



**Position of the Commission
Services on the development of
Partnership Agreement
and programmes in
CYPRUS
for the period 2014 – 2020**

Nicosia, 16 November 2012

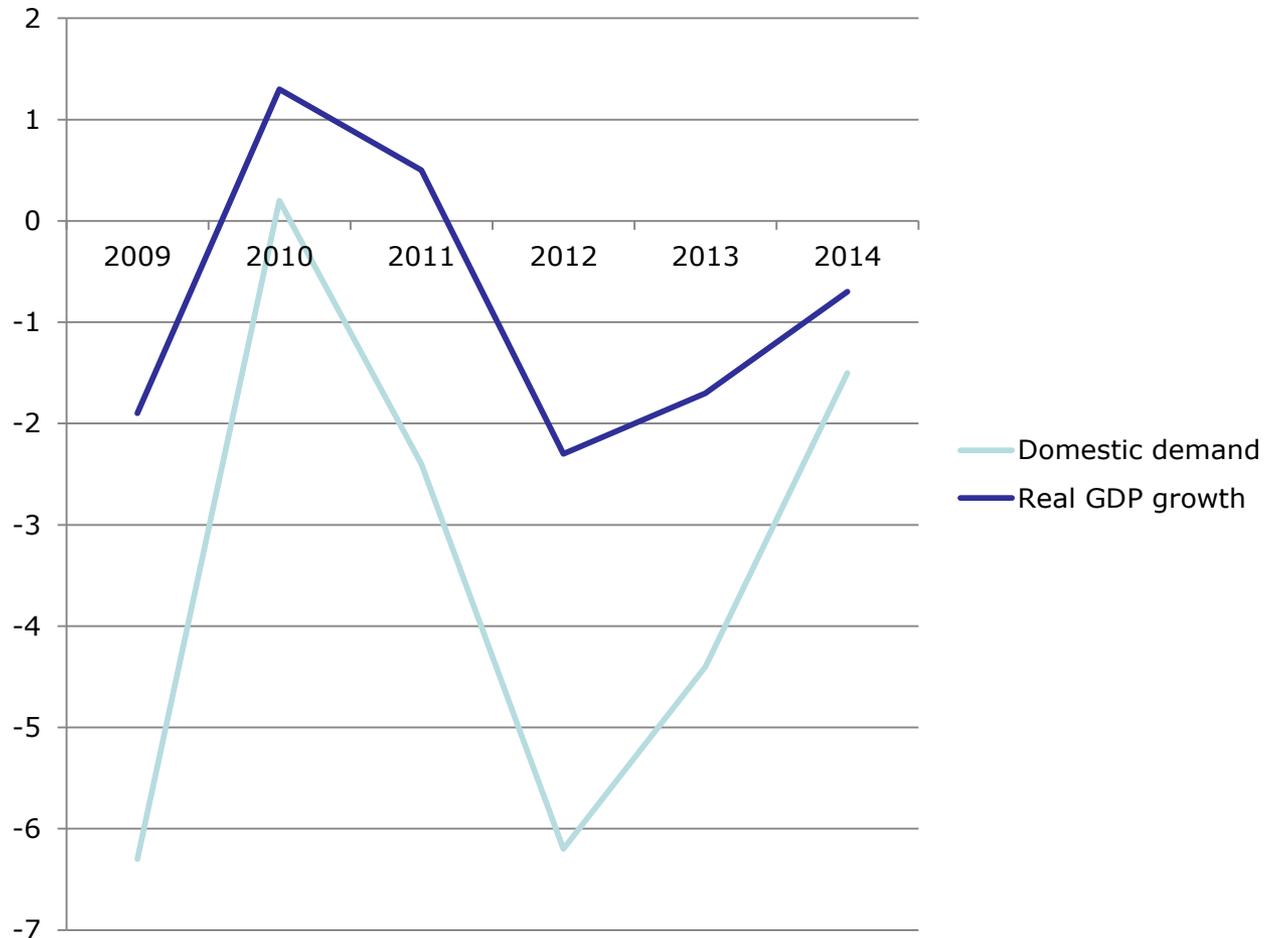
The Context

- Economic slowdown, fuelling budget deficit (-6,3% in 2011)
- Historically high unemployment rate: 12% in 2012Q3
- Accident in Vassilikos electricity producing plant
- Reduction of domestic demand
- No access to international financial markets
- Application for assistance from EFSF/ESM



European
Commission

Real GDP Growth and Domestic Demand



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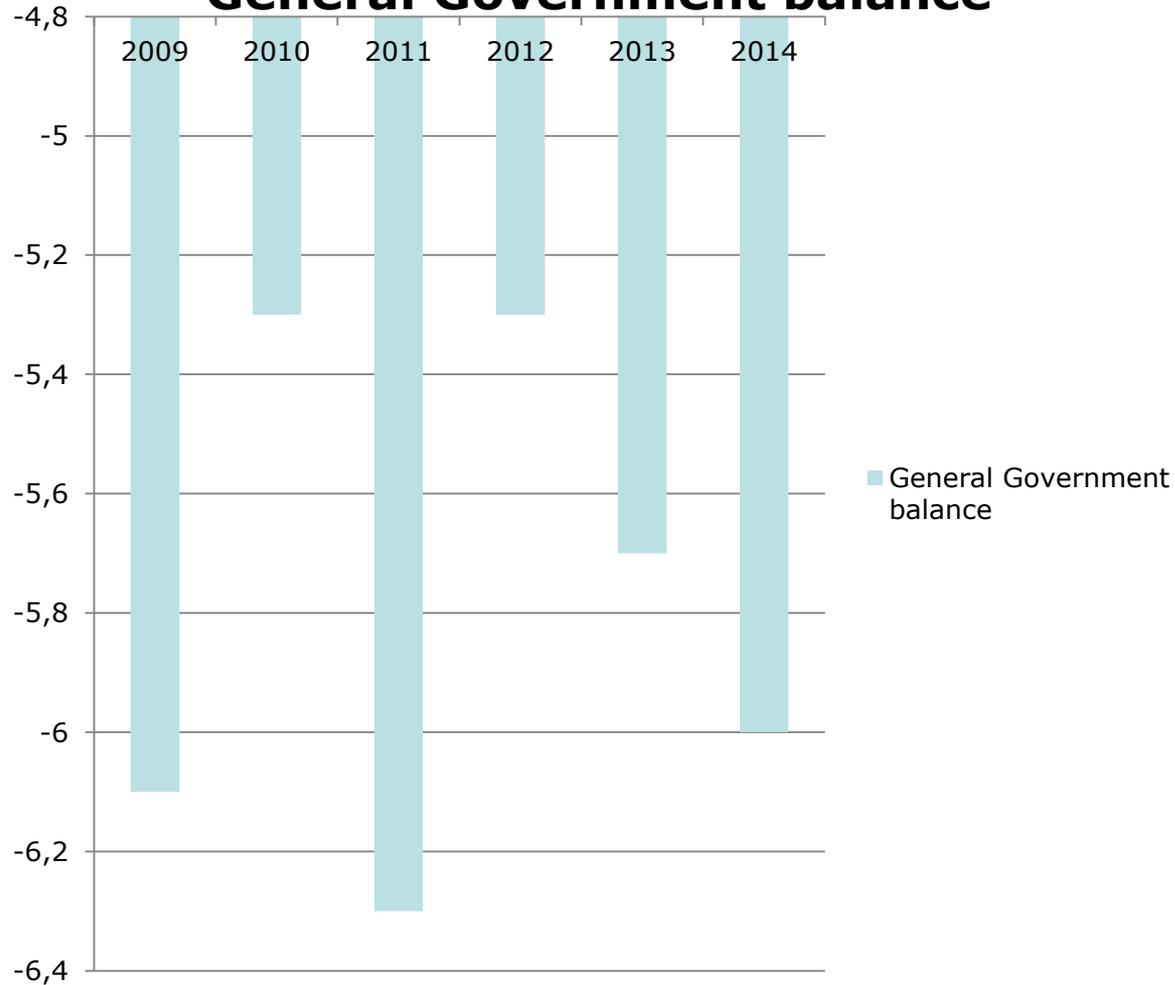
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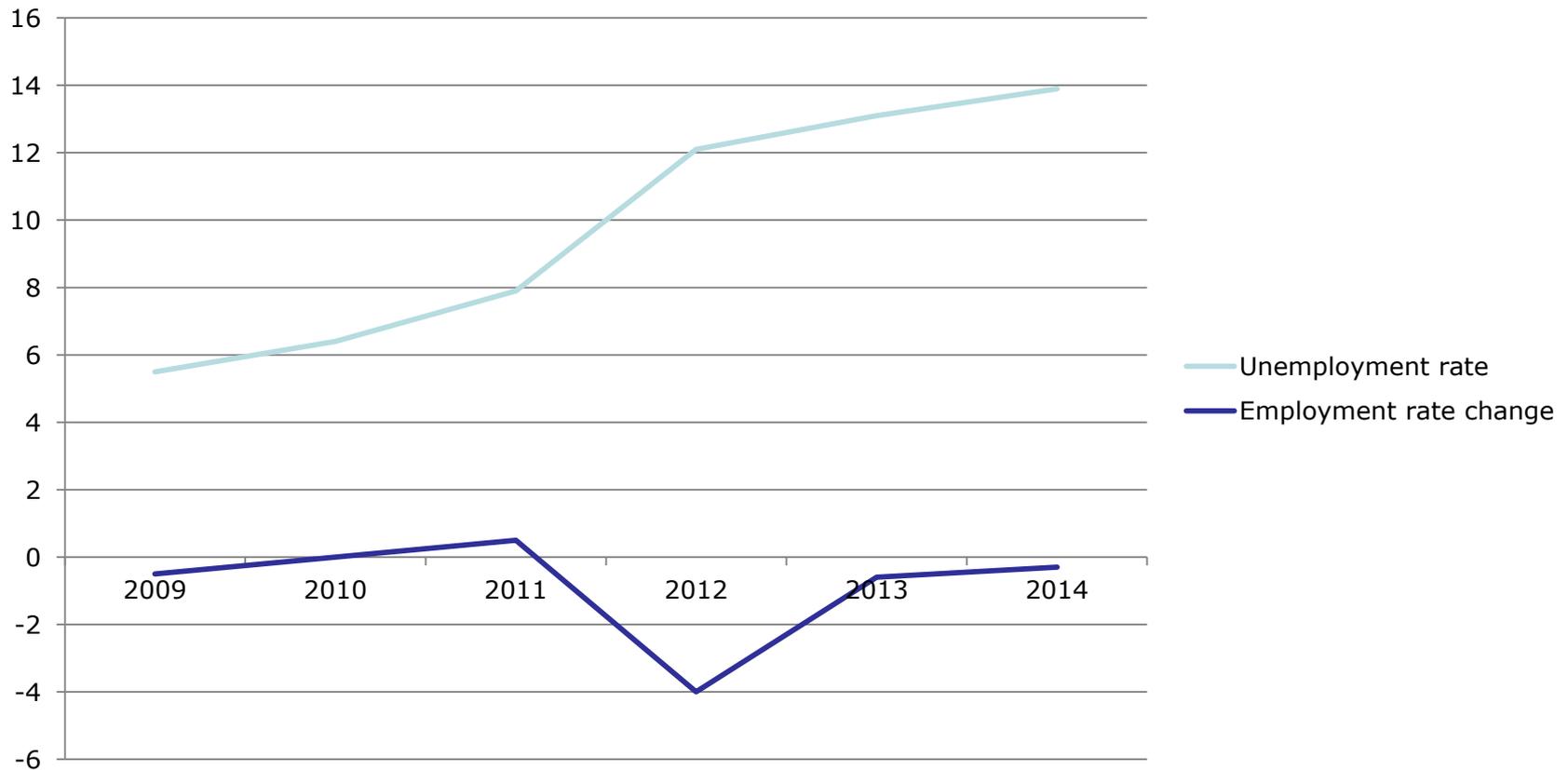


European
Commission

General Government balance



Unemployment rate and Employment Rate change



Main challenges – Global Vision

Europe 2020 headline targets	Current situation in Cyprus	National 2020 target
3% of expenditure on research and development	0.5% (2010)	0.5%
20% greenhouse gas (GHG) emissions reduction compared to 1990	-19% (2020 projected emissions compared to 2005) -5% (2010 emissions compared to 2005) ⁶	-5% (national binding target for non-ETS sectors compared to 2005)
20% of energy consumption from renewables	5.7% (2010)	13%
20% increase in energy efficiency	-3.6% (2010)	-14.3%
75% of the population aged 20-64 should be employed	73.8% (2011)	75-77%
The share of early school leavers should be under 10%	11.2% (2011)	10%
At least 40% of 30-34 years old should have completed a tertiary education	45.8% (2011)	46%
Reducing the number of people at risk of poverty or exclusion by 20 million in the EU	188.000 persons, i.e. 23.6% (2010)	27.000 people lifted out of poverty or exclusion, or reduction of AROPE to 19.3%

Country Specific Recommendations for Cyprus (6 July 2012)

- Address the high poverty risk for the elderly; ensure increase in effective retirement age (n° 3)
- Complete and implement the national healthcare system without delay (n° 4)
- Improve the skills of the workforce; address youth unemployment; stimulate business innovation (n°5)
- Improve competitiveness; diversify the structure of the economy (n° 7)

Main Challenges:



Weak competitiveness and low innovation performance

Underdeveloped low carbon economy and inefficient use of natural resources

Decreasing labour market participation, inefficient social protection systems and skills mismatches



Challenges

Small market size hindering the competitiveness (47th out of 142)

- Need for diversification and focus on sectors of comparative advantage (e.g. tourism, agro-food, aquaculture, manufacturing, bio-economy and environmental technologies)

Marginal role of the business community in innovation

- Improvement in terms of innovation performance (28th in 2011 from 45th in 2009)
- Investment in R&D: 0,5% of GDP but mainly financed by public sector (64,1%)
- Limited human capacity available for research and limited engagement of the enterprises to research activities due to the structure of the productive sector



Weak competitiveness and low innovation performance

Challenges

Loss of competitiveness in the agri-food sector

- Severe water shortages
- Low land fertility
- Small parcel size and fragmentation of rural properties
- Ageing, low educational level and shrinking rural population
- Increased production costs
- Remoteness of Cyprus to the EU markets



Weak
competitiveness
and low innovation
performance



Challenges

Limited supply of e-government services and use of the basic internet applications and electronic transactions from the enterprises

- Cyprus has almost reached 100 % broadband coverage and significant increase in broadband speeds BUT
- only 51% of the households have broadband connection (EU average: 61%)
- Moreover, the supply of e-government services and the use of the basic internet applications and electronic transactions from the enterprises in Cyprus are below the EU-27 average

1. Funding priority

Innovation-friendly business environment

**Objective: creation of an innovation-driven economy
increasing the competitiveness and generating jobs**

*Increasing RD&I
investment and
ensuring transfer
and uptake of
research and
innovation
findings*

- Enhance the involvement of businesses in innovation and research activities
- Foster the cooperation between universities and research centres with enterprises (both domestically and internationally) in view to encourage them to develop and introduce innovative products and services
- Encourage innovation in rural areas and strengthen the links between agriculture/forestry and RD&I
- Focus on a small number of fields (smart specialisation)
- Take advantage of the untapped potential of Cyprus' seas and coasts (Blue Growth).
- Improve tourism products and services
- Develop maritime cluster

1. Funding priority Innovation-friendly business environment

**Enhancing
business
innovation and
competitiveness
through access
to finance and
advanced
business services**

- Promote entrepreneurship and innovation of SMEs
- Promote SMEs development/diversification (in rural and coastal fisheries areas (emphasis on the young and women, bio-economy)
- Enhance the competitiveness in the agricultural fisheries and aquaculture sectors
- Foster the creation of new firms
- Improve access to finance.
- Promotion of financial engineering mechanisms (loans, guarantees, equity, seed capital, microcredits)

1. Funding priority Innovation-friendly business environment

Development of ICT applications and promotion of e-commerce

- Deployment of ICT products and e-services to boost the long-term competitiveness of businesses and generate sustainable jobs in Cyprus, including in the rural areas
- Strengthening of ICT applications for e-government and e-commerce (e-health, e-learning, e-education, e-culture/tourism, e-procurement, e-justice)
- Support maritime authorities and function to ensure smooth and effective information sharing and join EU surveillance initiative of CISE
- Extend knowledge of the sea



Challenges

No indigenous energy sources:

- Promising recent gas discovery (December 2011) in Cyprus's Exclusive Economic Zone ... but ...
- Low use of renewable energy resources despite potential
 - wind power (3.27%)
 - biomass (0.87%)
 - photovoltaic systems (0.28%)
- National target: contribution of renewable energy to 13% of the total energy consumption by 2020



Underdeveloped low
carbon economy and
inefficient use of
natural resources



Challenges

Unsatisfactory solid waste management system:

- Municipal waste generation in Cyprus higher than the EU average (778 kg/y/inhabitant compared to around 487 kg on average)
- Very low recycling rates
- Landfilling now stands at 87%
- Infringement case (2011/2005) of 21 June 2012 for failure to comply with Directive 99/31/CE on landfills



Challenges

Water scarcity - impact of climate change

- Droughts/decrease in annual rainfall
- Constant increase (2%) in the annual demand for water
- Desalination plants: high energy, increase in CO2 emissions

Water quality and water use efficiency

- Medium quality of the drinking water (diffuse pollution from nitrates, phosphorous and pesticides)
- Insufficient level of waste water reuse

Increased Emissions

- High traffic congestion (insufficient public transport)
- Ammonia emissions from agriculture: reduced by 10% by 2020



Challenges

Vulnerable natural resources and ecosystems biodiversity

- Water
- Forest fires
- Agricultural land abandonment
- Erosion and desertification
- Low level of organic matter in soils
- Loss of biodiversity

2. Funding priority: Promoting environment-friendly and efficient use of resources, and climate change resilience for sustainable growth and jobs

Shift to an energy efficient, low-carbon economy and promotion of renewable energy resources

- **Promote energy efficiency**
- **Innovative technologies/investments**
- **Increase renewable sources of energy**
- **Investments in infrastructures**

2. Funding priority: Promoting environment-friendly and efficient use of resources, and climate change resilience for sustainable growth and jobs

**Improving
management of
natural resources
and
environmental
protection**

- **Address EU waste requirements**
- **Protect the marine environment**
- **Promote aquaculture**

2. Funding priority: Promoting environment-friendly and efficient use of resources, and climate change resilience for sustainable growth and jobs

**Improving
management of
natural resources
and
environmental
protection**

- **Protect the natural capital and ecosystems**
- **NATURA 2000 Management Plans**
- **Support environmentally sound farming**

2. Funding priority: Promoting environment-friendly and efficient use of resources, and climate change resilience for sustainable growth and jobs

**Improving
management of
natural resources
and
environmental
protection**

- **Increase efficiency in agricultural water use**
- **Reduce nutrient loads in soils and water**
- **Intensify implementation of the Nitrates Action Programme**

2. Funding priority: Promoting environment-friendly and efficient use of resources, and climate change resilience for sustainable growth and jobs

Climate change
mitigation and
adaptation
including risk
management

- Risk prevention and management
- Support sustainable farming practices
- Protect forests
- Desalination plants using renewable energy

2. Funding priority: Promoting environment-friendly and efficient use of resources, and climate change resilience for sustainable growth and jobs

Promotion of the sustainable urban mobility

- **Environment-friendly and low-carbon light transport systems**
- **Urban mobility master-plan of Nicosia**
- **Extend the use of light transport means to other urban centres**

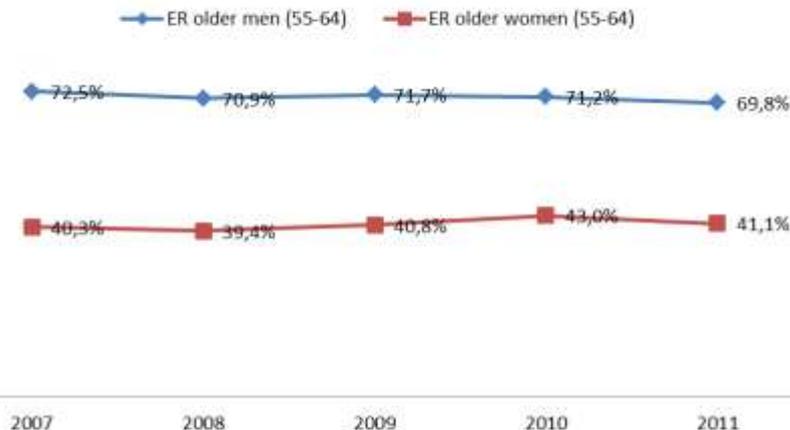


Challenges

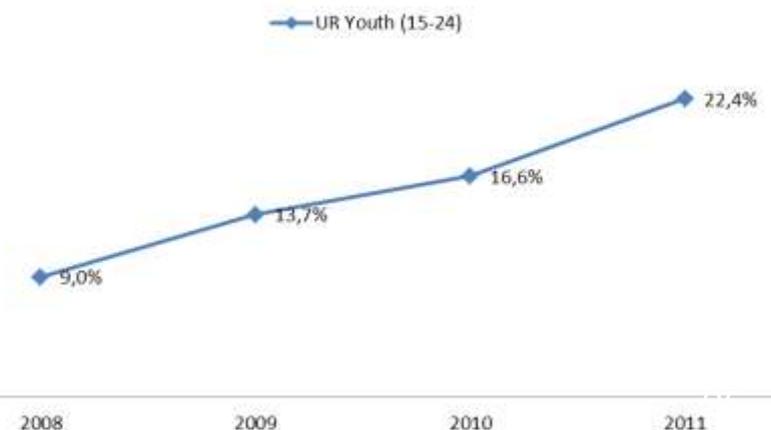
Decreasing labour market participation

- Downward trend in employment of men and women
- Decreasing trend in employment of older workers
- Unemployment has grown to unprecedented levels
- Sharp increase in youth unemployment
- Large presence of informal employment

Employment gender gap in the age group 55-64



Increasing Youth Unemployment



Challenges

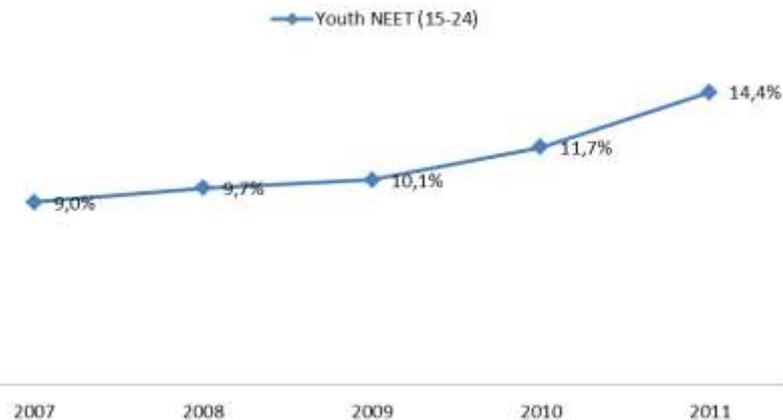
Inefficient social protection systems

- Inefficiencies in healthcare provision
- Long-term care system not well developed
- Dysfunctional public assistance

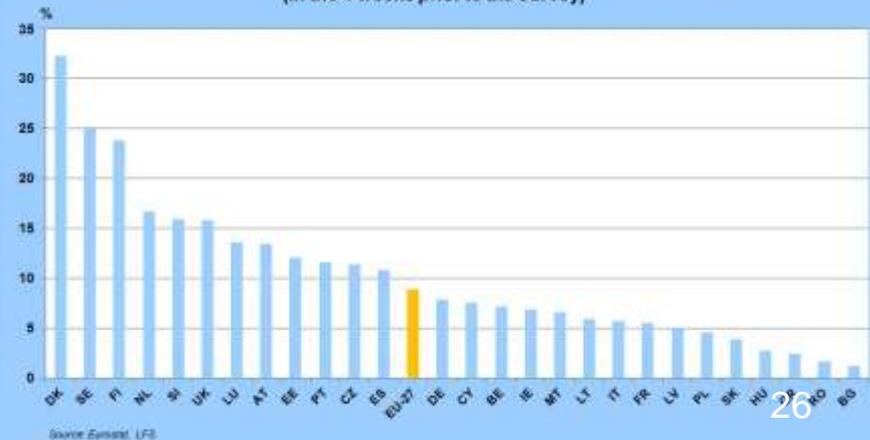
Skills mismatches

- Inadequate supply of skills
- Education and training mismatches
- Low participation in lifelong learning

Increasing NEET Rate



Percentage of population aged 25-64 participating in lifelong learning, 2011 (in the 4 weeks prior to the survey)



Priority 3: Increasing labour market participation through improved employment, social, education and skills development policies

Integrating the unemployed and inactive in the labour market

- Improving employability and access to employment for job-seekers and inactive, with a focus on women, older workers and young people
- Combatting undeclared work
- Promotion of self-employment, entrepreneurship and business creation
- Supporting sustainable job creation and growth in the maritime sector
- Promoting employment and labour mobility in rural areas

Priority 3: Increasing labour market participation through improved employment, social, education and skills development policies

Modernisation of social protection systems

- Support the reform of healthcare and long-term care
- (Re)integration in the labour market of people at risk of poverty or exclusion
- Improve the efficiency of public assistance
- Prevent social exclusion in rural areas

Priority 3: Increasing labour market participation through improved employment, social, education and skills development policies

Improving the labour market relevance of education, training and lifelong learning

- Facilitate mobility of the workforce towards activities with promising growth and employment potential
- Reinforce vocational pathways
- Equal access to good quality education and training for all
- Enhance links between education and work
- Increase participation in lifelong learning, including in rural areas
- Implement a system of lifelong guidance

European Territorial Cooperation

Most relevant priorities:

- R&D and Innovation
- Low-carbon economy, especially the energy efficiency
- TEN-T networks – connectivity
- Climate change and risk prevention
- Tourism
- Enhancing the potential of the blue economy

Ex-ante conditionalities (1)

Aim at ensuring effective and efficient use of EU Funds

- National research and innovation strategy for smart specialisation
- Transposition of Directive 2010/31/EU (energy performance of buildings)
- Transposition of Directive 2009/28/EC (promotion of the use of energy from renewable sources)
- Transposition of Directive 2009/72/EC (internal market for electricity) and of Directive 2009/73/EC (internal market for natural gas).
- National risk assessments for disaster management
- Implementation of River basin management plans, including an appropriate water pricing policy
- Implementation of Directive 2008/98/EC on waste

Ex-ante conditionalities (2)

Aim at ensuring effective and efficient use of EU Funds

- Multiannual national strategic plan on aquaculture, administrative capacity for data collection for fisheries management and the implementation of a Union control, inspection and enforcement system
- Design and delivery of active labour market policies in coherence with Employment guidelines
- System to record and monitor State aid expenditure. An independent from the granting authorities Commissioner for State aid control should have appropriate dedicated resources (budget, qualified staff) and be consulted on the design of State aid measures by the granting authorities while its opinion should be taken into account.

Effective programme design & delivery

Drawing lessons from the current period (1)

- **Administrative capacity** to manage and implement the CSF Funds
 - smooth implementation of the programmes in Cyprus
 - proactive reaction of the authorities in tackling any delays and problems
 - The Management and Control System is functioning well
- Need to involve in the **partnership** and smart specialisation process the authorities, agencies and other bodies concerned by research and innovation policies in order to avoid any risk of delays and bottlenecks in the implementation of such actions.



Effective programme design & delivery

Drawing lessons from the current period (2)

- The Managing Authority and the Intermediate Bodies in Cyprus need to ensure that beneficiaries take appropriate **ownership of interventions**, and to monitor closely all developments and step up to provide support and guidance when needed
- Improve efficiency of beneficiaries
- Active participation of relevant partners at each stage of the programming cycle
- Further develop the existing IT systems for the exchanges of information

Next steps: the way forward

Negotiation process for Partnership Agreement (PA) in Cyprus

