

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

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## INTRODUCTION

The European Union faces the daunting challenge of emerging from the crisis and putting economies back on a sustainable growth path. The exit strategy entails restoring sound public finances, growth-enhancing structural reforms and targeted investments for growth and jobs. For the latter, the CSF funds<sup>1</sup> can make an important contribution to sustainable growth, employment and competitiveness and increase the convergence of less developed Member States and regions with the rest of the Union.

To ensure that the CSF funds deliver long-lasting economic, social and environmental impacts, the Commission has proposed a new approach to the use of the funds in its proposal for the **2014-2020 Multiannual Financial Framework**<sup>2</sup>. Strong alignment with policy priorities of the Europe 2020 agenda, macroeconomic and ex-ante conditionality, thematic concentration and performance incentives are expected to result in more effective spending. It is an approach that underlines the need for strong prioritisation and results and away from a culture of entitlement. The CSF funds will thus provide an important source of public investment and serve as a catalyst for growth and jobs by leveraging physical and human capital investment while they serve as an effective means to support the implementation of the **Country Specific Recommendations** issued in the context of the European Semester. This approach is in line with the European Council's call of 29 June 2012 regarding the use of the Union's budget<sup>3</sup>.

CSF Funds should aim at jointly fostering **competitiveness, convergence and cooperation**, by setting the right country-specific investment priorities. A general **refocus of spending** towards research and innovation, support to SMEs, quality education and training, inclusive labour markets fostering quality employment and social cohesion, delivering the highest productivity gains, mainstreaming of climate change, shifting to a resource-efficient low carbon economy and protecting the environment is necessary. In order to do so, planning and implementation of CSF funds have to break through artificial bureaucratic boundaries in the next programming period and develop a strong **integrated approach** for mobilizing synergies and achieving optimal impact both within countries and across borders. The Europe 2020 objectives must be mainstreamed across the different CSF Funds, each of them bringing their contribution to smart, sustainable and inclusive growth. Moreover, CSF Funds have a key role to play in supporting financial instruments that can **leverage private investment** and thus multiply the effects of public finance. In short, we need a carefully targeted and results oriented use of CSF funds that maximises their combined impact.

The purpose of this position paper is to set out **the framework for** dialogue between the Commission services and Cyprus on **the preparation of the Partnership Agreement and Programmes** which will start in autumn 2012. The paper sets out the key country specific challenges and presents the Commission Services' preliminary views on the main funding priorities in Cyprus for growth enhancing public expenditure. It calls for optimizing the use of CSF Funds by establishing a strong link to productivity and competitiveness enhancing reforms, leveraging private resources and boosting potential

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<sup>1</sup>The EU funds covered by the Common Strategic Framework (CSF), i.e. the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF)

<sup>2</sup> COM (2011) 500 final, COM (2011) 398 final and COM (2012) 388 final.

<sup>3</sup> Conclusions of the European Council of 29<sup>th</sup> June 2012 (EUCO 76/12),  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/131388.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131388.pdf)

high growth sectors, while emphasizing the need to preserve solidarity within the Union and ensuring the sustainable use of natural resources for future generations. There is also a need to concentrate future EU spending on priority areas to maximise the results to be obtained, rather than spreading funding too thinly. EU funding should also be used to fund EU level priorities and to ensure that Cyprus can draw full benefits from its EU membership. Therefore the Commission proposes to group and limit EU funding to the key challenges outlined in this position paper. National public spending can not only be used to co-finance but also to finance investments which are complementary and linked to EU funded projects in particular at regional and local level.

The starting point of the Commission's considerations are the assessment of Cyprus' progress towards its Europe 2020 targets in its Staff Working Document on the 2012 National Reform Programme and Stability Programme<sup>4</sup>, underpinned by the country-specific recommendations addressed by the Council last 6 July 2012, and country-specific development challenges. The position paper takes account of the lessons learnt during the 2007-2013 programming period and the Commission's legislative proposals for 2014-2020.

In a context of fiscal discipline, this position paper encourages Cyprus to develop and implement medium-term strategies capable of facing the challenges ahead, notably weak competitiveness and decreasing labour market participation, while helping preserve the European social model. Moreover, it provides for a flexible framework for Cyprus to react and refocus European, national and local resources on creating growth and employment so that fiscal sustainability and growth-friendly policies go hand-in-hand, also dealing with structural problems in Cyprus and across its national borders in its territorial and geographical context in order to have maximum impact.

Finally it invites Cyprus to exploit to the maximum potential synergies between the CSF Funds and with other sources of EU funding in a strategic and integrated approach. Taking into account the geographical peripherality of Cyprus, this includes the cooperation with neighbouring countries and regions and the promotion of broader regional linkages in the areas covered by the CSF Funds.

## **1. MAIN CHALLENGES**

Cyprus has a small, open, services-oriented economy, with micro-services and family-owned enterprises. For a very long period, Cyprus maintained a GDP growth. In 2011, GDP per capita in PPS in Cyprus amounted to 91.5% of the EU-27 average and is expected to decline in 2012 and 2013. Economic activity was badly affected by the accident in July 2011 that destroyed the Vassilikos electricity producing plant, which accounted for half of the island's total generating capacity. Domestic demand, traditionally the main driver of growth, decreased considerably in 2011, due to tightening bank lending conditions along with a worsening external environment and a persistent financial market uncertainty.

The prevailing high government deficit (-6.3% in 2011) and the large exposure of the Cypriot banking sector to Greece resulted in the Cypriot sovereign debt being perceived as increasingly risky, culminating in a series of downgrades of Cyprus' credit rating. This inhibited the ability of the government and the commercial banks to borrow from international financial markets, to which they have de facto lost access since June 2011.

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<sup>4</sup> Relevant documents are available on Europe2020 website: [http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm)

Therefore, on 25 June 2012, Cyprus officially applied for financial assistance from the EFSF/ESM in order to deal with its budget deficit in addition to the funds needed for the recapitalisation of its banking sector.

The worsening of the macroeconomic outlook adversely affected the Cypriot labour market. Unemployment is on the rise, reaching historically high figures (10.9% in July 2012 from an average 4.5% in the years 2005-2008), especially for young people (25.8% in June 2012 from 9% in 2008) and the labour market is characterised by an inadequate supply of skills to match current and future labour demand.

The situation of Cyprus vis-à-vis national EU2020 targets is summarised in the following table. It demonstrates that, mainly due to the severe crisis, there is a regression in several target areas despite earlier progress: labour market participation, renewable energy, energy efficiency and poverty reduction.

<b>Europe 2020 headline targets</b>	<b>Current situation in Cyprus</b>	<b>National 2020 target</b>
3% of expenditure on research and development	0.5% (2010)	0.5%
20% greenhouse gas (GHG) emissions reduction compared to 1990 <sup>5</sup>	-19% (2020 projected emissions <sup>6</sup> compared to 2005) -5% (2010 emissions compared to 2005) <sup>6</sup>	-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 <sup>7</sup>	-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%

<sup>5</sup> 30% if the conditions are right

<sup>6</sup> Based on existing measures, Commission report *Progress towards achieving the Kyoto Objectives* (2012)

<sup>7</sup> Member States will define/revise their targets in line with the newly agreed methodology on target setting laid out in Article 3(3) of the Energy Efficiency Directive. This will be available only by 30 April 2013.

The country specific recommendations (CSRs) adopted by the Council on 6<sup>th</sup> of July 2012 reflect the situation portrayed above. These CSRs address labour market issues, including skills mismatches and youth unemployment, as well as competitiveness, business innovation and the healthcare system.

**Therefore Cyprus' most pressing challenges are related to the weak competitiveness and low innovation performance, the underdeveloped low carbon economy and the inefficient use of natural resources, as well as the decreasing labour market participation, inefficient social protection systems and skills mismatches, all of which are interrelated.**

### *Weak competitiveness and low innovation performance*

While Cyprus is ranked 47<sup>th</sup> among 142 countries on the "Competitiveness report" of the World Economic Forum, the small market size constitutes an obstacle to competitiveness. Cyprus needs to take steps to diversify the structure of the economy and improve its competitiveness, in particular in sectors where Cyprus has a comparative advantage (e.g. tourism, agro-food, aquaculture, manufacturing, bio-economy and environmental technologies).

Both research and innovation policies are fairly recent in the country. R&D was firstly addressed only a decade ago. They were modernised rapidly through the creation of new universities and research organisations, as well as increasing budget. In 2011, Cyprus scored 28<sup>th</sup> (from 45<sup>th</sup> in 2009) on 125 world countries in terms of innovation performance, which indicates a rapid improvement. Total investments in R&D are 0.5% of GDP – in line with its national commitment under the EU 2020 strategy but far from the EU average of 2% - of which 64.1% financed by the public sector. In fact, there is a disparity between the public and private sectors<sup>8</sup>. While the former makes efforts to improve research and innovation capabilities and a new national plan for research and innovation has been recently announced with a view to promote research and innovation beyond manufacturing enterprises and include services, the role of the business community in innovation remains marginal. The major constraints in the development of this sector are the limited human capacity available for research (small number of researchers) and the limited engagement of the enterprises to research activities due to the structure of the productive sector (small companies in traditional sectors, lack of availability of seed capital for R&D businesses). This is also linked to the inadequate knowledge exploitation. In fact, the number of patent applications is very low and rates Cyprus only at about 13% of the European average. The human and financial resources of Cyprus are limited, meaning that it would be necessary for the R&D investments specifically supported by the CSF Funds to be better targeted on the areas that would help the economy grow. In a medium-term perspective, a shift towards an innovation-driven economy is necessary to take advantage of growth potential, among others in the sectors of the blue economy.

The contribution of agricultural, forestry and food processing sectors in the development has been significant during the past decade (6.7% of the GDP, 10.3% of the labour force and 37% of exports in 2009). However, the competitiveness of the Cypriot agro-food has been dropping during the past years. This situation is clearly reflected in the constantly widening trade balance of these products with clearly negative trends for the future if timely policy measures are not taken. Challenges adversely affecting the competitiveness of the agro-food sectors which need to be tackled are: the effects of a particularly dry

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<sup>8</sup> Cyprus National Reform Programme for 2012, p.32 and p.60

climate combined with severe water shortages, small parcel size (3.6 Ha) and fragmentation of rural properties (5 on the average), ageing and shrinking rural population of low educational level, low land fertility, increased productivity costs, and remoteness of Cyprus to EU markets.

While Cyprus has almost reached 100 % broadband coverage and despite a significant increase in broadband speeds, only 51% of the households have broadband connection – that is, 10pp less than the 61% EU average. 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.

### ***Underdeveloped low carbon economy and inefficient use of natural resources***

Cyprus does not have indigenous energy sources except for the small contribution of renewables. The recent gas discovery (December 2011) in Cyprus's Exclusive Economic Zone is very promising for the diversification of energy sources, allowing Cyprus to move away from its excessive reliance on oil imports. Nevertheless, the increase of energy efficiency and the use of renewable energy, in connection with addressing the impacts from climate change, are major challenges for strengthening energy security in Cyprus and progressing towards the climate target. According to the National Renewable Energy Action Plan the distribution of RES electricity production in 2011-2012 is expected to come mainly from wind power (3.27%), biomass (0.87%) and photovoltaic systems (0.28%).

Cyprus has strong potential for the production of solar energy. Some measures for the installation of photovoltaic systems on the public buildings and farms have already been taken. However, they have to be intensified for Cyprus to achieve its national targets (contribution of renewable energy to 13% of the total energy consumption by 2020) which can benefit from transfer of experience from elsewhere in the EU via networking and joint approaches. In this domain as well as those mentioned below, Cyprus can gain from cross-border and international collaboration which is currently under-developed.

Despite the increase of rainfalls in recent years, drought remains the main concern as regards the impact of climate change. Rainwater is the only natural supply of water in Cyprus as only seasonal lakes and rivers exist in the island. In order to reduce the dependence of Cyprus on rainwater and in view of the increased frequency and duration of droughts due to climate change, desalination plants have been created during the past few years to accommodate increasing water demand for households and irrigation. Nevertheless, these plants aggravate further the already serious emissions that result from the high energy and the CO<sub>2</sub> intensity of the private sector. Therefore, the use of new technologies could be explored in order to mitigate this impact.

The main sources of greenhouse gas (GHG) emissions are energy (including transport) accounting for 69% of the total GHG emissions (from non-ETS sectors), waste (17%), industrial processes (8%) and agriculture (6.2%). Unless additional measures are taken, emissions will increase by 8.4% by 2020 (compared to 2005), falling short by 13.4% relative to the EU2020 target. Ammonia emissions from agricultural fertilisers are required to be reduced by 10% by 2020<sup>9</sup> and support is therefore necessary for implementing changes in the application and use of fertilisers as well as to the animal housing systems, manure storage and application.

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<sup>9</sup> According to the Gothenburg Protocol and Directive (2001/81/EC-The National Emission Ceilings Directive)

Significant decline in annual rainfall (-9%) and a rise in average temperature (+0.5 °C) have been observed during the period 1991-2009 compared to the period 1961 – 1990. In fact, low precipitation and high temperatures are putting extreme pressures on the country's scarce natural resources with particular reference to water, agricultural land, forests and soils, and threaten biodiversity of their ecosystems.

Droughts, water scarcity, forest fires, agricultural land abandonment, poor crop yields, erosion, desertification, loss of biodiversity, low level of carbon in soil are some of the consequences already observed in the country which affect not only the rural economy but also tourism, thus compromising economic development. Sustainable management and efficient use of its rare natural resources are vital necessities for Cyprus in order to mitigate adverse climate change effects, preserve and restore its natural environment, maintain socio-economic growth and improve the quality of life of its people.

The most serious threats to Cyprus biodiversity are the effects of climate change, invasive species, illegal hunting, forest fires (7% of the forested area has been burnt during the period 1990-2008), intensification of agriculture, abandonment of rural areas and land use change (due to urbanisation and road infrastructures) invasive species, and illegal hunting. Almost 14% of the flora is threatened with extinction, while the situation of known species found to be in danger is approximately 34%. For the preservation of biodiversity, 40 sites have been included in the "Natura 2000" network (28.4% of the country's area) as Sites of Community Importance (SCI's) and 29 sites as Special Protection Areas (SPA's). Forest land cover types represent nearly 73% of area of the 'Natura 2000' network. Grasslands and other agricultural lands are the next most important land cover types. Estimations show that half of farmland in Cyprus could be classified as High Nature Value Farmland.

The waste management situation of the country is one of the worst in the EU. Municipal waste generation in Cyprus remains significantly higher than the EU average (778 kg/y/inhabitant compared to around 487 kg on average). In addition, Cyprus still ranks very low in recycling rates and does not take opportunities to recycle and thus reducing landfilling which now stands at 87%. The solid waste management system is unsatisfactory and its implementation needs to be accelerated. The Commission has thus initiated an infringement case (2011/2005) and on 21 June 2012, decided to take Cyprus to the Court of Justice for its failure to comply with the obligations of directive 99/31/CE on landfills. For the time being, only Larnaca and Famagusta have an integrated solid waste management system.

There is a constant increase (2%) in the annual demand for water which causes severe water scarcity and compromises all productive sectors of the economy. Emphasis needs to be placed in the enhancement of water quality and water-use efficiency (e.g. through the promotion of waste water reuse), with particular attention to irrigation water since agriculture consumes almost 65% of the island's water supply. Diffuse pollutions by nitrates, phosphorus and pesticides are significant and affect the country's water quality.

The use of high salt content (desalinated) water in agricultural irrigation results in soils degradation (salinisation) and eventually in loss of valuable agricultural land.

Despite its specific position as country-island and the significant problems of connectivity with the rest of the EU, Cyprus has good road, sea and air infrastructures. However, traffic congestion has considerably increased in the urban areas. Over the past twenty years, private car utilization has risen to high levels while the usage of the only available means of public transport on the island – bus - has fallen. Dealing with the urban traffic congestion through environment-friendly and low-carbon transport systems will be challenging for Cyprus.

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

The worsening external environment and the tightening financial and fiscal situation have had a major negative impact on employment prospects. From 76.5% in 2008, the employment rate declined to 73.8% in 2011, and further down to 70.3% in Q1 2012. The employment rate of both men and women is on a downward trend, as is the rate for those aged 55-64. A consistent and increased policy effort will be required to reach even the lower boundary of the national employment target of 75%-77%.

At the same time, there is a sharp increase in unemployment, which reached 10.9% in July 2012 from an average 4.5% in the years 2005-2008. Unemployment has in particular affected young people. The unemployment rate for the age group 15-24 reached 22.4% in 2011 and 25.8% in July 2012. It is expected that the strain on certain population groups (single parents, public benefit recipients, migrants, disabled) will intensify as well. Immigrants in particular represent a third of the registered unemployed currently, whilst children with a migrant background are at higher risk of early school leaving. At the same time, evidence as reported in the 2012 National Reform Programme suggests a large size of undeclared work associated with the increased presence of foreign workers in Cyprus.

With respect to social protection, policy challenges exist in terms of the quality as well as efficiency and effectiveness of the service provision. More specifically, in the area of healthcare, inequity in access to care and existing inefficiencies undermine the quality of healthcare provided and its sustainability. In the field of long-term care, services are currently not well coordinated and monitored as to adequacy and quality, while informal care provided by families is a widespread practice. As regards public assistance, the system is dysfunctional and creates distortions and socially unfair situations. Public assistance recipients risk getting trapped in the benefit instead of receiving support to enter and remain in the labour market.

In terms of challenges in the area of education and skills, whereas the Cypriot workforce is overall well educated, the labour market is characterised by an inadequate supply of skills and education and training mismatches, while participation in lifelong learning is low, including for farmers and fishermen. Reinforcing occupational mobility towards activities of high growth and high value added requires the improvement of the skills of the workforce.

## **2. PRIORITIES FOR FUNDING**

The CSF Funds will be one of the most important instruments to tackle the main development challenges for Cyprus and to implement the Europe 2020 strategy. Each fund should give priority, when relevant, to policy areas addressed in the Country-Specific Recommendations and in the national reform programmes. For rural development and fisheries, priorities for funding should also contribute to supporting the reform of the Common Agricultural and Common Fisheries Policies. Targeted funding should harness the untapped potential of Cyprus's coastal and sea areas in order to deliver sustainable economic growth and jobs in the blue economy and enable diverse sustainable use of the coastal and marine resources on the basis of the ecosystem-based approach. To this end the intervention from the CSF Funds needs to be concentrated on a targeted number of priorities. Experience shows that thematic concentration allows for an increase in effectiveness of public interventions by reaching a critical mass with a real impact on the socio-economic situation of a country and its regions. Prioritisation is of particular importance in times of fiscal consolidation.

Three complementary and mutually reinforcing funding priorities are proposed hereunder in line with country-specific challenges<sup>10</sup>. They reflect the importance of funding needs and potential contribution to growth and jobs. There is no ranking in the presentation of the funding priorities.

These are the priorities the Commission would like to co-finance in Cyprus for the next programming period 2014-20. Sufficient flexibility is built into the new programming architecture to respond to new challenges and unexpected events, which allow for reprogramming on justified grounds.

## **2.1 Innovation-friendly business environment**

The creation of an innovation-driven economy is a key challenge for Cyprus which needs to concentrate its investments on sectors where a comparative advantage exists in view to increase the competitiveness and generate sustainable jobs. This can be achieved in line with smart specialisation and should take into account the national but also the broader regional and EU context. It is expected that the investments from the CSF Funds in this field will be increased in comparison to the programming period 2007-2013.

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

Taking into account that the national target for RD&I expenditure has been already achieved (0.50% of the GDP), Cyprus has to make efforts in order to enhance the involvement of businesses in innovation and research activities as well as to 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. Success of this objective could be measured on the basis of the innovative products and services put on the market.

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

Enhancing competitiveness and innovation of SMEs in all sectors (including agriculture and fisheries) should be a priority for CFS funds. Support should become more targeted, focussing on business innovation and the use of new eco-efficient technologies, including linkages to good practice and enterprises in other countries. Investments should focus on fields where a competitive advantage and economic diversification could be achieved in line with smart specialisation.

Competitiveness in the agro-food sector should be supported for quality products of comparative advantage (e.g., organic, traditional and designated origin products, herbal plants, early season vegetables/ fruit, wines, etc). The economic potential of rural SMEs needs also to be enhanced through support for start-ups in diversified and innovative products and services in order to create growth and jobs and reverse the trend of abandonment of rural landscapes.

Access to finance for SMEs should be facilitated. Given budgetary constraints and credit restrictions in Cyprus, further development of financial engineering instruments should be envisaged. A broad range of financial instruments may be used, including loans, guarantees, equity, seed capital, microcredits etc. Support should be based on thorough market analysis and priority should be given to targeted areas not sufficiently served by private investments where a clear evidence of market failure exists.

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<sup>10</sup> The thematic objectives in the proposed regulations and their link to the funding areas are outlined in Annex I.

### ***Development of ICT applications and promotion of e-commerce***

As Cyprus has adopted a Digital Strategy in 2012 in order to drive the country into the digital era, CSF investments should prioritise the development and the deployment of ICT products and e-services. Both the supply and the use of such products and services by the SMEs (including in the agricultural and fisheries sectors) will boost the long-term competitiveness of businesses and the ability to generate sustainable jobs in Cyprus. Moreover, strengthening ICT applications for e-government and e-commerce will modernise the public administration, also drawing on good practice from abroad, and facilitate the daily work and life of citizens and businesses.

### **2.2 Promoting environment-friendly and efficient use of resources, and climate change resilience for sustainable growth and jobs**

The sustainable management of the resources and the use of renewable energy sources are major challenges for Cyprus in view to boost its economy and create growth and jobs. The promotion of energy efficiency and renewable energy use in SMEs (including in the agricultural and fisheries sectors) will improve the competitiveness of the Cypriot economy while protecting the natural resources, utilising also good experience from elsewhere.

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

In order to achieve its national targets (contribution of renewable energy sources to 13% of the total energy consumption and 14.3% energy saving in the primary energy consumption by 2020), Cyprus should intensify its efforts and support schemes to promote use of renewable energy and energy efficiency (including SMEs, rural households and farms). The increase of renewable sources of energy such as solar, aeolian, biogas and biomass, in the Cypriot energy mix will moderate the dependence of Cyprus on oil with positive impact on the competitiveness of the economy. Innovative technologies and investments which contribute to energy savings and green-house gas reduction emissions should be supported. In this respect, there is scope for exchange of experiences and pilot projects with neighbours to improve the situation, especially in the energy efficiency.

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

In the solid waste and waste water sectors, the investments need to address the requirements deriving from the EU acquis. In this respect, innovative approaches integrating new technologies and economic instruments (e.g. landfill tax, extended producer responsibility schemes through take back obligations, pay-as-you-throw systems at municipal level) should be promoted in view to meet the environmental policy targets and thus contribute to increase the levels of economic activity and employment.

New or updated Waste Management Plans for both municipal and dangerous waste and Waste Prevention programmes should be adopted, in accordance with the 2008 Waste Framework Directive and based on the waste management hierarchy (prevention, re-use and recycling).

The protection of the country's natural capital and ecosystems dependent on agriculture and forestry is of utmost priority in order to ensure long-term supply of essential ecosystem goods and services, and preserve and enhance biodiversity.

Cyprus should focus on increasing efficiency in the water used in agriculture, through investments on more efficient irrigation, advice to farmers, preservation of the buffer and filter functions of soils and introduction of crops with low water needs.

The reduction of nutrient loads in soils and water, in compliance with the Water Framework (2000/60/EC), the Urban Waste Water (92/271/EEC) and Nitrates (91/676/EEC) Directives, is necessary so as to ensure the sound ecological, chemical and quantitative condition of scarce water resources.

Implementation of the Nitrates Action Programme (Nitrates Directive) needs to be intensified in the 6 declared Nitrates Vulnerable Zones (potato farms and citrus orchard areas) by optimising nitrogen application and manure management practices. Environmentally sound farming systems, including organic farming, crop rotation, and targeted selection of crops. In that respect, Cyprus needs to support the increase in the share of utilised agricultural area (UAA) under agro-environmental measures and organic farming (which were 9% and 2.9% respectively in 2009).

Support to environmentally sound farming systems (including organic farming, crop rotation, targeted selection of crops, restoration of terraces etc.) is vital for the sustainable management of soils and prevention of further soil degradation and erosion in Cyprus.

Implementation of the management plans for the majority of many of “Natura 2000” sites needs to be accelerated in order to meet the milestone of the EU biodiversity strategy 2020, i.e., to halt biodiversity loss and degradation of the ecosystem services by 2020 and, as far as feasible, restore biodiversity.

Resource-efficiency needs to be reinforced through the sustainable use of marine resources as well as the prevention of overfishing, for the further development of the country's blue economy. Therefore, support to fish catching sector should contribute to an effective reduction in fishing capacity.

### ***Climate change mitigation and adaptation including risk management***

Cyprus has to explore innovative methods in order to mitigate the consequences deriving from climate change and adapt to its unavoidable impacts. Finding solutions, both nationally and in cooperation with neighbouring countries, responding to the serious drought problem is a priority. Sustainable and efficient management of water resources, improved soil management through support for practices that prevent soil degradation, erosion and depletion of soil carbon stock, the establishment of new forested areas to increase carbon sequestration and offset GHG emissions, forest fire prevention and restoration, as well as the use of innovative technologies, including desalination plants that operate using renewable energy sources, are the key to achieve an environmental-friendly and sustainable management of resources.

### ***Promoting sustainable urban mobility***

Taking into account the high quality of transport infrastructure, Cyprus should give priority to the urban transport system. The sustainable urban mobility could be enhanced mainly through the promotion of environment-friendly and low-carbon light transport systems, including the deployment of electric vehicles. Cyprus has already implemented interventions aiming at reducing the congestion burden on urban mobility. In this respect, the implementation of the urban mobility master-plan of Nicosia has to be completed while the use of light transport means should be extended to other urban centres.

### **2.3 Increasing labour market participation through improved employment, social, education and skills development policies**

The areas of employment, social cohesion and education/training constitute core concerns for Cyprus. This calls for stepping up efforts to concentrate investments on the employment, social and education thematic objectives in line with the Country Specific Recommendations. Thus, the relative share of the CSF fund investment should increase in comparison to the programming period 2007-2013, with special attention to labour market participation.

#### ***Integrating the unemployed and inactive in the labour market***

With overall employment on a downward path and a rising trend in unemployment, priority needs to be placed on increasing employment and improving the employability of the unemployed and inactive, especially women, older workers and young people, where the main employment potential lies. Promoting quality employment should be the objective. It will also be important to reinforce actions that can help transforming informal employment to formal.

As regards women, Cyprus should allocate adequate funds to support measures aimed at increasing their employment and enhancing their employability. While Cyprus overall performs better than the EU average in terms of labour market outcomes, its labour market is characterised by strong gender imbalances, which represent a challenge in terms of limiting the potential of economic and employment growth. There is a significant gender gap in employment, especially in the case of older women and women with low/medium educational attainment. The gender pay gap remains high, which may further discourage women's labour market involvement, especially when considered in conjunction with the high cost of child care. A further barrier to women's participation in the labour market relates to the rigid working arrangements. On the other hand, the proportion of women who work in involuntary fixed-term or part-time contracts is substantially high.

As concerns older persons (55-64), Cyprus has traditionally had a well above the EU average proportion of older people in employment. Nevertheless, employment of older persons has been decreasing. In the case of older women, in particular, there is a significant gender gap in employment in Cyprus as women tend to exit from the labour market earlier than men. Increasing the effective retirement age would require, beyond possible institutional changes, a substantial extension of new employment opportunities for older workers in parallel with measures to enhance their employability.

Regarding young persons, the high and increasing youth unemployment will need to be tackled in an effective manner by expanding support measures for young people. Priority should be placed on increased access to quality apprenticeships and workplace learning opportunities.

Cyprus should prioritise support for the self-employment, entrepreneurship and business creation of unemployed – in particular young persons, women and long-term unemployed – and inactive persons. Support throughout the investment period – and not only during the initial start-up phase – via teaching of entrepreneurial skills, mentoring and coaching, and support for career reorientation is important in order to promote the creation of sustainable businesses.

Finally, investments in Cyprus should reinforce the integration of the most vulnerable groups facing the risk of social exclusion in the labour market. In this regard priority needs to be given to vulnerable groups, such as migrants, single parents, public assistance recipients, disabled persons, taking into account that support should be part of an integrated pathway for entering the labour market and promoting social inclusion. It will

be essential to ensure coherence between employability measures and social protection policies.

### *Modernisation of social protection systems*

As Cyprus is planning to progress with the implementation of the National Health Insurance System (NHIS) and reform the systems of long-term care and public assistance, CSF investments should prioritise the modernisation of healthcare and long-term care to improve quality, effectiveness and efficiency of delivery. This will potentially include the transition from institutional to community-based care and support services. Priority also needs to be placed on improving the efficiency of public assistance and its links to active labour market policies.

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

Improving the labour market relevance of skills, while reinforcing the attractiveness of vocational education and training, deserves a major investment. The strategic objective of Cyprus to become a regional centre providing high value added services requires that further efforts are made for enhancing the skills profile of the workforce in order to facilitate the transitions in the labour market towards activities with promising growth and employment potential (business services, health and social sectors, digital economy, green economy). The vocational education and training system and the apprenticeship system will need to adjust the quality and scope of their programmes to deliver the appropriate skills in occupations and sectors with increased demand. This would in turn make vocational education and training more attractive. Adequate priority could also be given to the anticipation of skills that may be needed for the exploitation of the recently discovered natural gas resources. The National Qualifications Framework will need to ensure coverage of new activities.

Moreover, priority will need to be placed on increasing participation in life-long learning, especially among low-skilled workers, older people and unemployed persons. The growing incidence of unemployment associated with the shedding of semi-skilled or low-skilled labour in the construction, trade, agriculture and tourism, makes it imperative to put in place and reinforce the appropriate measures to boost participation in lifelong learning. Lifelong learning pathways for enhancing the skills profile of the workforce will need to be developed in close cooperation between the business sector and the world of education/research. For farmers, in particular, measures need to be taken to motivate them to participate in educational and training activities so that they can increase their competitiveness and adopt new and environmentally friendly cultivation methods.

## **3. SUCCESS FACTORS FOR EFFECTIVE DELIVERY**

Along with financial consolidation, **structural reforms** play a key role in enhancing the overall efficiency and the growth potential of the Cypriot economy. They are also **key condition** for the successful implementation of the CSF Funds which can only have optimal impact, if an appropriate policy, legal and administrative framework is in place.

Therefore the new Common Provisions Regulation will set out **ex-ante conditionalities** which are **preconditions relating to the effective and efficient use of EU Funds** which should be fulfilled by the time a programme is approved. The Commission will formally examine the information provided by Cyprus in the framework of its assessment of the Partnership Agreement and programmes. Based on experience from the current programming period and the CSRs the Commission Services have identified a number of **ex-ante conditionalities critical for successful implementation of the above funding priorities**. The Cypriot authorities need to take actions to fulfil the pre-conditions for

successful spending in each of these areas before the start of the next programming period.

- Existence of a national research and innovation strategy for smart specialisation, (including for digital growth to stimulate demand for affordable, good quality and interoperable ICT-enabled private and public services and increase uptake by citizens, including vulnerable groups, businesses and public administration including cross border initiatives) in line with the National Reform Programme.
- Transposition into national law of Directive 2010/31/EU on the energy performance of buildings.
- Transposition into national law of Directive 2009/28/EC on the promotion of the use of energy from renewable sources.
- Transposition into national law of Directive 2009/72/EC on internal market for electricity and of Directive 2009/73/EC on internal market for natural gas.
- Existence of national risk assessments for disaster management taking into account climate change adaptation.
- Implementation of River basin management plans, including an appropriate water pricing policy ensuring incentives for users to use water resources efficiently.
- Implementation of Directive 2008/98/EC on waste (mainly revision of the national waste management policy and adoption of Waste Prevention Programmes).
- In fisheries, the ex-ante conditionalities refer to a 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. The ex-ante conditionality on fishing control is only partially met. More efforts need to be made for full compliance. As regards Data Collection, Cyprus should pursue its efforts to improve data quality and availability so as to ensure a smooth shift from direct to shared management.
- Active labour market policies are designed and delivered in coherence with the Employment guidelines.
- Existence of an appropriate 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.

#### **4. PRIORITIES FOR EUROPEAN TERRITORIAL COOPERATION**

As mentioned above, effective solutions in many areas of development require a cooperative approach to challenges and opportunities that looks across the borders to share experiences. In the programming period 2014-2020 Cyprus should reinforce cooperative approaches being promoted by country-specific programmes by enhancing the possibilities offered by ETC programmes, to capitalise and integrate innovative networking and good practice ideas in country-specific programmes.

Cyprus would benefit from cooperation through the ETC programmes in the following areas:

1. R&D and Innovation, especially the exchange of experiences with Cyprus' neighbours. Exchange of know-how and joint innovative projects are still relatively low.
2. Low-carbon economy, especially the energy efficiency: There is therefore a scope for exchange of experiences and pilot projects to improve the situation.
3. TEN-T networks, especially connectivity towards neighbouring regions, taking into account the needs for custom services and infrastructures. As a border country, Cyprus has a unique geographical position at a major gateway to the EU, counterbalancing its EU peripherality. Sea links with Trans-European Networks (TEN) need to be further developed, as well as ferry links more generally to address over-reliance on air.
4. Climate change and risk prevention, which must be addressed cooperatively in the broader regional context. There is a need to prepare, where possible, joint adaptation strategies, monitoring systems, joint prevention infrastructures and joint emergency procedures.
5. Tourism. Cooperation with Greece and other Mediterranean countries can help Cyprus address weaknesses in its tourist product.
6. Enhancing the potential of the blue economy and generating sustainable growth and new jobs in maritime sectors, such as the development of maritime and coastal tourism. Cooperation to improve marine knowledge, Maritime Spatial Planning, integrated coastal zone management and Integrated Maritime Surveillance should be foreseen. Programmes should overall aim at improving coherence, coordination and alignment of policies and instruments having an impact on the maritime economy.

## ANNEX

The annex contains the arrangements for effective programming and delivery, assessment of funding needs in relation to thematic objectives and assessment of specific aspects of administrative capacities.

### **A. ARRANGEMENTS FOR EFFECTIVE PROGRAMMING AND DELIVERY**

Experience from previous programming periods indicates several factors affecting effectiveness of investment, in particular the need for strategic orientation and concentration, the need to avoid fragmentation of investments, projects insufficiently embedded in national systems, weak response to the actual needs, and low European value added. A general shift towards more coherent and innovative approach is necessary in order to demonstrate clearly the impact on attaining the Europe 2020 objectives.

Support needs to be granted in accordance with EU state aid rules. Financing should address real market failures and be limited to the minimum necessary, so that funds are used efficiently, overcompensation is avoided and distortions of competition are limited to the minimum.

The structure of the operational programmes (OPs) should also reflect the focus of EU interventions on Europe 2020 objectives. The balance of funding, the number of programmes and the most suitable architecture will be developed in partnership with stakeholders in Cyprus and in negotiations with the Commission. Cooperation at all levels, including across borders, is key to achieving quality of spending.

The proposed 2014-2020 legislation for the CSF Funds offers additional flexibility to set up programmes in each Member State to best match their institutional set-up. Annex I of the Commission's amended proposal for the Common Provisions Regulation includes elements of the Common Strategic Framework<sup>11</sup> and sets out different options for integrated approaches to programming to achieve coordination and synergies during implementation, which Cyprus is encouraged to explore.

As concerns the set-up for ESF implementation, past experience has been positive and should continue in the same direction.

#### **Coordination, complementarity and synergy**

Coordination between policies and complementarity of interventions is the key condition for successful implementation of CSF Funds. The management and control systems for 2014-2020 should build on the positive achievements in the period 2007-2013. CSF Funds need to jointly address several thematic objectives. Ministries and Managing Authorities responsible for the implementation of the CSF Funds should work closely together on the preparation, implementation, monitoring and evaluation of the Partnership Agreement and programmes. It is essential that all funds work in an integrated way at the delivery level.

Where relevant, the CSF Funds should exploit potential for synergies with the other EU instruments, such as the Connecting Europe Facility; Horizon 2020, COSME, the European Institute of Innovation and Technology (EIT) and its Knowledge Innovation Communities (KICs) in view of increasing their countries' innovation capacity through a closer integration of the Knowledge Triangle, Marie Curie Actions, the LIFE

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<sup>11</sup> COM(2012) 496 final, 11.9.2012

programme, Erasmus for All, the Creative Europe Programme, the Programme for Social Change and Innovation and the Asylum and Migration Fund.

Community-led Local Development (CLLD) offers an integrated bottom-up approach in response to complex territorial and local challenges through the involvement of local communities. Cyprus is invited to present its approach as regards CLLD across the CSF Funds indicating the main challenges, objectives and priorities, the type of territories, the role of local action groups and of different CSF Funds and coordination mechanisms..

Cyprus should also foresee preparatory support for local actors. The proportion of funds devoted to LEADER should be further enhanced.

## **B. ASSESSMENT OF FUNDING NEEDS IN RELATION TO THEMATIC OBJECTIVES**

The following sections present the Commission Services' view on priorities for CSF Funds for Cyprus. They have been developed on the basis of the Commission services in depth country analysis<sup>12</sup> and selected from the 11 thematic objectives, which stem from Common Provision Regulation<sup>13</sup> for CSF Funds adopted by the Commission on 6 October 2011. These 11 thematic objectives translate the Europe 2020 strategy into operational objectives to be supported by the CSF Funds.

The 11 thematic objectives are common for cohesion, rural development and the maritime and fisheries policies; they ensure that interventions under these policies are aligned towards the achievement of joint objectives, those of Europe 2020. They provide a menu of possible funding objectives for the whole of the EU. According to each Member State's specific situation a more focussed selection is then made in agreement with the national authorities. The challenges and funding areas for Cyprus correspond to the following thematic objectives:

<b>Funding priorities</b>	<b>Related thematic objectives</b>
Innovation-friendly business environment	Strengthening research, technological development and innovation; Enhancing access to, and use and quality of, information and communication technologies (partly); Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and the fisheries and aquaculture sector;
Promoting environment-friendly and efficient use of resources, and climate change resilience for sustainable growth and jobs	Promoting sustainable transport and removing bottlenecks in key network infrastructure; Supporting the shift towards a low-carbon economy in all sectors; Promoting climate change adaptation, risk prevention and management; Protecting the environment and promoting resource efficiency
Increasing labour market participation through improved employment, social, education and skills development policies	Promoting employment and supporting labour mobility; Promoting social inclusion and combating poverty; Investing in education, skills and lifelong learning;

<sup>12</sup> SWD(2012) 152 final; website: [http://ec.europa.eu/europe2020/pdf/nd/swd2012\\_cyprus\\_en.pdf](http://ec.europa.eu/europe2020/pdf/nd/swd2012_cyprus_en.pdf)

<sup>13</sup> COM(2011)615 final/2; [http://ec.europa.eu/regional\\_policy/what/future/proposals\\_2014\\_2020\\_en.cfm#1](http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm#1)

## FUNDING PRIORITY: INNOVATION-FRIENDLY BUSINESS ENVIRONMENT

The objectives of the funding priority '**Innovation-friendly business environment**' will be achieved primarily by thematic objectives 'Strengthening research, technological development and innovation', 'Enhancing access to, and use and quality of, information and communication technologies (partly)' and 'Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector'.

<b>Thematic objective: Strengthening research, technological development and innovation</b>
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Europe 2020 headline target	Current situation	National 2020 target in the NRP
3% of expenditure on research and development	0.5% (2010)	0.5%

**From 2012 Country Specific Recommendation n. 5:**

- Take appropriate policy measures on the demand side to stimulate business innovation.

The overall policy framework for this thematic objective is the one identified in the European Research Area (ERA) Commission Communication of July 17, 2012<sup>14</sup>. The thematic objective should be implemented in line with an innovation strategy framework for smart specialisation<sup>15</sup> elaborated in close consultation with the private sector and relevant national, international and regional R&I actors. For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Enhancing research and innovation infrastructure (R&I) and capacities to develop R&I excellence and promoting centres of competence, in particular those of European interest
  - Developing funding mechanisms that encourage investment in innovation, including the development of research and innovation clusters nationally and across borders.
  - Prioritising research fields and focus on a small number of fields (smart specialisation e.g. environment, energy, climate change, health) and link with ICT, which is the highest R&D performing sector in Cyprus.
  - Promoting cooperation and networking with foreign researchers and institutions.
  - Establish ESFRI (European Strategy Forum on Research Infrastructures) Roadmap Projects or smaller national partner facilities (research infrastructures)
  - Reinforce the research and innovation potential of the country in the field of low carbon energy technologies by aligning research and innovation strategies on energy with the efforts deployed under the Union's Strategic Energy technologies Plan (SET Plan).
2. Enhancing the exchange of experiences with its neighbours. Promoting business R&I investment, product and service development, technology transfer, social innovation

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<sup>14</sup> COM(2012)392 final

<sup>15</sup> For more information on the concept please see: Smart Specialisation Platform for the Regions (JRC-IPTS/S3): <http://ipts.jrc.ec.europa.eu/activities/research-and-innovation/s3platform.cfm>

and public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation

- Stimulating the enterprises' internal capacity to develop innovation-related activities.
  - Opportunities to harness the untapped potential of Cyprus' seas and coasts in line with the Blue Growth initiative, on an ecosystem based approach, particularly in areas such as aquaculture, maritime, coastal and cruise tourism, marine mineral resources and blue biotechnology.
  - Improving accessibility, diversification and innovation of tourism products and services.
  - Ensuring critical resource supply for the marine bio-tech and Information Technology industries through targeted projects for the exploitation and mining of minerals from the sea floor, whilst safeguarding biodiversity (diversity of marine life).
  - Fostering the development of maritime clusters as well as structural cooperation between cluster organisations and knowledge institutions in the maritime sector benefiting from international linkages and know-how.
3. Foster innovation and the knowledge base in rural areas and strengthen the links between agriculture/forestry and R&D by:
- Strengthening the co-operation between universities and research institutes and the agricultural and agro-industrial sectors nationally and across borders, thus ensuring the transfer and uptake of knowledge and innovation findings; promote training of farmers on R&D and innovation findings.
  - Taking advantage of the possibilities provided by the European Innovation Partnership for agricultural productivity and sustainability in order to build bridges between cutting-edge research knowledge and technology and farmers, business and advisory services.

Actions under this thematic objective should be coordinated with actions under thematic objectives " Enhancing access to and, use and quality of information and communication technologies"; "Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector"; "Supporting the shift towards a low-carbon economy in all sectors"; "Promoting climate change adaptation, risk prevention and management"; "Protecting the environment and promoting resource efficiency"; "Promoting employment and supporting labour mobility"; "Investing in education, skills and lifelong learning".

Synergies should be sought with Horizon 2020 activities in the area of Joint programming initiatives to which Cyprus participates or may participate in the future, as well as in the area of Public-Public Partnership (ERA Nets and Article 185 initiatives)

<b>Thematic objective: Enhancing access to and, use and quality of information and communication technologies</b>
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For this thematic objective the funding priority translates into the following priorities and specific objectives, with the need to act both nationally and in cooperation with neighbours (exchange of good practice; common cooperative approaches):

1. Developing ICT products and services, e-commerce and enhancing demand for ICT
  - Promoting electronic services on both the supply and demand sides.

2. Strengthening ICT applications for e-government, e-learning, e-inclusion and e-health
  - Development at national level of the e-signature and electronic services (e-health, e-learning, e-education, e-culture/tourism, e-procurement, e-justice).
  - Support Cypriot maritime authorities and functions to ensure smooth and effective information sharing and join EU surveillance initiative of Common Information Sharing Environment.
  - Extend knowledge of the sea to increase the efficiency of marine activities and spur innovation in marine and maritime data use and collection.
3. Develop ICT applications and services supporting the sustainability and competitiveness of rural areas
  - Ensuring electronic services in rural areas related to agriculture and rural development and environmental management (free access internet points in rural areas, "one-stop-shop" for agro-tourism, SMEs, traditional products, dissemination of research results and innovative practices and technologies in agriculture, forestry and rural development, environmental management etc.).
  - Providing training and advisory services for farmers, forest and environmental managers and rural entrepreneurs in the ICT field.

Actions under this thematic objective should be coordinated with actions under thematic objectives "Strengthening research, technological development and innovation"; "Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector"; "Investing in education, skills and lifelong learning".

**Thematic objective: Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector**

**From 2012 Country Specific Recommendation n. 7:**

- Improve competitiveness including through the reform of the system of wage indexation, in consultation with social partners and in line with national practices, to better reflect productivity developments. Take steps to diversify the structure of the economy.

The thematic objective should be implemented in line with innovation strategy framework for smart specialisation. For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific and broader regional challenges to be supported by the CSF funds:

1. Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, in both the national and international context
  - Improve SME access to finance, primarily through financial instruments.
  - Support the setting up and modernisation of SMEs, including in cultural sector, as well as strengthening their competitiveness with special attention on e-commerce.
  - Integration of primary producers into the food chain, through support for quality schemes, promotion in local markets, horizontal and vertical cooperation, new marketing and networking opportunities, the development of short supply chains and the setting up of producer groups.
  - For SMEs in the fisheries and maritime sector, there is need for promoting entrepreneurship, providing access to capital, developing new products and

processes, adoption of improved technologies, improved management and organization systems in the supply chain, as well as improvement of market organization to drive competitiveness and value adding capability.

- Boosting the development of aquaculture and the development of coastal fisheries areas through measures aiming at the diversification of economic and social activities and the enhancing of the efficiency of the fisheries sector.
2. Enhancing the competitiveness of SMEs in the agricultural sector and business development in rural areas
- Address specific issues of entrepreneurship in the agricultural sector, inter alia, restructuring of farms facing major structural problems, integration of primary producers into the food chain through support for quality schemes, creation of short supply chains and promotion in local markets, setting-up of producer groups, horizontal and vertical cooperation, new marketing and networking opportunities.
  - Encourage youth and female entrepreneurship in rural areas including aid for setting up of young farmers to achieve generational renewal in the agricultural sector.
  - Provide tools to farmers for the effective management of economic and environmental risks, including animal and plant diseases, and support investments in preventive and restoration actions.
  - Encourage diversification of non-agricultural activities and business development in rural areas, as part of the local development strategies.
  - Harness the potential of the bio-economy sectors in order to maintain and stimulate growth and jobs, thereby also paving the way to a more innovative, resource efficient society.

Actions under this thematic objective should be coordinated with actions under thematic objectives "Strengthening research, technological development and innovation"; "Enhancing access to and, use and quality of information and communication technologies"; "Promoting employment and supporting labour mobility"; "Investing in education, skills and lifelong learning".

**FUNDING PRIORITY: PROMOTING ENVIRONMENT-FRIENDLY AND EFFICIENT USE OF RESOURCES, AND CLIMATE CHANGE RESILIENCE FOR SUSTAINABLE GROWTH AND JOBS**

The objectives of the funding priority '**Promoting environment-friendly and efficient use of resources, and climate change resilience for sustainable growth and jobs**' will be achieved primarily by thematic objectives 'Promoting sustainable transport and removing bottlenecks in key network infrastructure', 'Supporting the shift towards a low-carbon economy in all sectors', 'Promoting climate change adaptation, risk prevention and management' and 'Protecting the environment and promoting resource efficiency'.

**Thematic objective: Promoting sustainable transport and removing bottlenecks in key network infrastructure**

For this thematic objective the funding priority translates into the following priorities and specific objectives, within both the national and broader international context:

1. Developing environment-friendly and low-carbon transport systems and promoting sustainable urban mobility
  - Development of a sustainable urban transport system through the promotion of environment-friendly and low-carbon light transport means.

- Proceeding with the implementation of parts of the urban mobility master-plan of Nicosia.
2. Enhancing regional mobility through connecting secondary and tertiary node to TEN-T infrastructure
    - Promotion of regular Ro-Ro ferry connections with EU countries (mainly Greece and Italy) and Motorways of the Sea in general, in synergy with the Connecting Europe Facility.
    - Supporting investments in infrastructures such as berthing capacity, port facilities and systems to deploy VTMIS and the single maritime windows in support of the development of multimodal and maritime connectivity.

Actions under this thematic objective should be coordinated with actions under thematic objectives "Supporting the shift towards a low-carbon economy in all sectors"; "Protecting the environment and promoting resource efficiency".

<b>Thematic objective: Supporting the shift towards a low-carbon economy in all sectors</b>
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Europe 2020 headline target	Current situation	National 2020 target in the NRP
20% greenhouse gas (GHG) emissions reduction compared to 1990	-19% (2020 projected emissions compared to 2005) -5% (2010 emissions compared to 2005)	-5% (national binding target for non-ETS sectors compared to 2005)
20% of energy from consumption renewables	5.7% (2010)	13%
20% increase in energy efficiency	-3.6% (2010)	-14.3%

For this thematic objective the funding priority translates into the following priorities and specific objectives, drawing also on transnational exchange of good practice and linkages:

1. Reduction of greenhouse gas emissions (GHG)
  - Promote operations to reduce air pollutants in particular ammonia emissions from agriculture.
  - Increase carbon capture by forests through targeted afforestation measures and sustainable management of new and existing forests; priority should be given to forest fire prevention and reforestation of degraded/de-vegetated areas (due to fires or overgrazing).
  - Reducing nitrous oxide and methane emissions from agriculture through lower use of nitrogen fertilisers and pesticides as well as improved livestock management practices for the treatment of animal wastes.
  - Enhancing carbon sequestration and emission reduction in agriculture and forestry through forest planting and maintenance and climate-friendly management of new and existing forests.
2. Promoting the production and distribution of renewable energy sources
  - Support schemes to promote use of renewable energy and energy efficiency.

- Facilitate and stimulate the supply and use of renewable sources of energy such as solar, aeolian, biogas and biomass energy in rural households and farms; the combination of biogas and natural gas could be exploited in order to improve the efficiency and sustainability of these resources.
3. Promoting energy efficiency and renewable energy use in SMEs
    - Introducing measures to promote energy efficiency and renewable energy use in SMEs, including in agriculture and food processing sectors with care for limiting the impacts on the environment especially in forest and agriculture areas.
  4. Supporting energy efficiency and renewable energy use in public infrastructures and in the housing sector
    - Support the energy self-sufficiency of all public buildings and private buildings through measures to promote renewable energy use and energy efficiency, including the deployment of smart meters.

Actions under this thematic objective should be coordinated with actions under thematic objectives "Strengthening research, technological development and innovation"; "Promoting sustainable transport and removing bottlenecks in key network infrastructure"; "Promoting climate change adaptation, risk prevention and management"; "Protecting the environment and promoting resource efficiency"; "Promoting employment and supporting labour mobility"; "Investing in education, skills and lifelong learning".

**Thematic objective: Promoting climate change adaptation, risk prevention and management**

This thematic objective is translated into the following priorities and specific objectives, to be developed in the broader regional cooperative context:

1. Promoting investment to address specific risks, ensuring disaster resilience and developing disaster management systems.
  - Exploring the possibility for desalination plants that operate using renewable energy sources, with a view to dealing with the drought problem.
  - Reducing uncertainty on the impacts of climate change through improving marine and coastal observation systems. Co-operation at sea-basin level should be sought to increase preparedness and resilience.
  - Contingency plans, national and across borders, to mitigate or tackle the risks of incidents involving offshore drilling platforms as well as LNG regasification and bunkering terminals.
2. Improve sustainable water and soil management in agriculture and forestry
  - Elaborating environmental measures for climate change mitigation and adaptation as well as for the protection of soil from erosion, strengthening water and soil protecting function of forests.
  - Improve soil management through support for practices which prevent soil degradation, landslides and enhance natural carbon sequestration.
  - Support for the dissemination of information relating to climate change adaptation through farm advisory services and other actions.
  - Reducing nitrous oxide and methane emissions from agriculture through lower use of nitrogen fertilisers and pesticides as well as improved livestock management practices for the treatment of animal wastes.

- Enhancing carbon sequestration and emission reduction in agriculture and forestry through forest planting and maintenance and climate-friendly management of new and existing forests.

Actions under this thematic objective should be coordinated with actions under thematic objectives "Strengthening research, technological development and innovation"; "Supporting the shift towards a low-carbon economy in all sectors"; "Protecting the environment and promoting resource efficiency"; "Investing in education, skills and lifelong learning".

<p><b>Thematic objective: Protecting the environment and promoting resource efficiency</b></p>
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This thematic objective is translated into the following priorities and specific objectives, to be facilitated in both the national and broader regional/international perspectives:

1. Addressing the significant needs for investment in the waste sector to meet the requirements of the environmental acquis
  - Closure and rehabilitation of the unregulated landfills.
  - Use of innovative actions integrating new technologies in order to achieve the environmental policy targets, in accordance with the waste management hierarchy.
  - Measures promoting the selection, recycling and sorting of the solid waste.
2. Addressing the significant needs for investment in the water sector to meet the requirements of the environmental acquis
  - Waste water: support the completion of the infrastructure and processes to provide waste water treatment services and promote the reuse of treated waste water and sludge.
3. Protecting the marine environment
  - Supporting the sustainable exploitation of marine waters and coastal zones by implementing the Marine Strategy Framework Directive and introducing a Maritime Spatial Planning (MSP)/ Integrated Coastal Zone Management (ICZM), including related capacity-building activities. Supporting measures against pollution of the marine environment.
  - Light infrastructure pertaining to berth electricity facilities in ports.
  - Implementation of the reformed Common Fisheries Policy (CFP) and the development of sustainable coastal fishing communities (i.e. fishing at Maximum Sustainable Yield (MSY), eliminating discards, improvement of data collection for resource conservation purposes and strengthening the control of the implementation of CFP rules and effective reduction of overcapacity). Promotion and support of aquaculture with high level environmental protection.
4. Action to improve the urban environment, including regeneration of brownfield sites and reduction of air pollution
  - Continuing with the urban regeneration projects in view of making urban centres attractive destinations for job creation. They could include "innovative" elements (e.g. integrating energy efficiency measures, subsidy schemes promoting environmentally friendly, low carbon transport systems, urban mobility and projects in towns and surrounding areas reducing emissions from especially commercial and residential heating and traffic).

5. Restoring, preserving and enhancing ecosystems dependent on agriculture and forestry, including in NATURA 2000 sites, High Natural Value Farmland Area and green infrastructures. Support for NATURA areas should be based on the Prioritised Action Framework.

- Increase efficiency in the use of water by agriculture and provide advice on water efficiency. Introduce crops with lower water needs and more resilient to water scarcity. Reduction of over abstraction including irrigation which represents a significant pressure on the water resource.
- Improve water quality. Measures to reduce the significant pressure due to nitrates & phosphates (diffuse pollution), and plant protection products (diffuse and/or point source pollution), and eutrophication in marine and coastal areas. This should include the construction of manure storage vessels.
- Improve soil quality and contribute to the protection of soil from erosion, desertification, compaction, salinization, soil sealing, and loss of organic matter.
- Promote environmentally sound farming systems including organic farming, crop rotation, targeted selection of crops in order to prevent soil degradation; establish and/or maintain wildlife zones in farm and/or forest areas, ensuring that investments support sustainable management; focus on the conservation of endangered crop varieties and breeds.
- Promote innovative policies and initiatives aimed at the preservation and valorisation of cultural and natural heritage with a focus on the exploitation and management of these non-renewable resources and with a view to sustainable tourism, in the framework of integrated strategies for development.
- Restore, preserve and enhance ecosystems biodiversity and the state of the Cypriot landscapes, through more targeted agro-environmental schemes including in NATURA 2000 and High Natural Value Farmland Area; reward collective action so that these ecosystems could deliver environmental public goods.

Actions under this thematic objective should be coordinated with actions under thematic objectives "Strengthening research, technological development and innovation"; "Promoting sustainable transport and removing bottlenecks in key network infrastructure"; "Supporting the shift towards a low-carbon economy in all sectors"; "Promoting climate change adaptation, risk prevention and management"; "Investing in education, skills and lifelong learning".

**FUNDING PRIORITY: INCREASING LABOUR MARKET PARTICIPATION THROUGH IMPROVED EMPLOYMENT, SOCIAL, EDUCATION AND SKILLS DEVELOPMENT POLICIES**

The objectives of the funding priority '**Increasing labour market participation through improved employment, social, education and skills development policies**' will be achieved primarily by thematic objectives 'Promoting employment and supporting labour mobility', 'Promoting social inclusion and combating poverty' and 'Investing in education, skills and lifelong learning'.

**Thematic objective: Promoting employment and supporting labour mobility**

Europe 2020 headline target	Current situation	National 2020 target in the NRP
75% of the population aged 20-64 should be employed	73.8% (2011)	75-77%
<b>2012 Country Specific Recommendations n. 5 and n. 3:</b>		
<ul style="list-style-type: none"><li>– Improve the skills of the workforce to reinforce their occupational mobility towards activities of high growth and high value added. Take further measures to address youth unemployment, with emphasis on work placements in companies and promotion of self-employment. Take appropriate policy measures on the demand side to stimulate business innovation.</li><li>– Further improve the long-term sustainability and adequacy of the pensions system and address the high at-risk-of-poverty rate for the elderly. Ensure an increase in the effective retirement age, including through aligning the statutory retirement age with the increase in life expectancy.</li></ul>		

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Access to employment for job-seekers and inactive people, including local employment initiatives and support for labour mobility
  - Increase the employment rate and improve the employability of the unemployed and inactive, especially women, older workers and young people, while combating undeclared work.
2. Self-employment, entrepreneurship and business creation
  - Support the self-employment, entrepreneurship and business creation of unemployed and inactive persons, focusing primarily on young persons and women.
3. Facilitating diversification and opportunities for marine and maritime sustainable growth
  - With the general transition towards new skills and jobs, measures to enhance mobility between sectors in the maritime economy and higher levels of qualifications, from fisheries and shipbuilding towards marine biotechnology, maritime tourism, aquaculture, etc.
  - Actions to secure maritime employment and blue growth through the enhancement of higher levels of qualifications across sea-related traditional and emerging sectors. Education, lifelong learning programmes and related initiatives should work towards a better match of maritime skills and maritime industry demands and the offer of re-training alternatives.
  - Promotion of local integrated development strategies and initiatives, including the diversification of activities and the creation of alternative jobs for fishermen. The potential use of Community led local development for fostering job creation in rural and coastal areas should be assessed on the basis of the existing experience based on Leader and Axis 4 of the EFF.

#### 4. Promoting employment and supporting labour mobility in rural areas

- Targeted measures to stimulate setting-up of young farmers, business start-ups, in the agro-food/forestry sector as well as up-skilling, job creation and entrepreneurship in rural areas, including diversification into non-agricultural activities.
- Fostering community-led local development (LEADER local development strategies) and investments in small-scale infrastructure in rural areas. Local development strategies should contribute to the diversification into non-agricultural activities and the creation of job opportunities in rural areas.

Actions under this thematic objective should be coordinated with actions under thematic objectives "Strengthening research, technological development and innovation"; "Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector"; "Supporting the shift towards a low-carbon economy in all sectors"; "Promoting social inclusion and combating poverty"; "Investing in education, skills and lifelong learning".

Synergies should be sought with the "Erasmus for all" programme, the "Leonardo da Vinci programme", with horizontal support actions such as "Your first EURES job", and with the Programme for Social Change and Innovation.

<b>Thematic objective: Promoting social inclusion and combating poverty</b>		
<b>Europe 2020 headline target</b>	<b>Current situation</b>	<b>National 2020 target in the NRP</b>
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%
<b>2012 Country Specific Recommendation n. 4:</b>		
Complete and implement the national healthcare system without delay, on the basis of a roadmap, which should ensure its financial sustainability while providing universal coverage.		

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

##### 1. Active inclusion

- Support the modernisation/reform of healthcare and long-term care systems to improve quality and efficiency of delivery while reducing inequalities.
- Reinforce measures to help those at risk of poverty or exclusion (immigrants, public assistance recipients, single parents, disabled) to (re-)enter the labour market.
- Support equal access to good quality general and vocational education and training for children with a migrant background.
- Support the implementation of the reform of the public assistance system to improve its efficiency and its links to ALMP.

## 2. Prevention of social exclusion in rural areas

- Prevent social exclusion by development of basic services and small-scale infrastructure in rural areas, especially in the most deprived areas, with particular focus on healthcare and the specific needs of the disadvantaged/vulnerable groups. In addition, Leader can contribute to balanced territorial development, social inclusion and reducing poverty via the creation of adapted local strategies by a bottom up approach and via its implementation.

Actions under this thematic objective should be coordinated with actions under thematic objectives "Promoting employment and supporting labour mobility"; "Investing in education, skills and lifelong learning".

Synergies with the Asylum and Migration Fund need to be established.

<b>Thematic objective: Investing in education, skills and lifelong learning</b>		
<b>Europe 2020 headline target</b>	<b>Current situation</b>	<b>National 2020 target in the NRP</b>
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%
<b>2012 Country Specific Recommendation n. 5:</b>		
Improve the skills of the workforce to reinforce their occupational mobility towards activities of high growth and high value added. Take further measures to address youth unemployment, with emphasis on work placements in companies and promotion of self-employment. Take appropriate policy measures on the demand side to stimulate business innovation.		

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Enhancing access to lifelong learning, upgrading the skills and competences of the workforce and increasing the labour market relevance of education and training systems
  - Improve the skills of the workforce to reinforce their occupational mobility towards activities of high growth and high value added (business services, health and social sectors, digital economy, green economy).
  - Reinforce vocational pathways and promote the attractiveness of vocational education and training and apprenticeship at all levels of the post compulsory education system.
  - Build bridges between the world of education and the world of work, including through in-company traineeships and on-the-job learning, and by stimulating business innovation and entrepreneurship.
  - Increase participation in lifelong learning, especially of the low-skilled, older people, the unemployed.
  - Develop and implement an integrated system of lifelong guidance for both students and the workforce.

## 2. Investing in education, skills and lifelong learning in rural areas

- Support to the lifelong learning and up-skilling of farmers through vocational training and skills acquisition in new technologies specific to the agriculture and forestry.
- Support the transfer of knowledge, in particular on good farm and forestry management practice.
- Support to the lifelong learning and up-skilling of the rural population through trainings focused activities and skills permitting diversification (including entrepreneurship) and responding to labour market needs. The trainings provided should aim to improve the match between skills supply and labour force requirements.

Actions under this thematic objective should be coordinated with actions under thematic objectives "Strengthening research, technological development and innovation"; "Enhancing access to and, use and quality of information and communication technologies"; "Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector"; "Supporting the shift towards a low-carbon economy in all sectors"; "Promoting climate change adaptation, risk prevention and management"; "Protecting the environment and promoting resource efficiency"; "Promoting employment and supporting labour mobility"; "Promoting social inclusion and combating poverty".

Synergies should be ensured with the "Leonardo da Vinci" programme, in particular as concerns cooperation projects related to technical and vocational education and training and adult learning.

### C. ADMINISTRATIVE ARRANGEMENTS

#### **General assessment of administrative capacities**

Over the past years, Cyprus has demonstrated administrative capacity to manage and implement the CSF Funds. In general, the current smooth implementation of the programmes in Cyprus and the proactive reaction of the authorities in tackling any delays and problems indicate a high quality administrative capacity. It is expected that the new programming period will benefit from the same quality of administrative operation. For the ESF, there are concerns about the rather slow decision-making process in times when swift decisions would be necessary to respond to challenges in a timely manner.

The Management and Control System in Cyprus for the period 2007-2013 is functioning well. As regards particularly ERDF, the DG Regional Policy concluded on 1 June 2012 that it could rely principally for its own assurance on the opinion of the Cypriot audit authority for the effective functioning of the system (Article 73 of Reg. (EC) N° 1083/2006). Therefore, the management and control systems for 2014-2020 should build on the positive achievements in the 2007-2013 period.

Cyprus is encouraged to reflect on how sound financial management could be further enhanced by the application of simplification, better coordination of funds and programmes and by cutting administrative costs and burden for the beneficiaries and, for cohesion policy, by using further e-Cohesion possibilities.

#### **Project delivery**

The Cypriot authorities have extensive experience in implementing major infrastructure projects but less for "smooth" actions. Now Cyprus will have to focus on sectors which

are currently lagging behind (e.g. R&D actions, innovation). There is a risk of delays and bottlenecks in the implementation of such actions. There is therefore a need to involve in the partnership and smart specialisation process the authorities, agencies and other bodies involved in or concerned by research and innovation policies (regional offices of RTD-I ministries, research organisations and universities).

### **Administrative burden**

The Managing Authority and the Intermediate Bodies in Cyprus need a) to ensure that beneficiaries take appropriate ownership of interventions, and b) to monitor closely all developments and step up to provide support and guidance when needed.

For the ESF, there is scope to improve efficiency at the level of beneficiaries, as well as communication and synergies between various policy departments. Care should be taken that the projected reduction of the public sector staff does not impact negatively on the future smooth implementation of the programmes in Cyprus. In particular, there are concerns about the limited staff allocation of the Intermediate Body of Cat. IV (ESF Unit, Ministry of Labour and Social Insurance). There are also concerns about the capacity of Intermediate Bodies of Cat. II to efficiently manage grant schemes.

In the area of rural development, Cyprus should ensure an effective and efficient control environment and confirm the operational ability of its control systems.

Beneficiaries could benefit from a well-developed system of simplified cost options. The Managing Authority should start working in this direction as early as possible.

Very precise and clear guidelines about implementation should be provided to beneficiaries. This will avoid confusion and help with time management.

### **Partnership**

Active participation of relevant partners at each stage of the programming cycle improves the quality of implementation.

Therefore, Cyprus needs to reinforce consultation and take measures for a more systematic involvement of social and environmental partners and stakeholders, including during the implementation phase of projects.

There is also a need to reinforce consultation with stakeholders that are not project promoters. Particular attention needs to be given to the involvement of social partners for developing lifelong learning pathways.

The recent first implementation of Leader and the experience in establishing Local Action Groups as well as in implementing their strategy should be further built upon.

### **Monitoring and evaluation**

Monitoring and evaluation system needs to be adjusted to the requirements of the new regulations (in particular performance framework and result orientation).

In particular, the Cypriot authorities will need to further develop the existing IT systems in order to comply with the regulation requirement stating that all exchanges of information between beneficiaries and authorities responsible for management and control of programmes can be carried out solely by electronic data exchange. Moreover, the timely data input in the MIS by the beneficiaries will increase the level of the efficient monitoring of the Programmes in Cyprus.