January 2007 were around the EU average, whereas, the highest prices prevailed in Denmark, Italy and the Netherlands.

The **air transport sector** was fully liberalized as from 1/5/2004, differentiating significantly the conditions of competition in the sector. The liberalization has mainly affected the most popular routes, i.e. the routes to Greece and London, via an increase in the number of flights and a fall in fares.

Furthermore, there is a continuous enhancement of the administrative capacity, via inter alia, training of the staff, of:

- the Commission for the Protection of Competition (CPC),
- the Office of the Commissioner for Electronic Communications and Postal Regulations (OCECPR) and
- the Cyprus Energy Regulatory Authority (CERA)

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

It should be mentioned in this context, that in the 2006 Evaluation Report, on Cyprus'NRP, **insufficient competition in the professional services** was set by the Commission as a point to watch, pinpointing the sectors of Pharmacists, Legal Professionals and Architects and engineers. The National Commission of the Protection for Competition (CPC) that has provisionally examined the situation, has concluded that, insufficient *price competition* in the above sectors stems from the fact that certain restrictions are part of the regulatory framework under which these service providers operate. Some price restrictions have been considered by the European Court as not hindering competition, (i.e for legal professionals). For pharmaceuticals, price setting helps to protect consumers from the oligopolistic power of importers, given the lack of General Health Scheme in the country. Generally speaking and given its existing legislation, the CPC cannot intervene with tariffs that stem from legislation, so for the time being it restricts itself to tariffs not specified by law. The resolution of the problems will necessitate some changes in rules and regulations, usually a time consuming and cumbersome process. With respect to business structure limitations, steps are gradually taken to allow the setting up of companies by these professionals. (All European Commission findings are commented in detail in Annex 7.)

3.1.1.1. Policy Priority: Horizontal Measures

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

Further enhancement of the administrative capacity of the Commission for the Protection of Competition (CPC): The CPC proceed in its course of strengthening its administrative capacity through the following:

⁴ Statistics in focus, Environment and Energy – 4/2006 – Authors: Johannes Goerten and Emmanuel Clement- January 2007)

- i) The employment of the consultants and experts (IT., Legal advisor and Accounting officer).
- ii) The organization of a 2-day seminar on competition in November 2006 for the purposes of raising public awareness and embedding the competition culture among the key economic players.
- iii) The drafting of a new legislation for the application of the regulation 1/2003, which will include the consolidation of the two national laws (The protection of Competition Law 207/89, as amended, and the control of concentrations between undertakings Law 22(I)/99, as amended).
- iv) The implementation of a training programme for its officers financed by the Transitional facility of the E.U,

3.1.1.2. Electronic Communications Market

Carrying out of a market analysis for 4 markets: The OCECPR has completed in March 2006 a market analysis for 4 markets concerning mobile telephone (Markets 15 (Access) and Market 16 (Termination), Wholesale unbundled Access to Local Loops (Market 11) and wholesale broadband access (Market 12).

The findings of the market analysis of the above markets show that CYTA has Significant Market Power (SMP) in all markets, whereas AREEBA has SMP in Market 16 (mobile call termination). Based on these results, the OCECPR proceeded to the implementation of the required remedy measures in July 2006 with a view to enhancing the conditions of competition in the above 4 electronic communication markets.

Carrying out of market analysis for the 13 remaining markets: The OCECPR during 2006 has completed a market analysis and has issued the final decisions (end of December 2006) for the 10 markets concerning:

1. Access to the public telephone network at a fixed location for residential customers and Access to the public telephone network at a fixed location for non-residential customers in Cyprus (markets 1-2),
2. Publicly available local and/ or national telephone services provided at a fixed location for residential customers and Publicly available local and/ or national telephone services provided at a fixed location for non-residential customers, (markets 3, 5),
3. Publicly available international telephone services provided at a fixed location for residential customers and Publicly available international telephone services provided at a fixed location for non- residential customers in Cyprus, (markets 4, 6),
4. Call origination on the public telephone network provided at a fixed location (Market 8),
5. Call termination on individual public telephone networks provided at a fixed location (Market 9),
6. Transit services in the fixed public telephone network (Market 10), and
7. Wholesale broadcasting transmission services in Cyprus, (market 18).

Furthermore, the OCECPR, during 2006 has completed a market analysis and has issued the final decisions (March 2007) for the 3 markets concerning:

1. The minimum set of retail leased lines up to and including 2 Mbits in Cyprus (market 7),
2. Terminating segments of wholesale leased lines, (market 13) and
3. Trunk segments of wholesale leased line (market 14).

The finding of the market analysis for Market 18 show that there is no one in the market that holds significant market power and therefore no SMP was designed.

The findings of the market analysis of the above markets for all the other markets show that CYTA has Significant Market Power (SMP) in all markets, where as OTENET and PRIMETEL, have been designated as having significant market power in the national Market 9 (Call termination on individual public telephone networks provided at a fixed location). Based on the results, the OCECPR proceeded to the implementation of the required remedy measures with a view to enhancing the conditions of the competition in the above electronic communications markets.

Audit of the incumbent's costing system: In January 2006, the OCECPR completed the audit of the incumbent's costing system to determine the cost of retail and wholesale services. The results of this audit have been used in the review of the incumbent's Reference Interconnection Offer and the Retail Price Control Measures imposed on the incumbent.

Preparation of a draft policy paper on promoting broadband competition and increasing broadband services penetration: The policy paper is under preparation by the Planning Bureau. Implementation of the agreed policies is anticipated for 2007 and 2008.

3.1.1.3. Energy Sector

Setting the charges for using the grid network: Due to the difficulty of the task involved, the CERA has revised the targeted timetable for setting up charges for the use of the grid network by suppliers for provision of electricity. Ongoing discussions are taking place in order to assess the optimum charges for the use of transmission and distribution system. The new targeted timetable is mid 2008. The delay in setting the charges has no implications as no new suppliers are expected before the end of 2008. A draft report was prepared determining the method of charge for connecting the electricity producers onto the transmission and distribution system. The procedure is expected to be finalized by the end of 2007- beginning of 2008, and before new entrance of Independent Power Producers.

New Measure – Simplification of Electricity Market Rules: CERA has approved the 'Electricity Market Rules' in principle in 2005. However, CERA has requested, at the end of 2006 further simplification of the Rules for the sake of transparency and of better understanding by all concerned which is in process (for better implementation) and is expected to be finalized by the middle of 2008, and in any case before new suppliers enter the market.

Undertaking of a campaign by CERA, informing eligible customers on the procedures and conditions in choosing electricity suppliers: The campaign informing the eligible consumers (who have a consumption for the past 12 months of over 350.000 kWh) on the procedures to be followed in order to choose their electricity suppliers was launched by CERA, soon after its establishment in the year 2004. This has had a positive impact, as around 80% of them responded positively indicating their interest of making use of the option of selecting their supplier. Informing the eligible consumers of their right to choose their supplier is an ongoing process.

Framework for a Natural Gas Market : Natural Gas is still not available on the island. Despite this, natural gas was defined by a Ministerial Directive (Minister of Commerce, Industry and Tourism) in March 2006 as the basic fuel for the production of electricity with regard to future installations of sizeable capacity.

Further, the natural gas sector has been put in line with the relevant EU Directive 2003/55/EC, concerning to the common rules of the internal natural gas market. The provisions of the Directive have been incorporated into the Laws of 2004-2006 on Regulating the Natural Gas Market, which came into force in 2004. Additionally, the relevant Regulations organisng the operation of the Natural Gas Market, the access to the market, the criteria and the licencing procedure, came into force in 2006. In particular, the following Regulations were enacted:

- Issue of Licences' Regulations No.298/2006

- Fees' Regulations No.299/2006
- Investigations Procedure' Regulations No.297/2006

Upon the enacted Regulations organising the operation of the Natural Gas Market were put into force, applications have been submitted to CERA for the:

- construction, operation and exploitation of installations for import, storage and regasification of liquefied natural gas in the Vassilikos sea area for own use (production of electricity)
- construction, operation and exploitation of installations for import, storage and regasification of liquefied natural gas in the Vassilikos sea area with the intention of supplying natural gas to wholesale, eligible and not eligible consumers.

It is expected that natural gas will be available by the year 2012.

Furthermore, CERA has prepared amendments to the above mentioned Laws in order to fully transpose the Directives 2003/55/EC and 2004/67/EC into National Legislation. The said amendments have been forwarded to the Office of the Attorney General for legal vetting and to the Council of Ministers for approval respectively, before they are forwarded to the House of Representatives for final approval.

3.1.1.4. Point to Watch - Restrictions to Competition in professional Services: In the 2006 Commission Evaluation Report, of Cyprus'NRP, **insufficient competition in the professional services** was set as a point to watch, pinpointing indicatively at the sectors of Pharmacists, Legal Professionals and Architects and Engineers. The comments of the European Commission (in italics), as well as of the professional groups and the pertinent services are presented in detail, in Annex 7.

It should be mentioned in this context that the Commission for the Protection of Competition (CPC) cannot intervene with tariffs that stem from legislation, so for the time being, it restricts itself to tariffs not specified by law. After a request from the European Commission, the CPC has conducted a survey, concerning the existing situation in the various professional services. On the basis of this result, and its own findings on the subject, the Planning Bureau is preparing terms of reference for the recruitment of a consultant who will make suggestions for improving the regulatory framework and generally the whole situation in the sector of professional services.

3.2. Change of the Status of the Organisations in the Utilities Sectors

3.2.1. State of Play / Progress

Even though competition has been introduced in the utilities sectors of telecommunications and electricity, the main suppliers in the markets, i.e the former incumbents still operate as semi-governmental organisations. In contrast, the postal services market was de facto liberalized over a long period of time, whereas the universal service provider – the Postal Services Department, continues to be a department of the Ministry of Communications and Works. The differentiated environment requires a change of the status of the organisations operating in these sectors with a view of enhancing their flexibility and enabling them to cope with the pressures of the new liberalised environment. In this respect, it is noted that:

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

Successful implementation of the new status in the case of CYTA will open the way for its adoption in other semi-government Organisations.

Change of the status of the Postal Services: Currently, consultations are underway between the trade unions, the Ministry of Communications and Works and the Ministry of Finance in order to define the new status of the Postal Services through a bill, which is anticipated to be submitted to the House of Representatives by the end of 2007.

3.3. Increase the Efficiency of the Public Sector

3.3.1. State of Play / Progress

The Government of Cyprus acknowledges the decisive importance of a well-functioning public sector for the overall business climate within a country. Despite the generally well-functioning public administration in Cyprus, there is substantial room for improvement, taking into account the changed environment that Cyprus faces, following its accession to the EU.

Within this framework, the implementation of the measures included in the NRP has been promoted roughly in line with the timetable foreseen in the programme. The major exception has been in the introduction of the new appraisal system, for which little progress has been made, due to the sensitivity of the issue and the long consultation procedures with the trade union of civil servants.

Further, with a view to achieving an effective contribution of the **Structural Funds** to the achievement of the Lisbon objectives, the Government of Cyprus, has taken a series of measures in order to enhance the administrative capacity of the bodies involved through additional placement of personnel and training. To this end additional posts have been approved, to facilitate the absorption of the funds for the new Programming Period. The efficiency of the implementation has also been enhanced through decentralisation and the allocation of more responsibilities to the Intermediate Bodies. More specifically the progress achieved with respect to the measures improving the efficiency of the public sector is as follows:

Simplification and acceleration of the procedures for filling posts in the public service: The House of Representatives has approved the Public Service (amending) Laws of 2005 and 2006 (N. 79(I)/2005 and N. 96(I)/2006), thus simplifying and speeding up the procedure for filling vacant posts in the Cyprus Civil Service.

Modernization of Schemes of Service: The critical examination of Schemes of Services in the public service for purposes of modernization is an ongoing task. Nonetheless, recently these efforts have been intensified with the Pertinent Service having addressed letters to all Ministries/Independent Services, urging them to prepare new draft versions for these Schemes, aiming towards modernization/improvement of the required qualifications as well as of the duties and responsibilities of the post.

Code of Conduct for civil servants: Work is in progress for the preparation of a Code of Conduct for civil servants, expected to be finalised by the end of 2007, as originally planned. The main objective of this measure is to outline the responsibilities and expected behaviour of civil servants, with a view to further promoting integrity, accountability, credibility and transparency in the civil service

Introduction of a new performance appraisal system in the civil service: A new performance appraisal system for civil servants has been drafted, in close co-operation with external consultants, which has been initially approved by the Council of Ministers. The new system, which aims at promoting a new performance-oriented culture in the civil service, by appraising performance in a fair, objective and consistent manner, is being discussed with the civil servants trade-union. Given that, reaching an agreement with the trade-union is a necessary pre-requisite for the successful implementation of the new system, a new series of negotiations have been planned to commence during the fall of 2007, with the aim to take final decisions on a mutually agreed system in 2008.

Introduction of a common Performance Assessment System. (CAF) Another 5 Organisations have committed to implement the CAF, thus fulfilling the target of implementing the project in 3-5 government organizations each year, helping them to improve their organizational performance and efficiency, as well as the quality of the services provided to the citizens.

Continuous training/learning in the civil service through the work of learning units: The initiative for the systematic and decentralized management of organizational learning in Civil Service Organisations, through the establishment and functioning of “Learning Units” has been achieved, by the establishment of about 50 more units in equitable services. These units will allow the Departments to implement their own learning policy, for the satisfaction of their learning needs.

Training course offered to civil servants from the Cyprus Academy of Public Administration: The Academy continued to offer a series of open, horizontal training programs in which civil servants from all Civil Service Organisations can participate. Moreover, it organizes programs for specific Organisations of the Civil Service, on the basis of the systematic Learning Needs Analysis which is conducted by the Learning Units. In 2006 the Cyprus Academy of Public Administration offered 113 programmes / workshops with the participation of 2.004 civil servants, a number which falls slightly below the 2005 results of 113 programmes / workshops and 2349 participants.

New Measure: Strengthening the administrative capacity of the civil service: The Project, which will be co-financed by the European Social Fund of the new programming period, aims to achieve the following:

- **Strengthening the structures, processes and competencies/ skills of 4 civil service organizations so that they may be in a position to develop, implement, monitor and assess public policies more effectively, within their sphere of competence**
- **Offering high quality services to citizens and/or businesses, where applicable**

New Measure: Strategic, Leadership and Management Development of the Cyprus Civil Service The project which will be co-financed by the European Social Fund, aims to strengthen the strategic, management and leadership capacity of the Cyprus Civil Service through the provision of the necessary learning and support to the Organisations and to their officers.

Enhancement of the administrative capacity of the bodies and procedures regarding the management of EU funds and the increase of the absorption rate: In view of the substantial increase of available funds to Cyprus during the new programming period, 2007-2013, further organizational measures were taken in order to enhance the institutional capacity of management of the funds and implementation of projects. Further to internal reorganization arrangements in the Managing Authority, effected at the beginning of 2007, a Council of Ministers Decision, dated 28th February 2007, officially designated all the relevant authorities for the management of the Structural and the Cohesion Fund for the period 2007-2013 and specified their duties and responsibilities. For the effective management and implementation of the Operational Programmes for the programming period 2007-2013, a Council of Ministers decision, dated 7th July 2007, approved the recruitment of 146 additional staff, of different specialties, (engineers, administrative staff, accountants, etc) to enhance the services involved in the absorption process.

Added efforts were taken on behalf of the Government of Cyprus, for the enhancement of the absorption rate through increased publicity for all the programmes and the projects that are co-financed from the Funds. In this respect, the Managing Authority for the Structural Funds has signed a contract for a publicity campaign covering all the programmes co-financed by the Structural Funds in the current programming period 2004-2006 as well as the new programming period 2007-2013, one of the main objectives of which is to inform, inter alia, SMEs and potential beneficiaries of all the possibilities of co-financing.

Establishment of Citizen Service Centers (CSCs)/ one stop- shops: The first three Citizen Service Centers (CSCs) are already operating in 3 different Districts of the island (Nicosia, Limassol and Paphos/ Polis Chrysochous). The CSCs are open Monday to Friday, from 8.00 a.m. until 5.00 p.m., offering 64 services from 4 to 6 different Departments/ organizations of the civil service (Road Transport Department, Department of Social Insurance, Grants and Allowances Service of the Ministry of Finance, Civil Registry and Migration, Ministry of Health and Land and Surveys Department). Examples of services provided by the CSCs: issuing of birth certificates, Identity Cards, Driving license, Road tax license, various certificates to those insured under the Social Insurance Scheme, the self-employed persons, retired persons, employers and issuing of social insurance contributions records.

It is noted that, by mid August 2007, a total of 227.211 services have been offered to citizens visiting the 3 CSCs, and another 100.241 citizens have received information / clarifications over the phone. Based on an Action Plan for 2007, 2 more CSCs will be operating by the end of this year, one in Larnaca and one in Pelendri (rural area, Limassol District).

New Measure: Setting up of a Call Center: In the framework of offering multiple service delivery channels to the public, extensive efforts are being made to set up and operate a Call Center, that is expected to offer information and/ or services that relate to the competences of a number of civil service organizations, to citizens and businesses. To this respect, a project will be initiated in October which entails the identification and recording of the procedures /processes followed by civil service organizations in offering services to citizens and/or businesses. The project is a necessary pre-requisite for the setting up of a Call Center.

3.4. Reduction of the Regulatory and Administrative Burden

3.4.1.State of Play / Progress

The Government of Cyprus has decided to proceed with the formulation of a Better Regulation strategy the soonest possible, considering the issue of Better Regulation (BR) as one of its priorities. The responsibility for the implementation of BR in Cyprus has been assigned to the Ministry of Finance (MoF) and the Public Administration and Personnel Department (PAPD). A National Action Plan (NAP), is currently under implementation.

Establishment of a Specialised Unit for BR: A specialised Unit, within the Ministry of Finance, has been set up, as from April 2007, which refers to a **Steering Committee**. Both the Unit and the Steering Committee have already started working on the implementation of the NAP. It is noted that the overall policy on the issue is governed by the Council of Ministers.

Approval and Implementation of a National Action Plan: The NAP has been approved by the Council of Ministers on the 25th of July 2007 and it is currently under implementation. It incorporates some of the suggestions regarding the issue of BR in Cyprus, which were made in the report prepared by the Sigma Organization of the OECD, following its visit to Cyprus in 2006. The NAP also takes into consideration the commitments of the Republic of Cyprus, as resulting from the Spring European Council of March 2007 Conclusions, to set the national targets by 2008 and determine its own national areas of priority by March 2009.

The implementation will be materialised in two phases: -The first phase of the NAP focuses on the reduction of the administrative burden, based on a pilot program, on a specific area of priority. More specifically, the NAP is initially targeted on areas of legislation, which have major impact on enterprises. The NAP provides that the issue of impact assessment on existing and new legislation will be carried out in its second phase. The NAP provides for the development of a structured approach to

consultation upon preparing a legislative proposal. More specifically, before the examination of any legislation, all the stakeholders related to the proposal should be consulted, through a standardized procedure. The aim is to adopt a simple framework which will enable the implementation of BR in Cyprus the soonest possible with solid results.

Specific measures adopted to promote Better regulation: In parallel to the above, the Government of Cyprus is undertaking various measures towards the increase of the efficiency and effectiveness of the Public Service. These are:

- Citizens` Services Centers, or one point of contact, for multiple services of Public Service, in the quickest way. The aim is to open up more Citizens` Services Centers, especially in rural areas.
- The One-Stop Shop Service for the acceleration of procedures for setting up a business in a quick and simple way, which has recently (April 2007) started its operation, in accordance with Cyprus commitment to the Spring European Council of 2006.
- Use of information technology (e.g. the creation of a central website (government portal), which acts as the central point of contact for all public services, the implementation of the internet access to the system of social security, direct tax statement submission etc.
- Promotion of the set up of a Call Center that will provide information and services to the public for the whole range of the public service.

3.5. Rationalisation of State-Aid

3.5.1. State of Play / Progress

The total amount of state aid granted, excluding the sectors of agriculture, stock farming and fisheries, fell considerably during 2006. In relative terms there was a reduction of state aid in relation to GDP from 1.56% in 2005 to 0.49% in 2006. In absolute terms the amount of state aid granted in 2006 was £41.3 mln (€70.6 mln) as compared with £122.5 mln (€ 209.4 mln) in 2005. This reduction is mainly due to the following two factors:

- (i) The amount of aid to International Business Enterprises, in the form of reduced tax rates, was £55 mln (€ 94.05 mln) in 2005 whereas in 2006 it was zero as the transitional period ended on the 31/12/2005.
- (ii) A government guarantee for a loan of £30 mln (€ 51.3 mln) contracted by Cyprus Airways from the private sector granted as rescue aid in 2005. Initially, the whole amount of the loan was considered as state aid since Cyprus Airways were unable to borrow from the financial institutions without the state guarantee. However, recently the European Commission decided to count as state aid only 20% of the amount of the loan, i.e. £6 mln.

It has to be noted that ignoring these two factors that caused a decrease in the amount of aid, the volume of state aid granted in 2006 increased slightly both in absolute terms (from £37.5 mln (€ 64.1 mln) in 2005 to £41.3 mln (€ 70.6 mln) in 2006) but also as a percentage of GDP (from 0.48% in 2005 to 0.49% in 2006).

This increase can be attributed partially to the increased aid granted by the Research Promotion Foundation for research and development (R & D). More specifically aid for R&D went up from £2.3 mln (€ 3.933 mln) in 2005 to £3.3 mln (€ 5.643mln) in 2006, increasing its share of the total amount of state aid granted to 7.9%.

It is noteworthy that 50% of the total of state aid in 2006 (£20.6 mln) (€ 35.2 mln) was granted to the sector of Culture and Media, which, it can be said, does not greatly affect intra community trade. An amount of £15.7 mln (€ 26.8 mln) out of the £20.6 mln (€ 35.2 mln) was the annual grant to the Cyprus Broadcasting Corporation.

With a view to further rationalizing state aid, towards those areas of intervention in which there is a clearly identified market failure, the Planning Bureau has sent a circular in May 2006, to all Ministries requesting them to carry out, as from 2007, an ex-ante evaluation for all proposed state-aid measures, to identify whether there is a market failure in the proposed area of interventions as well as the expected impact of the proposed state-aid measures. Along with the circulars, 2 ex-ante evaluations of Structural Funds Programmes were sent, as examples.

On 7-8 March 2007, a workshop on “State Aid Appraisal” was organized by the Planning Bureau in co-operation with the European Institute of Public Administration and the Cyprus Academy of Public Administration. The workshop covered topics like:

- The concept of state aid and an overview of EU rules.
- Why and how to assess the need and effectiveness of state aid.
- Assessment of State Aid: Methodology.

As a result, the Ministries have started to send their evaluations to the Planning Bureau, but at the moment they mostly continue to make them on a qualitative basis, indicating that further guidance and assistance by the Planning Bureau is necessary.

4. Expansion and Upgrading of Basic Infrastructure

4.1. Transport

4.1.1. Road Transport

4.1.1.1. State of Play

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

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

Intensified efforts have hitherto been put forward, in promoting and upgrading the road network. All cities and other major centres are linked with motorway standard roads, while also accessibility of the rural areas to the major urban road centres has been improved. Cyprus covers a total area of 9,250 km² and its total road network consists of 7,845 kilometres. This number includes a total of 280 km of motorways in 2005, as compared to 240 in 2000.

Regardless of the improvements in the road network infrastructure, a total of some 2,500 road accidents occur and on average 100 people die in Cyprus annually. The number of actual road deaths reached 111 in 2000 (or 16 per 100,000 inhabitants) and 117 in 2004 (or 15.9 per 100,000 inhabitants), whereas in 2005 it dropped to 102 (or 13.5 per 100,000 inhabitants) and in 2006 it dropped to 86 (or 11.4 per 100,000 inhabitants) , following the implementation of a number of actions included in the Strategic Action Plan for Road Safety. It is important to emphasize, that road safety remains a priority for the Government.

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

- Inadequacy of road bypasses of large urban centres or other significant communities,
- Traffic congestion in the urban areas at peak hours, mainly due to the rapid increase in the use of private cars, the low utilisation of public transport and shortages in parking facilities,
- Comparatively high fatal and serious accident rates,
- Extremely low rate of usage of public transport with a continuous fall in demand and worsening of the level of services,
- High average age of public service vehicles,
- Insufficient infrastructure for environmentally friendly means of transportation (bicycle, pedestrians).

4.1.1.2. Progress

Overall there has been satisfactory progress in the road transport subsector, as a number of important projects have been completed or are in the phase of implementation as foreseen in the NRP. Indicatively:

- The upgrading of five out of a total of six Limassol roundabouts to grade-separated junctions were completed by June 2007, whereas the upgrading of the remaining one is progressing as scheduled (co-financed by the Cohesion Fund in the Programming Period 2004-2006).
- The preparation of the contract documents (which are currently going through the auditing process for approval) for the construction of a 4-lane dual road, between the Limassol Port and Limassol-Paphos Motorway. This project is part of the Trans European Road Network (TEN-T) and may be co-financed by the Cohesion Fund, in the Programming Period 2007-2013.
- The preparation of Terms of Reference for the construction via the PPP method, of Paphos-Polis Chrysochous road, has been completed and these have been passed to the bidding consortia. The consortia submitted their final tenders on the 31st of July 2007.
- The Council of Ministers approved a programme of action for the enhancement of public transport in Cyprus. The decision, set up a Steering Committee, appointed a project manager and called for the creation of a project management unit. The Cypriot authorities have prepared a pilot project (amounting to €45 mln) for public transport in Nicosia, which will be co-financed from the Structural Funds of the Programming Period 2007-2013. For the timely implementation of the project, the above mentioned project management unit is gradually being established.

Good progress was observed in the area of Road Safety, reflected in the considerable reduction in the number of road deaths by almost 15,7% in 2006 vis a vis 2005 as a result of the implementation of a number of actions included in the Strategic Action Plan for Road Safety.

A detailed presentation of the progress achieved in the implementation of all the measures included in the NRP in the road subsector is presented in Annex 4.

4.2. Ports

4.2.1. State of Play/Progress

Cyprus' ports have been developed into major cruise ship centres. On the contrary, their role as transshipment centres serving international third country trade has been declining. Following the accession of Cyprus into the EU, the need for expansion and upgrading of the port infrastructure has become imperative, as Cyprus ports are now the gateways of Europe in its southeast corner.

Cyprus is a permanent base for a large cruise fleet, which carries out excursions in the region on a regular basis. However, the number of passengers moved through Limassol and Larnaca ports in 2006 was down by 25% as compared to 2000, highlighting the problems the tourist industry faces from political instability in the region.

In the ports subsector the enlargement of the western container's stacking area has almost been completed, whereas concerning the other three projects (construction of a modern passenger terminal at Limassol port, dredging of the Limassol port and redevelopment of the Larnaca port and marina into a mainly passenger port on a PPP basis) there was some delay in the implementation. Projects in the Limassol Port may be co-financed by the Cohesion Fund of the Programming Period 2007-2013.

Details as to the specific progress of the various measures, in the ports subsector, is found in the attached Annex 4.

4.3. Airports

4.3.1. State of Play/Progress

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

In the particular area, there was a very significant development in May 2006 with the signing of the final Concession Agreement between the government and the HERMES AIRPORTS LTD, signaling the launching of the redevelopment of the two airports, using the PPP method. In the meantime, as from 2006 the selected consortium took over the operation of the two existing airports, whereas the construction works for the redevelopment of the two airports started in June 2006. Phase 1 of the redevelopment of the 2 airports, which includes the development of new passenger terminals at Paphos and Larnaca, with a significantly expanded passenger capacity commenced in June 2006 and is expected to be completed by the end of 2008 and 2009, respectively.

The redevelopment of the Larnaca airport will increase substantially the passenger capacity of the airport from about 5.1 mln passengers in 2005 to 7.5 mln passengers per year in 2010 (the respective figures for Paphos are 1.9 mln in 2005 and 2.7 mln passengers per year in 2009). It will also make Larnaca a regional hub in the area serving aircrafts going to destinations in the Middle-East, Far East and Africa. The project will also have an immediate economic impact as over € 500 mln will be invested in the first phase, over a period of 3 years.

5. Security of Energy Supply - Promotion of the utilization of Renewable Energy Sources (RES) and Energy Conservation (Econ)

5.1. State of Play

Following the 2006 Spring European Council's Conclusions for the inclusion of an Energy Policy for Europe as one of the four specific priority areas, and the adoption of binding targets for Renewable Energy Sources and for biofuels by the 2007 Spring European Council, Cyprus, fully acknowledging the need for an effective tackling of the challenges in the energy field, has proceeded with the adoption of the following actions:

- A more explicit and comprehensive energy strategy was elaborated.
- It was decided that "The security of energy supply and the promotion of energy saving and renewable energy sources" will constitute one of the main challenges of the National Reform Programme (NRP) and this is reflected in a separate subsection in the progress report. It is noted in this respect, that due attention was already given to the energy issues in the NRP submitted in 2005.
- Within the increased emphasis attached to energy issues, either existing measures have been or are in the process of being modified and enhanced or additional ones have been introduced so as to effectively tackle the challenges in the energy field.

As mentioned in the NRP, the energy system of Cyprus is heavily dependent on oil imports for its energy supply (90.1%). The remaining 9.9% is covered by imports of pet-coke and coal (5.3%) used by the cement industry and by renewables (4.6%) mainly solar energy used for heating water in the household and tertiary sector (e.g. hotels).

Cyprus is one of the leading countries in the use and manufacturing of solar water heating systems. Around 93% of households are equipped with solar water heaters and 53% of hotels have installed large / central solar water heating systems. The E.U Study "Sun in Action ranks Cyprus first with 0.86 m² (with tendency to 1 m²) of installed solar collector per capita. Increased efficiency and cost effectiveness of solar hot water systems contributed to their wide penetration in urban, rural and isolated communities in Cyprus. In view of the above and due to the rapid percentage increase in the promotion of the renewable energy sources between 2004 and 2006, Cyprus has been awarded in September 2006, the "World Renewable Energy Congress Trophy" by the International Energy Agency (IEA) and the World Renewable Energy Network (WREN), which will stay in Cyprus until July 2008.

Electricity production is based on petroleum products and absorbs on average 37.5% of the total primary energy consumption. In view of the comparatively high increase in electricity demand, there is a need for further expansion of the system. It is noted, in this respect that over the past few years, electricity demand has been rising on an average by 5.5% per year.

Apart from the very high degree of dependence on imported oil, other weaknesses, from the point of view of the infrastructure and operation of the energy system, are the limited oil storage capacity and the energy intensive models of behavior, particularly in the passenger transport sector and the limited use of renewable energy sources. It is noteworthy that Cyprus has one of the highest energy intensity levels in Europe and that the energy dependency rate is one of the highest among the EU 25.

With regard to security stocks of petroleum products, their level is set by the *acquis communautaire*, according to which member states should maintain at all times, at least stocks equal to 90 days of average daily internal consumption. According to the transitional period granted to Cyprus, stocks for at least 60 days consumption have to be maintained as from accession to the EU till the end of 2007, whereas they have to rise to 90 days as from 1.1.2008.

5.2. Policy Priorities

The main policy priorities pursued by Cyprus in the energy field are the following:

Priority Area 1: Security of Energy Supply, will be achieved by:

- Increasing the level of security stocks of petroleum products; Maintain security stocks for at least 60 days average daily internal consumption until the end of 2007 in compliance with the transitional period granted to Cyprus. The level of security stocks will be increased to 90 days as from 1.1.2008 onwards.
- Diversifying of the energy supply sources, and especially by the introduction of gas as an energy source. Necessary precondition for the achievement of this target is the establishment of an Energy Centre in the Vasilikos Area (VEC) that will enable the importation of natural gas to the island for the first time.

Priority Area 2: Promotion of the utilization of Renewable Energy Sources (RES) and Energy Conservation (ECon)

This target will be achieved through the:

- Increase of the contribution of RES from 4.7% (as of 2006) to 9% to the total energy consumption by the year 2010.
- Increase of the electricity generation from RES from 0.03% (as of 2006) to 6% to the total electricity consumption by the year 2010, 9% in 2015, and 12% in 2020. The distribution of RES production in 2010 is expected to be mainly from wind power, (4.59%) and biomass (1.18%).
- Decrease of 1% yearly of the total energy consumption through the Energy Conservation measures. The base year being 2006.
- Reach the obligating target of the use of 10% of biofuels in transports by 2020.

The achievement of the abovementioned targets is expected to result in a decreased purchase of about 280 ktoe in oil, corresponding to £35 mln (€ 59.85mln) (based on current oil prices) and contribute to the reduction of the greenhouse gas emissions. (More details on the National Programme for Gas Emissions, in the Chapter on Environment, section 6.2.3.).

5.3. Progress

With a view to effectively tackle the challenges in the energy field, all the measures included in the NRP are being promoted, whereas other measures have also been introduced such as the introduction of a new support scheme for the production of electricity from biomass and biogas from landfills, the preparation with the help of consultants of a National Biomass Action Plan for Cyprus, through which to conform to the biofuel target set by the 2007 Spring Council, the increasing of the subsidised capacity of Photovoltaic Systems from 5 KW to 20 KW, a new provision of incentives for the purchase of low CO₂ emissions vehicles up to 120 g/ Km.

Moreover, there was a simplification of the submission and evaluation procedures for the measures targeted at promoting RES and ECon and an enrichment of the scope and intensity of existing measures in these same fields. Based on the large number of the submitted applications for RES and ECon, the grand scheme gave very fruitful results and it is expected that after the implementation of these technologies/systems, substantial reductions in the annual import of fuels will be achieved.

Generally, there has been good progress in the energy field, resulting in a significant increase in the level of security of oil stocks held by Cyprus, the launching of the process in the establishment of the

Energy Centre and an increasing interest in the utilization of the various measures targeting the promotion of RES and Energy Conservation.

In the section that follows, the progress achieved over the period September 2006–August 2007 will be presented for each separate measure as classified under each of the priority areas.

5.3.1. Priority Area 1: Security of Energy Supply

5.3.1.1. Increasing the Level of Security Stocks of Petroleum Products: The Cyprus Organization for Storage and Management of Oil Stocks (COSMOS), which is responsible for maintaining Cyprus' security oil stocks, proceeded with the purchase of additional quantities of fuels maintaining them in Cyprus and in Greece (based on a relevant bilateral agreement signed in October 2005 between Cyprus and Greece), increasing the total level of security oil stocks, as from June 2007, to about 67 days consumption as compared to about 61 days in June 2006 and 48 days in December 2005. The level of security stocks will be increased to 90 days as from 1.1.2008 onwards.

5.3.1.2. Diversification of the energy supply sources

Establishment of the Vasilikos Energy Centre (VEC): The energy centre will comprise “2 terminals in one”: (a) A terminal for importation/storage/vaporization of the economic and environmentally friendly Liquefied Natural Gas (LNG) and (b) A terminal for importation/storage of petroleum products. The operation of the VEC will enable the importation of natural gas to the island for the first time in the economic and environmentally friendly form of LNG thus contributing towards more efficient power generation and to the reduction of greenhouse gases and emissions. The VEC is expected to commence its operation by the year 2012. Until the completion of the onshore LNG terminal the Government of Cyprus decided to investigate, as a bridging solution, the possibility of the floating LNG unit/technology for a period up to five years. Tenders will be invited in 2008 for the construction and operation of both the floating and the onshore terminal. Due to the mutual and amicable termination of the contract of the Republic of Cyprus and a consortium of consulting companies, it has been decided to tender for new consultants and a project manager.

5.3.2. Priority Area 2: Promotion of the utilization of Renewable Energy Sources (RES) and Energy Conservation (ECon)

5.3.2.1. Implementation of a Programme with a view to promoting Energy Conservation (ECon) and Renewable Energy Sources (RES) Utilisation: The Programme, implemented as from the beginning of 2004, provides financial incentives in the form of support for the encouragement of investments and/or tariff subsidisation in the fields of Energy Conservation and the promotion of Renewable Energy Sources utilisation. It is financed through a special Fund; its revenue derived from a levy of 0.13 cent (CYP) / KWh on the consumption of electricity. In the beginning of 2006 - taking into consideration the increased importance attached to energy issues in the first progress report issued by the European Commission on the Lisbon Strategy and the further rise in the price of oil – the following measures were adopted in order to make the Programme more efficient, flexible and manageable:

- the submission and evaluation procedures were modified and simplified,
- the application fields were broadened to include new investment areas, which are eligible for subsidies via the Programme,
- the intensity of the subsidies granted was increased,
- the Programme has been divided into two distinct areas of investments: (a) for individuals/households and non profit organizations and (b) for companies and other legal entities.

These measures became very effective and this is evident from the fact that in 2006 the number of the submitted applications in the programme reached 9.635 in 2006, compared to 2.737 in 2005 (or 252% increase) and 952 in 2004 (or 187% increase). The rapid rate of increase in the submission of applications is expected to continue for the following years.

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

The Programme includes the following measures:

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

It is noted that there has been significant interest on the part of the public for the utilization of the various measures included in the programme, as reflected in the number of applications submitted.

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

New Measures for Action under Priority Area 2

5.3.2.4. New Measure - Introduction of a Support Scheme for electricity production from biomass and biogas from landfills: The new support scheme provides state aid to encourage the generation of electricity from biomass, in order to realise the target of producing 1.18% of electricity from biomass by 2010. Subsequently, until 2010, it has been estimated that potentially 60.000.000 kWh/ year will be generated thereafter, meeting the indicative target of 1.2% national electricity consumption from biomass and contributing to the overall indicative target of 6% national electricity consumption from renewables.

5.3.2.5. New Measure - Biofuels: Cyprus has set a target of replacing 1% of conventional fuels with biofuels for transport. Also there is a study underway that analyses the possibility of enforcing a specific commitment to the oil companies to include a percentage of biofuels in their products.

Moreover, additions and modifications of the existing legislation are in the process of being promoted, which will provide incentives for the production and use of biofuels.

5.3.2.6. New Measure - Preparation of a National Biomass Action Plan for Cyprus, to be completed until the beginning of 2008. The Action Plan will cover the three main axes of the European Biomass Action Plan: biomass for electricity production, biomass for heating and cooling and biofuels for transport and will identify the indicative national targets for electricity production from biomass and heating/ cooling and find ways to reach the obligating target of the use of 10% of biofuels in transports by 2020.

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

5.3.2.8. New Measure - Increase of the subsidised capacity of Photovoltaic Systems from 5 KW to 20 KW: The maximum subsidised capacity of photovoltaic Systems was increased from 5 KW to 20 KW and covers 55% of the selective cost with a maximum financial support of £38.000 per application. A number of 685 applications were submitted by the end of 2006, which correspond to about 1.8 MW power. Up to date, there are a total of 976 KW installed photovoltaic systems in Cyprus, 440 KW of which have been subsidised.

5.3.2.9. New Measure - Electricity Production from Wind Power:An assessment of the RES on the basis of cost effectiveness indicates that the most important contribution of RES to the electricity consumption of the island will be the use of wind power, (4.56%) as the cost for the generation of electricity via the wind power is substantially lower as compared to other forms of RES, such as photovoltaics and solar thermal for electricity production. It is noted that a total of 27 applications for the provision of financial incentives through the Support Programmes have been received till the end of 2006. Out of these, 22 applications have been approved for financial support during 2007 with a total potential of about 837,23 MW that would be sufficient for covering the 6% production of the total electricity consumption from RES in 2010. The first Wind Power Parks are expected to operate during the course of 2008.

It should be further pointed out that the current electricity grid of the Electricity Authority of Cyprus – EAC (currently the sole installer and owner of the grid) has constraints as to the maximum capacity of external power it can absorb. A study was carried out by the Transmission System Operator, in order to assess the maximum electric capacity of wind power that can be interconnected to the grid system without causing any problems to the network. The study concluded that the system can accommodate 31% of a total restore capacity, namely 325MW, without any stability problems. Based on the present restore capacity of 1050MW, 325MW of restore winter binds can be connected to the system without causing any stability problems.

6. Environmental Sustainability

6.1. State of Play / Progress

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

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

Over the past twelve months, much effort has been placed in promoting the priorities set in the environmental field in the NRP. The complexity of some of the issues involved, however, coupled with time-consuming procedures such as tendering, evaluation, public consultation etc., has delayed certain projects.

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

Significant progress has also been made in the management of solid wastes (domestic, packaging and hazardous) with recycling programs up and running, providing with some very promising figures.

Good progress has also generally been made in promoting the internalization of environmental costs, which included the finalization of an Environmental Technologies Road Map and the Action Plan to promote green public procurement. Satisfactory and according to the timetables set, is the progress achieved in the preparation of the management plan for the protection of coastal zones, as well as in the preparation of the management plans for the Natura 2000 sites. Moreover, a number of seminars were held with a view to raising the environmental awareness of the public.

6.2. Inventory of Progress

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

6.2.1. Policy Priority: Creation / Expansion of the Environmental Infrastructure for a Sustainable Management of Resources and Waste

6.2.1.1. Urban Wastewater Treatment: Cyprus was granted a transitional period until 2012 to meet all requirements of the Urban Waste Water Treatment Directive (UWWTD) 91/271/EEC, i.e. to serve all communities with a population equivalent (permanent and seasonal) exceeding 2000 inhabitants, with central sewerage networks and sewage treatment. This implies the need for an expansion of the existing facilities of sewerage networks and urban wastewater treatment plants (UWWTP) of the 4 major cities and 2 tourist areas to cover the entire population residing in these areas, as well as the construction of sewerage networks and sewage treatment plants to serve 36 rural communities.

Expansion of sewerage facilities in all major municipalities and in 36 rural communities with a population equivalent exceeding 2000 inhabitants: The progress achieved in the period under consideration for the implementation of the UWWTD is presented in detail in the Annex 5. In general, the progress in the urban areas was mainly according to schedule, where construction is already underway. In the rural areas, there has been certain progress but this is intangible, since there was not considerable construction, but rather administrative and procedural progress. (Projects in the rural areas, may be co-financed by the Cohesion Fund, in the Programming Period 2007-2013).

6.2.1.2. Solid Waste

Implementation of a Strategic Plan for the Management of Solid Waste: It includes the establishment of four regional centres (one per administrative district) for integrated management of solid waste as well as the restoration of the existing landfills. Specifically, the Larnaca and Famagusta regional center will be completed by the end of 2009. Regarding the Paphos district regional center, the sanitary landfill is under operation since July 2005, and the whole project is planned to be completed by 2010. For the Limassol and Nicosia centers, the related studies are completed and construction will begin, with a timeframe for completion the year 2010. (These Projects, may be co-financed by the Cohesion Fund, in the Programming Period 2007-2013).

Restoration of existing landfills: the studies have been completed, which identified 113 uncontrolled or semi-controlled landfills under operation. The target set is to close the landfills and restore the impacted areas by the end of 2010.

6.2.1.3. Hazardous Waste

Preparation of a management plan and the construction of a Central Treatment Facility for Hazardous Wastes in Cyprus: The management plan is expected to be completed before the end of October 2007. Based on the plan, the construction of the central hazardous waste facility is planned to start in early 2008 and be completed about 18 months later and may be co-financed by the Cohesion Fund, in the Programming Period 2007-2013. The operation of the central treatment facility is expected to lead to a substantial improvement of the environment and the reduction of possible ill-effects on public health, as these wastes shall be properly managed.

6.2.1.4. Packaging Waste

Establishment of a system for the collection, transport, segregation, recovery and recycling of the packaging waste from some of the main municipalities: In August, 2006, the Minister of Agriculture, Natural Resources and Environment approved the application of the company Green Dot Cyprus Public Co, for the establishment of a collective system for the management of packaging wastes. Green Dot took over the responsibility of producers and organized a collective management system for packaging waste.

Green Dot is dealing with the management of packaging waste (paper/cardboard, plastic, glass, metals and tetra pack.), but also newspapers, magazines. The programme started in October 2006 for the commercial and industrial business and for houses in February for 5 municipalities.

In addition to the above company, the Environment Service, in order to enable Cyprus to meet the targets set by the EU directive, called for tenders for the provision of services for the collection, transport and treatment (recycling, recovery) of packaging waste for two years. The joint venture of companies, which was awarded the Government tender, in June 2006, operates in parallel to Green Dot, but for a limited period of two years. The end of the programme will be in September 2008. Its main role is to complement the targets set by Green Dot, so as to meet the requirements of the Directive 94/62/EC on packaging waste. This Directive required Member States to set up a system that shall lead to a) 50% - 65% recovery and 25%-45% recycling for the total amount of packaging waste

and for each stream (glass, paper/cardboard, metals, plastic, wood) 15% recycling until the 31st of December 2005 and b) 60% recovery or incinerated in waste incineration plants with energy recovery and 55-80% recycling for the total amount of packaging waste and for each stream specific targets for recycling; 60% for glass, 60% for paper, 50% for metals, 22,5% for plastic and 15% for wood, until the 31st of December 2012.

The implementation of the above two schemes will affect positively, the whole field of waste management, reducing the pressure on the existing landfills and providing for a more sustainable use of resources.

6.2.2. Policy Priority: Protection, Preservation and Management of Coastal Areas

6.2.2.1. Implementation of the Coastal Area Management Programme (CAMP)

The Republic of Cyprus will focus in promoting a Coastal Area Management Programme (CAMP Cyprus) as a national strategy for the incorporation of its proposals into the national policy and institutional framework. Following the signature of the contracts between the seven national consultants and the Environment Service that was held in September 2006, the seven activities of CAMP Cyprus have commenced. Three workshops, approximately, have been organized for each activity with the aim to analyze the existing situation, propose guidelines for the future and achieve co-operation between Cypriot ministries and ministerial departments. The Methodology of Integrated Coastal Area Management is one category of the CAMP that includes the activities of Integrated Coastal Area Management (ICAM), Sustainability Analysis, Indicators and Environmental Awareness / Public Participation (*Imagine*) and Biodiversity Concerns which were implemented during October 2006 – April 2007. The Tools of ICAM, that is being implemented during May – December 2007, include the activities of Carrying Capacity Assessment, Environmental Economics and Strategic Environmental Assessment (SEA). The Public Communications, including Website Information Dissemination is the third category of the CAMP which aims to inform the stakeholders and the public.

The project is oriented towards sustainable management of the whole coastal area of Cyprus, introducing and applying principles and practices of the seven activities in the southern periurban coastal area of Larnaca town as a pilot case study. The aim of the project is to give the basis, on which further development and protection of the coastal zone of Cyprus should take place, so as to ensure that economic development as well as environmental protection can coexist.

6.2.3. Policy Priority: Reduction of Greenhouse Gases Emissions

6.2.3.1. Implementation of the Strategic Plan for the Reduction of Greenhouse Gases Emissions

Cyprus does not have any greenhouse gas emission reduction or limitation obligations under the Kyoto Protocol or under Decision 2002/358/EC. However, Cyprus is taking concrete steps to reduce the greenhouse gases emissions of the country, for which the larger increase in emissions between 1990 and 2005 of all EU25 was observed. Accordingly, a number of demand side measures (energy efficiency) and supply side measures (renewable energy) are already being applied.

Specifically, Cyprus's stated target under the Directive 2001/77/EC on the promotion of electricity production from renewable energy sources is to generate 6% of its electricity from renewable energy sources by 2010. A number of measures and incentives are in place to promote investment in renewable energy technologies including wind power, biomass and solar photovoltaic and are presented in the energy section of the report. These measures are already generating substantial interest, and it is clear that the contribution of renewables will increase over the next years.

Furthermore, there are plans to establish an Energy Centre that will introduce Liquefied Natural Gas (LNG) as a major fuel for electricity production to Cyprus.

6.2.4. Policy Priority: Internalization of External Environmental Costs

Environmental Impact Assessment: A new legislation (140(I)/2005) was enacted in December 2005, in order to meet the requirements of the relevant EU Directive 200/35/EC. Through this new legislation, further and more detailed assessments shall be made on a range of projects, so as to ensure their compatibility and take all possible measures to reduce their environmental impact.

Elaboration and implementation of an Environmental Technologies Action Plan: As planned, the Cyprus Environmental Technologies Action Plan was prepared and submitted to the European Commission, in December, 2005. The Action Plan describes the ongoing activities taken by Cyprus in promoting environmental technologies.

The size and structure of the economy do not provide substantial opportunities for extensive basic research in environmental technology. Despite the above limitations, the Action Plan includes a number of actions aiming at promoting the development and dissemination of eco-innovations and environmental technologies.

In addition, an ad-hoc committee for updating the ETAP action plan has been established and has commenced reviewing of the existing road map.

The most important of the actions, which are ongoing, are:

The Research Promotion Foundation's Framework Programme for Research and Technological Development for 2006 (DESMI 2006), included the specific Action of "Sustainability", that covered the environmental technologies.

Within this Action, a number of research projects for sustainable development have been selected for funding, under the following three thematic priorities: Agriculture, Fishery and Forestry, Natural and Urban Environment. The projects that are funded cover a wide range of topics related to: integrated environmental management, sustainable use and preservation of natural resources, with emphasis on water resources, development of new methods of agriculture, aquaculture and animal farming, applications of biotechnologies to traditional agriculture, biodiversity preservation, biological agriculture, waste management (solid and liquid), environmental pollution management, etc.

Furthermore, a number of projects related to environmental technologies have been selected for funding within other Actions of "DESMI 2006". Within the framework of DESMI 2006, twenty-eight (28) projects related to environmental technologies are funded from the Research Promotion Foundation, with a total budget for funding of €3 mn.

In addition, the Research Promotion Foundation is participating in two ERA-NET Projects, related to environmental technologies. These projects are: a) URBAN - NET and b) MariFish.

URBAN-NET aims to structure and coordinate research on urban sustainability in Europe by identifying and addressing trans-national requirements for research and sharing of good practice, in order to support the implementation of the ERA in the urban research field as well as other European legislation, policy and strategies relating to sustainable urban development. The Programme has a five year duration and the budget allocation for Cyprus is €72.600.

MariFish brings together the major European national funding agencies of marine fisheries research to form an effective, working partnership. The Programme has a five year duration and the budget allocation for Cyprus is €34.320.

The Institute of Agricultural Research has initiated a research project on the potential use of biomass for biofuel (biodiesel, bioethanol, biogas and solid fuels) and energy production under Cyprus

conditions. The project, which had a budget of € 170.000 for 2007 including equipment, aimed in the selection of appropriate energy plants that produce sugars, starch or woody biomass with minimum irrigation water requirements and in the technical and economic evaluation of the whole process of production. It will be continued in the year 2008 with an estimated budget of € 50.000. Some of the results of this project will be included in the National Action Plan on Biomass prepared by the Ministry of Commerce, Industry and Tourism of Cyprus.

The Cyprus Institute of Technology continued its activities related to issues of environmental policies for the period January 2006 until June 2007, as follows:

- Funded a number of projects under the Governmental Developing Projects on the following schemes:
 - Subsidy Scheme related to Studies on the Implementation of Quality Control Standards. A number of manufacturing industries applied and received grants related to the implementation of ISO 14001 in their firms.
 - Subsidy Scheme for the provision of Consultancy Services. Manufacturing industries applied for grants for studies related to consultancy services for environmental studies and other related issues, i.e. emission gases, 2nd level treatment of water and other wastes, energy saving, environmental impact assessment studies.
- Continued the accreditation of consultants in various specialisations. During the above mentioned period, the Institute evaluated applications from consultants in the areas of Environmental Management, Energy Management, Quality Systems (i.e. ISO 14001). These consultants were accredited and they are now included in the List of Accredited Consultants of the Institute. During this period the consultants accepted and implemented numerous projects under the Governmental Development Projects (mentioned in the previous paragraph).
- Been an active member of the IRC (Innovation Relay Centre) Network and hosting the IRC Cyprus, with more than 300 customers (members). Two members of its staff are actively participating in the Environment Thematic Group and the Renewable Energy Thematic Group of the Network. Among others the groups offer assistance for:
 - Transfer of technology from and to Cyprus.
 - Participation in various transnational and brokerage events.
 - IPR Consultation.
 - Assistance in fund raising for innovation development.
 - Assistance during the negotiation phase.

Grant Scheme for the protection of the environment from industrial pollution is implemented as from 2004. The scheme offers investment aid for the installation of pollution control systems in the sectors of mining and quarrying, manufacturing industry, car maintenance, packaging, the processing or recycling of waste, the washing or dry cleaning of textiles and the conservation of the natural resources. The intensity of investment aid offered varies from 15% to 45% of the eligible costs, depending mainly on the size of the enterprise and the environmental improvement. In 2006, support was given to 60 manufacturing enterprises for the installation of pollution control systems, with a total grant of €1.19 mln. The Ministry of Commerce, Industry and Tourism accepted applications for the above support scheme until September of 2006 and will make payments until the end of 2008 / beginning of 2009. In 2006, support was given to 18 main enterprises with total grant of €204.000.

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

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

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

Additionally, several leaflets and brochures will be published before the end of 2007 to disseminate information on the issue.

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

6.2.5. Halting the Loss of Biodiversity

The biodiversity of Cyprus, being an island, is unique and its preservation is extremely important both to the overall balance of nature as well as for economic reasons. Cyprus has many areas of importance as far as concerns biodiversity. Its forests, its wetlands, its coastline, its sea, constitute a mosaic of species of flora and fauna, many of them being endemic.

“Natura 2000” sites

Cyprus has already proposed 38 sites to be included in the “Natura 2000” Network and is now in the phase of the preparation of the management plans for these areas, with an overall target, their protection. Projects deriving from the management plans, may be co-financed from the Structural Funds, in the Programming Period 2007-2013.

The preparation of management plans for 4 sites of the “Natura 2000” Network and the promotion of specific actions for the protection of the species and habitats of these sites are underway. This project is funded by the LIFE Nature Program of the E.U, and is expected to be completed by April 2008.

The preparation of management plans for another 8 sites is being financed under the Transition Facility of the E.U. The preparation of the management plans is already underway and is expected to be completed by the end of 2007.

The European Commission has approved the finance through Transition Facility, of the preparation of management plans for another 13 sites included in the “Natura 2000” Network. The proposal for tenders is expected to take place by the end of 2007 and the management plans will be completed by mid 2009.

Enforcement of the Law on the Protection and Management of Nature and Wildlife (153(I)/2003)

The protection of a number of species and habitats is foreseen through the provisions of the Law. The control of import and export of endangered and invasive species as well as the monitoring and promotion of measures for the protection of the species and habitats, has as an overall target, the protection of the biodiversity.

The completion of the SPA (Birds Directive 79/409 Special Protected Areas) list covering all Annex I species and regularly occurring migrants in the Republic is almost finalized. This results in the more effective coverage and protection of the best habitats for the above species and the creation of wildlife corridors connecting important sites. The completed SPA list will be ready by the end of 2007. The preparation of Management Plans for all NATURA 2000 sites is essential to support biodiversity conservation and the sustainable use of the ecosystem involving local communities in this effort.

Strict enforcement of Law 152(I)/2003 related to illegal bird trapping and hunting policy according to the Birds Directive. Illegal, indiscriminate bird trapping of migratory passerines poses a threat to biodiversity. Strict and effective law enforcement has reduced the massive capture of small migrants by almost 80% but the effort will continue as long as trapping is still a significant conservation issue. This effort, tied up with wildlife education in schools and increased public awareness, will help uproot this problem entirely in the next decades.

Systematic wildlife bird population monitoring and protection of other wildlife species (such as the endemic Cyprus mouflon) throughout the year are important sectors of wildlife conservation. Close population monitoring shows species population status and warns the possible factors of decline. Monitoring also indicates possible habitat degradation and shows whether conservation actions had a positive effect on the target species.

The conservation of biodiversity is threatened by the presence and future introduction of exotic and invasive species of flora and fauna: Invasive plants exist in sensitive habitats and there is an ongoing effort to control and eradicate them. Increased wild animal trade also poses a potential threat to the island's fragile ecosystem.

6.2.6. Raising Environmental Awareness

The environmental awareness of the public is decisive for success. Thus, the Environment Service organized over the past years a series of seminars all over Cyprus towards this end.

V. EMPLOYMENT CHALLENGES

A. Introduction

The labour market of Cyprus continues to exhibit conditions of full employment. As stated in the NRP, the Cypriot labour market is characterised by conditions of near full employment and relatively high participation and employment rates. During 2006, aided by a favourable GDP growth rate, the labour market situation returned to the satisfactory levels of 2004, after the modest deterioration that was observed in 2005. Indicatively, the overall participation rate, according to the Labour Force Survey, rose to 73.0% compared to 72.4% in 2005, whereas the unemployment rate fell to 4.5% compared to 5.3% in 2005. Furthermore, the overall employment rate increased to 69.6%, following the drop to 68.5% in 2005, and has almost reached the 2010 Lisbon target of 70%. The employment rate for women also increased to 60.3%, from 58.4% in 2005, exceeding for the first time the relevant Lisbon target of 60% for 2010. The employment rate for older workers increased to 53.6%, from 50.6%, remaining above the relevant Lisbon 2010 target of 50% for 2010.

Another basic characteristic of the labour market is the employment of a large number of foreign workers, particularly in unskilled or low-skilled occupations. In 2006 foreign workers represented 17.7% of total gainful employment – or 12.7% if EU-24 nationals are excluded.

At the same time, the employment of Turkish Cypriots in the Government-controlled areas reached about 0.9% of total gainful employment, according to social security sources.

Basic labour market indicators are shown in the following table:

Indicator	2000	2001	2002	2003	2004	2005	2006	EU-27 2006
GDP Growth	5.2	4.1	2.1	1.9	4.1	3.9	3.8	3.0
Employment growth	1.6	2.2	2.1	3.8	3.8	3.6	1.5	1.4
Employment rate (15-64)	65.4	67.9	68.5	69.2	69.1	68.5	69.6	64.3
Men	78.6	79.4	78.8	78.8	80.0	79.2	79.4	71.6
Women	53.0	57.1	59.0	60.2	59.0	58.4	60.3	57.1
Employment rate (55-64)	49.5	49.1	49.2	50.2	50.1	50.6	53.6	43.5
Men	67.4	66.8	67.0	68.7	70.9	70.8	71.6	52.6
Women	32.1	32.2	32.1	32.6	30.4	31.5	36.6	34.8
Unemployment rate	5.0	4.0	3.3	4.1	4.7	5.3	4.5	8.2
Men	3.2	2.6	2.6	3.8	3.5	4.3	3.9	7.6
Women	7.3	5.7	4.2	4.6	6.2	6.5	5.4	9.0
Youth Unemployment	10.2	8.2	7.7	8.9	10.7	13.9	10.0	17.4
Men	6.7	6.0	8.0	9.0	9.3	13.2	8.9	17.1
Women	13.3	10.2	7.6	8.8	12.2	14.7	11.1	17.9
Long-term Unemployment	1.3	0.9	0.7	1.0	1.3	1.2	0.9	3.6
Men	0.5	0.6	0.4	0.8	0.9	0.8	0.7	3.3
Women	2.3	1.1	0.9	1.3	1.7	1.8	1.2	4.0
Activity rate (15-64)	69.1	70.6	71.2	72.4	72.6	72.4	73.0	70.1
Men	81.4	81.5	81.3	82.2	83.0	82.9	82.7	77.5
Women	57.7	60.6	61.8	63.3	62.9	62.5	63.8	62.8

Indicator	2000	2001	2002	2003	2004	2005	2006	EU-27 2006
Labour Productivity								
Growth per capita	2.8	1.1	0.2	-0.5	0.9	1.7	1.5	2.0
Education and Training								
Educational Attainment (20-24)	79.0	80.5	83.5	79.5	77.6	80.4	83.7	77.8
Lifelong learning (25-64)	3.1	3.4	3.7	7.9	5.9	5.9	7.1	9.6
Early school leavers	18.5	17.9	15.9	17.4	20.6	18.2	16.0	15.3

Source: EUROSTAT

B. Challenges / National Targets in Relation to the European Employment Strategy

The main challenges faced by Cyprus, as identified in the NRP, are the following:

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

The national targets in relation to the European Employment Strategy were set as follows:

1. Increase the overall employment rate to 71% by 2010.
2. Increase the employment rate of women to 63% by 2010.
3. Increase the employment rate of older workers to 53% by 2010.

C. Overall progress (Country Specific Recommendations – Other Points)

The most important NRP developments in the fields of **education, training, apprenticeship** and **lifelong learning** were the following:

Improvements in **ICT use in education**, with special systems and special software, progressed further. Concerning the **upgrading of secondary technical and vocational education**, the final draft of a relevant study was completed last August, while external evaluations of both technical/vocational education programmes and of the existing apprenticeship scheme are in progress, with a view to improving curricula and other aspects of the systems.

Furthermore, the Minister of Education and Culture, on the basis of a decision by the Council of Ministers, has submitted a strategic plan in late September within the context of the educational reform to teacher organisations and other stakeholders with a view to arrive at policy decisions within the next few months on **educational reform issues** such as the quality of education, teacher training and assessment, and the curriculum up to the lyceum.

A “**new modern apprenticeship**” is being developed at the same time. A detailed proposal, which has been examined by government departments and social partners, will be submitted to the Council of Ministers before the end of October 2007. The New Modern Apprenticeship, aims to ensure the employability of young people and their participation as active citizens in society, while, at the same time to meet the labour market needs. It will consist of a preparatory, a core, and a post-secondary level. It should be noted in this context, that for a transitional period of two years, parts of the current apprenticeship scheme will co-exist with parts of the new apprenticeship.

Actions undertaken by the **Human Resource Development Authority** included, inter alia the following: Upgrading and evaluation of programmes, including a study on the impact of existing schemes on the labour market that led to policy decisions for their modification/ enrichment. The gradual establishment of a System of Vocational Qualifications is progressing, as well as the consultation process towards setting up a system for appraisal and certification of training providers. Schemes to increase employability are also developing, including one for inactive women, one for young people and one for the unemployed. Finally, a scheme was implemented, offering consultancy and training to micro-enterprises.

Opportunities for university education in Cyprus increased, due to developments in the University of Cyprus and the Open University, as well as the beginning of the operations, as from this academic year, of the Technological University and three private universities.

A detailed paper for a comprehensive national **lifelong learning strategy** was drafted by the Government and, following consultations of the social partners, it will be submitted to the Council of Ministers for approval before the end of October. The strategy is based on four pillars, i.e. access for all, enhancing infrastructures and systems, promoting supporting research and development, and effective governance. Moreover, the European Life Long Learning Programmes Management Foundation, was established.

Other important developments included the following:

- In the field of labour supply and gender equality, measures on care services, on balancing family with occupation, and on activation of older and younger persons progressed further; while a national action plan on gender equality was adopted.
- In the field of labour market flexibility, enhancement and modernisation of the public employment services, the flexible jobs projects and the assessment of labour market needs, proceeded further.
- In the field of economic migration, the strategy on foreign workers was agreed with the social partners while a set of acquis harmonisation laws was enacted.
- In the field of social inclusion, various measures progressed in connection with vulnerable groups and with access to housing, education and health.
- As regards flexicurity, an interdepartmental Committee was set up within the Ministry of Labour and Social Insurance, for the preparation of a policy paper on how to promote flexicurity further, with a view to achieving an integrated and balanced policy mix.

Details about developments concerning measures relating to country specific recommendations as well as other measures, are presented below (Section D) by employment challenge/priority, as well as in Annex 6.

D. State of play / progress by employment challenge

1. Challenge: Maintain High Rates of Increase of Labour Supply, particularly by Enhancing Old-Aged and Female Participation Rates, and Reduce Gender Inequality

1.1. State of Play / Progress

As stated in the NRP, the shortages in the labour market and the gradual ageing of the population increase the need for attracting inactive labour force (women, older people etc) into the labour market. Despite their relatively high participation and employment rates, there is still potential for further increase and better utilisation of the inactive indigenous labour force. Moreover, it is necessary to build employment pathways for young people and reduce youth unemployment, which is much higher than the national unemployment average, and exhibits a rising trend, indicating some impediments and difficulties in the transition process from education to work. Furthermore, there is a need for strengthening the employability of the unemployed. In addition, as also stated in the NRP, there is a need for improving the position of women in both employment and pay – and for understanding and reducing the gender pay gap.

All measures included in the NRP are being promoted in accordance with the timetables foreseen or with minor delays. (Some of these measures, may be promoted through the Operational Programme “Employment, Human Capital and Social Cohesion”, which will be co-financed by the ESF during the Programming Period 2007-2013). Indicatively:

Concerning **female participation**, five existing NRP measures plus a new one developed during the year. Specifically, the schemes for women’s entrepreneurship, for training and employability of inactive women, for providing grants in aid of NGOs and local communities, for expansion and improvement of care services for dependents, and for reconciling family and professional life (through EQUAL projects) proceeded well; while new measures are promoted for the subsidisation of care services – for pre-school children and for home technologies concerning the elderly and people with disabilities.

Concerning **gender equality**, a National Action Plan was adopted by the Government in 2007, aiming to promote gender equality in all spheres of policy; public funds allocated or other support given to NGOs by the National Machinery for Women’s Rights – directly or through the Local Authority Dimension programme – rose further in 2007; and a study commissioned on the problem of the pay gap was completed and policy measures for reducing the gap were suggested, to be implemented in consultation with public authorities, social partners and stakeholders.

Concerning **active ageing**, the retirement age in the wider public sector has risen in most cases to 63 (i.e. by three years); the scheme promoting the self-employment of elderly persons became more popular; and a study for suggesting new actions for promoting active ageing was completed.

Concerning **employment pathways for young people**, two schemes progressed further, i.e. one for encouraging youth entrepreneurship and another for the promotion of training and employability of young secondary school graduates.

Concerning **pathways for the unemployed**, the scheme on training and employability of unemployed persons continued to be implemented while a new scheme on computer literacy of the unemployed was launched and is being implemented.

2. Challenge: Increase the Flexibility of the Labour Market

2.1. State of Play / Progress

As stated in the NRP, the labour market in Cyprus can be considered to be relatively flexible and well functioning. Pay increases vary across sectors, with nominal pay increases in low growth sectors being lower than the national average pay increases. This is a sign of relative flexibility in the wage-settlement system, notwithstanding the existence of the backward-looking, though modified, COLA system and the low utilisation of incentive remuneration schemes. However, there may be room for more flexibility, given the observed quantitative and qualitative imbalances reflected by mismatches between demand and supply in a number of occupations and the significant presence of foreign workers.

During 2002-2003 legislation regulating part-time and temporary (fixed-term) employment was enacted. Since then, not necessarily due to the legislation, there has been a slowly rising trend, with variations, in such types of employment. Specifically, during the last three years (2004, 2005, 2006):

- Part-Time workers (incl. self-employed), as percent of total employment: 8.5%, 8.9%, 7.7%.
- Temporary workers (employees only), as percent of total employees: 12.9%, 14.0%, 13.1%.

With a view to increasing flexibility in the labour market all measures included in the NRP are being promoted in accordance with the timetables foreseen or with minor delays. Indicatively, with regard to the enhancement and modernisation of **public employment services**:

- Three existing district labour offices were upgraded and five new local labour offices were set in operation during 2007.
- Employment counsellors were recruited and trained to provide active support to job seekers, with special attention to vulnerable groups.
- Three supporting studies were being finalised while a fourth one will begin before the end of October 2007.
- A tender procedure for the development of software and statistical systems on job placement and on monitoring of labour-market flows was launched in (June) 2007.

With regard to the promotion of **flexible employment forms**:

- A scheme was launched in (February) 2007 to encourage the creation and the seeking of flexible jobs, for previously unemployed or economically inactive women.
- A new measure is being developed (for the 2007-13 programming period) to help attract and keep more persons in the labour market while encouraging enterprises to create jobs that are both flexible and secure. It will be implemented by mid 2008.

With regard to the **on-going assessment of the economy's labour market needs**, three studies with 10-year employment forecasts were completed and disseminated to a wide audience of stakeholders, i.e. central authorities, social partners, schools, parents and students. Furthermore, the annual investigation for identifying initial training needs was prepared and used appropriately for policy decisions.

With regard to the (further) **promotion of adaptability of workers and enterprises** (added to the policy priorities in 2007), a scheme aiming to facilitate the shift to high-productivity and high-value-added jobs through subsidies to enterprises was promoted, for implementation in early 2008.

As regards the issue of “**flexicurity**”, it may be said that the importance of security coupled with flexibility in the labour market was indirectly covered in the NRP, since the set priorities made reference to both flexibility of markets and social protection and inclusion. During the last year, more attention has been paid to flexicurity as a single, unified policy, aiming to treat flexibility and security as complementing each other. Specifically, an interdepartmental committee on flexicurity was set up within the Ministry of Labour and Social Insurance to examine the issue further, with terms of reference to carry out a diagnostic study and to prepare a policy paper on how to promote flexicurity further, with a view to promoting an integrated and balanced policy mix.

3. Challenge: Orderly Manage Foreign Worker (third-country) Issues to Serve the Economic and Social Needs of the Country

3.1. State of play / Progress

As already stated in the Labour Market Introduction, a large number of foreign employees, particularly in unskilled or low-skilled occupations, continue to work in Cyprus. In 2006 they represented 17.7% of total gainful employment if EU-24 nationals are included (higher than the 15.7% of the previous year) – or 12.7% if EU-24 nationals are excluded. Additional foreign employees were known to work without a permit.

Aiming at an orderly management of economic migration issues, to serve the economic and social needs of Cyprus, the NRP measures were promoted. Following new consultations among the competent ministries and with the social partners, the **new strategy** was agreed in July 2007. The strategy, which is expected to be implemented very soon, sets quotas on foreign workers (on the total workforce and on each enterprise) while favouring the employment of highly-skilled workers, puts time-limits on processing of applications, verifies the right of the worker to change employer, provides for sanctions, and sets up coordination and monitoring mechanisms. In the meantime, in the field of **legislation**, a package of EU- harmonisation laws was enacted, on issues such as family re-unification, the definition of facilitation of unauthorised entry, the penal framework to prevent facilitation of entry, transit and residence, and assistance in case of transit for the purpose of removal by air; while two more harmonisation laws, i.e. on obligations of carriers and on students and trainees, are pending at the House of Representatives for enactment.

4. Challenge: Develop Human Capital Further

4.1. State of Play / Progress

As stated in last year’s report, particular importance has been attached in the NRP towards the continuous improvement of the quality of education and the flexibility of the educational system, at all levels, in order to secure its closer and more effective link to the labour market needs, as well as a continuous upgrading of the training and retraining programmes. As was also stated in last year’s report, and as evidenced by many indicators shown there, while education in Cyprus is strong on many fronts there is still room for improvement, especially for developing multiple skills and adaptability, raising the attractiveness of technical and vocational education as well as the apprenticeship scheme, whereas the adult participation rate in training is rather low, indicative of the need for a more comprehensive lifelong learning strategy.

Some indicators on education are shown below, for 2004-05 and 2005-06 respectively⁵.

- Public expenditure on education as percent of GDP: Over 6%, 7%
- People aged 20-24 who have completed upper secondary education: 80.7%, 83.7%
- Enrolment rate of 20-24 year olds in tertiary education (gross): 63%, 65%

⁵ Source: Statistical Service, Statistics of Education.

- Net participation rate in secondary education for young persons⁶: 94%, 94%
- Continuing to upper secondary education⁷: 99.7%, 100.2%
 - In secondary general education: 85.4%, 87.0%
 - In secondary technical/vocational education: 14.5%, 13.2%
- Apprenticeship scheme participation⁸: 1.4%, 1.2%
- Higher education percentage (on 25-64 population): 29.4%⁹
- Training participation of persons aged 25-64: 5.9%, 7.1%

With a view to promoting the further development of human capital, the NRP measures are being promoted, mostly within the timetables foreseen. (Some of these measures, may be promoted through the Operational Programme “Employment, Human Capital and Social Cohesion”, which will be co-financed by the ESF, during the Programming Period 2007-2013). Indicatively, with regard to the policy priority for **improvement of the quality of education at all levels**, improvements in ICT use in education progressed further, involving special systems and software – including a “learning management system” platform for teachers to find material and communicate with other teachers and students. Computer subjects were introduced in all-day, compulsory, primary schools; while a plan aiming to supply all classrooms of primary schools with ICT equipment, which started in school-year 2006-07, has continued. The digital training of secondary general and vocational education teachers on basic skills and ICT is proceeding, with 38% of teachers having been trained (since July 2007); while training of primary education teachers in basic computer skills has reached 42% (since July 2007).

Furthermore, the Minister of Education and Culture on the basis of a decision by the Council of Ministers, has submitted a strategic plan in late September, within the context of the educational reform to teacher organisations and other stakeholders, with a view to arrive at policy decisions within the next few months, on **educational reform issues** such as the quality of education, teacher training and assessment, and the curriculum up to the lyceum.

With respect to the priority of increasing Opportunities for University Studies locally, there were favourable developments concerning: the University of Cyprus, where the Biology Department has accepted its first students in the year 2007-08 and more students are joining existing programmes; the Technological University, which started its operations in the academic year 2007-08; the Open University, which has expanded in the same academic year with two new post-graduate programmes; and private-sector tertiary education, with the establishment, this academic year again, of the first three private universities.

Concerning **secondary technical and vocational education**, the final draft of a commissioned study was completed in August. External evaluations of both technical/vocational education programmes in general, and of the existing apprenticeship scheme in particular are in progress, with a view to improving curricula and other aspects of the systems.

A “**new modern apprenticeship**” was being promoted at the same time. A detailed plan, having been examined by government services and social partners, will be submitted to the Council of Ministers before the end of October 2007. The New Modern Apprenticeship, (aiming to ensure the employability of young people and their participation as active citizens in society, while at the same time to meet the labour market needs), will consist of a preparatory, a core, and a post-secondary level, and will embrace young people of ages 14-25. It will be supported by a research and development centre and will be linked to the system of vocational qualifications being implemented by the Human Resource Development Authority. It should be noted in this context that for a transitional period of two years, parts of the current apprenticeship scheme, will co-exist

⁶ Of age 12-17 years old.

⁷ Of those finishing compulsory education.

⁸ On population of upper secondary education.

⁹ In 2004. Not available for 2005.

with parts of the new apprenticeship. The new apprenticeship will become operational in 2010, and as from 2011, post secondary apprenticeship will be incorporated into a system.

With respect to the priority of **continuous upgrading of skills to labour market needs**, evaluation and upgrading of **human resource programmes** went on by the Human Resource Development Authority. This included, inter alia:

- The completion of a study for evaluating the impact of existing schemes on the labour market, and the starting of the modification/enrichment of these schemes.
- Further progress in the two-phase implementation of the Vocational Qualifications System, which enables employees to have their competences assessed and to achieve certification.
- Progress in the establishment of a system for the Appraisal and Certification of Training Providers. In particular, a draft proposal for the system has been prepared by the external consultants and is due to be finalised after consultations with the stakeholders leading to approval by the Board of Directors.
- Extension of rendered training programmes, to increase employment opportunities: As described under the first employment challenge, progress has been achieved with regard to the schemes for selected target groups (women, young, unemployed). As regards the scheme for consultancy services and training to micro-enterprises, its implementation has proceeded.

With respect to the priority of developing a **Comprehensive Lifelong Learning Strategy**, a detailed paper on such a strategy at national level was drafted by the Government and, following consultations with the social partners, it will be submitted to the Council of Ministers for approval, before the end of October. The strategy is based on four pillars, i.e. access for all, enhancing infrastructures and systems, promoting supporting research and development, and effective governance. It is expected to contribute substantially to the attainment of EU benchmarks on lifelong learning. Moreover, the European Lifelong Learning Programmes Management Foundation, was established.

5. Challenge: Enhance the Conditions of Social Cohesion

5.1. State of Play / Progress

As stated in the NRP, Cyprus is generally characterised by conditions of social peace and broader social cohesion. Economic inequality, poverty and social exclusion are not major problems in Cyprus. This is attributable mainly to the traditionally low unemployment rate, as unemployment constitutes the main source of poverty and exclusion.

In 2005 and 2006, the overall long-term unemployment rate was 1.2% and 0.9% respectively, comparing favourably with the EU-25 rates of 3.9% and 3.6% for these two years. Similarly, long-term unemployment rate for men was 0.8% and 0.7%, for the same two years, and for women 1.8% and 1.2% respectively, comparing favourably with the respective EU-25 of 3.5% and 3.2% (men) and 4.5% and 4.0% (women).

Moreover, the long-standing social policies pursued contributed positively to the maintenance of conditions of social cohesion. However, pockets of exclusion do exist amongst the elderly, people with disabilities, single-parent families and families whose economically active members have low educational qualifications. In this respect the Government, within the framework of its overall social policy to ensure an adequate standard of living for everyone, provides public assistance to persons legally residing in Cyprus if their resources do not meet basic and special needs.

Furthermore, there are a number of Government schemes and grants targeting vulnerable groups such as the elderly, persons with disabilities, drug users, and low-income households wishing to

acquire their own home. It is also noted in this respect that a social pension is granted to persons above the age of 65 who are not eligible for pension through the national Social Insurance Scheme.

Indicators on Social Cohesion

(in percentage, unless otherwise specified)

	1997	2000	2001	2002	2003	2004	2005	2006
Risk-of-poverty rate	16.3				15.3	16.2		
Inequality of income distribution (S80/S20) ¹⁰	4.4				4.1	4.3		
Gini Coefficient ¹¹	0.29				0.27	0.29		
At risk of poverty after social transfers ¹²					15.3	16.2		
Risk of poverty among elderly persons (over 65)	58.2				51.8	50.7		
Risk of poverty among children (under 16)	12.3				11.2	12.4		
Early school leavers (18 to 24 years old) ¹³		18.5	17.9	15.9	17.4	20.6	18.2	15.3
Long-term unemployment rate		1.3	0.9	0.7	1.0	1.3	1.2	0.9
Children aged 0-17 living in jobless households		4.8	3.9	3.9	3.4	2.6	3.5	3.9
Public social protection expenditure (% of GDP)		11.0	11.1	12.7	14.6	14.3	14.5	
Taxation of low wage earners ¹⁴ (in %)		16.7	17.0	17.4	18.6	18.6	19.1	
Youth unemployment rate		10.2	8.2	7.7	8.9	10.7	13.9	10.0

The emphasis attached by the Government to enhancing the conditions of social cohesion and modernising the social protection system is reflected in an improvement of the situation concerning social inclusion and income distribution inter-temporally, as shown indicatively by a comparison of the results of the Family Budget Survey carried out in 2003 vis-à-vis the corresponding results of the Family Budget Survey of 1996/1997. Specifically:

- The percentage of people at risk of poverty after social transfers (i.e. people having an income lower than 60% of the equivalent median income) has fluctuated around 16% since 1997 (16.2 in 2004), which is almost the same as the EU-25 average.
- The risk of poverty for older persons (over 65), who represent almost 12% (2005) of total population, among whom the risk of poverty is mainly concentrated, fell further to 50.7% in 2004, i.e. by one percentage point over the previous year and several percentage points

¹⁰ Ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the population with the lowest income (lowest quintile).

¹¹ The Gini coefficient ranges between 0 (full equality) and 1 (full inequality).

¹² It is measured by the share of persons with an equivalised disposable income, before social transfers, who are below the risk-of-poverty threshold. That threshold, is set at 60% of the national median equivalised disposable income, after social transfers.

¹³ Eurostat definition may over-estimate figures for Cyprus, due to the high incidence of Cypriots of age 18-24 studying abroad or doing compulsory military service.

¹⁴ Tax wage on labour cost: ratio of income tax plus employee and employer social contributions including payroll taxes less cash benefits divided by the labour costs for a single earner earning 67% of the Average Production Worker.

below the 1997 figure¹⁵. It should also be noted that this rate is still calculated without taking into account the provident fund sums often received by people upon retirement¹⁶.

- The at-risk-of-poverty rate for children (0-15 years), which according to the 1997 statistics was one of the lowest in the EU, at 12.3%, decreased further to 11.2% in 2003 and regressed to 12.4% in 2004.
- The S80/S20 indicator of income distribution inequality fell marginally from 4.4 in 1997 (Family Budget Survey) to 4.3 in 2004, having fallen to 4.1 in 2003. The Gini coefficient, which had shown an improvement in 2003 relative to 1997 rose again in 2004 to reach the EU-25 (2003) average of 0.29.

With a view to further enhancing the conditions of social cohesion, the Government is promoting the implementation of a set of measures included in the NRP. Indicatively:

- Public social protection expenditure, following a small drop from 14.6% in 2003 to 14.3% of GDP in 2004, rose to 14.5% of GDP in 2005, well above the 2001 and 2002 figures of below 13%.
- The legislation on Public Assistance was revised in April 2006 incorporating enhanced employment incentives to encourage the integration into the labour market of public assistance recipients and their gradual independence from public funds.
- Various actions targeted at public assistance recipients, persons with disabilities, older persons, drug users and asylum seekers are being promoted, mostly as scheduled in the NRP.
- In the area of housing, the Government is in the process of unifying all public non-refugee-housing schemes targeted at low-income families, persons living in disadvantaged areas and large families, in an attempt to achieve uniformity and improvement of the criteria used, as well as of the provisions of the various schemes.
- The Government is reconsidering its social welfare policy, so as to target the really needy and vulnerable groups in society, through the introduction of income criteria, at the household level, in the provision of a number of grants such as child and student grants, as well as a grant given to the pensioners. The introduction of income criteria will lead to a significant increase in the level of grants for the needy, with an expected significant reduction in the risk of poverty of the groups which are most endangered. (See eligibility criteria for social benefits, in macro section.)
- In October 2006, the Cyprus National Report on Strategies for Social Protection and Social Inclusion was submitted to the EU.

Recognising that employment in the labour market helps to alleviate social exclusion, the Government has endeavoured to encourage and facilitate access and/or return to the labour market of vulnerable groups, through the expansion of educational and training programmes and facilities. Such assistance and strong labour demand has, for instance, helped to keep the rate of youth unemployment at relatively low levels (13.9% in 2005 and 10.0% in 2006), well below the respective EU-25 averages of 18.3% and 17.1%.

¹⁵ It is anticipated that the risk-of-poverty rate for persons 65+ years will fall to 48% in 2006, based on inter-temporal trends. This downward trend is expected to result from the gradual maturation of the national Social Insurance System and the increase in the labour force participation rate observed in recent decades – for women in particular – which will result in higher retirement benefits. If these estimates are confirmed, then the 2010 targets on the reduction of poverty will be revised upwards.

¹⁶ Provident Funds, which cover about 30% of the gainfully employed population and provide lump-sum benefits in case of retirement, death, invalidity or termination of employment, are not taken into account for calculating the income of retired people. If Provident Funds were either measured as current income or converted into annual pension scheme equivalent receipts, there would be a reduction in the proportion of elderly people at risk of poverty.

VI. COORDINATION BETWEEN THE NATIONAL REFORM PROGRAMME AND THE STRUCTURAL FUNDS

1. Cohesion Policy: Programming Period, 2004-2006

The funds allocated to Cyprus for the programming period, 2004 - 2006 are utilised through the following programming documents:

- Single Programming Document (SPD) for Objective 2
- Single Programming Document (SPD) for Objective 3
- Single Programming Document (SPD) for Fisheries
- Strategy Paper for the Cohesion Fund

Structural Funds are utilized in this programming period for the achievement of the Lisbon objectives and for the effective tackling of the challenges faced by Cyprus. The relevant actions are closely monitored by the technical committees set up for the implementation of the NRP.

1.1. Objective 2 Programme

The Objective 2 Programme, which is co-financed by the European Regional Development Fund in Cyprus for the period 2004-2006, includes a number of actions aiming at the enhancement of the production base in the rural areas . The total financial resources of the Objective 3 Programme amount to € 58,7 mln out of which € 28 mln are the ERDF contribution.

1.2. Objective 3 Programme

The Objective 3 Programme, which is co-financed by the European Social Fund (ESF), aims at the development and more efficient utilisation of human capital in conditions of social cohesion and equal opportunities, through the promotion of employment and the qualitative upgrading of human capital. The total financial resources of the Objective 3 Programme amount to €43,9 mln out of which €21,9 mln are the ESF contribution.

1.3. Cohesion Fund

Two projects are co-financed by the Cohesion Fund, one in the transport sector and one in the environment sector. Specifically, the co-financed projects are (a) the upgrading of two Limassol roundabouts to fly overs and (b) the construction of a new sanitary landfill site and transfer stations for the municipal solid waste of Larnaca and Ammochostos areas. The transport project contributes towards the tackling of the NRP challenge “expansion and upgrading of basic infrastructures” whereas the investment project towards the challenge of “environmental sustainability”.

1.4. Absorption Rates

For the period 2004-2006 Cyprus has secured an amount of € 109,21 mln from the Structural funds and the Cohesion Fund. In order to ensure the timely absorption of the assistance received from the Structural and Cohesion Funds, for the Programming Period 2004-2006 there is continuous monitoring of the progress of all co-financed projects and all possible steps and measures for the acceleration of absorption have been taken. For the year 2006, the absorption target was achieved for all co-financed programmes, avoiding any de-commitment of funds. The relevant Services are now intensively working towards meeting the N+2 target for 2007 as well. On the basis of the current state of play, the expenditure already incurred and the set timetables of the projects that are currently been implemented, the risk of de-commitment of funds is expected to be avoided for 2008 also. More specifically, for the year 2007, the required amount of expenditure has already been paid by the Final Beneficiaries under the Programmes of Objective 2, Fisheries and the Community Initiative “Equal”. For the Fisheries Programme, the expenditure has also been certified to the European Commission,

whereas for the Objective 2 Programme and the Community Initiative “Equal”, expenditure is now being verified and expected to be certified soon. For the Objective 3 Programme, all necessary measures are taken and there is closer monitoring of the implementation of the projects and the flow of payments, in order to ensure the timely absorption of the funds. Concerning the overall reimbursement of funds, considerable progress has been made and it is expected that by the end of the programming period 2004-2006 (31.12.2008) all Community funds allocated to Cyprus under the Structural and Cohesion Funds will be absorbed.

To date, an amount of € 44.15 mln has been received by the EU representing 40.4% of the total EU contribution, whereas an additional amount of € 2.4 mln has been certified to the Commission, which will rise the absorption rate at 42,4%. Furthermore, the Final Beneficiaries have made payments pending for verification and certification amounting to € 22.19 mln that will soon increase the absorption rate to 62.7%.

Details regarding the implementation of the projects are given in the various Chapters and the Annexes of the current Progress Report.

2. Cohesion Policy: Programming Period 2007-2013

2.1. Introduction

The National Strategic Reference Framework (NSRF) 2007-2013, provides for its strategy and priorities to contribute, to the maximum possible extent, to the objectives of the National Reform Programme (NRP). Overall, the programming procedure is such as to guarantee the relevance of the programming documents, which are prepared for the Cohesion Policy, the NRP, the National Strategic Plans for Rural Development and Fisheries and the national policy priorities, as reflected in the Strategic Development Plan 2007-2013, in a single strategy framework.

The contribution of the interventions provided for under the NSRF priorities to the attainment of the NRP objectives shall be the maximum possible, taking into consideration both the amount and structure of the Cohesion Policy funds in Cyprus and its particular development needs. The indicative quantitative contribution of the National Strategic Reference Framework to the implementation of the Lisbon Objectives is presented in Annex 8.

Below, an analysis is given of the coherence with the National Reform Programme, at Operational Programme level.

2.2. Consistency of the Strategy of the Operational Programmes 2007-2013 with the National Reform Programme

2.2.1. Operational Programme “Employment, Human Capital and Social Cohesion”

The strategy and the objectives of the Operational Programme “Employment, Human Capital and Social Cohesion”, present a direct and strong consistency with the following employment challenges/objectives of the NRP:

- The additional improvement of human capital
- The enhancement of social cohesion conditions
- Taking measures in order to reduce the percentage of those people leaving education in a premature stage (early school leaving).
- The promotion of Lifelong Learning

In detail, the priority axes of the Programme, as shown in Table 1 below, present a direct or indirect consistency with the main employment challenges/objectives of the NRP.

Table 1: Consistency of the above Operational Programme’s objectives, with the objectives of the National Reform Programme

Priority Axes of the OP Challenges/Targets of the NRP	Development of Human Capital and Adaptability	Expansion of the Labour Market and Social Cohesion
Diversification of the economy’s structure towards services of high added value	1	
Promotion of RTD and innovation as well as facilitating the diffusion of information society	1	
Further promotion of structural changes/reforms aiming at the enhancement of competition conditions and the improvement of the whole business climate	1	
Expansion and upgrading of basic infrastructures		
Security of energy supply – promotion of the utilization of RES		
Sustainable Development		
Additional improvement of human capital	2	2
Enhancement of social cohesion conditions	1	2
Long term sustainability of public economics, including reforms in the Social Security System	1	1
Measures reducing the percentage of those people leaving education in a premature stage	2	
Promotion of Life-long Learning	2	

2 = Direct consistency/contribution

1 = Indirect consistency/contribution

2.2.2. Operational Programme “Sustainable Development and Competitiveness”

The objectives and the Priority Axes, through which the Operational Programme “Sustainable Development and Competitiveness” is implemented, contribute substantially to the microeconomic challenges/objectives of the NRP. In Table 2 below, the way in which the Priority Axes contribute to the achievement of NRP’s objectives is presented.

Table 2: Consistency of the above Operational Programme’s objectives with the National Reform Programme

OP Priority Axes NRP Objectives	Basic Infrastructure in Environment and Energy	Basic Transport Infrastructure	Information Society and Innovation	Productive Environment	Revitalisation of Urban and Rural Areas
Diversification of the Economy				2	2
Promotion of RTD, Innovation and Diffusion of Information Society			2	1	1
Promotion of Structural Reforms and Improving the Business Climate					
Expansion and		2			1

OP Priority Axes NRP Objectives	Basic Infrastructure in Environment and Energy	Basic Transport Infrastructure	Information Society and Innovation	Productive Environment	Revitalisation of Urban and Rural Areas
Upgrading of Basic Infrastructures					
Security of Energy Supply, Promotion of the Utilisation of Renewable Energy Sources	2				
Sustainable Development	2				1

2 = Direct consistency / contribution

1 = Indirect consistency / contribution

More specifically:

- Priority Axis “Basic Infrastructure in Environment and Energy”, contributes to the objective “Sustainable Development”, since this Priority Axis aims to implement part of the country’s policy in the sector of waste management as well as in the sector of energy, setting as priorities, the creation and expansion of basic infrastructure for the management of natural resources. Regarding energy, this Priority Axis contributes also substantially to the NRP objective “Security of energy supply and promotion of the utilisation of Renewable Energy Sources”, through the promotion of renewable energy sources.
- Priority Axis “Basic Transport Infrastructure” contributes to the objective of the NRP for the upgrading and expansion of basic infrastructure, in the framework of which, the upgrading of the motorway network, as well as the modernization of the port infrastructure of the country is promoted, in order for them to function as Europe’s entry gates to the South East Mediterranean area.
- Priority Axis, “Knowledge Society and Innovation”, contributes to the attainment of the objective of the NRP for the promotion of RTD, innovation and diffusion of Knowledge Society, in the framework of which, measures for the reinforcement of the scientific basis of the country, the promotion of private sector participation in RTD activities and the enhancement of the country’s research resources, are included.
- Priority Axis “Productive Environment”, mainly contributes to the attainment of the objective of the NRP for the diversification of the country’s economy through the enhancement of the production of products and services of higher added value, the diversification of the tourism product and the strengthening of the production base. This Priority Axis also has an indirect contribution to the NRP objective for the promotion of RTD, innovation and diffusion of Knowledge Society, since in the support of SMEs the use of new technologies is promoted.
- Priority Axis “Revitalisation of Urban and Rural Areas”, due to its territorial dimension has an indirect effect to many NRP priorities. Primarily this Priority Axis contributes to the NRP objective “Diversification of the economy” through the provision of incentives for the creation of SMEs in rural areas. Furthermore, in the urban areas through the enhancement of the public transport system and in the rural areas through measures for the protection of the environment, this Priority Axis contributes to the NRP objective “Sustainable development”. This Priority Axis also makes an indirect contribution to the achievement of the NRP Objective “Basic Transport Infrastructure”, through the upgrading of secondary road network in rural areas. Finally, this

Priority Axis also has an indirect contribution to the NRP objective for the promotion of RTD, innovation and diffusion of Knowledge Society, through the support of SMEs in rural areas for the use of new technologies.

3. Progress in the Implementation of the Operational Programmes

The programming procedure for the utilization of Structural and Cohesion Funds for the period 2007-2013 is at a very advanced stage. The European Commission approved the National Strategic Reference Framework on the 7th of May 2007. Regarding the Operational Programmes, the negotiations regarding the Operational Programme “Sustainable Development and Competitiveness” have been completed and the decision issued, while for the Operational Programme “Employment, Human Capital and Social Cohesion” the negotiations are at a very advanced stage.

In parallel to the negotiations regarding the Operational Programmes with the EU, the implementation phase has already been initiated, since the eligibility of expenditure started from the 1st of January 2007. Until the approval of the Operational Programmes, the implementation of the projects will be financed from national funds and the relevant expenditure will be reimbursed from the EU, if the projects are approved in the framework of the Programmes.

The link of the implementation of the Structural and Cohesion Funds and the achievement of the objectives of the National Reform Programme will be closely monitored. In the 2008 Progress Report, when the Operational Programmes will be in full implementation, a detailed analysis will be given on the financial resources spent for the achievement of those objectives.

VII. INNOVATIVE IDEAS AND SUCCESS STORIES FOR EXCHANGE

The following measures can be considered as innovative ideas:

One-stop-shops (Citizen's Service Centres - CSCs) in the civil service: With a view to delivering better access to a series of government services, from one point of contact / location, three CSCs were established and are already operating in 3 different Districts of the island (Nicosia, Limassol and Paphos-Polis Chrysochous). The CSCs are open Monday to Friday, from 8.00 a.m. until 5.00 p.m., offering 64 services from 4 to 6 different Departments/organizations of the civil service (Road Transport Department, Department of Social Insurance, Grants and Allowances Service of the Ministry of finance, Civil Registry and Migration, Ministry of Health and Land and Surveys Department). Examples of services provided by the CSCs are: issuing of birth certificates, Identity Cards, Driving licenses, Road tax licenses, various certificates to those insured under the Social Insurance Scheme, the self-employed persons, retired persons, employers and issuing of social insurance contributions records.

It is noted that, by mid August 2007, a total of 227.211 services have been offered to citizens visiting the 3 CSCs, and another 100.241 citizens have received information/clarifications over the phone. Based on an Action Plan for 2007, 2 more CSCs will be operating by the end of this year, one in Larnaca and one in Pelendri (rural area, Limassol District).

Setting up of a special Fund for promoting energy conservation and renewable energy sources utilisation

A special Fund has been set up with its revenue accruing from a levy of 0.13 cent (CYP) / Kwh on the consumption of electricity. The receipts of the Fund are used for the provision of financial incentives in the form of grants for the encouragement of investments and/or tariff subsidisation in the fields of energy conservation and the promotion of Renewable Energy Sources (RES) utilization. This enables the implementation of measures in the areas of energy saving and utilisation of renewable energy sources without any fiscal impact. There has been a keen interest in the use of the measures financed by the Fund, with applications from enterprises and households to install and expand solar energy systems and for thermal insulation recording large increases in 2005, 2006 and the first nine months of 2007, and is expected to continue in the following years. The Programme was enriched in October 2005 through the addition of new investment areas, which are eligible for subsidies via the Programme. The new investment categories cover the installation of ground source heat pumps, the biomass utilization for electricity generation, the installation of windmills for water pumping and the use of wave power for electricity generation.

In the beginning of 2006 and taking into consideration the increased importance attached to energy issues in the first progress report issued by the European Commission on the Lisbon Strategy and the further rise in the price of oil, there was a simplification and modification of the submission and evaluation procedures, a broadening of their application fields as well as an increase of the intensity of the subsidies granted. Additionally, the Programme has been clearly divided into two areas of investments: (a) for individuals/households and non profit organizations and (b) for companies and other legal entities, thus, making the programme more versatile and manageable. These measures became very effective and this can be identified by the fact that in 2006, the number of the submitted applications in the Programme reacted ten thousand.

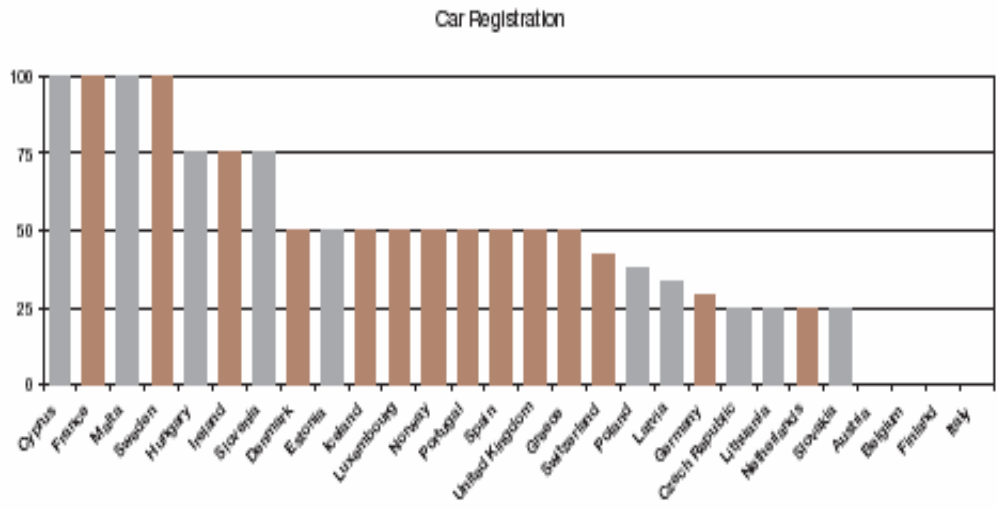
Road Transport Web Based Information System (<http://rtd.mcw.gov.cy>)

The Road Transport System, which went live in May 2005, provides services through the web regarding car registration, car information and driver’s license availability as well as services regarding the technical inspection of the vehicles. More specifically, the system allows:

- a) citizens/businesses to view their vehicle and vehicle license details, to view or modify residential and correspondence addresses, and to renew their road tax license through the web;
- b) companies (importers of new vehicles) to apply for vehicle registration and to submit the certificate of conformity details;
- c) MOT centers to submit vehicle inspection results, to issue receipt of payment and technical control certificate, and
- d) insurance companies to register details about vehicle insurances and also inform the European Insurance Information centers through the internet.

Additionally, as from January 2006 citizens can carried out the technical inspection of vehicles procedure directly in MOT centers, without requesting services from the cooperative institutions.

It is worthwhile mentioning that according to a survey, which was carried out for the European Commission by Capgemini, regarding the Car Registration eServices, Cyprus is among the top four European countries (see diagram below).



Source: “Online Availability of Public Services: How is Europe Progressing?”, Capgemini, June 2006

ANNEX 1

Macroeconomic Challenges - Inventory of Progress

This section presents an inventory of progress for each measure classified by the challenges identified in the NRP.

1. Challenge: Achieve Fiscal Consolidation and Debt Reduction

A restrictive wage policy for the public sector

The Ministry of Finance continued its policy for moderate salary increases in the public sector, reaching an agreement with the Civil Servants' Union for contractual salary increases of 2% and 1% for 2006 and 2007, respectively, following no contractual increases in 2004 and 2005.

A restrictive policy towards the recruitment of new personnel

A policy of the freezing of the recruitment of new personnel in the public sector and semi-governmental organizations has been in operation since 2005, albeit with exceptions, as additional posts were created to cover needs, mainly in economic and administrative services, with many posts related to the accession of Cyprus to the European Union. More specifically, 553 new posts were created in 2007 to cover needs in economic and administrative services. The fiscal impact of these new additional posts is estimated at 0.2% of GDP over the next 2-3 years. (The employment increase in the public sector arising from the creation of these posts is accumulated at 1.4% over the next three years).

Imposition of ceilings on current and capital expenditure

A decision was taken in May 2006 by the Council of Ministers providing for the imposition of ceilings on the nominal growth of government expenditure covering both current and development expenditures. These ceilings for the updated MTBF 2008 -2010 were set at 3% and 5% for current and development expenditures, respectively. Despite to the fact that the above ceilings were not fully respected, the imposition of the ceilings contained the government expenditures.

Reallocation and Rationalisation of Government Expenditure

Reallocation of expenditure according to the priorities set in the National Reform Programme. The priorities were set in the area of education, health, social cohesion, research and energy. Public expenditures have been reallocated through their compilation under the Medium Term Budgetary Framework. The areas which exhibit high rates of growth compared with the budget amount of 2007 are, education expenditure with an increase of 28.1%, health expenditure with an increase of 13.5%, labour with an increase of 7.8% and research and development with an increase of 4.9%.

New Measure - Reduction of net interest payments

The running down of the debt-financed sinking fund deposits arising from the abolition of the compulsory accumulation of sinking fund deposits for debt redemption, is resulting in a substantial reduction in net interest payments.

New Measure - Reform of the taxation of motor vehicles

Following, a recent decision by the National High Court, which was based on a relevant decision of the European Court of Justice, but also taking into account the very high and distortive tax rates on motor vehicles, the government considered necessary to introduce a radical reform on the taxation of motor vehicles including used cars registered for the first time in Cyprus. The new tax provides for

lower excise duties, registration taxes and circulation fees for motor vehicles and, at the same time, reductions of excise duties depending on carbon dioxide emissions, and the year of manufacturing of used vehicles.

New Measure - Introduction of reduced and minimum VAT rates of specific goods and services

Cyprus upon accession to the EU obtained a derogation period from the application of the minimum VAT rate (15%) on restaurant services and sale of building land and a reduced rate (5%) on the sale of foodstuffs and pharmaceuticals. The derogation expires on the 31.12.2007. Cyprus is obliged to apply an increase of said VAT rate on restaurant services from the current 8% of 15%, on the sale of building land from the current 0% of 15%, and on the sale of foodstuffs and pharmaceuticals.

Regularisation of dividend income policy for semi-government organizations

Dividend income policy of semi-governmental organizations has been regularized through legislative amendment.

Furthermore the government is elaborating a new policy framework for the management of the semi-governmental organizations.

The new modus operandi will provide for more flexibility in the day-to-day operations of the semi-government organizations and especially for the preparation of the annual budget, personnel issues, tenders etc. In parallel, a medium-term development programme will be prepared by the organisation, which will practically constitute the partnership contract between the state/owner and the management of the organization

An agreement on the modified management status of the Telecommunications Authority (CYTA) along the framework outlined above has been submitted to the House of Representatives, pending approval. Successful implementation of the new status in the case of CYTA will open the way for its introduction in other semi-government organizations

Revision of the eligibility criteria for social benefits

After a study conducted in-house by the Ministry of Finance, there will be a policy change with a view of targeting and redirecting the total amounts granted as social benefits to those who need them most («more money for fewer people»). This will be achieved by introducing income criteria, in order to determine the eligible households.

A social package for 2007-2008 has been approved in July 2007, by the Council of Ministers. The annual overall budgetary cost of the measures is estimated at £111.4 mln (€ 190.33 mln) in 2008 and £41.6 mln (€ 71.1 mln) in 2007 or 0.6% as a percentage of GDP for 2008 and 0.3% of GDP for 2007.

Targeted areas:

- The thrust of the package is directed towards low income households close to the poverty line based on the policy of “more money for fewer people”.
 - Low income pensioners, elderly persons who reside alone.
 - Vulnerable groups (persons with disabilities, recipients of public assistance, drug addicts, single parent families)
- Measures to reverse the declining trend of the fertility rate.
- Taxes (Adjustment of the personal tax free income according to 2006-2007 inflation, applying the reduced VAT rate to specific goods and services)
- Environment (measures for withdrawing vehicles from circulation not environmentally friendly, abolition of the excise duty rate levied on bio-fuels)
- Institutional (establishment of a Social Policy Body)

2. Challenge: Enhance Fiscal Management

Preparation of a medium-term budgetary framework

The overall medium term budgetary framework along with the relevant guidelines has been approved by the Council of Ministers in May 2006. The first medium-term budgetary framework (MTBF) covers the period of 2007-2009. The whole programme will be completed over a period of five to six years, comprising three phases. Presently the second phase of MTBF is taking place with further technical assistance from IMF experts, including linking programme based budgets with medium-term government priorities. A strategic framework has to be designed by line Ministries in order to realize their plans/programmes according to the priorities set in the Revised Convergence Programme and the National Reform Program.

For the first time during the second phase a pilot project based on programs involving a small number of ministries and departments is being established as a basis for intensive development of program concepts and methods. The government objective is the compilation of other ministries/departments/independent Services budget which will be based on programme budgeting in order to submit the overall MTBF until 2010. The new pilot budget framework as well as the MTBF for the period 2008-2010 will be submitted to the Council of Ministers in the beginning of November. The current detailed economic classification structure is being broad-banded at a level sufficient to provide program managers with greater autonomy over resource decisions, including increased flexibility to line managers while maintaining appropriate central control over resource utilization.

3. Challenge: Improve the Quality of Public Finances via a Redirection of Public Expenditure

As already pointed out, the introduction of the MTBF does not aim only at the introduction of expenditure ceilings to each line ministry but it will also enable the authorities to reallocate expenditures in favour of growth enhancing activities, in line with the priorities listed in the National Reform Programme.

Within the budgetary process for 2008, the additional available resources were allocated in accordance to the areas with high priority. The main areas that exhibit a marginal or no growth are agriculture, security and defense, transportation and public administration.

In contrast to the above, as it can be seen by the breakdown of expenditure by function of the Budget for 2008, the areas, which show high rates of growth, are the following:

- Labour: the forthcoming Budget for 2008 envisages raising the employment rate of women and youth through the implementation of various actions, as well as proceeding with the enhancement and modernisation of the Public Employment Services and the upgrading of the Apprenticeship Scheme. In total, the budgeted expenditure for the Ministry of Labour and Social Insurance exhibits an increase of 7.8% vis à vis 2007.
- Education: the forthcoming Budget for 2008 provides for the continuation of the computerization of all primary and secondary schools, the construction and extension of school buildings, the creation of new research and academic institutions (Cyprus University of Technology, Cyprus Institute). In total, education expenditure for 2008 shows an increase of approximately 28.1% vis a vis the budgeted amounts for 2007.
- Research and Technology: the forthcoming Budget for 2008 budgets for the funds to be allocated via the RPF, the promotion of the creation of a technological park aiming at attracting high-tech businesses and the creation of a research centre on energy, environment

and water in co-operation with the Massachusetts Institute of Technology. In total, research and technology expenditure for 2008 exhibits an increase of approximately 4.9% compared with the budget for 2007.

- Health: the forthcoming Budget for 2008 allocates considerable funds for the operation of two new general hospitals, the agreement between Harvard University and the Republic of Cyprus on Public Health and the Environment and the promotion of the National Health Scheme, for which a feasibility study is being undertaken by a multinational consultancy firm. In total, health expenditure for 2008 exhibits an increase of approximately 13.5% vis à vis 2007.
- Business environment: the forthcoming Budget for 2008, budgets for the operation of the Cyprus Organization for Attracting Investments and the one-stop shop for setting up a business.

4. Challenge: Securing Long-term Sustainability of Public Finances

4.1. Country Specific Recommendation - Reform of the Social Security System - Initiation of an intensive dialogue with the social partners to consider parametric changes to the system

On April 19, 2007 the final round of consultations was initiated. In view of reaching a common ground, and upon request by the Social Partners, the proposed reform package was given for the first time in writing to the social partners, at the beginning of June 2007. After taking into consideration their views, a revised version of the proposed reform package was submitted. At the last meeting which took place by the end of June 2007, the employers' side submitted their views in writing while the trade unions requested more time to examine in depth the repercussions from its implementation and submitted their views in mid September. Consequently, the Minister of Labour & Social Insurance scheduled a new series of meetings for the fall of 2007 with the aim to reach an agreement by the end of the year and adopt the agreed reforms as of 1.1.2008.

The main changes under consideration are the following:

a. Sustainability

Increase of Revenue

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

Decrease of expenditure

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

b. Improvement of Adequacy

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

c. Improvement of Short-term Benefits

- Improvement of the sickness benefit provisions regarding the self-employed
- Increase in the duration of payment of maternity allowance from 16 to 18 weeks
- Increase the orphan's benefit

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

- the notional income of the self-employed was increased as well as the occupational categories, with the aim to increase the income of the Fund from the self-employed
- the quality of service to citizens has been improved with the introduction of on-line payment of contributions, the launch of a Social Insurance Services website, and the payment of pensions via electronic bank transfers.
- a draft of a simplified and consolidated Social Insurance legislation has been prepared and is expected to be submitted to the House of Representatives before the end of 2007

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

4.2. Country Specific Recommendation - Reform of the Health Care System

(a) Transformation of Hospitals into Autonomous Units

In June 2006, the Council of Ministers approved the principle of transforming government hospitals into autonomous bodies (legal person governed by public law). The first draft of the relevant bill has been prepared and discussed with the interested parties as a basis for the reform necessary, for the public hospitals to successfully participate in the provision of health services under the N.H.I.S.

On 11/07/2007 the Council of Ministers approved a set of principles and guidelines according to which the reform will be implemented. These principles and guidelines provide inter alia for:

- The establishment of a Public Hospital Organization which will have under its responsibility all the public hospitals.
- This organization will have its Board and each hospital will be managed by a management team consisting of the Executive Director, the Medical Director, the Economic Director, the nursing Director, the Director of Personnel and the Director of Building Installations and Equipment.
- At the initial stage the state will provide the personnel now serving in the Hospitals to the Organization without affecting the interests and the rights of the personnel. The new personnel will be employees of the Hospital Organisation and it will be engaged under the working terms that will be determined by the Hospital Organization.
- Each hospital will have its own budget and will be operating under autonomous status with transparency and accountability.

The planned transformation of the public hospitals into autonomous establishments is expected to have a favourable impact on the cost effectiveness of the government hospitals, via improvement of the management and the pressure of intensified competition under the National Health Insurance System.

An implementation date whereby the transformation of public hospitals into autonomous establishments will be completed is difficult to be determined, as political consensus is needed

(b) Introduction of a National Health Insurance System (NHIS)

The implementation strategy for the National Health Insurance System in Cyprus was submitted to the Health Insurance Organisation (HIO) by its consultants, McKinsey & Co, in November 2006. The strategy contains all the activities that should be undertaken within a specific timetable to transit from the current system to the proposed new health care system.

The National Health Insurance Scheme aims to address the deficiencies of the current system which is characterised by a lack of coordination between the public and private sector, high individual financial burden and lack of financial control as well as the absence of an independent body managing the healthcare system.

The main elements of the envisaged NHIS are the following:

- Comprehensive approach whereby all healthcare provision will be interconnected and the same standards will apply for all providers, both in the private and in the public sector.
- Improved quality in the provision of health care, through the restructuring of public hospitals, the introduction of regulated competition amongst providers as well as the introduction of performance linked remuneration schemes for family doctors and specialists.
- Overall cost containment, through the:
 - introduction of the concept of the family doctor, who will, among other duties, manage referrals to specialists;
 - introduction of the concept of global budgeting, thus imposing a binding ceiling on overall NHIS expenditures on an annual basis;
 - global purchasing of health care services by the HIO;
 - introduction of quality controls for health care providers.

The financial gap, which according to expert studies, seems to exist between the expected costs from the operation of the NHIS and the contribution rates suggested by the Law, can be filled with the implementation of the following measures:

- Increase funding, through adapting contribution rates. Another option is the introduction of so called “sin” taxes, i.e. indirect taxes, “punishing” unhealthy behaviour, such as smoking or alcohol consumption, bound to create more health costs in the future.
- Reduce coverage/ increase co-payments.
- Increase accountability of providers through the appropriate reimbursement methods.

(c) Progress achieved

The HIO has taken important steps towards the implementation of the NHIS:

- *HIO Structure* - recruiting continues within the Organisation, while all staff has been divided up into thematic teams which work based on detailed timetable plans with specific activities – an internal monitoring mechanism is in place.
- *Stakeholders* - the HIO has an ongoing interaction with the relevant stakeholders which is expected to intensify in the third quarter of 2007.
- *Amendments to the Law* – HIO completed the draft amendments to the existing NHIS Law. It will be enacted into law by the House of Representatives in due course.

- *Support for the implementation of the NHIS and reorganisation of public hospitals* – the award of the tender for the purchase of consultancy services for the two dimensions mentioned above is at the final stage and the successful tenderer is expected to start work by October 2007.
- *Costing of services* - an open tender competition has been issued for the provision of services for the estimation of income and expenditure for the NHIS, the development of a forecasting model and the estimation of the Cyprus national health expenditure. The award of the tender is expected in late October 2007.
- *Information Technology system and other business processes* - the HIO has initiated a tender procedure via the competitive dialogue method for the development, implementation, operation and support of a total solution.
- *Training of Doctors* - the Organization in cooperation with the Ministry of Health and the Cyprus Medical Association has defined the relevant training requirements in order to get the institution which will prepare doctors for their smooth participation within the NHIS on board. This tender has already been issued by the Ministry of Health.

5. Challenge: Ensuring that Wage Developments Contribute to Macroeconomic Stability and Growth

A restrictive wage policy for the public sector

The Ministry of Finance continued its policy of containing salary increases in the public sector, reaching an agreement with the Civil Servants' Trade Union for contractual salary increases of 2% and 1% for 2006 and 2007 respectively, following freezing of such salaries in 2004 and 2005.

Work with the social partners to ensure wage moderation across the economy

The Government exercises continually moral suasion on the social partners to contain contractual wage increases to underlying productivity gains. For 2005 and 2006 average real wages increased by 2.7% and 3.1% respectively, which are still above labour productivity, leading to an erosion of competitiveness in labour intensive activities. Recently, wage moderation was observed, reinforced through the observed substitution of domestic through foreign labour in low skilled occupations, in construction, trade and tourism. As a consequence, for 2007, average real wages are expected to increase by 2.4% and further containment is expected in the coming years.

Active encouragement for the employment of Turkish Cypriots

The Government encourages the employment of Turkish Cypriots. Specifically, the number of Turkish Cypriots employees being employed and registered in the Social Insurance System has increased from 1.183 persons in 2003 to 3.772 persons in 2006.

ANNEX 2

Upgrading and Enriching the Tourist Product – Inventory of Progress

Construction of Marinas: There was considerable delay in the promotion of this measure. Nevertheless, at this stage, the negotiations with the successful bidder for the construction of the Limassol Marina, have been completed successfully. The series of negotiations of the Ayia Napa Marina are under way and expected to be completed by the end of 2008/early 2009. Tenders from three consortia have been submitted for the Paphos Marina and another three for the Larnaka Marina and all of them are being evaluated.

Implementation of a new policy on golf courses: Nine declarations of investors' interest have been granted a pre-approval in order to proceed to the next step which is the submission of their comprehensive applications to the Department of Town Planning. These applications must be submitted within a period of 18 months from the date of the pre approval. Two have already been submitted in order to obtain a Town Planning permit. This permit is granted based on the evaluation criteria of the Golf Policy which amongst others include quality, environmental and other criteria. The Golf Policy aims at the development of 14 golf courses including 3 existing ones.

Implementation of the action plan for the development of sports tourism (sports infrastructure / marketing): From the 19 sports infrastructural projects (total cost £29.625.000 (€ 50.6 mln)) implemented by the Cyprus Sports Authority, six (total cost £20.200.000 (€ 34.5 mln)) were completed by June of 2006, eight will finish by the end of 2007 (total cost £4.445.000 (€ 7.6 mln)), whereas the remaining 5 will be completed by the end of 2009 (total cost £4.980.000 (€ 8.5 mln)). The marketing action plan, (which covers a three year period (2005-2007) and provides for the preparation of promotional material, advertising, educational visits and participation in exhibitions, as well as other CTO actions which include schemes for minor sports infrastructure, sports events, etc) is being implemented, according to schedule.

Measures aiming at the development and marketing of rural tourism and offering alternative sources of revenue to the rural population: The measures are co-financed from the European Regional Development Fund under Objective 2 of the Structural Funds and include the following:

- (i) **Development of Cycling network in the Objective 2 rural areas.** Based on a strategic study, the network of a distance of approx. 50 km is under development. Following the evaluation of tenders the successful bidder for the construction of the route has commenced works early February 2007. This part constitutes 50% of the total budget of the project and is expected to finish by the end of the year. The rest of the actions include the design and production of promotional material, which will be concluded in early 2008. Moreover, a geographical information system is being developed, for which the successful tenderer has commenced work in mid January 2007. The project is expected to finish in mid 2008.
- (ii) **Development of a Religious cultural route** The preparatory actions for the religious route have included a strategic study which was completed in 2006. Based on its findings a tourist guide to be issued in three languages – Greek, Russian and English, is being developed. A second call of proposals for printing the guide is due soon, following failure of the successful tenderer of the first proclamation to meet his contractual obligations.
- (iii) **Development of Wine Routes in the rural areas:** Based on the findings of a strategic study, six wine routes/itineraries are being developed in the rural areas. The Wine Book which is one of the many promotional material to be issued, is at the printers, whereas signing of the contract with the successful tenderer for the design and printing of the promotional material is expected later this year.

- (iv) **Agrotourism:** An incentive scheme, for the encouragement of investments by SMEs in agrotourism, was introduced in May 2005. The scheme was separated in two stages (calls of proposals).

In the first call of proposals (2005), emphasis was given on applications of tourism related activities in listed and/or traditional buildings. Applications were also accepted for activities in non listed/traditional buildings, which, should concern business activities associated with the tourism industry but not related to accommodation units, restaurants and traditional coffee places. In this call 41 applications were approved with a total grant of £2.7 mln (€ 4.6 mln).

In the second call of proposals (2006), applications were accepted for the activities that were included in the first call of proposals as well as a number of activities which were not included in the first call i.e. construction of a new building to be used as a restaurant, accommodation unit etc.

A great emphasis was given on the creation of new related to tourist business activities such as, shops selling traditional products, galleries, activities centres, conference centres etc. In this call 37 applications were approved with a total grant of £3.6 mln (€ 6.15 mln).

In total 78 enterprises will benefit through this Scheme, with a total grant of £6.3 mln (€ 10.8 mln) to be given (out of which 36.8% will be co-financed from the Structural Funds). By the end of 2006, 15 projects were completed and an amount of approximately £1.6 mln (€ 2.7 mln) was paid. The remaining projects are estimated to be completed by June 2008.

For the upcoming period 2007-2013 a new Scheme of Agrotourism will be implemented. Details of the scheme will be announced before the end of 2007.

- (v) **Rural Areas marketing Plan supporting private and public investments in the Objective 2 Areas:** The project was approved by CTO in February 2006. It concerns the execution of sub-projects which include advertising, public relations activities and the production of promotional material (printed and electronic). The sub-projects were launched in February 2006 and CTO has already organized 4 special promotional events in 4 countries, has participated with a specially designed and equipped stand at 3 international tourist exhibitions in 3 countries, has invited and organised familiarization trips for three groups from 3 different countries (all aforementioned projects are on-going) and is expected to conclude the production of all promotional material by the end of 2007. All sub-projects are expected to be concluded by June 2008.

Measures towards the upgrading of the accommodation and catering facilities

- (i) **Incentives for withdrawing hotel accommodation:** The scheme, which is based on planning incentives (rights to transfer or sell the building coefficient or change the use of the buildings) will cover 20.000 hotel beds in 1 to 3 star hotels and hotel apartments. The incentive scheme has been approved by the Council of Ministers in June 2007. The implementation of the scheme will commence after the approval of the new legal framework, before the end of 2007.
- (ii) **Rationalisation of the classification system and upgrading of catering establishments:** A new legislative framework (for the rationalization of the classification system by reducing the number of categories from 7 to 3 setting the eligibility criteria for each category) has been prepared and approved by CTO in February 2007. The final decision for approval and enforcement is expected to be taken by the House of Representatives.
- (iii) **Improvement and upgrading of sanitary areas for the catering outlets:** CTO has introduced an incentives scheme for the improvement and upgrading of the sanitary areas for the catering

outlets in 2007 following a study in 2006. Over 100 establishments were subsidized through the scheme.

- (iv) **Provision of incentives for the adoption of quality and environmental systems/mechanisms in tourist establishments:** It is an ongoing scheme being implemented since July 1999 reaching 59 beneficiaries in 2006.
- (v) **Incentive scheme for SME's for investments in tourist product enrichment projects:** The scheme with an approved budget of €13m will be based on the EU SME's and Regional Aid Regulations. It is expected to be launched before the end of 2007.

ANNEX 3

Promotion of R&D, Innovation and Facilitation of ICT Diffusion – Inventory of Progress

In the section that follows, the progress achieved until September 2007 will be presented, for each separate measure as classified under each of the policy priorities identified in the NRP.

1. Increase and Improve Investment in R&D, in particular by Private Business

1.1. Policy Priority: Horizontal Measures

Increase overall spending in R&D: As already mentioned, the target for increasing R&D to 1% of GDP in 2010 has been set in the March 2006 European Council. Based on the latest statistical data available, R&D expenditure raised to 0.41% of GDP in 2005 compared to 0.37% in 2004.

Increase overall spending in R&D, via the new RPF Framework Programmes for Research and Technological Development (RTD): In May 2006 the RPF launched its Framework Programme for RTD 2006, with a total budget of £10 mln (€ 17.1 mh). During the year 2006 661 research project proposals were submitted and evaluated under the RPF Framework Programme, from which 167 were selected for funding with a budget of £6.6 mln (€ 11.3 mln).

Before the end of 2007, the RPF will launch the Framework Programme for Research, Technological Development and Innovation for the period of 2007 – 2010, with a total budget of approximately £60 mln (€ 102.5 mln). The design of the Framework Programme 2007 - 2010 is at its final stages and will include the following main pillars: (a) Development of Multithematic Research, (b) Development of Human Research Potential, (c) Development of Industrial Research and Innovation, (d) Strengthening of Research Infrastructure and (e) Expansion of International Cooperation.

1.2. Policy Priority: Strengthening the Scientific Base

Establishment of a Research and Training Institute in Cyprus on public health and environmental issues in co-operation with Harvard University: The Cyprus International Institute for Environment and Public Health (CII) was established in September 2005 and its operations in both education and research are progressing well. The post-graduate programme in Environmental Health was provided in September 2006 as planned, and attracted over 100 candidates for the 20 seats available. CII is currently managing over 15 on-going research projects, and has already risen over US\$1.5mln (€ 1.1 mln) in sponsored research from agencies in the EU, in Cyprus and other countries.

Establishment of the Cyprus Institute: The Cyprus Institute has operated its first research centre, which is on the field of Energy, Environment and Water, in September 2007 as planned. The second research centre of the Cyprus Institute for “Science and Research in Archaeology” is expected to operate in the academic year 2008-2009, in the Paphos District.

Establishment of the Cyprus University of Technology: The renovation activities in the premises of the Cyprus University of Technology were completed and operations have commenced in September 2007 as originally planned.

Implementation of the RPF funding Programme for upgrading research infrastructure: The Research Infrastructure Programme, which was also part of the RPF Framework Programme 2003-2005, contains actions for the development of new research infrastructure, the upgrading of existing research units/laboratories and the development of research infrastructure networks. The projects funded under this programme in 2006 came up to 16 with a budget of £1.8 mln (€ 3.1 mln), compared

with 16 projects with a budget of £1.2 mln (€ 2.1 mln) in 2005, and 7 projects with a budget of £0.9 mln (€ 1.5 mln) in 2004.

This programme will be also included in the new RPF Framework Programme for Research, Technological Development and Innovation 2007-2010.

Institutional and competitive grants to public-sector research institutions: There was a continuation of the policy of the government, within the framework of the national budget, of redirecting the method of funding of public research institutions, including the University of Cyprus, by reducing relatively their direct financial support, and increasing the funds that are available for the financing of competitive proposals, via mainly the RPF.

Evolution of private colleges of tertiary education to private universities: Four private colleges of tertiary education submitted an application to the Ministry of Education and Culture in 2005 and 2006 in order to be upgraded to private universities. The four applications were examined by the Evaluation Committee for Private Universities (ECPU) in September 2007, and three private colleges were upgraded into universities.

The new funding programme of the RPF for the identification and support of Cypriot Research Centres of Excellence: Although this programme was initially planned to be included in the new RPF Framework Programme 2007-2010, it was then decided by the RPF that it will not be launched at all.

The study for the operation and management of public research institutions has not started yet, and its execution is not within the short-term plans of the RPF.

1.3. Policy Priority: Reinforcement of Private Sector Participation in R&D

RPF Funding Programmes for the development of Applied Research: One of the three main pillars of the RPF Framework Programme for RTD 2006 is the Development of Applied Research, which aims at the improvement of Cypriot enterprises' competitiveness through their involvement in research activities. This pillar is divided into 3 programmes "Research for Enterprises", "EUREKA Cyprus", and "Follow-up Projects". The first programme aims at encouraging the cooperation of enterprises with local research organisations, the second one targets the cooperation of local enterprises with foreign research organisations, and the last one promotes the utilisation and commercialisation of the results of completed research projects. In 2006 42 projects were funded with a budget of £3.31mln (€ 5.66 mln), compared with 34 projects with a budget of £2.02 mln (€ 3.45 mln) in 2004, and 9 projects with a budget of £0.28 mln (€ 0.48 mln) in 2003.

All abovementioned programmes will be included in the new RPF Framework Programme for RTD and Innovation 2007-2010 as well.

Incentives for enterprises involved in R&D activities: The implementation of fiscal (mainly tax) and other incentives for encouraging the participation of the enterprises in research-intensive activities is still under consideration by the Ministry of Finance.

1.4. Policy Priority: Enhancement of Human Resources

Initiatives for promoting research culture within the educational system: The "Development of Research Activities within the Educational System of Cyprus" Programme includes two research competitions, called "MERA" and "PROFIT". MERA Competition is addressed to pupils in the age of 6-18, whilst PROFIT Competition is addressed to undergraduate students either in Cyprus or abroad. In the school year 2006-2007 19 projects were awarded through MERA Competition with a budget of £21.200 (€ 36.200) compared to 25 projects and £19100 (€ 32.600) in the school year 2005-2006. The respective awards given through PROFIT Competition were £10.500 (€ 17.900) for 6 projects in 2006-2007, and £11.300 (€ 19.300) for 6 projects in 2005-2006.

Development of a Mobility Centre: The Mobility Centre, which was developed in September 2005, continues its operations on an ongoing basis, with its main activities being the publication of promotional materials, the provision of assistance to researchers and the organisation of various events.

Development of New Researchers: The programme for the Support of Young Researchers, which was also part of the RPF Framework Programme 2003-2005, contains actions for the entry, improvement and mobility of new researchers. In 2006 23 projects were funded under this Programme with a budget of £1.03 mln (€ 1.76 mln) , compared with 41 projects with a budget of £1.3 mln (€ 2.22 mln) in 2005 and 36 projects with a budget of £1.1 mln (€ 1.88 mln) in 2004.

Collaboration with Expatriate Researchers: The “Expatriate Researchers” Programme that was running for three years as part of the RPF Framework Programme 2003-2005 has been replaced in the new RPF Framework Programme 2006 with the “Philoksenia” Programme, in order to meet the new EU rules for research funding. Under this new programme 6 projects were funded with a budget of £0.2 mln (€ 0.34 mln) in 2006, compared with 8 projects with a budget of £0.2 mln (€ 0.34 mln) in 2005 and 7 projects with a budget of £0.2 mln (€ 0.34 mln) in 2004.

In addition, in 2006 the RPF announced the programme “Research Cooperation with Distinguished Overseas Scientists”. The scope of this Programme is the transfer of knowledge and experience of internationally distinguished scientists, through their participation in research activities conducted for the benefit of Cypriot research organizations. Specifically, this Programme aims at the training of Cypriot researchers on cutting-edge fields through their cooperation with the research teams of the distinguished scientists and the creation of long-term cooperation networks between the Cyprus research units and the research teams of the distinguished scientists, for future participation in national and European Programmes. Six projects were financed under this programme with a budget of £0.44 mln (€ 0.75 mln) compared with 10 projects and £0.80 mln (€ 1.37 mln) in 2005.

All abovementioned programmes will also be included in the new RPF Framework Programme for RTD and Innovation, 2007-2011.

1.5. Policy Priority: Promotion of International Cooperation

Promotion of participation to the 6th and 7th Framework Programme for RTD: RPF encourages the participation of researchers in the 7th Framework Programme for RTD (FP7) through the establishment of the National Contact Points Network, as well as with information seminars and brokerage events. On the 27th and 28th of April 2007 RPF organised an Information Day for FP7 and a seminar on Project Management in FP7 respectively, whilst the most notable event during the period of this report was the Launching Event for FP7 held on 31 May 2007 in the presence of Commissioner Potocnik.

In 2006, there was not much participation of Cypriot researchers in the FP6 as well as in conferences, where they can present the results of their research and/or be prepared for participating in European and/or international programmes, because of the limited Call for Proposals that took place during that year. Specifically, the amount granted by RPF towards these activities was £2.047 (€ 3.498) in 2006 compared with £20.567 (€ 35.140) in 2005 and £98.875 (€ 168.938) in 2004.

Promotion of participation in programmes of the European Science Foundation (ESF): In 2006, the RPF provided support to research organisations participating in seven new Research Networking Projects. The duration of these projects is five to six years and the annual amount attributed by RPF is €31.000.

Bilateral agreements with other countries in the field of research: The latest agreements signed by the Government of Cyprus for the promotion of cooperation in the field of research were with Italy

(second half of 2006) and Romania (first half of 2007). The agreement with China and UK are still in the phase of negotiations.

The participation in the Calls of Proposals announced in 2006, which concerned the agreements with Italy and Greece, is considered satisfactory, as 29 projects were approved for financing with a budget of £0.27 mln (€ 0.46 mln). In 2005 two calls of proposals were announced, concerning the agreements with France and Slovenia, from which 11 projects were approved for financing with a budget of £0.07 mln (€ 0.12 mln).

Access to international research infrastructures: This programme provides the opportunity to the research community of Cyprus to access advanced, international research infrastructures, in order to facilitate the implementation of high-level research activities. In 2006, six projects were financed under this programme with a budget of £0.38 mln (€ 0.65 mln) compared with 4 projects and £0.26 mln (€ 0.44 mln) in 2005.

2. Facilitate All Forms of Innovation

2.1. Policy Priority: Creation of Innovation Poles and Incubators

Programme for the creation of new high-tech innovative enterprises through the business incubators institution: Four incubators are in full operation; there has been satisfactory interest by inventor teams to be housed in the incubators. In total, forty-two teams of inventors submitted relevant applications since the incubators were introduced (2002), in subjects such as Biomedical Engineering, Biotechnology, Electronics, Fluid Dynamics, Telecommunications, Information and Communication Technologies (ICT), out of which twenty eight have been approved.

Four companies, which graduated during the period under review, are in the process of establishing partnerships with other private companies in an attempt to promote and further develop their products and services.

Introduction of a Business Incubators Accreditation System: After a Decision by the Council of Ministers, the introduction of the “Business Incubators Accreditation System for the establishment and operation of business incubators” which was expected to start at the beginning of 2007 must now follow an evaluation study of the Business Incubators Institution. In connection to this, the tender for consultancy services for the preparation of an evaluation study of the Business Incubators Institution has already been assigned.

Establishment of a Science and Technology Park: There has been progress in the promotion of the establishment of a science and technology park. More specifically, the feasibility study which started in July 2006 is progressing and is expected to be completed before the end of 2007. Additionally, the pre-selected site for its construction which had been approved by the Council of Ministers has been evaluated by the Consultants. Furthermore, all the competent authorities are continuing the pursuance of the prompt construction of access roads and the rest of the necessary infrastructure of the Park, so as to expedite the establishment of its first tenants, like the Cyprus International Institute for the Environment and Public Health, in Association with the Harvard School of Public Health.

Creation of Thematic and Innovation Networks: The design of the measures to be undertaken to that end is at its final stage. The measures will be included in the Research Promotion Foundation (RPF) Framework Programme for 2007-2010 that is expected to be launched before the end of 2007. There would be a preliminary evaluation of the measures after their first year of implementation and a more thorough one after the second year. Based on the aforementioned interim evaluations any

necessary adjustments will be made and the measures will be re-launched annually until the end of the Framework Programme.

2.2. Policy Priority: Provision of Innovation Support Services

Regional Innovation Strategy for Cyprus (RISC): The Council of Ministers approved the measures included in the Action Plan prepared on the basis of the RISC strategy on 2/3/2006 and authorised the Minister of Finance (MoF) to proceed with their implementation.

RPF has proceeded with the pilot launching of the measure DIDAKTOR (within the KINITIKOTITA Action of the Programme for Young Researchers) in May 2005, which supports the implementation of high quality research projects by PhD students in enterprises, whereas it has finalised the recommendation to the MoF for the measure on tax incentives, which was sent to the MoF in May 2006. The proposal is under consideration by the MoF and discussions are currently taking place. Final decision has not been taken yet.

The design of other measures included in the RISC Action Plan is still ongoing and it is expected that many of them will be implemented during the period 2007-2010.

Awareness – Training of SMEs for the Development and Utilisation of Innovation Opportunities: The implementation of this measure is expected to increase the awareness regarding European programmes in Cyprus, improve the access of SMEs to EU funding and in the longer term improve the level of innovation on the island.

The Cyprus Productivity Centre organised a training event for SMEs wishing to exploit the Leonardo da Vinci sectoral programme of the Community Programme in the field of Lifelong Learning Programme which was attended by 87 representatives of SMEs, and other private and public organisations. The participants were informed of the structure of the programme and the opportunities that arose therein and were subsequently trained on the methodologies required to submit a proposal and ultimately receive funding.

Three events are planned before the end of 2007, that will address a wider range of opportunities. These will move along the axes of European Programmes, local funding and co-funded (from structural funds) measures as well as the opportunities arising from financing measures and will be specific to the three sectors specified in the strategy document (Manufacturing, Tourism, Services). Participants will be informed on the opportunities applicable to them, the sources of information available and will be trained in the best way to build partnerships and formulate proposals.

Creation of a Research & Technology Mediation System: The measure is at its final stages of design and will be included as an individual action under the “Innovation Support” Programme of RPF’s Framework Programme for 2007 – 2010, that is expected to be launched before the end of 2007.

Awareness Campaign for Innovation and R&D: This concerns RISC measure 5.2. The RPF finalized the planning of the measure by March 2007. RPF has organized two major events already in 2007 (3 - 4 May “Innovation Strategies – From Policy to Implementation”, 30th of May “FP7 Information Day”). Furthermore, within 2007 the “Nicos Symeonides Research Award” will be introduced by the RPF. This will be an annual award.

Cyprus Innovation-Award Competition: This was introduced as a new measure at the beginning of 2006 by the Cyprus Employers’ and Industrialists’ Federation and it is financially sponsored by the Government in order to promote an innovation culture within the enterprises. The 1st Competition has already been completed and the award ceremony took place on June 11, 2007. Two prizes were awarded for the Manufacturing Industry, one prize for the Service Industry and one prize for the wider Public Sector.

2.3. Policy Priority: Improved Access to Finance and Foreign Direct Investment

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

It is an ongoing scheme, implemented as from 2002, exhibiting an increasing interest. In 2006, 55 applications were submitted as compared to 51 in 2005. The Ministry of Commerce, Industry and Tourism (MCIT) accepted applications for the 2006 announcement of the scheme between July and October 2006. Fifty-five (55) applications were received and, by July 2007, their evaluation was completed and 22 of them were approved, for which the total expected grant is estimated to reach £400.100 (€ 683.600).

Continuation of the Scheme for Youth Entrepreneurship: It is an ongoing scheme launched in July 2004, attracting increasing interest. The Ministry of Commerce, Industry and Tourism accepted applications for the 2006 announcement of the scheme between July and October 2006. Forty-nine (49) applications were received and the evaluation committee was expected to complete the evaluation of the applications by the end of September 2007. The amount of £600.000 (€ 1.03 mln) will be proportionately granted to the successful applicants, compared to £400.000 (€ 683.440) in 2006.

Setting up of a Loan Guarantee Granting Facility: The implementation of this measure (which will be finally decided after the final relevant Jeremie report is submitted in December 2007) is expected to provide financial support to SMEs, which are not able to provide sufficient collateral.

3. Facilitate the spread and Effective Use of ICT and Build a fully Inclusive Information Society

3.1. Policy Priority: Horizontal Measures

Review of the National Information Society Strategy: There is a delay in the design of the National Information Society Strategy, which is due to the lack of a sole entity responsible for the promotion of Information Society. It is anticipated that the Council of Ministers will take a final decision on the administrative structure of Information Society in the last quarter 2007, thus the national strategy is expected to be completed in the first half of 2008.

Elaboration of Policy on Network and Information Security (NIS): The policy paper on Network and Information Security contains three actions for implementation: the design of an Action Plan for raising awareness of end users/responsible public bodies for NIS, the establishment of Computer Emergency Response Teams (CERTS), and the preparation of a Bulletin for Telecommunication Companies about network integrity.

The policy paper was approved by the Minister of Communications and Works at the end of 2006, causing a short delay in its implementation, as the abovementioned actions are expected to be implemented at the beginning of 2008 instead of the second half of 2007.

3.2. Policy Priority: Further Promotion of eGovernment

Introduction of a Government Portal: The Government Portal has been developed and it has been available to the public since September 2006.

Development of websites for all Ministries / Departments / Services of the Government: In 2006 the development of websites for all Government Ministries/Departments/Services, was completed including Cyprus' Embassies, but only 75% of them were published. There was no progress on the publishing of the remaining 25% of the websites, and there is no indication about the time of their completion.

Upgrading of the Social Insurance web-enabled system: The Social Insurance web-enabled system has been available to the public since December 2006.

Development of a Government Secure Gateway: The relevant study of the project was completed in May 2007 instead of October 2006. However, the tender document is under compilation and the tender procedure is expected to be completed by 2008 as planned. Hence, the development of the Gateway is projected to start by 2009, providing the services offered through eCivil, eCilis and eFiling systems (for more information look at the paragraphs below), and finish by 2011 as originally foreseen.

Development of the Civil Registration System (eCivil): The system will provide online services regarding birth/marriage certificates, passports issuing etc. The relevant study of the project was completed and its recommendations along with the related implications are being evaluated. The system is expected to be operational by 2009 as planned, and most of its services will be available to the public through the Government Secure Gateway.

Development of the Companies Registration System (eFiling): The first phase of the Companies Registration System was completed, allowing the provision of the following online services: (a) searching of information regarding the Registered Companies in the Catalogue of Registered Companies, Partnership, Business Names and Overseas Companies, and (b) submitting application for a company name approval. The second phase of the system, which will allow for a complete online registration of a new company, is expected to be operational by 2009 as planned, and it will be available to the public through the Government Secure Gateway.

Development of e-services for the Land and Surveys Department (eCilis): Some e-services for the Land and Surveys Department, such as the request for a copy of a certificate of registration and the issue of a cadastral plan, will be implemented through the Government Secure Gateway, which is expected to be operational in 2009. The remaining e-services will be acquired through open tender procedure and a phased implementation of them is likely to start in 2009.

Development of a Central Government Data Warehouse: The Government Data Warehouse will combine into a common format all data existing in the systems of the various governmental departments and services. This will provide the basis for public decision-making, for identifying trends and directions and for deriving pro-active strategies.

The project is progressing as planned, as the relevant study was completed on time. Based on the findings of the study, the Department of Information Technology Services is currently preparing a proposal for submission to the Government Computerisation Board for granting its approval. The first two phases of the project are anticipated to start in 2008 as planned and be completed in 2010.

Roll-out of the Office Automation System (eOAS): Phase I of the roll-out of the Office Automation System was completed as planned, and the system has been operating in all 5 governmental departments included in Phase I since June 2007.

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

- Training of users who are not computer literate, in order to gain basic IT skills.
- Organisation and delivery of informative seminars to staff, in order to provide them with initial information about the proposed changes/ new ways of working.
- Organisation and delivery of informative seminars targeted at middle and top management staff (all levels), in an effort to gain their acceptance and commitment for eGovernment initiatives, so that they will be able to disseminate the right, positive messages to their staff and drive the change process.
- Organisation and delivery of workshops, targeted at staff (all levels), in an effort to explore ways of effectively managing the change process.

- Training of a team of ‘superusers’ for the specific eGovernment initiative/project, who then undertake the training of users/staff (technical skills training) and/or the provision of first level support on site.

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

Setting up of a Help Desk System: This system is expected to manage centrally all technical support issues related to ICT usage in the Public Sector through a Call Centre and/or Intranet. The system will log all problems and solve or channel them for resolution by the involved party.

The project has not been initiated yet due to shortage of human resources. The Department of Information Technology Services is considering the option of outsourcing part of the management of the system, and a new proposal has been submitted to the Government Computerisation Board for approval. The proposal is expected to be discussed before the end of October 2007 and if approved within 2007 the project will be implemented by the end of 2009.

New Measure – Development of eProcurement System: The e-procurement solution covers eRegistration, eNotification, ePreparation of call for Tenders, eTendering and eAwarding phases. eOrdering and eInvoicing are stated as options in the procurement notice. The Tender process is currently underway, and the implementation of the system is expected to commence in September 2007. The objective set is to have a pilot running of the system by January 2009 and a generalised e-procurement system by 2010.

3.3. Policy Priority: Promotion of eBusiness

Implementation of an Action Plan for the deployment of eCommerce: The Action Plan covers a three-year period 2007-2009 and its main activities include the promotion of eCommerce among businesses, via also the introduction of compatible with the relevant acquis subsidy schemes to help enterprises implement e-commerce applications. The Action Plan was approved by the Council of Ministers in December 2006, but there is a delay in its implementation due to the procedures required for the recruitment of the Project Manager. Considering that the Project Manager will be recruited by the end of 2007, the implementation of the Action Plan is expected to start at the beginning of 2008.

3.4. Policy Priority: Upgrading of Education / Life-long Learning / eLearning

Improvement of infrastructure in schools:

The progress of this measure is very satisfactory in almost all related actions. The ratio of personal computers (PCs) to the number of pupils in the primary education was better than expected for 2006 reaching 1:5, giving high expectations for meeting the target of 1:4 set for 2007. Similar situation was also observed in secondary education, as the respective ratio for 2006 was 1:3.6. and the target set for 2007 is 1:3.

With regard to the number of projectors in schools, the target set for one mobile projector per school in both primary and secondary education was met, whilst in 2009 it is expected that each classroom in every secondary school will have its own projector. Another target achieved, was the establishment of internet connections in all schools in both primary and secondary education.

The implementation of the Educational Intranet (e-School) is progressing with a short delay, and the interconnection with internet of all secondary schools will be completed in 2009. The progress so far is that the structure cabling of schools was completed in primary and technical education schools in 2005 and 2007 respectively, whilst in secondary schools is currently 70% and expected to reach 100% in 2008.

Training of teachers in IT technologies: The training of teachers in basic IT skills is progressing with a short delay, reaching 70% and 65% in primary and secondary education respectively. This training session is expected to be completed in 2009. Also, in September 2007, was started the implementation of the next training session planned for teachers, which concerns the use of multimedia in class. It is expected that 50% of the teachers will be trained by 2009.

Reform of the educational curriculum to include use of ICT tools: The decision about the certification of IT skills for Gymnasium third grade pupils has not be taken yet, as there are second thoughts on this matter, including the enhancement of IT Subject in schools without providing any certificate. It is expected that the final decision will be taken by the end of 2007.

The issue of electronic content for subjects taught in schools is progressing well. At present, there is software for seven subjects in secondary education and 3 subjects in technical education, whilst different teams of teachers are evaluating and creating electronic content for the rest of the subjects. It is anticipated that most of the subjects will have electronic content by the academic year 2008-2009, as planned.

New Measure – Implementation of the Learning Management System: The Learning Management System refers to the use of platform that enables the communication between teachers, students and parents in issues like absences, homework, examination grades etc. This platform was launched on a pilot basis in 8 schools in September 2007, whilst its implementation in all schools is expected to be completed in 2009.

3.5. Policy Priority: Improvement of the Quality of Life - eHealth

Introduction of an Integrated Health Care Information System (IHCIS):

The introduction of the Integrated Health Care Information System in the new general hospitals of Nicosia and Famagusta started with a further short delay in January 2007 and it is expected to be fully operational by mid 2008.

Development of a National Health Monitoring System (HMS): The development of the Health Monitoring System is progressing well and it is expected to be completed in October 2007 as planned.

Development of a Pharmaceutical Information System: The development of this system is progressing with a short delay, and it is expected to be completed at the beginning of 2009.

3.6. Policy Priority: Expansion of Broadband Network

Granting of licences for Digital Terrestrial Television Networks: There was a delay in the implementation of this project, as the auction for granting licences for Digital Terrestrial Television Networks will take place during the first quarter of 2008 instead of June 2007.

Granting of licences for Fixed Wireless Access (FWA) Networks: There was a delay in the preparation of the documents required for conducting the auction of licences for Fixed Wireless Access due to consultations taking place between the Department of Electronic Communications and the European Commission. As a result, the relevant auction is expected to be completed by the first semester of 2008.

Granting of licences for Terrestrial Trunked Radio (TETRA) Networks: There was no much progress during the last year with regard to the granting of licences for TETRA Networks, and the public consultation needed in order to define the number of licenses to be granted, the geographic scope of each license and the policy framework is not expected to be conducted before 2008.

ANNEX 4

Expansion and Upgrading of Basic Infrastructures – Inventory of Progress

1. Road Transport

1.1. Policy Priority: Expansion of the Primary Network in Urban and Inter-Urban Areas

Construction of a new road that will connect Paphos and Polis Chrysochous –A study was undertaken for the preparation of the terms of reference and this was completed in March 2007. The Terms of Reference have been given to bidding consortia which prepared and submitted their tenders, by 31 July 2007. The construction of the road is anticipated to commence in 2008 and be completed by 2013.

Expected Impact: With regard to this road in particular, there are severe road safety issues under the current situation. Thus, with the construction of the new road linking Paphos to Polis the total number of accidents as well as the average travel time from Paphos to Polis are expected to be reduced significantly.

Upgrading of the Limassol roundabouts to grade-separated junctions: The upgrading of the first two out of a total of six roundabouts, which commenced in 2003 was completed in May 2006. A third roundabout was completed in September 2006, whereas a fourth one was completed in March 2007 and the fifth one in June 2007. The sixth and last one is under construction and is expected to be completed in March 2008. The whole project will thus be completed by March 2008.

Expected Impact: According to the projections of the studies for the above project, the grade-separated junctions are expected to reduce traffic congestion, lead to a decrease of accident rates by approximately 60%, and a reduction of the average travel time from Nicosia to Paphos, via Limassol.

Construction of a highway from Kokkinotrimithia to Astromeritis: The construction of the first phase, from Kokkinotrimithia to Akaki, commenced in January 2003 and was completed in March 2006. The second phase, from Akaki to Astromeritis, passes through the cease fire line and requires consent of the UN forces, which until today has not been granted.

Expected impact: The new road is expected to remove traffic from residential areas through which the old road was passing, reduce travel time and decrease accident rate. Also, it will improve the accessibility to the mountainous region of Troodos.

Construction of a highway connecting Larnaca Airport with Larnaca by-pass: The construction of the road commenced in January 2004 and was fully completed in September 2006, as foreseen in the NRP.

Expected Impact: The highway improved the accessibility to the existing Larnaca International Airport by providing a new road of higher capacity and of shorter length, thus reducing travelling time. Moreover, this new upgraded link is considered necessary to serve adequately the new Larnaca International Airport, whose construction started in the summer of 2006.

Construction of Nicosia Perimetric Motorway: The process for the preparation of tender documents, evaluation and award of tenders for the design has been completed. A contract has been signed with the winning consultants on the 30th of May 2007. The design of the project will be split in five phases and is expected to take two years. The execution of the project will be carried out in five phases with the first phase starting in 2010. The overall contract duration is expected to be four years (2010-2014).

Expected Impact: The construction of the Nicosia Perimetric Motorway (bypass) is expected to remove through traffic and as a result reduce traffic on the secondary road network and travel time.

Construction of the link between Limassol Port and Limassol – Paphos motorway: This 4-lane dual road will be part of the Trans European Road Network (TEN-T) and will replace the existing access to the Limassol port that passes through a residential area. The contract documents have been prepared and are currently going through the auditing process for approval. The procurement process is expected to take place in Autumn 2007 and the evaluation of tenders and appointing of successful contractor in early 2008. Construction is expected to commence in the first half of 2008 and to be completed in two years. For this project, an environmental study has been completed. The techno-economical study is at a draft-final stage.

Expected Impact: It will improve significantly the access to the Limassol Port and will relieve congestion, and reduce accidents and noise impact in the area.

Construction of the Nicosia – Palechori Road: The feasibility and environmental impact studies were completed in December 2005 and have been approved by the Environmental Agency. Preparation of tender documents, evaluation and award of tenders for the design will take place in late 2007. The design of the project is expected to take two years (late 2007 to late 2009). The execution of the project is expected to last three years (2010-2013).

Construction of the Limassol – Platres Road: The feasibility and environmental impact studies underway are expected were completed in December 2006. Preparation of tender documents, evaluation and award of tenders for the design will take place in late 2007. The design of the project is expected to take two years (late 2007 to late 2009). The award of tenders for the construction is expected to take place in 2010. The execution of the project is expected to last three years (2010-2013).

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

1.2. Policy Priority: Elimination of Congestion in Urban Areas

Undertaking of a study on Intelligent Transport System (ITS) financed by the Transition Facility of the EU: The tender procedure was completed in July 2007 with the award of the tender to the successful bidder. The signing of the contract is expected to take place before the end of October and the execution of the study is expected to take place in late 2007 and 2008.

The study will result in the design of an ITS for Cyprus in line with the European ITS Framework. The study will:

- a. examine the existing situation in Cyprus in terms of legal and policy frameworks, needs and priorities and make suggestions for changes to allow the smooth implementation of ITS,
- b. examine the existing situation in available data, systems and processes,
- c. review successfully implemented ITS and GIS in other EU member states and other countries,
- d. select and design the overall ITS for Cyprus based on a feasibility study and a cost benefit analysis, which will include the examination of implementation options and selection of the best implementation option for Cyprus,
- e. design, procure and establish an ITS Control Centre and train staff to operate the systems and manage it. The control centre will link existing ITS systems in Cyprus and allow their effective management,
- f. prepare contract documents to proceed with the selected implementation option.

Implementation of the ITS, based on the recommendations of the preceding study: The decision to proceed as well as the contract implementation method will be taken during the ITS study in 2007 and first half of 2008.

Expected impact: The implementation of ITS in Cyprus will facilitate the effective management of the road network in real-time. ITS has multiple benefits which include reducing congestion, improving information flow to users and to critical services such as police, fire brigade and ambulances, enhancing safety , managing emergencies and generally providing other network services.

1.3. Policy Priority: Promotion of Urban Public Transport

Over the last years Cyprus has been facing an increasing traffic congestion problem, especially in urban areas. This is mainly the result of the increase in car ownership, (from 0.2 mln in the early 1980's up to 0.52 mln in 2004); and the inadequate bus service offered to the public, resulting in Nicosia in a low 2% modal share of public transport (calculated from all modes including walk mode). Public transport in Nicosia carried 12.8 mln passengers in 1980 but 3.5 mln only in 2004. Bus lanes have not been implemented due to the fear of increasing traffic congestion. Frequency is not satisfactory, with intervals of 30 minutes or more, many times increased by the consequences of traffic congestion.

In May 2007, the Council of Ministers approved the programme of actions for the enhancement of public transport in Cyprus. The decision set up a Steering Committee, appointed a project manager and called for the creation of a project management unit.

The overall objective of the Programme is to enhance the public transport system (in terms of capacity and quality) and increase its attractiveness so that its use increases from 2% in 2006 to 10% by 2015.

More specific objectives also include the following:

- Reduce the bus journey times;
- Reduce the average passenger journey time and cost;
- Increase the number of bus routes and bus stops so that the maximum walking distance to a bus stop would be 500 m approximately;
- Increase the frequency of operation of the buses both during daytime and at peak periods (no more than 20 minutes interval during off-peak hours);
- Increase the service amplitude (during off-peak periods, night and week-end);
- Reduce the average level of harmful gases emissions by buses;
- Facilitate the use of public transport by people with impediments, or reduced mobility;
- Establish a comprehensive parking policy in order to facilitate public transport.

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

The remaining proposals which include projects for an estimated budget cost of over €500 mln, like pavements and other main roads, will be financed by the national budget.

For the timely implementation of the project, a Project Management Unit is gradually established to supervise both the Pilot Project and the National Programme.

1.4. Policy Priority: Increasing Road Safety

Implementation of the Strategic Action Plan for Road Safety, for the period 2005-2010:

Target Set: Halving the number of road deaths by 2010. The main new actions which were implemented in 2006 and early 2007 were the following:

- Increased police enforcement (especially on Friday and Saturday nights) for speed, drink-and-drive, seat belt and safety helmet use,
- Operation of a Central Ambulance Call Centre in Nicosia,
- Road Safety Education was adopted as an “emphasis target” in public schools for the school year 2006-2007,
- A project for the design and implementation of remedial measures at accident blackspots started in early 2006 and is in progress,
- Procedures for the introduction of Road Safety Audits for major road projects have started and are in progress,
- The legislation on seat belts was revised in accordance to an EU Directive and now includes the mandatory use of seat belts on all seats of commercial vehicles and buses, where seat belts are available,
- The legal framework for the technical inspection of private passenger cars was strengthened,
- Roadside vehicle technical inspections have been well established, extended and systemized.

The above new actions in addition to the established road safety practises, led to a decrease in the number of road deaths by 2006 as follows:

2005: 102 fatalities

2006: 86 fatalities

2. Ports

Construction of a modern passenger terminal at Limassol port: The Cyprus Ports Authority in close consultation with the Ministry of Communications and Works reached an agreement as to the appropriate site for the new passenger terminal, in March 2006. The construction of the new passenger terminal (a project partly financed by the EU- Trans-European Networks) is expected to start by December 2007 and be completed by March 2010 instead of mid 2008 as foreseen in the National Lisbon Programme, due mainly to problems in selecting the appropriate site for the new passenger terminal.

Expected impact: The new passenger terminal will (a) increase the passenger capacity of the port by 150% (b) improve the quality of rendered services (c) conform to the requirements of the acquis communautaire according to the Schengen Convention as well as to the provisions of the International Ship and Port Facilities Security Code and (d) create favourable conditions for achieving one of the strategic goals i.e. the establishment of Cypriot ports as cruise centres.

Enlargement of the western container terminal’s stacking area in the port of Limassol-heavy duty pavements: the project has started in 2001 and will be implemented in phases. Specifically, the evaluation of the tenders, for phase 4, was completed in November 2005 and in December 2005 was awarded to the selected bidder. Construction works for the heavy duty pavement have been completed recently. The final phase is expected to be completed by the end of 2007 (phase 5).

Expected Impact: The creation of additional container stacking areas in the western container terminal will (a) increase the stacking area capacity by 150% (b) allow container handling to be concentrated in a single area within the port (c) facilitate the safe transportation of goods and people within port areas and (d) lead to a reduction in operating costs for users of the port.

Dredging of the Limassol port to 16m: The tender documents for the undertaking of a study for strengthening of existing structures were finalised in January 2006. Subsequently, there was a call for tenders for the study in January 2006. The study has been completed and there was a call of tenders for the execution of the project in Spring 2007. The execution of the project (construction) is expected between June 2007 and May 2008. The delay of the completion of the project (foreseen to finish in the first half of 2006 in the National Lisbon Programme) is due to the fact that the dredging of the port has increased to 16m instead of 15m as was originally planned.

Expected Impact: (a) It will increase the capacity of the Limassol port to handle trade and especially transit trade, (b) it will create favourable conditions for the Cyprus Ports Authority to achieve one of its strategic goals i.e. the establishment of Cypriot ports as cargo distribution and transshipment centres in the wider region and (c) the Limassol port will be able to respond to technological changes in shipping and modern requirements of commerce (i.e. serving ships of 4th generation).

Implementation of the project for the redevelopment of the Larnaca port and marina into a mainly passenger port on a PPP basis: Interested consortia submitted completed prequalification questionnaires in December 2005, and following the evaluation process, completed in May 2006, three international consortia have prequalified. The above 3 consortia were invited to collect the tender documents in December 2006 and submitted their final tenders in July 2007. Construction works did not start by the end of 2006 as foreseen in the National Lisbon Programme due to the longer time required for the tender procedure. Construction is expected to start within 2008.

Expected impact: This project will make Larnaca port a major cruise ship centre in the region and will provide an economic boost to the city of Larnaca due to the tourist influx in the area. Also its development into a mainly passenger port together with the redevelopment of the Larnaca International Airport will introduce the “fly and cruise” concept in the area, thus positively boosting the tourist sector in Cyprus.

ANNEX 5

Environmental Sustainability – Inventory of Progress

1. Expansion of Sewerage Systems in all Major Municipalities

1.1. Nicosia: The first phases of the sewerage system which have been completed prior to the beginning of the Greater Nicosia Sewerage Project in 2000, included the installation of 380 km of sewers, 130 km of house connections and serve a population of approximately 125.000. According to the Greater Nicosia Sanitary Sewerage Project, the sewerage system will serve the entire Greek Cypriot Community of the Greater Nicosia area, which by the year 2009 is expected to be in the range of 240.000. The Greater Nicosia Sanitary Sewerage Project provides for the design and construction of two Urban Waste Water Treatment Plants (UWWTP), one west and one east of Nicosia, collection system of a total length of 820 km and eight main pumping stations with associate forcemains and main gravity sewers. The contract for the design, construction, operation and maintenance, of the UWWTP at Anthoupolis (west of Nicosia) 13.000 m³/d to serve a population of 80.000, was awarded in October 2005, its construction commenced in March 2006 and is according to schedule. It is expected to be completed by December 2007. Tenders for the design, construction, operation and maintenance of phase 1 for the UWWTP at Vathia Gonia (east of Nicosia) 22.000m³/d to serve a population of approximately 130.000 were called in June 2006 and the contract was awarded in June 2007. Construction has commenced in September 2007 and is expected to be completed by December 2009. In addition to these 2 new UWWTPs, the existing plant at Mia Milia (area not under the effective control of the Cyprus Government), with capacity of 19.300 m³/day and which is in operation since the 1980s, remains in operation. Besides, efforts are being made for a new bicomunal wastewater treatment plant to be constructed at Mia Milia in the near future and as soon as the necessary financial arrangements for this plant are secured. Award and construction of contracts for the collection system is ongoing. Since 2003, 350 km of collection system has been completed. In 2006, approximately 80 km of sewers were installed and in 2007 there are running contracts for 150 km of sewers. The staged tendering for the remaining 320 Km is to be completed by early 2008. The collection system for the Greater Nicosia Sewerage Project is expected to be completed by the end of 2010. The contract for the construction of the pumping stations, forcemains and main gravity sewers has been signed in June 2006 and it is expected to be completed within 2008.

1.2. Limassol: The first and second phases of the sewerage system, which were completed in 1995 and 2004 respectively, included the construction of a central sewerage system of approximately 350 km and an urban wastewater treatment plant located at Moni area, serving a population of 100.000 as compared to a total population of the greater Limassol area of 160.000. The third phase, with a view to serve the whole of the greater Limassol area, requires the construction of additional 500 km sewers, as well as an expansion of the capacity of the UWWTP, in two stages, from currently 22.000 m³/day to 23.000 m³/day (stage 1) and then 40.000 m³/day (stage 2) to serve the remaining 60.000 population. The tenders for the extension of the UWWTP were submitted in January 2006, the contract was awarded in July 2006 and work commenced in August 2006. Construction works for stage 1 have been completed and operation has commenced at the beginning of October 2007. It is expected that the construction of the stage 2 of the UWWTP will be completed by September 2008. The contract for the design and supervision of the construction of the sewerage networks was signed in March 2007. Sewerage networks staged tendering is expected to commence by end of 2007 with staged completion by 2012. Finance negotiations with European Financial Institutions were completed in October 2006 for the financing of about 70% of the whole project (sewerage networks, sewage treatment plant and a component of storm water drainage works)). An additional loan of about 10% was raised from a local bank. The remaining 20% shall be funded by self-generated funds.

1.3. Larnaca: The first phase of the Larnaca sewerage system commenced in 1993 and was completed in March 2000, with the construction of approximately 100 km of sewers and a UWWTP

servicing a population of 30,800, out of a total population of 61,500 for the greater Larnaca area. So as to serve the whole of Larnaca town, the second phase of the master plan has to be implemented, which comprises approximately the construction of additional 270 km sewers and the expansion of the capacity of the present wastewater treatment plant from 8,500 m³/day to 17,000 m³/day. The EIA study covering the UWWTP and the pumping stations was completed and submitted to the appropriate authorities for approval in August 2006 and it was approved in December 2006. Pre-selection of the design consultant for the detailed design of the sewerage networks, the preparation of tender documents of the networks and the UWWTP and the supervision of the construction was completed in May 2006. Tenders were sent out to the pre-selected design consultants in October 2006 and the contract award for the design consultants was signed in June 2007. The design is expected to be completed in stages in 4 packs, from mid 2008 to end 2009, whereas the tender documents to be ready by mid 2008. Staged construction of the sewerage networks is expected to start in 2008 with staged completion by 2012. In parallel, 20 km of sewerage networks have been designed in-house. For these in-house designed 20 km of sewers, the contract for the first 10 km was awarded in January 2007 and the contract for the remaining 10 km will be awarded by January 2008. The UWWTP expansion contract is expected to be signed in 2009 and construction to be completed by 2011. Finance negotiations with European Financial Institutions to finance 95% of the project, i.e. sewerage networks and UWWTP were completed. One agreement was signed in May 2007 and the second is expected to be signed in October 2007.

1.4. Paphos: The first phase of the sewerage network of Paphos municipality, which serves a population of approximately 35,000, was completed in July 2003. This comprised of approximately 115 km of sewers and a wastewater treatment plant treating 8,100 m³/day. The second phase, which will cover the remaining population of 50,000, requires the construction of approximately 250 km sewers as well as the extension of the capacity of the current UWWTP from 8,100 m³/day to 19,500 m³/day. The design contract for the sewerage networks and the wastewater treatment plant for the second phase were awarded in May 2005 and the design is in progress. The design was completed by 80% for the sewerage networks and 100% for the UWWTP extension. The staged tendering for the sewerage networks commenced in 2006. For the first 30% (70 Km) of the designed sewerage networks, the tender was out in August 2006, the contract was awarded in April 2007 and construction commenced in June 2007. The staged completion of the sewerage networks is expected to be completed by 2011. For the UWWTP extension, the tenders were out in September 2006 and are currently under evaluation. The contract for the UWWTP is expected to be signed by December 2007 and construction to be completed by early 2010. Negotiations with European Financial Institutions are underway for financing 85% of the project and they are expected to be completed by the end of 2007.

1.5. Paralimni – Ayia Napa: The first phase of the sewerage network and sewerage treatment plant of Ayia Napa and Paralimni municipalities, which serves a population of approximately 85,000, was completed in 2001. This comprises approximately 145 km gravity sewers, 50 km force mains, 100 km re-use water mains and a wastewater treatment plant treating 12,000 m³/day. Over the past year another 16 km of sewers were constructed, thus bringing the total length of sewers to 161 km. Another 25 km of sewer network, which is situated in not densely populated areas, is being gradually implemented, depending on the construction progress of other infrastructure works, such as roads. The expansion of the hydraulic capacity of the water treatment plant was completed in February 2007, thus bringing the total hydraulic load from 12,000 m³/day to 16,000 m³/day. In July 2007, a further UWWTP extension was awarded, to reach a total capacity of 21,000 m³/day, in view of the prospect that the surrounding communities will also be served by the common UWWTP in the near future. The estimated time of completion for the new extension of the UWWTP is early 2008.

2. Installation of Sewerage Systems in Rural Communities with a Population greater than 2000 Inhabitants

According to the requirements of the UWWTD, sewerage networks and wastewater treatment plants had to be installed in 36 communities with a population equivalent (permanent and seasonal) exceeding 2,000 inhabitants. In the meantime, sewerage networks and sewage treatment plants have

been installed in 5 communities from 1999-2004. For the 31 rural communities that the infrastructure needs to be constructed, the progress achieved since the submission of the NRP is as follows:

- For one community (Pelendri) the contract for the wastewater treatment plant was signed in November 2005 and construction was completed by March 2007.
- For the community of Lythrodondas the tender for the construction of the sewerage network was awarded in July 2006, construction commenced in September 2006 and is on schedule, with expected completion by mid 2008. The tender for the UWWTP was out in January 2007 and the tenders are currently being evaluated. Contract award of the UWWTP is expected in July 2007 with completion by mid 2009.
- For the remaining twenty nine (29) communities, for which the techno-economical studies, EIA studies and design were completed in August 2005, the progress in the past 12 months were as follows:
 - Seven (7) Communities (Polis Chyrsochous, Astromeritis, Akaki, Peristerona, Athienou, Ormidhia, and Xylofagou) commenced in stages, since December 2006, the procedures for a) preparing and getting approved their Sewerage Board Regulations and b) securing government approval for the finance of their projects. The existence of regulations and securing finance, which are prerequisites for the commencement of the tendering procedure, are expected to be completed, in stages, by early 2008.
 - For twelve (14) communities (Kokkinotrimithia, Paliometochi, Lymbia, Kiti, Pervolia, Meneou-Dromolaxia, Aradippou, Livadhia, Episkopi, Trachoni, Ipsonas, Kolossi, Dherynia and Frenaros) the negotiations with the respective Urban Sewerage Boards of the towns of Nicosia, Larnaca, Limassol and Paralimni-Ayia Napa are underway, for the possible incorporation of these communities in the sewerage boundaries of the towns and the undertaking of their entire construction by the respective sewerage boards.
 - For eight (8) communities, there are some difficulties still to be resolved, such as the public acceptance of the selected location for the installation of the common UWWTP and the legal issue of the Sewerage Law, which currently does not provide for the agglomeration between individual communities to form combined sewerage schemes. The Sewerage Law has been modified and expected to be approved by the House of the Parliament by the end of October 2007. In parallel, efforts are being made to resolve the social issues and acceptability of UWWTP sites by the end of 2007.
 - For the 29 afore-mentioned communities, the staged tendering is anticipated to commence in November 2007, the construction by mid 2008 with the staged completion by end of 2012.
 - The financial burden for the Government for the entire rural sanitation project is approximately €170 mln out of the total estimate of €250 mln.

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

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

3. Solid Waste

Implementation of a Strategic Plan for the Management of Solid Waste

The Strategic Plan includes the construction or upgrading of all major existing landfills for the four regional centers (one per administrative district) for integrated management of solid waste as well as the restoration of the existing landfills according to the provisions of Waste Directive for landfills,

99/31/EC and the Directive 94/62/EU regarding the packaging. Each regional center will include, at least a waste processing plant (composting plant and sorting plant), biological treatment plant, auxiliary facilities and the required transfer stations/collection points.

Paphos regional center: Paphos regional center is the first one that was built in Cyprus according to the specifications of the directive on Waste Landfilling. Specifically, the first phase (the sanitary landfill) of the Paphos regional center was completed and has been operating without significant problems since July 2005 and the Transfer station started operation from the end of June 2006. The tenders for the second phase which includes a mechanical and a biological treatment plant (sorting plant and composting plant) are planned to be completed by 2010.

Larnaca-Famagusta regional center For the Larnaca-Famagusta regional center, the construction works started on 12/11/2006 and will be completed by the end of 2008. The total estimated cost is €50 mln of which €29 mln will be co-financed from the Cohesion Fund of the European Union.

Limassol and Nicosia regional centers For these two centres, all necessary studies have been prepared (Feasibility, Site plan, a Technoeconomical and Environmental Impact Assessment Study), for both districts. The Ministry of Interior, as the Implementation Authority, decided before proceeding at the construction stage to inform the Municipalities and the Local Authorities for the results of the studies in order to avoid any possible objections in the future. For both projects, the construction works are planned to start in 2008 and be completed by the year 2010.

Restoration of Existing Landfills In order for Cyprus to fully comply with the provisions of Waste Directive for landfills (99/31/EC) all uncontrolled landfills will have to be closed down and be restored by the end of 2009. Disposal of household waste in rural areas takes place in uncontrolled sites. A specific study has identified 113 illegal uncontrolled waste disposal sites all over Cyprus. A Strategic Plan for the restoration and after-care of the existing uncontrolled municipal solid waste disposal sites, a Technoeconomical and Environmental Impact Assessment Study and all necessary Tender Documents had been prepared for the immediate restoration for the ten most dangerous to the environment, landfill sites.

Green Points Parallel to the above projects, the establishment of green points is promoted, in order to guarantee the successful operation of the four regional centers. In these recycling stations (green points) the people can dispose solid waste that can not be mixed with normal domestic solid waste (For example old furniture, gardening disposals, small quantities of demolition waste, clothes etc). So far, all necessary Studies and Tender Documents for the Design, Construction, Operation and Maintenance of the green points, have been prepared.

Demolition Waste To respond to the obligations arising from the acquis, with respect to demolition waste, the appropriate studies have been prepared, and the projects are in the pipeline for implementation.

ANNEX 6

Employment Challenges - Inventory of Progress

1. Challenge: Maintain High Rates of Increase of Labour Supply, particularly by Raising Old-Aged and Female Participation Rates, and Reduce Gender Inequality

1.1. Policy Priority: Increasing Female Participation

Scheme for the encouragement, strengthening and reinforcement of women's entrepreneurship: It is an ongoing scheme, implemented as from 2002, exhibiting an increasing interest. In 2006, 55 applications were submitted as compared to 51 in 2005. The Ministry of Commerce, Industry and Tourism (MCIT) accepted applications for the 2006 announcement of the scheme between July and October 2006. Fifty-five (55) applications were received and, by July 2007, their evaluation was completed and 22 of them were approved, for which the total expected grant is estimated to reach £400.100 (€ 688.600).

Scheme for the promotion of training and employability of economically inactive women, co-financed by the ESF: The Human Resource Development Authority (HRDA) has proceeded with the implementation of the scheme. So far approximately 100 women have benefited (from the first action, i.e. training). It is expected that the tender procedure for the second action (employment placement) will be completed by the end of October 2007 and that the scheme will be fully implemented by mid 2008. The target for participation in the scheme over the period 2006-08 is 800 women.

Continuation of the Grants in aid scheme to NGOs and local communities for the development of family support services (SWS): The scheme is an ongoing measure. The amount allocated via the scheme was increased to £4.800.000 (€ 8.2 mln) in 2007, as compared to £4.640.000 (€ 7.9 mln) in 2006. Based on the recommendations of a study undertaken in 2006, more objective and quantifiable eligibility criteria have been set with a view to a more rational management of the scheme.

Expansion and improvement of care services for children, the elderly, the disabled and other dependants, co-financed by the ESF (SWS): Based on the findings of a study (April 2006) on local needs in the area of care services, three calls for proposals were launched, in 2006 and in 2007. In the period 2006-2008, grants will be provided to about 30 care programmes developed by partnerships between NGOs and local authorities, providing care services to children, people with disabilities and elderly at local level. The target set for the implementation of 10 programmes during the project has been exceeded, as 17 programmes, approved during the first two cycles of the project are in the process of actual implementation while 13 more are expected to be approved during the third cycle. As a result of this project, it is expected that more than 60 new employment posts will be developed and 250¹⁷ women will seek employment during the period 2006-2008.

Two new studies are expected to be conducted in 2007-2008 on the following subjects:

- (1) The role of local authorities in the promotion of care policies for the reconciliation of work and family life.
- (2) Identification of care needs that may be met through new technologies/ automation.

New Measure - Subsidisation of Care Services (may be co-financed from the ESF of the programming period 2007-2013): (SWS) In the context of the new programming period of the Structural Funds of the EU, 2007-13, the Social Welfare Services are planning the

¹⁷ As was noted in last year's NRP progress report, there has been a corrigendum on the number of beneficiaries, in agreement with the European Commission.

implementation of a new Project for promoting the participation of women in the labour market, to be co-financed by the ESF. This Project is based on two pillars. The first concerns the subsidisation of care for pre-school age children whose mothers face difficulties entering the labour market. The second concerns the subsidisation of the use of new technology and automation for the provision of care services for the elderly and people with disabilities.

Implementation of a measure, co-financed by the ESF, in the current programming period under the Community Initiative EQUAL, aiming at the reconciliation of family and professional life (PB): This measure includes three projects, co-financed (50%) by the ESF, i.e. “Open Doors”, “Pandora” and “New Routes to the Labour Market”: The implementation of the projects started in March 2005 and by January 2006 Action 1 was completed. Action 1 included primarily the following activities: Setting up of Development Partnerships, development of a joint strategy and action plan, and agreement of a work plan for transnational cooperation. In January 2006 all three projects proceeded with Action 2, which refers to the implementation of the work programmes of the Development Partnerships.

Within the project “Open Doors” a number of training programmes were implemented including a training programme for about 100 gender equality consultants. A study was also completed about the Cartography of the Gender Social Map of Cyprus.

Within the project “Pandora” special educational tools were created and training programmes were offered for employers as well as employees, in the framework of which participants were presented with methods and actions that promote the harmonisation between career and family life. A number of studies were also completed.

Within the project “New Routes to the Labour Market” studies on the following subjects were completed: (a) Needs of Training and Structures – Services of Convenience of Women’s Employment in Cyprus, and (b) Supply of and Demand for Services for Enterprises in Cyprus, in relation to Women’s Employment and Growth of Women’s Business Activity and Self-Employment.

All three of the above-mentioned projects are expected to be completed by March 2008.

1.2. Policy Priority: Promote Gender Equality

New Measure - Prepare a National Action Plan for Gender Equality: A National Action Plan (NAP) for Equality was approved by the Government in 2007, for the period 2007-13. Its aim is to promote gender equality in all spheres of policy, through positive action and through a gender mainstreaming approach, in a systematic and comprehensive way. The NAP for Gender Equality includes, inter alia, actions for the improvement of care facilities, the conduct of research on the pay gap, support for the enhancement of female entrepreneurship and the economic empowerment of women, incentives for the adoption of family friendly policies by businesses and organisations, and sensitisation of employers and trade unions on need to balance occupational, family and private life.

Increase of the public funds allocated to NGOs from the budget of the National Machinery for Women’s Rights to promote and implement gender equality programmes: In 2007, the total budget of the National Machinery for Women’s Rights is £565.000 (€ 965.360), of which £251.000 (€ 428.860) is for funding women’s NGO’s or other bodies that promote gender equality (annual funding or funding of certain actions/ programmes). Moreover, women’s NGO’s benefit from the European Programme of the National Machinery entitled “Gender Equality – The New Dimension is Local Authorities”, for a sum of £249.000 (€ 425.440).

Undertaking of a comprehensive study with a view to identifying problems and defining possible ways, including best practices in other countries, in order to reduce the gender pay gap: The Department of Labour Relations (DLR), commissioned a study on the gender pay gap, in February 2007, for the purpose of evaluating and analysing the extent of the problem, identifying and categorising its causes, presenting good practices in other countries and formulating suggestions for reducing the gap.

The study was submitted to the Department in July 2007. It presented an analysis of the current position of women in the Cyprus labour market (employment, unemployment and pay) and a historical analysis of wage differentials between men and women. Moreover, it identified the factors contributing in increasing/reducing the pay gap, and estimated an unexplained difference in wages presumed to be due to discrimination; it analysed the “glass ceiling effect” in women’s career advancement; it explored the international view of pay gaps and presented good practices for reducing the gap in other EU member states; and suggested policy measures for reducing the gap at national level. Specific measures for reducing the gap, drawn on the conclusions of the study, will be promoted by the Department, following consultation with other public authorities and the social partners.

1.3. Policy Priority: Promote Active Ageing

Increase of the retirement age for the civil servants, as from 1.7.2005. This measure is being gradually implemented, raising retirement age from 60 to 63 years. It will become fully effective as from July 2008.

Increase of the retirement age in the broader public sector from currently 60 to 63 years: Several semi-government organizations have either proceeded or are underway with a view to extending the retirement age to 63. In addition to the Cyprus Telecommunications Authority and seven other smaller semi-governmental organizations, which had amended their laws last July 2006, the Electricity Authority of Cyprus and several other semi-public organizations introduced a retirement age at 63 in 2007. Local authorities have also been raising their retirement age to 63. The measure excludes educational service employees.

Continuation of the scheme promoting the self-employment of elderly persons: It is an ongoing measure with limited, however, use by the target group. Following an awareness campaign in 2005, there was an increase in the number of applications submitted for the scheme in 2006 (14 approved applications in 2006 compared to one application in 2005).

Study for identifying new actions in promoting active ageing: Following a tender procedure a study was carried out for identifying new actions in promoting active ageing. The results of the study will be examined with the possibility of promotion of new measures, in the next programming period. (The study is a part of the project: Development of PES network, which is co-financed (50%) by the ESF.)

Among the types of measures under examination are the following:

- Reduction of retirement incentives.
- Employment-encouraging measures for people of age 55-64.
- Enhancement of care services.
- Raising of awareness on the ageing of society.

1.4. Policy Priority: Build Employment Pathways for Young People

Continuation of the Scheme for Youth Entrepreneurship: It is an ongoing scheme launched in July 2004, attracting increasing interest. The Ministry of Commerce, Industry and Tourism accepted applications for the 2006 announcement of the scheme between July and October 2006.

Forty-nine (49) applications were received and the evaluation committee was expected to complete the evaluation of the applications by the end of September 2007. An amount of £600.000 (€ 1.02 mln) will be proportionately granted to the successful applicants, compared to £400.000 (€ 683.440) in 2006.

Scheme for the promotion of training and employability of young secondary education school graduates, co-financed by the ESF: The HRDA has proceeded with the implementation of the scheme. The tender procedure is expected to be completed before the end of October 2007 and the scheme to be fully implemented by mid 2008. The target for participation in the Scheme over the period 2006-2008 is 550 persons.

1.5. Policy Priority: Build Employment Pathways for the Unemployed

Scheme for the promotion of training and employability of the unemployed, co-financed by the ESF: The HRDA has proceeded with the implementation of the scheme. It is expected that the tender procedure (second action – job placement) will be completed before the end of October 2007 and the scheme will be fully implemented by mid 2008. The target for participation in the Scheme over the period 2006-2008 is 700 persons. So far, approximately 150 persons have benefited from the first action of the Scheme (training).

Scheme for the enhancement of computer literacy of the unemployed, co-financed by the ESF: The Scheme (not in the original NRP measures but introduced in 2006) aims to enhance the computer literacy of the unemployed, with priority attached to young unemployed, women unemployed as well as groups of unemployed threatened by social exclusion – e.g. older aged unemployed, in order to improve their employability. The HRDA has completed the tender procedure and the contractors have proceeded with the implementation of the scheme, which is expected to finish by the end of 2007. The target for participation in the Scheme is 540 persons. So far, approximately 370 persons have participated.

2. Challenge: Increase the Flexibility in the Labour Market

2.1. Policy Priority: Enhancement and Modernisation of the Public Employment Services - PES

Development of PES network, partly co-financed by the ESF: Within the framework of the implementation of this programme, five new local labour offices were set in operation (sixth one will be opened before the end of October) and three existing district labour offices have been upgraded since the beginning of 2007. One of the local offices is located in a rural area. In addition, since the beginning of 2006, qualified personnel was recruited and trained as counsellors to provide active support to vulnerable groups including young unemployed, women wishing to enter the labour market, public assistance recipients and persons with disabilities through an individualised approach. Overall, over the period January 2006 – June 2007, 2923 job seekers went through the individualised approach, of which 191 were placed in jobs and 646 were given guidance for training and work experience programmes. Furthermore, within the framework of this measure a “Guide for Employment” was being published and would be distributed to the general public before the end of October 2007.

Four supporting studies relevant to the PES functions are being carried out. One of the studies (mentioned in part 1.3 above) aims at identifying new actions for promoting active ageing and its findings will be used for promoting appropriate measures in the 2007-2013 programming period. The second study aims at the modernisation of services provided by PES to employers and it includes an evaluation of the current services provided and suggestions for additional/new ones. The third study aims at setting up an operational plan for the development and integration of private employment agencies into the employment model of Cyprus and it is currently in the final stage of completion. The fourth study, aiming at providing suggestions for the development of

targeted programmes for promoting the employment of young persons, is expected to begin in October 2007.

Upgrading of the existing Candidate Placement System (CPS) and introduction of new software and statistical system for the monitoring of flows, co-financed (50%) by the ESF:

This measure aims at upgrading the existing CPS and introducing a new software and statistical system for the monitoring of flows over the 2005-2008 period. The upgraded CPS and the new software and statistical system for the monitoring of flows will serve, inter alia, for implementing the EU target of giving a new start (e.g. training/ education or a workplace) to each young unemployed within 6 months. Following a supporting study a tender procedure was launched in June 2007 for the recruitment of an IT company to develop the new system over the period September 2007 - October 2008. The social partners have been consulted on the subject.

2.2. Policy Priority: Promotion of Flexible Forms of Employment

Action aiming at the promotion of flexible forms of employment, co-financed by the ESF:

(CPC) Based on the results of a diagnostic study (completed in October 2006) a state aid scheme was developed with the objective of encouraging enterprises and organisations to create posts for flexible employment and for women (previously inactive or unemployed) to occupy these posts. The scheme was launched in February 2007 and applications from women and companies will be accepted till the end of November 2007. By the end of August 2007, the objective of placing 60 women in new jobs had been achieved by more than 80%.

New Measure - Promotion of Flexible Forms of Employment (may be co-financed from the ESF in the Programming Period 2007-2013): Through the promotion of flexible forms of employment, the project, aims at:

1. Attracting more persons in the labour market, specifically persons from groups with low employment participation;
2. Assisting more people to remain in the labour market through the improvement of their employability and the promotion of the reconciliation of family and work life;
3. Improving the productivity and competitiveness of enterprises and organisations that will create posts of employment with flexible arrangements.

The above will mainly be achieved through a subsidy scheme for enterprises and organisations, for promoting and applying in an integrated manner flexibility with security in the workplace, by mid 2008.

2.3. Policy Priority: Ongoing Assessment of Labour Market Needs

Undertaking of three studies on long-term employment forecasts in the Cyprus Economy 2005-2015 (HRDA):

- (a) Long-term employment forecasts 2005-2015:** The study was completed in 2005. Employment forecasts have been provided for 44 selected economic sectors and for 27 selected occupational groups for the period 2005-2015.
- (b) Long-term employment prospect forecasts in higher level occupations 2005-2015:** The study was completed in 2005. Employment prospects have been provided for 104 higher-level occupations for the period 2005-2015.
- (c) Long-term employment prospect forecasts in middle level occupations 2005-2015:** The study was completed in 2005. Employment prospects have been provided for 90 middle-level occupations for the period 2005-2015.

The three above-mentioned studies were disseminated to a wide audience of prominent stakeholders in a variety of ways, utilising both traditional and electronic channels of communication. These 10-year employment forecasts, which are planned to be carried out on a regular basis every 3 years, i.e. the next ones will be carried out in 2008, constitute a useful guide for the formulation of appropriate policy responses by the HRDA, government ministries as well as the social partners. Moreover, they serve as a useful tool for the provision of vocational guidance in schools and for informing parents and students on the employment situation forecasts in Cyprus.

Undertaking of annual investigations for the identification of initial training needs, with the involvement of the social partners: The annual investigation for identifying the initial training needs for 2008 was completed in April 2007. The findings of the annual investigations are utilised by the HRDA every year in order to arrive at policy decisions for the promotion of appropriate initial training programmes for the next year. Dissemination to the public is achieved via the website of the HRDA.

2.4. Policy Priority (new): Further Promotion of Adaptability of Workers and Enterprises

New Measure - Incentive scheme to facilitate the shift from low- to high-productivity jobs (may be co-financed by the ESF of the new Programming Period 2007-2013): The scheme aims at improving labour productivity by facilitating the shift from low value added jobs to high value added jobs. It involves subsidies to enterprises for the implementation of specific changes that will lead to the required job reallocation.

3. Challenge: Orderly Management of Foreign Workers Issues to Serve the Economic and Social Needs of the Country

Implementation of the new strategy for the effective management of foreign workers' issues: (DL, MOI) The new strategy aims at the orderly management of economic migration taking into consideration the priorities of the national Strategic Development Plan. Following new consultations among the competent ministries and with the social partners, the new strategy was agreed. The strategy sets quotas on foreign workers (on the total workforce and on each enterprise) while favouring the employment of highly-skilled workers, puts time-limits on processing of applications, verifies the right of the worker to change employer, provides for employer sanctions and sets up coordination and monitoring mechanisms. It is expected that the strategy will be implemented very soon.

Preparation of a new immigration law providing a comprehensive framework for immigration policy: (MOI) Instead of a new Aliens and Immigration Law, three amending Laws were prepared during the last year. The first amending Law, aiming at harmonisation with several EU Council directives and decisions, was approved by the House of Representatives and published in the Official Gazette on 14th February 2007. It referred to the following directives and decisions: Council Directive 2003/86/EC, concerning the right of family reunification; Council Directive 2003/109/EC, concerning the status of third country nationals who are long term residents, Council Directive 2002/90/EC, defining the facilitation of unauthorised entry, transit and residence, Council Directive 2003/110/EC on assistance in cases of transit for the purposes of removal by air; and Council Framework Decision of 28 November 2002 on the strengthening of the penal framework to prevent the facilitation of unauthorised entry, transit and residence.

The other two amending laws were pending for approval at the end of August 2007, on carriers obligations and on students and trainees respectively. As regards the first one the Ministry of Interior has prepared a carriers' liability draft law in compliance with Directive 2001/51/EC of 28/06/2001, concerning the obligations of carriers transporting foreign nationals into the territory of the Member States and Directive 2004/82/EC of 29/04/2004, concerning the obligations of air

carriers, transporting passengers into the territory of the Member States, to communicate passenger data. The draft law was approved by the Council of Ministers on 16/05/2007 and its discussion in the House of Representatives has begun.

The second pending draft Law constitutes an amendment to the Aliens and Immigration Law in compliance with Directive 2004/114/EC of 13/12/2004, concerning the conditions of entry and residence of third country nationals for study purposes, exchange of students, unremunerated trainees, or voluntary service. It was approved by the Council of Ministers in June 2007 and its discussion in the House has also begun.

4. Challenge: Further Development of Human Capital

4.1. Policy Priority: Continuous Improvement of the Quality and Flexibility of the Educational System

Education Reform: The Minister of Education and Culture, on the basis of a Council of Ministers decision, has submitted a strategic plan in late September, to teacher organizations and other stakeholders, within the context of the educational reform, with a view to arrive at policy decisions within the next few months on educational reform issues, such as the quality of education, teacher training and assessment and the curriculum up to the lyceum.

Implementation of an action aiming at introducing modern technology in education, co-financed by the ESF: The programme aims at reforming the curricula of all subjects with activities using ICT, providing schools with the suitable ICT equipment and completing the infrastructure installations. The Ministry of Education and Culture has obtained ready-made software for the needs of some of the subjects taught at the Lyceum and Technical/ Vocational level and started the procedure to obtain e-learning software for these subjects. The procedure to obtain ready-made software for the remaining subjects taught at Lyceum has already been started. Tenders for ICT consulting services are under evaluation. The Ministry of Education and Culture has prepared the LAN¹⁸ design for 25 secondary schools and the tenders for the implementation are expected for evaluation.

A Learning Management System (LMS) Platform has been bought where teachers will be able to log in, in order to find material or to communicate with other teachers or pupils and their parents.

During the current school year computer subjects have been systematically included in the curriculum of “all day” Primary schools, mainly the compulsory ones but to some extent also the voluntary¹⁹ ones. “All day” schools operate until 4 pm instead of 1:05 pm (except on Wednesdays). A few extra subjects are taught in these schools and they often have subsidised lunch arrangements. There are 150 voluntary all-day schools and 9 compulsory ones. Since compulsory all-day schools are considered more successful, their number (15 for the school year 2007-08) may be expected to increase following a three-year pilot period ending in 2008.

A programme aiming to supply all classrooms of Primary schools with ICT equipment started during school year 2006-07.

Implementation of an action aiming at ensuring that secondary education teachers will become digitally literate, partly co-financed by the ESF: The Ministry of Education and Culture launched in April 2005 teacher training programmes based on ECDL (European Computer Driving Licence) standards. The programmes, which will provide participants ECDL certification, will continue to be offered at a rate of two programmes per year until September 2009. In addition, the

¹⁸ Local Area Network.

¹⁹ “Voluntary” means that it depends on the parents whether the child will attend the extended hours.

Ministry of Education and Culture introduced a special teacher training programmes on ICT and e-learning in June 2005, which will continue to be offered until September 2008. The percentage of Secondary and Vocational Education teachers already trained on basic skills and how to implement ICT is 38% (2,500 teachers out of 6,600). The programme aims at training all the secondary and vocational education teachers on ICT.

In addition the Primary Education Department has launched an action aiming at in-service training of Primary school Teachers in Basic computer Skills or the use of ICT in classroom. The percentage of primary school teachers already trained is 42% (2,500 teachers out of 6,000).

4.2. Policy Priority: Increase Opportunities for University Studies in Cyprus

Introduction of new departments in the University of Cyprus: The Department of Biological Science has started offering pre-graduate studies and has accepted its first students, in the academic year 2007-08. In addition, the introduction of the Department of Law is under examination.

University of Cyprus increased intake (new): The Ministry of Education and Culture in collaboration with the University of Cyprus has announced the increase, by 132, in the students intake, to be effected in academic year 2007-08. The new students will join existing programmes.

Operation of the Open University of Cyprus: The selection procedure for administrative and academic staff started in 2005 and it will be continued based on the future needs as a result of the expansion of the programmes offered. The required administrative and academic staff for the academic year 2006-07 has been selected. The University has accepted its first students in September 2006, with the operation of two programmes of study: a postgraduate programme in health management (60 students) and a postgraduate programme in education studies (90 students). A new postgraduate programme in Ancient Greek culture and a “Master” Programme in Information Technology system I began in September 2007 with 80 students each.

Operation of the Cyprus University of Technology: The selection procedure for administrative and academic staff started in 2005 and it is still underway. Further, the renovation of the buildings to be used in housing the University was completed in September 2007. The University accepted its first students (450 students in total) in September 2007, starting operation with five faculties and eight departments.

Establishment of Private Universities, following the enactment of the relevant legislative framework regulating their operation in July 2005: Following the enactment of the law regulating the establishment and operation of private universities in Cyprus, the Council of Ministers appointed the members of the Evaluation Committee for Private Universities on 5/12/2005. Five applications have been submitted so far, for the establishment of Private Universities by the owners of four private institutions of tertiary education and a private company. The evaluation procedure commenced in May 2006. A total of ten working groups assessing the readiness of colleges to be upgraded into private Universities completed their evaluation work by June 2007. The final report of the working groups was submitted to the Evaluation Committee for Private Universities. On the basis of the evaluation results, the first three private universities have been approved and started to operate in the academic year 2007-2008.

4.3. Policy Priority: Continuous Upgrading of Skills to Labour Market Needs

Implementation of an action aiming at strengthening the quality and attractiveness of the Secondary Technical and Vocational Education (STVE) and improving the organisation of STVE, co-financed by the ESF: The Ministry of Education and Culture launched in May 2006 a tender procedure for a study focusing on the organisation of the STVE. The commissioned study was presented to the Ministry of Education and Culture at the beginning of June 2007. The

preliminary results of the study were evaluated by the Ministry and remarks were given at the end of June to the successful Tenderer, who submitted a final draft in August 2007 (to be presented to the Ministry, in October). In addition, the Ministry is in the process of revising the curriculum of the STVE within the context of the Educational Reform. Based on study findings and the curriculum revision, the implementation of a new curriculum is currently planned, with a view to be introduced into a number of STVE schools, as a pilot project during the school year 2007-2008.

Implementation of an action aiming at upgrading the Apprenticeship Scheme, co-financed from the ESF: The Ministry of Education and Culture launched in May 2006 a tender procedure for a study focusing on the organisation of the Apprenticeship Scheme. The study is completed and the Preliminary Report of the findings and suggestions has been presented to the Ministry of Education and Culture and it is now under evaluation and assessment by the Department of STVE. The Ministry is also in the process of revising the curriculum of the Apprenticeship Scheme. On the basis of the results of the study and the revised curriculum, an action plan aiming at upgrading the Apprenticeship Scheme will be elaborated in 2008.

New Measure - Establishment and operation of a New Modern Apprenticeship (NMA), designed to constitute a viable, alternative form of training and development for young persons as well as to meet the needs of the labour market (may be co-financed from the ESF in the Programming Period 2007-2013):

The proposal which has been examined with the social partners is expected to be submitted for approval to the Council of Ministers before the end of October 2007 and, following a transitional period of two years during which parts of the current apprenticeship scheme will coexist with parts of the new apprenticeship, it will become operational in 2010, and as from 2011 post secondary apprenticeship will be incorporated into the system.

The main strategic objectives of the NMA are, firstly, to provide a learning pathway for young persons who withdraw from the education system early, so that they are able to learn how to learn, acquire and/or upgrade their skills, and become more employable and more able to progress in their career; and, secondly, to increase the supply of labour with persons qualified to meet the needs of the economy, to ensure mobility between education, apprenticeship and employment, and to minimise the risk of social exclusion.

The NMA will embrace young people between 14 and 25 at three levels (preparatory apprenticeship, core apprenticeship and post-secondary apprenticeship), will be supported by an internal research and development centre, and will be linked to the national System of Vocational Qualifications established and implemented by the HRDA.

Upgrading of the Human Resource Development Authority (HRDA) Training (Five Actions)

Undertaking of a special study aiming at evaluating the impact of the existing HRDA schemes on the labour market: The study has covered all the schemes of the HRDA that have been operated during the period 1998-2004. The study, which commenced in August 2005, was completed in 2006. In the light of the findings of the study, policy decisions have been taken to modify/enrich the spectrum of schemes to be promoted by the HRDA in the future. This will lead to the further upgrading/enhancement of human capital development in Cyprus.

Extension of the rendered training programmes HRDA: Introduction of four co-financed by the ESF schemes and consultancy services and training to micro-enterprises. The progress achieved with regard to the four co-financed by the ESF schemes for selected target-groups (inactive women, unemployed, young secondary education school leavers), has been described under the first employment challenge. With regard to the consultancy services and training to micro-enterprises employing 1-4 persons, the HRDA has completed the tender procedure and the contractors have

proceeded with the implementation of the scheme, which is expected to finish mid 2008. The target for participation in the Scheme over the period 2006-2008 is 600 enterprises. So far approximately 250 micro-enterprises are participating in the Scheme.

Further support to the training infrastructure of institutions and enterprises: The design for the enrichment of the existing scheme entitled “Training Infrastructure Support Scheme” started in June 2006. It will be completed after the examination of all pertinent findings / proposals from (a) the evaluation study entitled «Ex-post evaluation of the existing schemes of the HRDA», (b) the Appraisal and Certification System of Training Providers and (c) the scrutiny exercise which aims to improve the effectiveness of the services provided by the HRDA. The enriched Scheme is expected to become accessible to and be utilised by the training providers and enterprises from January 2009 onwards. So far the Scheme has been revised and approved as from 1/7/07 in order to correspond to the revised de-minimis regulation (1998/2006/EC).

Introduction of an Appraisal and Certification System of Training Providers: The development of the system has been assigned by the HRDA to external consultants, who will provide the prescribed services for the development of the system over the period October 2006-October 2008 and immediately thereafter there will be a gradual introduction of the system. The draft proposal for the System has been prepared, and it will be circulated to the stakeholders for their comments before it is finalised. The Appraisal and Certification System for Training Providers is expected to become fully operational from January 2010 onwards.

Introduction of a Vocational Qualifications System (HRDA):

The System of Vocational Qualifications is designed for the assessment and certification of the knowledge, skills and competences of a person to perform competently in a working environment under normal working conditions at a predetermined level of occupation; and is independent of how and when the relevant knowledge and skills were acquired. It is based on Standards of Vocational Qualifications that are developed with the involvement of stakeholders at central and sectoral levels.

The main functions of the System are the following:

- Development of the Standard of Vocational Qualification.
- Awarding of the Vocational Qualification, including diagnosis/initial assessment, testing and certification.
- Accreditation/ Recognition of Qualification

The system will be gradually introduced in two phases (1st phase 2006 extended to 2007, 2nd phase 2007-2013). During phase 1, there was over the period January-April 2006 a review/ setting of the already developed standards of vocational qualifications at level 2 for five occupations (waiter, cook, receptionist, construction mason, sales person-retail). In order to facilitate the review/setting process, technical sectoral committees of vocational qualifications were established in January 2006 in conjunction with the recruitment of standard developers. As from September 2006 onwards, opportunities for access to the system are provided to employees, which enable them to have their occupational competences assessed leading eventually to final testing and certification. By the end of June 2007, about 180 employees had submitted applications for participation. In May 2007, 41 certificates of vocational qualifications were awarded. During phase 2, the development of standards for an additional number of occupations at various levels is envisaged.

4.4. Policy Priority: Development of a Comprehensive Lifelong Learning Strategy

Elaboration of a comprehensive lifelong learning strategy (PB):

A detailed joint plan for the National Lifelong Learning Strategy 2007-2013 has been produced following work by the Planning Bureau and the two key Ministries, i.e. the Ministry of Education and Culture and the Ministry of Labour and Social Insurance, during the last several months.

The main objectives of the strategy are to empower citizens to meet the challenges of the knowledge-based society, moving between learning settings, jobs, regions and countries in pursuit of learning, and to contribute to a more prosperous, inclusive, tolerant and democratic society.

Consultations on the strategy, were carried out in June 2007, with the key social partners and stakeholders (teachers unions, central trade unions, central employers and commerce representatives, representatives of tertiary education public and private institutions, and the Cyprus Youth Organisation). It is expected that the strategy will be submitted to the Council of Ministers for approval before the end of October 2007.

The plan is based on four pillars:

- (1) Promoting access to lifelong learning for all;
- (2) Enhancing lifelong learning infrastructure and systems;
- (3) Promoting research and development to support lifelong learning;
- (4) Effective governance of lifelong learning.

The main chapters of the paper include an analysis of the existing situation in Cyprus, strategic objectives and the policy directions, policy measures and actions, strategies for financing from both national and European funds, and setting of five lifelong learning quantitative targets in line with the corresponding EU benchmarks (i.e. reduction of early school-leaving, reduction of youth (15+) illiteracy, increase the percentage of the population that has completed at least upper secondary school education, increase in adult participation in lifelong learning, and increase in the number of tertiary education graduates from Math, Science and Technology).

The strategy provides that a National Committee for Lifelong Learning should be set up consisting of representatives of the competent authorities and key social partners, as the body responsible for following up the implementation of the strategy and making suggestions for its future adjustments.

New Measure - Establishment of European Life Long Learning Programmes Management Foundation

The foundation is a non-profit (private-law) organisation, established by the Cyprus Council of Ministers in 2006, with the aim to become the Body through which the management of the EU programmes in the fields of education and training (Comenius, Leonardo da Vinci, Erasmus, Grundtvig, Jean Monnet and Transversal Programmes) are promoted. The foundation will subsidise, through funds obtained from the European Commission, educational Institutions and organisations activated in the fields of education and training, as well as teachers, pupils, students, educators, trainers and trainees. The Planning Bureau has been nominated by the Council of Ministers as the National Authority responsible for this Foundation. Already the Board of Directors has been appointed by the Council of Ministers and the Director of the Foundation has been recruited.

5. Challenge: Enhance the Conditions of Social Cohesion

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

5.1.1. Horizontal Measures

National Report on the Strategies for Social Protection and Social Inclusion (NSPI): The NSPI was submitted to the European Commission on 2.10.2006. (Coordinated by Social Welfare Services (SWS)). Three specific strategies are included in the NSPI, as shown below.

The Social Inclusion Strategy envisages measures for the integration of more people into the labour market, promotion of lifelong learning, improvement of educational standards and measures that will enhance social cohesion (reduction of poverty).

The Pensions Strategy includes reforms that will strengthen incentives for the prolongation of working life, such as the increase of the period required for eligibility to the pensions of the Social Insurance System. It also includes other measures that will have a positive impact on the adequacy and sustainability of the system.

The Health and Long-term Care Strategies will have a direct impact on increasing employment as a result of the creation of additional posts (e.g. nurses and carers) and an indirect one by contributing to the maintenance and improvement of the standard of health of the working population (ensuring access to health care services) and to the overall effort of reconciling work and family responsibilities.

As a follow-up to the NSPI, a Seminar was conducted in June 2007 on the “prevention of social exclusion in children”. All stakeholders (government, NGOs, local authorities, social partners, and academia) were invited. The Seminar gave the opportunity for exchange of information and discussions on the current situation, best practices and policy priorities on issues concerning children.

Implementation of a measure aiming at facilitating access and return to the labour market for those who have difficulty in being integrated or reintegrated, co-financed from the ESF, under the Community Initiative EQUAL: (PB) This measure includes three projects: (a) “Promoting of unemployed to employment through specialised training and skills certification (PRAXI)” (b) “Channels for Access” and (c) “Network for the promotion of Youth Employability (ARRIS)”. The implementation of the projects started in March 2005 and by January 2006 Action 1 was completed. Action 1 included primarily the following activities: Setting up of Development Partnerships, development of a joint strategy and action plan, and agreement of a work plan for transnational cooperation. In January 2006 all three projects proceeded with Action 2, which refers to the implementation of the work programmes of the Development Partnerships.

Within the project “Promoting of unemployed to employment through specialised training and skills certification (PRAXI)” a system for personalised and integrated support for the entry or re-entry of the unemployed to the market through professional qualification was designed. The following studies were completed: (a) Labour Survey – size and forecasts; (b) Support System for the unemployed; and (c) Analysis of Professional Qualifications.

Within the project “Channels for Access” a number of training programmes, including one on Communication and Professionalism and one on Electronic Literacy, were offered to unemployed women. A standard for companies that are friendly with alternative methods of employment was also designed. A study was also completed about perceptions and attitudes of unemployed women towards flexible work arrangements.

Within the project “Network for the promotion of Youth Employability (ARRIS)” an internet portal that includes advanced search engines and data bases for available jobs and candidate employees is now available. Additionally a research study on the factors that reduce the employment and employability of disadvantaged youth in Cyprus has been completed. All three projects are expected to be completed by March 2008.

5.1.2. Public Assistance Recipients

Review of the legislation on public assistance (Public Assistance and Services Laws): As it was reported in the 2006 Progress Report, the Public Assistance and Services Law of 2006 was enacted in April 2006 to amend older legislation. The new Law introduces several provisions targeting the persons mostly in need (e.g. the term “single parents” becomes broader) whereas it introduces further employment incentives to encourage gradual labour market integration and independence from public funds.

Implementation of a scheme for vocational training and employment of the recipients of public assistance, partly co-financed from the ESF:

Within the programming period 2004-2006 of the Structural Funds the Social Welfare Services – SWS– are implementing a Project aiming at the vocational training of public assistance recipients (PARs) and their reintegration into the labour market. The Project began in 2005, and by the first half of 2007 the SWS have run two training courses (communication skills and self-development, and basic skills in computers) for a total of 486 persons (of whom 346 successfully completed the first course while 273 completed the second course). A third specialised training course (sales skills, office management skills and English language) began, in June 2007, for PARs who completed the first two courses and need further training. All training courses were outsourced to the private sector. The next major action under this Project is the integration of PARs into available employment positions which already began in the second half of 2006.

New Measure – New Scheme for vocational training and employment of the recipients of public assistance:

Within the same policy scope, the SWS are planning a Project for co-financing under the new Programming Period 2007-2013 of the Structural Funds. This project will aim at training a wider group of vulnerable persons, e.g. PARs, young persons (including persons aged 16-18 under the care of the Director of Social Welfare Services), families in psycho-social difficulties, substance users etc. SWS will promote training in social skills while the Cyprus Centre of Productivity (in cooperation with SWS) will undertake the vocational training. The target group will then be placed in employment positions. The Project will also promote the self-employment of the target group through the provision of grants for the establishment of enterprises.

5.1.3. Persons with Disabilities

Implementation of a training scheme for the disabled, co-financed from the ESF: (DL) The evaluation and monitoring committee, set up to that end, evaluated the tender documents and selected the contractor, which conducted over the period July-September 2006 a study that formulated and set the levels of the training programmes. Based on the study findings, and after public procurement procedures, the task of the implementation for the training programmes was assigned to two organisations, one carrying out a training programme for people with severe hearing impairment and one for people with severe visual impairment.

Implementation of a scheme providing incentives for the employment of people with disabilities, co-financed from the ESF: (DL) The scheme was opened for applications in December 2005 and it was improved in May 2006 by increasing the financial incentives. The

number of applications until May/June 2007 amounted to 42, which is considered a small number. For this reason more publicity has been given to the scheme.

5.1.4. Older Persons

Elaboration and implementation by the Ministry of Health of a 10-year action plan for the development of health care services for the elderly – (MOH):

This is a three-phase action plan, i.e. further to the current phase the plan will continue during 2008-2011 and during 2011-2014.

Among the priorities of the plan are the following:

- (1) Improvement of health and care services for the elderly at hospital level and/or with hospital cooperation
- (2) Staffing of rehabilitation centres with health professionals
- (3) Development of primary care for the elderly (e.g. training of health professionals regarding the development and implementation of protocols)
- (4) Development of community nursing services, including provision of home services.

The main developments during 2006-07 were the following:

- (a) Four nurses and one doctor have undergone special training in Ireland for the care of the elderly. Another team is agreed to receive training this year.
- (b) The Ministry of Health has come to an agreement with specialised old people homes for long term care, in the private sector, to provide special services for the elderly, i.e. nursing and rehabilitation care as well as medical care. This arrangement, applying chiefly in the Larnaca District for the time being, is to take pressure off public hospitals, which used to prolong the stay of older patients even after the completion of their medical treatment.
- (c) The Ministry of Health has signed an agreement with a specialised non-profit rehabilitation hospital (Megaron Agoniston at Palodia). In accordance with the agreement, a number of beds (six) are reserved for the needs of the elderly for rehabilitation after serious onsets such as a stroke.
- (d) The nursing care at home is now expanding in more areas (Kyperounda, Strovolos, Lakatamia and Kaimakli). This is done with the help of the environment of the people that need care and the Social Welfare Services.
- (e) In addition to permanent nursing services at each old people home, a primary health care team (doctor and nurse) are visiting on a regular basis most public-sector old people homes, i.e. five out of seven homes with a capacity of 30-50 persons each, to cover their primary health care needs.
- (f) Within the aim of transforming a number of private sector old people's homes into geriatric clinics, public hospitals have been closely co-operating with some of those homes for providing clinical services.

Implementation of the National Action Plan for Older Persons: The NAP/Older Persons was approved by the Council of Ministers in November 2005, and a monitoring committee was set up in June 2006 with a view to monitoring progress and preparing progress reports. The working methods of the monitoring committee were decided at a meeting chaired by the Permanent Secretary of the Ministry of Labour and Social Insurance in July 2006. A follow-up Strategy on Ageing was approved by the Council of Ministers in May 2007.

In line with the decisions of the meetings of the monitoring committee, which were held in October and December 2006, the services involved in the implementation of the Plan (both governmental and non-governmental services) have been working on the preparation of reports on the actions taken for the promotion of specific measures, falling under their responsibility. Once all the reports have been submitted, they will be studied with a view to promoting interaction and synergies and introducing an effective monitoring mechanism by the end of the year.

5.1.5. Children and Families at Risk of Poverty

Elaboration and implementation of a National Strategy for Children for the period 2007-2013: A Strategy for Children is expected to be completed by the end of October 2007 after consultation with all stakeholders. The Council of Ministers is expected to approve the final document by the end of the year. A monitoring committee will then be appointed with a view to monitoring the implementation of the Strategy.

5.1.6. Drug Users

Implementation of the National Drug Strategy and the Action Plan for Drug Demand Reduction, (2004-2008): (ADC) The measure includes two actions to be implemented over the period 2004-2008: (1) The inclusion of social integration services in the treatment network and the elaboration of mechanisms for reintegrating of former users into the labour market, and (2) the promotion of the participation of former drug users in social rehabilitation and occupational re-insertion programmes. The original NRP of 2005 mentioned a third action, on “legislation for incentives to employers for the recruitment of former users” but alternative employment measures are being promoted through the PES with SWS help.

With regard to the first action, as from January 2007 on a yearly basis, the annual sum of £50.000 (€ 85.430) will be used for the above-mentioned purpose, through the "Plan for the Provision of Financial Support for the Rehabilitation of Drug Users in Treatment and Rehabilitation Programmes" of Social Welfare Services of the Ministry of Labour and Social Insurance. The number of people that benefited from the plan increased to 57 in 2006 compared to 22 in 2005. Furthermore, drug users benefit from the coordinated efforts for the enhancement and modernisation of the Public Employment Services, through the provision of individualised counselling with the aim of reintegrating vulnerable groups into the labour market.

Concerning the second action, former drug users benefit from the operation of three treatment units which provide specialised social integration and occupational rehabilitation programmes. Furthermore, the revised relevant legislation on Public Assistance, provides enhanced employment incentives to public assistance recipients.

5.1.7. Asylum Seekers

Reduce the possibility of social exclusion for asylum seekers, partly co-financed by the ESF, under the Community Initiative EQUAL: This measure includes the project “Social rights for Asylum seekers, social rights for all”. The implementation of the project started in March 2005 and by January 2006 Action 1 was completed. Action 1 included primarily the following activities: Setting up of Development Partnerships; development of a joint strategy and action plan; and agreement of a work plan for transnational cooperation. In January 2006 the project proceeded with Action 2, which refers to the implementation of the work programme of the Development Partnership.

Within the project, more than 50 asylum seekers participated in Greek language courses and courses on Cypriot and European culture and society (phase 1). This was followed by vocational training (phase 2) and practical experience of working in a company (phase 3).

The project is expected to be completed by March 2008.

5.1.8. Access to Housing

Continuation of the various housing schemes aiming to assist

- (1) refugees of the 1974 Turkish invasion of Cyprus,
- (2) low-income families to acquire their own home.

The Government has unified the non-refugee housing schemes targeted at low income families, persons living in disadvantaged areas and large families, in an attempt to achieve uniformity and improvement of the criteria used, as well as of the provision of the various housing schemes. Following a decision of the Council of Ministers in September 2006, the unified housing scheme was introduced in January 2007.

In 2006 the funds allocated to refugee and non-refugee housing schemes amounted to £16.070.000 (€ 27.5 mln). In 2007 the budgeted funds rose substantially to £19.580.000 (€ 33.5 mln). The budget proposals for 2008 are £20.230.000 (€ 34.6 mln).

5.2. Policy Priority: Safeguarding Affordable Access to Government Education and Health Services

As noted in the NRP, education in Cyprus is free up to the age of 18 years and it is compulsory up to the age of 15. Furthermore, the Cyprus Government covers tuition fees for undergraduate studies, in state universities for Cypriot students, and students from E.U. member states whereas an annual student grant of £1.000 (€ 1.708) (in case of non existence of fees) and around £1.500 (€ 2.563) (in case of fees) is provided to persons studying in tertiary education level institutions locally or abroad.

In the area of health, there is free medical care in public hospitals for a very large percentage of the whole population. **Eligible for free medical care** are civil servants as well as single living persons with an annual income of lower than £9.000 (€ 15.377), families of two with an income lower than £18.000 (€ 30.755); for families with children, this income threshold is further increased by £1.000 (€ 1.708) per dependent child. **Eligible for reduced rates** are single living persons with an annual income between £9.000 (€ 15.377) and £12.000 (€ 20.503), families of two with an income between £18.000 (€ 30.755) and £22.000 (€ 37.90); for families with children, this income threshold is further increased by £1.000 (€ 1.708) per dependent child. In addition, free medical care in public hospitals is also provided to **persons with chronic and serious diseases**, such as AIDS.

The policy initiatives underway to reform the secondary technical and vocational educational system, including the apprenticeship scheme, as well as the introduction of the **General Health Scheme** will considerably improve access of the lower income groups to education and health.

Moreover, the initiatives underway to enhance the provision of web-enabled services by the public sector as well as the gradual development of one-stop-shops in the civil service, presented in the microeconomic chapter, will facilitate access to government services to all.

ANNEX 7

Restrictions to Competition in Professional Services

In the 2006 Commission Report of Cyprus NRP, insufficient competition in the professional services, was set as a point to watch, pinpointing indicatively at the sectors of Pharmacists, Legal Professionals and Architects and Engineers. The Comments of the European Commission (in italics), as well as of the professional groups and the pertinent services are presented herebelow:

1. Pharmacists

- ***Complete ban on advertising***

Comments: The ban of advertisement concerns the pharmaceutical products sold only on prescription, due to their specialised properties, which are known best by the doctor who prescribes. However, for other medical products like pain killers, ointments, cosmetics etc, sold without prescription, advertisement is allowed.

As regards the banning of the pharmaceutical services, it was imposed following a recommendation of the EU.

- ***Business Structure:*** *(No person may own more than one pharmacy or possess more than a 51% share holding of more than one business that operates a pharmacy. This aims to prevent the establishment of a chain of pharmacies and to therefore protect competition.)*

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

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

- ***Fixed fees for medicinal products*** *(the maximum profit of wholesalers and retailers is set – currently 33% of the wholesale price for retail sale, or 33% of wholesale trade).*

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

2. Legal Professionals

- ***Fixed Fees for Advocates*** *(Fees are regulated by the Civil Procedure Rules issued by the Supreme Court of Cyprus. These Rules are subject to amendment every 4 to 5 years with the last amendment having taken place in 2002.)*

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

- ***Unable to participate in other professions or activities which are deemed incompatible***

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

3. Architects and Engineers

- ***Fixed Fees for public works*** (Minimum tariffs are provided for architectural and engineering services for public projects and services. It has been decided that for service contracts up to £900,000 (€ 1.54 mln) the tariff is fixed and the award of the public contract is made on the basis of quality criteria).

Comments: The Treasury of the Government claims that no such practice is followed. There are cases when a ceiling is set to the fee, but then firms are evaluated based on their technical specifications and classified in order of merit. Then negotiations are carried out with the best performer which if successful, lead to an agreement, if not, the second one is invited to quote his price and terms etc. The process of negotiations is stipulated in the Public Tenders Law.

- ***Ban on advertising*** (Architects and engineers are banned from advertising their services on the basis that citizens do not have the expertise to judge whether advertising is misleading or not.)

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

- ***Business Structure:*** (Architects (and engineers) may practise as a sole practitioner or in a partnership with one or more registered architects (engineers). Liability should be personal and unlimited and therefore the formation of private limited companies is prohibited. Architects (and engineers) are also prohibited from participating in firms with non-architects (engineers).)

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

ANNEX 8

Earmarking: The NSRF (2007-2013) contribution to Lisbon priorities for growth and employment in terms of financial effort

Cyprus has always been committed, as analysed above, in using the highest possible proportion of cohesion policy funds for contributing to the achievement of the Lisbon Strategy Objectives (economic growth and employment), taking into account the specific territorial and socio-economic situation of the country.

Within this framework and despite the fact that Cyprus is not bound, according to Article 9(3) of Regulation 1083/2006, to participate in the earmarking process, the indicative allocation of EU contribution that corresponds to earmarked categories of intervention is presented in Table 1 below. It is estimated that nearly 60% of the funds are earmarked for the period 2007-2013.

Table 1: Earmarked Categories of Intervention

CODE		Community Contribution (€)	Contributing Operational Programme	Share of Category to total Community allocation to Cyprus
Research and Technological Development, Innovation and Entrepreneurship		132.700.000		21.7
1	R&TD activities in research centres	8.500.000	OP SDC	1.4
2	R&TD infrastructure (including physical plant, instrumentation and high speed computer networks linking research centres) and centres of competence in a specific technology	19.000.000	OP SDC	3.1
3	Technology transfer and improvement of cooperation networks between small businesses (SMEs), between these and other businesses and universities, post-secondary education establishments of all kinds, regional authorities, research centres and scientific and technological poles (scientific and technological parks, technopoles, etc)	15.500.000	OP SDC	2.5
4	Assistance to R&TD, particularly in SMEs (including access to R&TD services in research centres).	15.750.000	OP SDC	2.6
5	Advanced support services for firms and groups of firms	8.500.000	OP SDC	1.4
8	Other investment in firms	51.850.000	OP SDC	8.5
9	Other measures to stimulate research and innovation and entrepreneurship in SMEs	13.600.000	OP SDC	2.2
Information Society		15.300.000		2.5
13	Services and applications for the citizen (e-health, e-government, e-learning, e-inclusion, etc)	15.300.000	OP SDC	2.5
Transport		51.109.484		8.3
20	Motorways	24.709.484	OP SDC	4.0

CODE		Community Contribution (€)	Contributing Operational Programme	Share of Category to total Community allocation to Cyprus
30	Ports	26.400.000	OP SDC	4.3
Energy		5.950.000		1.0
36	Natural Gas	1.700.000	OP SDC	0.3
40	Renewable energy: solar	4.250.000	OP SDC	0.7
Environmental Protection and Risk Prevention		43.870.000		7.1
50	Rehabilitation of industrial sites and contaminated land	16.150.000	OP SDC	2.6
52	Promotion of clean urban transport	27.720.000	OP SDC	4.5
Increasing the adaptability of workers and firms, enterprises and entrepreneurs		11.475.000		1.9
62	Development of life- long learning systems and strategies in firms, training and services for employees to step up their adaptability to change, promoting entrepreneurship and innovation	7.650.000	OP EHCSC	1.3
63	Design and dissemination of innovative and more productive ways of organising work	2.550.000	OP EHCSC	0.4
64	Development of specific services for employment, training and support in connection with restructuring of sectors and firms, and development of systems for anticipating economic changes and future requirements in terms of jobs and skills	1.275.000	OP EHCSC	0.2
Improving access to employment and sustainability		30.600.000		5.0
65	Modernisation and strengthening of labour market institutions	5.525.000	OP EHCSC	0.9
66	Implementing active and preventive measures on the labour market	16.575.000	OP EHCSC	2.7
69	Measures to improve access to employment and increase sustainable participation and progress of women in employment to reduce gender-based segregation in the labour market and to reconcile work and private life, such as facilitating access to childcare and care for dependent persons	4.250.000	OP EHSCS	0.7
70	Specific action to increase participation of migrants in employment and thereby strengthen their social integration	4.250.000	OP EHSCS	0.7
Improving the social inclusion of less-favoured persons		12.325.000		2.0

CODE		Community Contribution (€)	Contributing Operational Programme	Share of Category to total Community allocation to Cyprus
71	Pathways to integration and re-entry into employment for disadvantaged people; combating discrimination in accessing and progressing in the labour market and promoting acceptance of diversity at the workplace	12.325.000	OP EHSCS	2.0
Improving Human Capital		52.619.154		8.6
72	Design, introduction and implementation of reforms in education and training systems in order to develop employability, improving the labour market relevance of initial and vocational education and training updating skills of training personnel, with a view to innovation and a knowledge based economy	11.900.000	OP EHSCS	1.9
73	Measures to increase participation in education and training throughout the life-cycle, including, through action to achieve a reduction in early school leaving, gender-based segregation of subjects and increased access to and quality of initial vocational and tertiary education and training	36.469.154	OP EHSCS	6.0
74	Developing human potential in the field of research and innovation, in particular through post-graduate studies and training of researchers and networking activities between universities, research centres and business	4.250.000	OP EHSCS	0.7
Investment in Social Infrastructure		5.000.000		0.8
75	Educational infrastructure	5.000.000	OP SDC	0.8
Total Community financial allocation			612.434.980	100%
Total Community financial allocation to earmarked categories			360.948.638	58.9%

Notes:

- (1) The categories presented in are according to Annex IV of Regulation 1083/2006. However, taking into account the priorities identified in the National Reform Programme of Cyprus and in accordance with Article 9.3 of the said Regulation two further categories have been included, namely Code 75 – Educational Infrastructure and Code 50 - Rehabilitation of industrial sites and contaminated land.
- (2) Abbreviations:
OP SDC: Operational Programme “Sustainable Development and Competitiveness”
OP EHSCS: Operational Programme “Employment, Human Capital and Social Cohesion”

ANNEX 9

Inventory of Progress for the Measures Included in Annex 1 of the NRP

1. Guideline No. 11: To Encourage the Sustainable Use of Resources and Strengthen the Synergies Between Environmental Protection and Growth

1.1. Policy Priority: Promote Environmental Friendly Eco-Innovations

Grant Scheme for the protection of the environment from industrial pollution (on going since 2004): The progress is presented under the challenge of environmental sustainability.

2. Guideline No 12: To Extend and Deepen the Internal Market

2.1. Policy Priority: Speed up the Transposition of Internal Market Directives

Continuous monitoring of the transposition of the remaining internal market directives:

According to the European Commission's Internal Market Scoreboard No.16 of July 2007, Cyprus continues to meet for the third successive time both the 1.5% transposition deficit target set by the European Council in 2001 as well as the new 1% interim target agreed by the EU Heads of State in March 2007 to be reached by the end of 2009 at the latest. With a transposition deficit of 1.0% corresponding to 17 Directives not notified to the Commission on time, Cyprus is amongst 9 Member States with a transposition deficit of 1% or lower and compares favourably to the EU average transposition deficit of 1.6%, up from 1.2% in December 2006. In addition, Cyprus continues to have no outstanding directives whose transposition deadline is overdue by 2 or more years until May 2007, compared to the EU average transposition delay of 8 months. Therefore, Cyprus remains in line with the "zero tolerance" approach decided by the European Council in 2002. Furthermore, Cyprus has the smallest transposition delay amongst EU-25. Whilst directives that should have been transposed are now on average overdue by 8 months, Cyprus has a transposition delay of only 4 months. Finally, while Cyprus' transposition backlog is 17 directives, EU25 must on average transpose 24 directives in the next six months to reach the 1.5% target. Much of this success is due to Cyprus having implemented the best practices set out in the 2004 Commission Recommendation on the transposition into national law of Internal Market directives.

2.2. Policy Priority: Give Priority to Stricter and Better Enforcement of Internal Market Legislation

Continuous monitoring of the effective enforcement of Internal Market legislation: By virtue of a Council of Ministers decision, the Planning Bureau of the Republic has established (at the beginning of 2006) a new Unit for the coordination of all horizontal issues pertaining to the Internal Market. The Unit has also an advisory role on vertical issues and the main responsibility for the IM communication policy.

In order to carry out its prescribed duties and responsibilities, the Unit is in contact with all the competent authorities of the country, the economic and social stakeholders in the private sector and the civil society at large, as well as with the Commission and other Community Institutions and the other Member States (at national level).

In addition, the Unit represents Cyprus at IMAC meetings, coordinates the official position on the future Internal Market policy, the establishment of the IMI (Internal Market Information – electronically connected network with all member states administration) system and the activities in respect of the first vertical application (Professional Qualifications Directive) and is responsible for the promotion of the Commission's public consultations on Internal Market issues and the organisation of Cyprus own public consultations.

Furthermore, the Unit liaises with the Office of the Law Commissioner for monitoring the effective application of Internal Market legislation through the identification of national obligations and actions stemming from such legislation, the issuance of the necessary instructions to the competent authorities and the preparation and submission of relevant reports to the Council of Ministers.

The success of Cyprus' monitoring of the internal market legislation enforcement, is reflected by the fact that the infringement cases against Cyprus, amount to 30 compared to an increased average of 53 cases for EU25. Eleven cases concern wrong transposition of directives by Cyprus and nine cases relate to wrong application of directives. Furthermore, Cyprus requires on average 8 months to resolve an infringement, the second lowest in the EU25, compared to the average infringement resolution speed of 26 months for EU15 and 9 months for EU10.

2.3. Policy Priority: Apply EU Public Procurement Rules Effectively

Introduction of new legislation on public procurement implementing the new EU Directives 2004/17/EC and 2004/18/EC: A new legislation on public procurement was enacted in February 2006 implementing the new EU Directives 2004/17/EC (coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors) and 2004/18/EC (coordinating the procurement procedures for the award of public works contracts, public supply contracts and public service contracts).

Enhancement of the administrative capacity of the Public Procurement Directorate (PPD) of the Treasury: The project is progressing within the timeframe originally set. The preparation of the Best Practice Guide is proceeding as scheduled and it will be completed before the end of 2007. The training module has also been progressing as planned and various training sessions have already taken place. Other training seminars and workshops are planned for the end of the year. The re-organisation study of the Public Procurement Directorate of the Treasury is planned to be finalized by October 2007.

Implementation of e-procurement in Cyprus: Regarding electronic procurement, the first step i.e. the project planning was concluded in July 2006 with the completion of the project on the preparation of a Strategy Study and an Action Plan for the implementation of e-procurement in Cyprus together with the preparation of the Terms of Reference for the procurement of the project. The Public Procurement Directorate of the Treasury of the Republic has procured the competition for the "Introduction, application and deployment of a total solution for the implementation of electronic procedures in conducting public procurement competitions in Cyprus". The procedure has been concluded and work is now focused on the signing of the contract and the implementation of the project within the timeframes stated in the action plan in order to have the system developed by March 2009. This will be followed by a pilot operation period of seven months and by October 2009 Cyprus will have the e-procurement system up and running.

2.4. Policy Priority: Promote a Fully Operational Internal Market of Services, while Preserving the European Social Model

Establishment of a single point of contact to facilitate service providers from other member states to complete at one point all the necessary procedures and formalities needed for establishing and operating subsidiaries in other member states. This measure has been substituted with the establishment of the one stop shop.

2.5. Policy Priority: Accelerate Financial Market Integration by a Consistent and Coherent Implementation and Enforcement of the Financial Services Action Plan

Transposition of the Directive on the prudential supervision of pension funds (2003/41/EC): The Law implementing the Directive on the prudential supervision of pension funds (2003/41/EC) has entered into force on the 17 of November 2006.

Transposition of the Directive on Take Over Bids (2004/25/EC): The Law implementing the Directive on Take Over Bids (2004/125/EC) has entered into force on the 5th of April 2007.

Transposition of the Directive on Markets in Financial Instruments (2004/39/EC): A draft Bill has been submitted to the House of Representatives for approval. It is expected to be enacted before 1st November 2007.

Transposition of the Transparency Directive (2004/109/EC): A draft Bill has been submitted, on the 17th of August, to the Law Office of the Republic for legal vetting and subsequently it will be submitted to the House of Representatives for approval. It is expected to be enacted by the end of 2007.

Supplementary FSAP-related measure - Introduction of a widely acceptable primary dealers mechanism and of an electronic trading platform in the domestic market for government bonds: The required legislative changes necessary for introduction of a primary dealers mechanism have been incorporated into the legislation and the process is now under way for implementing the primary dealers system. The full implementation of the system for the government bond market is expected to take place in early 2008.

3. Guideline No 15: To promote a More Entrepreneurial Culture and Create a Supportive Environment for SMEs

3.1. Policy Priority: Improve Access to Finance, in order to Favour their Creation and Growth in Particular Micro-Loans and other Forms of Risk Capital

The progress in the measures included under this section is presented under the challenge: further diversification of the economy and the challenge: promotion of R&D and innovation and facilitation of ICT diffusion.

3.2. Policy Priority: Provide Relevant Support Services

Amendment to the Bankruptcy Law The amendment of the Bankruptcy law was approved by the Council of Ministers in January of 2006 and it was forwarded to the House of Representatives for approval. The aim of the new legislation is to modernise to a large extent the current Bankruptcy Law by simplifying procedures, and by giving a second opportunity to bankrupts, to start afresh.

4. Measures Covered in the Annex to the Employment Chapter of NRP

4.1. Policy Priority: Encourage Social Partners within their own Areas of Responsibility to Set the Right Framework for Wage Bargaining

Wage increases in the public and semi-government sector and in the private sector: see macro section of the report.

ANNEX 10

SME Policy

3. Promote an Efficient Allocation of Resources

Promotion of investments in SMEs: There are a lot of schemes under implementation for the promotion of investment in SMEs whereas, a number of them have expired. The following are the most important:

- Scheme for improving SME's competitiveness in the manufacturing sector, (New).
- Scheme for the encouragement of the processing and marketing of agricultural products (New).
- Scheme for promoting agrotourism.
- Grant scheme for the protection of the environment and industrial pollution;
- Scheme for the Encouragement, Strengthening and Reinforcement of Women's Entrepreneurship;
- Scheme for the Encouragement Strengthening and Reinforcement of Youth Entrepreneurship;

The above are presented in detail under the challenges: "Promotion of the further Diversification of the Economy towards the Production of High Value Added Goods and Services – Strengthening the Competitive Advantages of its Production Base" and "Promotion of environmental sustainability", as well as in Annexes 2 and 6.

7. Increase and improve Investment in R&D Business

Various programmes are being implemented by the Research Promotion Foundation with a view to improving Cypriot enterprises' competitiveness through their involvement in research activities. They are presented under the challenge "Increase and Improve Investment in R&D".

Further, various workshops and information days are being organised by the IRC Cyprus²⁰ in cooperation with the Cyprus Chamber of Commerce and Industry and the local EuroInfoCentre targeted at SMEs presenting the various national (Research Promotion Foundation) and EU (ITE, FISH, PROMPT, EUMEDIS, TRAINMORE) research funding programmes available to SMEs.

8. Facilitate all Forms of Innovation

With a view to facilitating innovation by SMEs, there are various actions underway, such as:

- Programme for the creation of new high-tech innovative enterprises through the business incubators institution;
- Regional Innovation Strategy for Cyprus.

They are presented in the relevant section of the report on facilitating all forms of innovation.

Furthermore, the IRC Cyprus assists on a continuous basis local companies to have on-site visits to European counterparts, resulting in many cases in TTT agreements.

With regard to intellectual property rights, the IRC-Cy organised in November 2005 a workshop for the protection of Intellectual Property Rights. During the workshop the participants had the opportunity to get informed on the procedure and the costs in Cyprus of filing an application for a patent as well as the usefulness of patents.

²⁰ The Cyprus Innovation Relay Centre was created in April 2002 aiming at the identification of local SMEs needs and technology offers, search for suitable technology suppliers/recipients in the Network (technology profile), bringing together companies and promote transnational cooperation (meetings, brokerage events).

Further, the Department of the Registrar of Companies and Official Receiver frequently organises lectures, seminars etc in collaboration with European organisations specialising, in patents like the EPO, WIPO etc on the issue of patents.

In the context of the promotion of protection of Intellectual Property Rights, a new legislation which will facilitate patent protection was enacted in July 2006. This makes easier the protection of a patent by introducing new provisions. The provisions that are included in the Patent (Amendment) Law of 2006, Law 122(I)/2006 are briefly:

- (a) Enhanced penal provisions in case there is disobedience to a civil court order against a person, who infringes a patent again after a first infringement;
- (b) The disclosure of confidential information from a litigant, on the application of a person (litigant), who initiates a court action and has already filed important proof with the court that an infringement of a patent has been committed and,
- (c) During infringement of a patent proceeding on a commercial scale the court may on a reasoned application by a litigant order the rendering of information as to the origin and the network of distribution of the infringed products or as to the offering of services which infringe a patent.

9. Facilitate the Uptake of ICT

Facilitate the uptake of ICT and e-business by SMEs by promoting successful e-business models: It is noted in this respect, that there is a continuous expansion of the web-enabled systems by the Government providing on-line services to enterprises and the public.

Further, the action plan for the deployment of e-commerce has been completed and its implementation will be launched before the end of 2007.

Details on the above are presented in the section on facilitating the spread and effective use of ICT.

12. Extend and Deepen the Internal Market

Better access of SMEs to information and advice on new and modified internal market legislation: The Cyprus Chamber of Commerce and Industry organises on a continuous basis seminars with the aim of informing and guiding the Cypriot small and medium sized enterprises on the main provisions of the *acquis communautaire* that affect them as well as on the institutions and procedures of the EU that are of primary interest to them.

Elimination of tax obstacles to cross border activities: The tax system is particularly attractive for both the domestic and the international businesses and characterized by a low uniform corporate rate of taxation (10%) and a broad and continually extended network of agreements for the avoidance of double taxation with 40 countries. Moreover, there is also a favourable tax regime for physical persons, which provides a very high level of income, taxed with a zero rate, which reaches the amount of €18.000 and low tax rates for income that exceeds this amount.

Supporting the internationalisation of SMEs: The Cyprus Investment Promotion Agency (CIPA) has been set up, which, in co-operation with the Ministry of commerce, Industry and Tourism, will also encourage strategic alliances with Cypriot SMEs, thus supporting the internationalization of SMEs.

13. Ensure Open and Competitive Markets

Measures to remove obstacles to market entry for SMEs: Factors that either hinder or can affect the ease of entry into the market are the existence of legislative or administrative barriers.

Regarding legislative barriers, all remaining barriers to market access, which were in existence were those in the sectors of telecommunications, electricity and air transport. These barriers have been removed

and the sectors have been liberalised, at the latest as from 1.5.2004, the date of Cyprus's accession to the EU.

Regarding the entry of firms in the market, the procedures are relatively simple and are facilitated by the One Stop Shop, which has started operation at the Ministry of Commerce and Industry on the 2nd of April 2007.

Regarding the exit of companies from the market, this is accommodated by quite simple insolvency and liquidation procedures.

14. Create a More Attractive Business Environment

Better regulation: The initiatives underway with a view to reducing the regulatory and administrative burden are presented under the challenge of "Promotion of reforms targeting at enhancing competition and improving the business climate".

Simplification of the tax compliance procedures to alleviate compliance costs for SMEs: It is noted in this respect, that one of the major objectives of the 2002 tax reform, which entered into force on 1st of January, 2003, was the simplification of the Cyprus tax system and the reduction of compliance costs for all tax payers and thus, the room for further actions seems to be very limited.

Facilitation of business transfers: On this issue during the first months of 2007, regulations and forms have been drafted, for the implementation of the recent legislation on companies, on the transfer of the registered office of a company from Cyprus to abroad and from abroad to Cyprus. (This occurs without the company needed to be wound up and by safeguarding creditors, the relevant authorities and all those dealing with the companies concerned.) The above regulations and forms are now in full operation.

Revising bankruptcy laws and improve rescue and restructuring procedures: An amendment of the Bankruptcy Law is before the House of Representatives awaiting approval, with a view to modernising it by simplifying procedures, and by giving a second opportunity to bankrupts to start afresh.

More e-communication between public authorities and SMEs (e-government): It is noted that A number of on-line services are already provided to enterprises. Indicatively:

Taxisnet provides the facility to the Cypriot taxpayers to submit their tax returns for both direct taxation and VAT electronically through internet.

THESEAS system allows traders, or their authorised agents, to submit through the Internet their custom and import declarations for the clearance of goods.

The Candidate Placement System allows employers to publish and manage job vacancies.

The Government is promoting the expansion of the web-enabled services. The initiatives underway towards this end are presented under the challenge of facilitating the spread and effective use of ICT.

15. Promote a More Entrepreneurial Culture and Create a Supportive Environment for SMEs

Improvement of access to finance: As stated in the NRP, despite the fact that the situation regarding access to financing through credit institutions for SMEs is relatively satisfactory and has been improving over the past few years, following the liberalisation of interest rates and capital movements, SMEs still face problems in finding the necessary collateral requested by banks, taking also into account the weak structures of SMEs and the relatively high mortality rate that is observed.

It is noted that as far as micro-lending is concerned, for loans up to €25.000, banks do not require collateral. Collaterals are necessary for loans exceeding this threshold.

The government in its effort to facilitate SMEs access to finance and foster a more entrepreneurial culture, to encourage more people to create their own business as well as facilitating the consolidation of small enterprises, has introduced and will continue the operation of the following schemes²¹:

- Business Incubators – programme for the creation of new, high technology enterprises through the operation of business incubators;
- Scheme for enhancing women’s entrepreneurship;
- Scheme to foster youth entrepreneurship;
- Establishing a Loan Guarantee Granting Facility.

Details on the above can be found in other sections of the report.

Further, a code of conduct between the commercial banks and the SMEs has been elaborated and it is being implemented as from September 2005. The objective of the Code of Conduct is to enhance the co-operation between banks and SMEs by encouraging the understanding of their respective roles and responsibilities. The Code outlines a set of principles, which aim to ensure the establishment of a mutually beneficial, reliable and productive relationship between the two parties. Additionally, it defines the rules and boundaries that regulate the professional conduct of banks vis-à-vis the SMEs.

The Code is applicable to all member banks of the Association of Cyprus Commercial Banks and covers all SME-related transactions such as current and deposit accounts, card services and products, business loans and overdraft facilities and letters of credit and guarantee. By encouraging the mutual trust and understanding of banks with SMEs, the Code can enhance their co-operation and business relations. Consequently, the banks will be able to offer financing with greater ease and under more favourable conditions towards the SMEs.

Making full use of the possibilities of Structural Funds to provide finance to SMEs: In order for the SMEs to be fully aware of the possibilities of finance offered through the Structural Funds, a number of publicity activities are undertaken.

Furthermore, the Managing Authority for the Structural Funds has signed a contract for a publicity campaign covering all the programmes co-financed by the Structural Funds in the programming period 2004-2006 as well as the programming period 2007-2013, one of the objectives of which is also to inform SMEs of all the possibilities of co-financing.

Reducing the time and cost of setting up a business – making the recruitment of the first employee as simple as possible: As already pointed out, elsewhere in the report, the one stop shop is operating at the Ministry of Commerce, Industry and Tourism since April 2, 2007.

Making entrepreneurship education an explicit objective in framework curricula at all levels, including specific support to schools and universities

15.1. Entrepreneurship Education

During the past few years, the Ministry of Education and Culture has made the entrepreneurship education an explicit objective in framework curricula at all levels, including specific support to schools and universities.

²¹ The schemes provide generally for grants, under specific conditions set in the scheme. The last scheme (operating since 2002), i.e. the loan guarantee scheme, had attracted very limited interest, due to strict conditions to obtain a loan and was terminated on 31.01.07, by a Council of Ministers decision.

Entrepreneurial education is provided across the curricula as an integral element of several subjects and not as a separate subject. More specifically at all levels of education entrepreneurial skills such as creativity, self-confidence, critical thinking, communication, negotiation, planning, decision-making or teamwork are promoted throughout the whole school duration. The students have the opportunity to get familiar with the entrepreneurial concept, undertake relevant case studies and visit enterprises.

The Department of Public and Business Administration of the University of Cyprus launched a Master Degree in Business Administration (MBA). The MBA programme aspires to create visionary and influential leaders in the local, regional and international business community.

The Cyprus Pedagogical Institute has established cooperation with the Greek Pedagogical Institute, in order to utilize its expertise gained as a result of the implementation of the programme “Youth Entrepreneurship”. Part of this cooperation is a special in-service training seminar for primary and secondary schools.

The Pedagogical Institute and the Directorate for Technical and Vocational Education of the Ministry of Education and Culture participate in the programme Comenius 2,1 Teach and Esprit “Developing Entrepreneurial Spirit in European Teachers’ training for Vocational Education”. This 3-year programme Comenius 2,1 started in December 2004 with the participation of Cyprus, Germany, Norway and the Czech Republic. The purpose of this programme is to design pre-service and in-service training courses for teachers in entrepreneurship education. The produced material will be available to all member states in order to be used in teacher training programmes.

15.2. Multicultural Education

As a result of the growing number of pupils, coming mainly from the former Soviet Union and other foreign countries that have enrolled in primary schools, the Ministry of Education and Culture has approached the subject of multicultural education with great sensitivity promoting the inclusion of groups from different cultural identities in a creative environment, regardless of background.

It is worth mentioning that the Ministry, in line with the above policy, offers foreign language speaking pupils extra Greek language courses within the regular school programme and in extra classes running in the afternoon. Additionally, pupils coming from foreign countries are facilitated to learn their mother language and become aware of their cultural identity. The Paedagogical Institute provides teachers with a special training programme in order to address the above needs.

Besides the above, for the purpose of facilitating citizens’ interaction with people from different countries and cultures, Cyprus education system offers, as compulsory subjects, English language in almost all school grades and French language in the lower secondary education level. It also offers, as optional subjects, five other foreign languages in the upper secondary education level.

15.3. e-Twinning European Action

eTwinning (<http://etwinning.net>) is a framework for schools to collaborate on the internet with partner schools in other European countries. It is the main action of the European Union’s eLearning Programme.

eTwinning promotes school collaboration in Europe through the use of Information and Communication Technologies (ICT) by providing support, tools and services to make it easy for schools to form short or long term partnerships in any subject area.

eTwinning is supported by the European Central Support Service (CSS) and a network of National Support Services based in each European country, like the Cypriot Support Service (<http://etwinning.moec.gov.cy>).

In 2006, more than 150 educators from Cyprus were registered in the eTwinning database. Among them, more than 50 educators have developed a partnership with a European school.

15.4. The Introduction of the Euro

The Ministry of Education and Culture has launched a campaign on this subject, in order to facilitate the above target by setting among others themes of the school year 2006-2007 the introduction of the euro. The Inspectors of Economics and Commerce with the cooperation of the Ministry of Economics and the Central Bank of Cyprus undertook a big share of the task of changes. They issued books about euro for students of the Primary and Secondary Education and a number of conferences have been organized with the subject of euro and the benefits of Cyprus economy.

15.5. Participation in European Programmes

- **Socrates National Coordination Unit**

In view of promoting cooperation between institutions of pre-primary, primary, secondary, tertiary and adult education with respective European Institutions, the Socrates Programme has initiated activities involving the full range of education bodies in order to establish the European dimension and improve quality in education. The Programme aims at offering equal opportunities in education to children and adults alike, as well as to persons with special needs, regardless of race, creed, sex, language or profession. Moreover, it aims at abolishing racism and xenophobia at all levels of society and at promoting the less widely used languages.

The following activities were carried out during 2005-2007.

Comenius – School Education

- a) Comenius 1 - School Partnerships
- b) Comenius 2.2. – Training for school education staff
- c) Comenius 2.2.C – In service training

Erasmus – Tertiary Education

Grundtvig – Adult Education and other Educational Pathways

- a) Grundtvig 2 – Learning Partnerships
- b) Grundtvig 2 – Preparatory visits
- c) Grundtvig 3 – Individual training grants for adult education staff

- **Europe at school (E.A.S)**
- **School Links and Exchanges – International pupils conference**

24. Adapt Education and Training Systems in Response to New Competence Requirements

Key competences and lifelong learning

The need to equip young people with necessary key competences and improving educational attainment levels, a priority at European Union level, is an integral part of our education system. From pre-primary and primary education we offer all young people the means to develop key competences to a level that equips them for adult life and which forms a basis for further learning and working life; Our focus is on the development of key competences such as communication in the mother tongue and in foreign languages, mathematical competence and basic competences in science and technology, digital competence, learning to learn, social and civic competences, entrepreneurship, critical and

creative thinking skills etc. We want our people to be able to adapt to change and be easily integrated into the labour market.

For the above purpose in service training courses for teachers at all levels are offered on a voluntary basis, in order to provide them with the necessary skills to expand their knowledge both on practical and theoretical matters, emerging from the key competences, as stated by the EC, and based on the lifelong learning strategy promoted by the Ministry of Education and Culture.

Overcoming specific skill shortages, in particular: Increasing links and cooperation between educational institutions and SMEs to match the content of curricula and courses of schools, universities and training centres with SMEs' needs for skilled staff: The reforms being promoted at the upper secondary cycle of the educational system, including the technical and vocational schooling aim mainly at developing a better balance between basic areas of learning, new technological developments related to the shift towards a knowledge-based economy and the needs of the labour market. For this purpose and generally for modernizing school curricula the Ministry of Education and Culture is currently preparing a full restructuring of the national curriculum in cooperation with the University of Cyprus.

In the area of training, the HRDA conducts annual investigations for the identification of initial training needs, and depending on the findings, it adjusts the programmes that it finances so as to cover the needs in the labour market. Moreover, the HRDA has a specific scheme for enhancing the training infrastructure of institutions and enterprise. The various initiatives underway are presented in the section on the employment challenges.

Improve the image of technical jobs among the young through cooperation with industry: There are various initiatives underway to improve the image of technical schools. Indicatively:

An action aiming at strengthening the quality and attractiveness of the Secondary Technical and Vocational Education (STVE) and improving the organisation of STVE, co-financed from the ESF, is being implemented. More specifically, the Ministry of Education and Culture was undertaken to conduct an external evaluation of the STVE Curricula, while at the same time, continues its policy of developing the infrastructure of technical and vocational schools and also of introducing modern technology in the curricula. Moreover, a close cooperation with Employers' and Employees' organizations and the HRDA is being promoted in order to re-examine and adapt the content of the curricula to the needs of the Cyprus economy and industry and to the new competence requirements.

Moreover, the upgrading of the apprenticeship scheme is underway, aiming at rendering it a creditworthy, desirable and practical option for all those wishing to continue their career development via the vocational and not the educational path. A detailed action plan has been conducted by the Cyprus Productivity Centre, for this purpose. The plan has been discussed with the Social Partners and is expected to be submitted for approval to the Council of Ministers, before the end of October.

The above are presented in more detail under the employment challenges section.

Encouraging public funding schemes to support training to address specific sectoral skills shortages: The Human Resource Development Authority, the main promoter for continuing vocational training, funds both private and public providers to deliver programmes to address labour market needs. It is a salient feature of the HRDA's policy framework to address in a systematic way the human resource development and training needs of SMEs with particular emphasis on SEs, in the overall effort of the Cyprus Government to increase the adaptability and to strengthen the competitiveness of SMEs. This is evident from the whole spectrum of initiatives underway, which are presented in the section on the employment challenges.

ANNEX 11

Implementation Structure of the National Reform Programme of the Republic of Cyprus

The implementation structure was set up at the beginning of 2006 with a view to promoting the implementation of the National Reform Programme. On the 19th of February 2007, certain modifications were effected to the original structure, taking into consideration the fact that the co-ordination of the Lisbon Strategy was assigned to the Planning Bureau. The new structure is presented herebelow:

(1) Council of Ministers

- It's the body that takes the ultimate decisions on issues related to the NRP

(2) National Advisory Committee

❖ Composition:

- The National Advisory Committee is the Economic Advisory Committee extended with the participation of representatives of local authorities and other organised groups (farmers, consumers, NGOs) as well as political parties.

❖ Functions:

- The members of the National Advisory Committee are informed by the Minister of Finance, who is the coordinator at the political level, on Lisbon Strategy issues;
- Review of progress achieved in the implementation of the measures included in the National Reform Programme;
- Recommendations for the formulation of policy as well as general guidelines for the continuous improvement of the overall programme;
- Exchange of views regarding the additional measures which are needed to tackle effectively the challenges faced by Cyprus.

❖ Organisational issues / Operation:

- It is convened at least twice a year.

(3) Coordinating Committee

❖ Composition:

- Chaired by the National Lisbon Coordinator, at the technocratic level, i.e. the Director of Planning, (Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I)) of the Planning Bureau

- Representatives / coordinators from the following Ministries / Services:
 - Planning Bureau
 - Ministry of Commerce, Industry and Tourism
 - Ministry of Labour and Social Security
 - Ministry of Agriculture, Natural Resources and Environment
 - Ministry of Communications and Works
 - Ministry of Finance
 - Human Resource Development Authority (HRDA)

Secretariat: Planning Bureau – Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I)

❖ **Functions:**

- Submission of progress reports to the National Advisory Committee;
- Monitoring the work undertaken by the Technical Committees and the setting of priorities;
- Co-ordination and co-operation between the Planning Bureau and other Ministries and Services of the Public / Private Sector;
- Coordination and monitoring of the consistency and coherence between the NRP and the National Strategic Reference Framework;
- Monitoring the on-going progress and submission of reports / recommendations / proposals to the Minister of Finance;
- Informing and exchanging of views with the political parties. Informing the competent Parliamentary Committee at regular time intervals.

❖ **Organisational issues / Operation:**

- It is convened every three months or earlier if needed for a comprehensive review of the matters of the Lisbon Strategy.

(4) Technical Committees

- **Technical Committee on the Macroeconomic Challenges**

❖ **Composition**

- Chaired by the Ministry of Finance - Directorate of Economic Research and EU Affairs

Participants:

- Directorate of Budget and Fiscal Control
- Central Bank of Cyprus
- Planning Bureau
- Ministry of Health
- Ministry of Interior
- Ministry of Labour and Social Insurance
- Health Insurance Organization

- **Technical Committee for the Promotion of R&D**

- ❖ **Composition**

- Chaired by the Planning Bureau - Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (II)

Participants:

- Ministry of Commerce, Industry and Tourism
- Ministry of Finance – Directorate of Finance and Investments
- Research Promotion Foundation
- Cyprus Chamber of Commerce and Industry
- Employers’ and Industrialists’ Federation
- Agriculture Research Institute
- Cyprus Institute of Neurology and Genetics

- **Technical Committee for the Promotion of Innovation**

- ❖ **Composition**

- Chaired by the Ministry of Commerce, Industry and Tourism

Participants:

- Ministry of Finance – Directorate of Finance and Investments
- Planning Bureau
- Research Promotion Foundation
- University of Cyprus
- Institute of Technology
- Cyprus Productivity Centre
- Cyprus Chamber of Commerce and Industry
- Employers and Industrialists’ Federation
- ERMIS Research & Incubator Centre

- **Technical Committee for the Facilitation of ICT Diffusion**

- ❖ **Composition**

- Chaired by the Planning Bureau - Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (II)

Participants:

- Ministry of Finance – Directorate of Economic Research and E.U. Affairs
- Ministry of Commerce, Industry and Tourism
- Ministry of Communications and Works
- Ministry of Education and Culture
- Ministry of Health
- Office of the Commissioner of Electronic Communications and Postal Regulation

- Department of Information Technology Services
- Public Administration and Personnel Department
- Cyprus Computer Society
- Cyprus Information Technology Enterprises Association
- National Contact Point on Research for ICT

• **Technical Committee for the Diversification of the Economy**

❖ **Composition**

- Chaired by the Planning Bureau - Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I)

Participants:

- Ministry of Commerce, Industry and Tourism
- Ministry of Finance – Directorate of Economic Research and E.U. Affairs
- Cyprus Tourism Organisation
- Department of Town Planning and Housing
- Organised groups of Accountants and Lawyers
- Cyprus Chamber of Commerce and Industry
- Employers’ and Industrialists’ Federation

• **Technical Committee for the Promotion of Reforms Targeting at Enhancing Competition and Improving the Overall Business Climate**

❖ **Composition**

- Chaired by the Planning Bureau - Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I)

Participants:

- Ministry of Commerce, Industry and Tourism
- Ministry of Communications and Works
- Ministry of Finance – Directorate of Economic Research and E.U. Affairs
- Organised groups of Accountants and Lawyers
- Cyprus Chamber of Commerce and Industry
- Employers’ and Industrialists’ Federation

By the discussion of special subjects, participation is extended to include:

- Public Administration and Personnel Department
- Commission for the Protection of Competition
- Office of the Commissioner of Electronic Communications and Postal Regulation
- Cyprus Energy Regulatory Authority
- Commissioner for State Aid Control

- **Technical Committee for the Expansion and Upgrading of Basic Infrastructures**

- ❖ **Composition**

- Chaired by the Ministry of Communications and Works

Participants:

- Ministry of Finance – Directorate of Budget and Fiscal Control
 - Planning Bureau
 - Cyprus Ports Authority
-

- **Technical Committee for Security of Energy Supply – Promotion of the Utilisation of Renewable Energy Sources and Energy Conservation**

- ❖ **Composition**

- Chaired by the Energy Service (Ministry of Commerce, Industry and Tourism)

Participants:

- Ministry of Finance – Directorate of Finance and Investments
 - Planning Bureau
 - Environment Service
-

- **Technical Committee for the Environmental Sustainability**

- ❖ **Composition**

- Chaired by the Environment Service (Ministry of Agriculture, Natural Resources and Environment)

Participants:

- Ministry of Finance – Directorate of Finance and Investments
 - Ministry of Commerce, Industry and Tourism
 - Ministry of Interior
 - Planning Bureau
 - Sewage Boards
 - Department of Town Planning and Housing
 - Commissioner for State Aid Control
 - Department of Information Technology Services
 - Institute of Technology
 - Research Promotion Foundation
 - University of Cyprus
 - Agricultural Research Institute
-

- **Technical Committee for Employment Issues**

- Chaired by the Ministry of Labour and Social Insurance

- ❖ **Composition**

Participants:

- Ministry of Finance - Directorate of Economic Research and EU Affairs
- Ministry of Education and Culture
- Planning Bureau
- Human Resource Development Authority (HRDA)
- Labour Department
- Social Welfare Services
- Cyprus Chamber of Commerce and Industry
- Employers' and Industrialists' Federation
- Cyprus Workers' Confederation
- Pancyprian Federation of Labour
- Democratic Labour Federation of Cyprus
- Union of Cyprus Municipalities
- Union of Communities
- Youth Board of Cyprus
- Cyprus Federation of Disabled

- **Technical Committee on the Development of Indicators Assessing Progress in the Implementation of the National Reform Programme**

- ❖ **Composition**

- Chaired by Planning Bureau - Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I)

Participants:

- Ministry of Finance – Directorate of Finance and Investments – Directorate of Economic Research and E.U. Affairs
- Ministry of Labour and Social Insurance
- Human Resource Development Authority (HRDA)
- Statistical Service of Cyprus

The Committee is strengthened via the representation of the chairmen of the technical committees

- ❖ **Functions:**

- The competent Ministry / Service chairing each Technical Committee is responsible to set up and convene the respective Technical Committee with the participation of the appropriate Services of the Public / Private sector;
- Monitoring of progress in the implementation of the measures;
- Recommendations for further measures;
- Submission of a progress report to the Coordinating Committee every six months.

❖ **Organisational issues / Operation:**

- Meetings of the above Committees take place every two months or earlier if required.

(5) Unit for the Lisbon Strategy under the Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I) – Planning Bureau

- Setting up since 19 February 2007, of a specialised unit in the Directorate of Sectoral Economic Policy, Studies and Evaluation of Development Projects (I) at the Planning Bureau. It comprises of one Director and 4 officers, dealing mainly with issues concerning the Lisbon Strategy. (Before that date the Unit for the Lisbon Strategy, was operating at the Ministry of Finance).

❖ **Functions:**

- Coordinating the work of the Technical Committees;
- Monitoring and promoting the implementation process for the actions included in the National Reform Programme;
- Contacts and consultation with the competent authorities of the European Union;
- Organisation, preparation and technical support of the meetings of the National Advisory Committee, Coordinating Committee as well as the meetings of the Technical Committees;
- Organisation of seminars and workshops to inform the social partners, political parties and journalists;
- Overall coordination in the preparation and final drafting of progress reports.

ANNEX 12

Simplified Reporting Table (Grid)

INDEX

1. The Direct Budget cost, corresponds to the year 2007
2. Measures 1 – 6 relate to the Macroeconomic Challenges, measures 7 – 47 to the Microeconomic Challenges and Measures 48 – 56 to the Employment Challenges
3. n.a.: not applicable / not available