

Summary conclusions of the joint Annual Review Meeting on progress of implementation of the Partnership Agreement 2014-2020 in Cyprus

Nicosia, 13 December 2017

On 13 December 2017 took place in Nicosia the joint Annual Review Meeting in accordance to Article 51 (2) of the CPR, covering all programmes and ESI Funds in Cyprus and taking account of the progress report on implementation of the Partnership Agreement as at 31 December 2016, following Article 52 of the CPR. The meeting was co-chaired by DG REGIO Director Mr Rudolf Niessler and DG EPCD Director Mr Costas Iacovou. Representatives of DG EMPL, DG MARE and DG REGIO also participated in the meeting.

Cyprus presented the **state of play of implementation of the Partnership Agreement by 31 December 2016**.

The initial pace of implementation was very slow at the end of 2016 for all ESI Funds (for ERDF in particular, no payment claim had been submitted to the Commission and only EUR 2.6 million had been declared for the Cohesion Fund). Around 60 calls of proposals had been launched by the end of 2016 whilst the activation of all programmes was only 32%.

According to Cyprus, this was mostly due to the new regulations and guidelines for the management and implementation of ESI Funds in the programming period 2014-2020, which implied many changes at administrative level (modification of the Management and Control System, including the designation of authorities/agreements with the intermediate bodies, reformulation of the IT system for the management of the ESIFs, training to all bodies involved in the management and implementation of the Funds etc.). At the same time the closure of the programming period 2007-2013 was a priority for both the Managing Authority and the Intermediate bodies, thus most of the people were engaged in this task till early 2017.

Active monitoring measures had to be taken to speed up execution and an **action plan** was prepared for 2017, which included adapting legislation to contract new staff as well as regular briefings for the Council of Ministers and close monitoring of Intermediate bodies and Ministries.

Fortunately this action plan has borne fruits and the situation at end of 2017 has improved considerably, in relation to the end of 2016 and to what was reported in the Annual Implementation report 2016.

The still pending actions regarding implementation are expected to be taken in the beginning of 2018, in particular as regards the remaining agreements with IBs (the Research Promotion Foundation as well as for agro-tourism issues).

The Cypriot authorities suggested that in the next programming period the PA should be of a more strategic nature, a document of guidance setting overall objectives, with thematic

concentration and ring fencing of funds, but it should not be necessary to change it whenever the Operational Programmes are modified.

Both the Commission as well as the Cypriot authorities agreed that the initial strategy and priorities set up in the PA for the 2014-2020 period remain valid, despite the changes and challenges brought by the financial crisis and that there is no need for major changes to the programmes.

After the crisis, the economy is now growing by almost 4% and is now creating jobs (Mr Iacovou claimed some 15.000 jobs were already created in 2017); youth unemployment is now at 25%, coming down from its peak of 39%. However, although the challenging fields of youth and long-term unemployment are significantly improving, national EU2020 targets for increasing employment rate and reducing poverty and social exclusion are far from achieved. Additionally, it was highlighted that the percentage of EU structural funds in public financing is higher than before the crisis (27% compared with 10% before the crisis). EU funding had been very useful to reactivate the construction sector (namely with energy efficiency upgrading) which is now expanding.

Cyprus considers that **the ESI Funds provide essential support to follow the Country Specific recommendations**. They provide support to improve efficiency of the public sector, regarding modernisation and capacity building of the public administration, and to support certain reforms (of the judicial system, health system, public sector efficiency). Furthermore, the ESF contributes to the reinforcement of public employment services, the reform of the education system as well as to the reform of the Public administration.

As regards the **Europe 2020 key targets**, the Commission mentioned that many of the targets set were not very ambitious, and Cyprus has already reached most of them or was about to. Particularly low targets had been set for "Expenditure on R&D (% GDP)" as well as regarding the "share of renewable energy in gross final energy consumption" which is however still far from being reached (only 9.4 % for a target of 13%). However, data remains worrying regarding people at the risk of poverty and social exclusion, as no progress is reported (27,8% in 2013 and 27,7% in 2016).

Cyprus considers that the **Ex-Ante Conditionalities** are a good instrument and provide support for Cypriot authorities to move things forward internally. All ExACs are now fulfilled except 6.2. (solid waste). Mr Iacovou recognised that it is important to have the framework to implement policies but its fulfilment should not be linked with the approval of legal acts by the House of Representatives.

As regards the action plan for this ExAC, criterion 4 (concerning the measures necessary to reach the 2020 waste re-use and recycling targets as set out in Article 11(2) of Directive 2008/98/EC) is still pending. Mr Iacovou announced that the regulation for the recycling and re-use of non-packaging paper (biggest stream for recycling) was approved by the House of Representatives on the 1st of December 2017. Cyprus has already uploaded, as requested, the law in SFC, after the meeting. However, Mr Iacovou informed that it would not be possible to adopt the Regulations for entrusting specific responsibilities to local authorities in the rational

management of municipal waste before March 2018, but after the Presidential elections, as the House of Representatives is closed during the campaign. Mr Iacovou underlined that the Government took the necessary measures for having the strategic policy framework in place (Waste Management Plans for all streams and Waste Prevention Programme), whilst at the same time a series of projects contributing to reuse and recycling targets are under implementation, showing the commitment of the Government in this field. There are also agreements between government and municipalities for the reduction of waste.

Mr Niessler said that DG REGIO has decided to send a follow-up letter instead of a pre-suspension one but urged the Cypriot authorities to adopt the necessary legislation shortly in order to avoid any eventual suspension of payments.

Furthermore, DG EMPL recommended that the **youth guarantee implementation plan 2014-2017** is also updated to match the new allocation of YEI funds.

Cyprus informed about the **mechanisms to ensure coordination between the implementation of the funds** and namely to avoid double funding, which seem to be working.

As regards **Sustainable urban development (SUD)**, Cyprus confirmed that projects under SUD are selected by the urban authorities. Projects implemented in Paphos have already been finished with success, while those of the other cities are delayed and maybe some budget reductions have to be foreseen. In addition, DG EPCD presented complementarities in the field of SUD between ERDF and CF for infrastructure projects, as well as between ERDF and ESF for measures/projects focused on deprived communities.

Energy efficiency for central government's buildings is financed under the ERDF/CF OP while other public buildings are sometimes financed under Interreg; for SMEs and agricultural businesses, schemes are evaluated by the Ministry of Energy; by registration number of any firm, it is possible to identify if there is any double funding (the MIS has a control when payments are submitted through the system). Otherwise beneficiaries have to send documents.

As regards working with the **SRSS**, another directorate under the DG EPCD coordinates the needs for TA and consults the Managing Authority before sending the proposals to the SRSS. However it is the SRSS who chooses the consultants and there have sometimes been bad experiences with proposed consultants.

DG EMPL presented the general policy content of the European Pillar of Social Rights and its relevance in addressing citizens' needs, and the Cypriot authorities gave examples of projects relating to the **European Pillar of Social Rights**. These were structured around the three chapters, with a total of 20 allocated principles. The authorities confirmed that the ESF is the main funding instrument to these three chapters, but other ESI Funds also contribute to these principles.

Mr Niessler made a short presentation of the **7th Cohesion report** of 2017. Mr Iacovou considered that Cyprus is in a peculiar situation: while it is a net contributor, cohesion policy

is of particular interest for the country and thus a priority. Cyprus considers that all ministries have to be coordinated and support a strong cohesion policy. As regards **co-financing rates**, Cyprus considers that in the years of crisis, a rate of 85% (plus the top up of 10%) worked quite well and was essential. In this respect, the Commission should take into consideration geographical characteristics and specific situations (e.g. insularity). Mr Iacovou said that if proposals to reduce co-financing rate to 50% are made, Cyprus would then suggest a rate below 50% with the possibility to apply national rules.

Cyprus also considers absolutely essential to **harmonise the rules for research projects** between the ESI Funds and the Horizon programme.

As regards a possible **N+2 rule in the future**, Cyprus has some reservations because it is considered too restrictive, taking into account that sometimes projects need time to mature and that it could lead to have more phased projects. N+3 gives the opportunity to plan bigger projects.

As regards **simplification**, Cyprus considers that it is important not to try to change things that are in place, but to remove those issues that do/did not work or are not essential for the management and implementation of the Funds.

Performance framework, for instance, is a good starting point, but there are too many indicators, and more flexibility is needed.

As regards the **state of play of the ERDF/CF OP "Competitiveness and sustainable development"**, CY presented the situation regarding the implementation of the OP.

The Performance reserve milestones for end of 2018 are expected to be reached, except the output indicator CO27 (Private Investments matching public support in innovation and R&D projects), for which there is a reservation on whether it will be possible to attain it (EUR 5.500.000).

In relation to **N+3**, only 34% of the ERDF target for 2017 was certified to the Commission, but it is expected to certify more than the necessary before end of 2017, to cover the N+3 target. € 72,9 million are already in the MIS, which represents 102% of target. For the Cohesion Fund, € 38,2 million have already been certified which represents 102% of the target. Additional EUR 7 million are in the MIS and expected to be declared by the end 2017.

In any case, with the new decommitment methodology approved by the Commission, the total amount to be decommitted for an OP will be calculated at the level of the OP (including all funds) and therefore the sum of the certified amounts for both the ERDF and CF will be enough to cover (jointly) the 2017 target.

Relative to the Financial Instruments, Cyprus informed that they will be launched for 2 areas with a total of € 40 million: SMEs (€ 10 million) and Energy efficiency (€ 30 million), following the recommendations of the ex-ante study, which had been finalised. For Energy

efficiency the study proposed the establishment of a Funded Loan Instrument for Energy Efficiency and Renewable Energy investments addressed both to private (business and households) and public sectors (loans with lower interest rates and an extended payback period). The FIs are expected to be in place by the end of 2018, due to deadlines with public calls etc. The Commission considered that the FIs should be in place as early as possible and that end of 2018 is too late.

As regards the **state of play of the ESF/FEAD OPs**, the situation is as follows:

The Managing Authority stated that the ESF/YEI and the FEAD programmes are still at an initial stage. Yet, the "big picture" and figures already show that employment is strongly recovering compared to the end of the previous programming period, also for youth (39,4% in 2013 and 25.3% in 2017Q2) and long-term unemployment (6,1% in 2013 and 4.9% in 2017Q2).

Specifically for the ESF OP, implementation is on track, but the declared expenditures and the submission of payments are lagging behind. In specific, as of 30/11/2017, cumulated interim payments were accounted to ca. 6,7 mil. EUR in a total allocation of ca. EUR 129 million (including Performance Reserve). This attributes to around 5,2% of the total allocation. It has been highlighted that the latter needs to improve greatly in 2018, in which the N+3 decommitment rule applies. On the implementation, 5 new/updated work schemes have been approved and 2 new ESF-funded projects about to be launched for Thematic Objective 9 and 11 have been presented.

Additionally, the great divergence between the amount declared in the payment forecast for 2017 (ca. EUR 19m) and the actual amount of submitted payments (ca. 330.000) was discussed. In that respect, the Managing Authority committed to submit a more accurate and realistic forecast for 2018, based on verified and declared expenditure to the COM and not payments "on the ground" and gave an indication of EUR 35m for ESF in 2018.

As regards FEAD, as of 30/11/2017, cumulated interim payments were accounted to ca. EUR 33.000 in a total allocation of ca EUR. 4 mil.. This attributes to around 0,83% of the total allocation. On the implementation, it was announced that the 2nd project of the FEAD OP, the "Baby Pack" will be launched at the beginning of 2018, as the procurement for each and every of the items to be delivered has been finalised and agreements with providers have been concluded.

Finally, on the Simplified Cost Options, SCOs are being applied in 4 projects and the idea is for every new project and Scheme to be launched, the approach to be applied. In that respect, at least two new projects will be added in the group of those applying SCOs in spring with the new round of Delegated Acts. Therefore, it is expected that at least 40% of the submitted payments for the current programming period will be based on the simplified method.