EUROPEAN
COMMISSION

Brussels, 8.7.2021
COM(2021) 398 final

2021/0216 (NLE)

Proposal for a

COUNCIL IMPLEMENTING DECISION

on the approval of the assessment of the recovery and resilience plan for Cyprus

{SWD(2021) 196 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility[1] and in particular Article 20 thereof,

Having regard to the proposal from the European Commission,

Whereas:

(1) The COVID-19 outbreak has had a disruptive impact on the economy of Cyprus, exacerbating the challenges that existed before the pandemic. In 2019, the gross domestic product per capita (GDP per capita) of Cyprus was 81% of the Union average. According to the Commission's Spring 2021 forecast, the real GDP of Cyprus declined by 5,1% in 2020 and is expected to decline by 2,1% cumulatively in 2020 and 2021. Longer-standing aspects with an impact on medium-term economic performance include a growth model relying on relatively few sources of growth and a high level of stocks of private, public and external debt with vulnerabilities in the financial sector.

(2) On 9 July 2019 and on 20 July 2020, the Council addressed recommendations to Cyprus in the context of the European Semester. In particular, the Council recommended to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, the Council recommended to Cyprus to pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In addition, the Council recommended to strengthen the resilience and capacity of the health system to ensure quality and affordable services, including by improving health workers' working conditions, and to ensure that the National Health System becomes operational in 2020, as planned, while preserving its long-term sustainability. The Council also recommended Cyprus to provide adequate income replacement and access to social protection for all, to strengthen public employment services, reinforce outreach and activation support for young people, promote flexible working arrangements, improve labour market relevance of education and training, deliver on the reform of the education and training system, including teacher evaluation, and

[1] OJ L 57, 18.2.2021, p. 17.

increase employers' engagement and learners' participation in vocational education and training, and access to affordable early childhood education and care. The Council also recommended Cyprus to secure adequate access to finance and liquidity, especially for small and medium-sized enterprises, adopt legislation to simplify the procedures for strategic investors to obtain necessary permits and licences, resume the implementation of privatisation projects and to front-load mature public investment projects and promote private investment to foster the economic recovery and focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, waste and water management, sustainable transport, digitalisation and research and innovation. Moreover, Cyprus was invited to step up action to address features of the tax system that facilitate aggressive tax planning by individuals and multinationals, in particular by means of outbound payments. Cyprus was also advised to improve the efficiency and quality, including digitalisation, of (i) the judicial system, including the functioning of administrative justice and revising civil procedures and increasing the specialisation of courts, and (ii) the public sector, including the functioning of the public administration and local governments and the governance of state-owned entities and take measures to strengthen the legal enforcement of claims and ensure reliable, secure and swift systems for the issuance and transfer of title deeds and immovable property rights. Cyprus was also invited to facilitate the reduction of non-performing loans including by setting up an effective governance structure of the State-owned asset management company, taking steps to improve payment discipline and strengthening the supervision of the credit acquiring companies and in the non-bank financial sector, including by fully integrating the insurance and pension funds supervisors. Moreover, Cyprus was invited to accelerate anti-corruption reforms, safeguard the independence of the prosecution and strengthen the capacity of the law enforcement. Having assessed progress in the implementation of those country-specific recommendations at the time of submission of the recovery and resilience plan, the Commission finds that the recommendation on taking all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery has been fully implemented.

(3) On 2 June 2021, the Commission published an in-depth review under Article 5 of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[2] for Cyprus. The Commission's analysis concluded that Cyprus is experiencing excessive macroeconomic imbalances, in particular related to high stocks of external, government and private debt, and still high non-performing loans, alongside a substantial current account deficit.

(4) [The Council recommendation on the economic policy of the euro area recommended to euro area Member States to take action, including through their recovery and resilience plans, to, *inter alia*, ensure a policy stance which supports the recovery and to further improve convergence, resilience and sustainable and inclusive growth. The Council recommendation also recommended to strengthen national institutional frameworks, to ensure macro-financial stability, to complete the Economic and Monetary Union and to strengthen the international role of the euro.] [If the Council recommendation is not adopted by the time of the CID adoption, please remove the recital.]

[2] Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

(5) On 17 May 2021, Cyprus submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. That submission followed a consultation process, conducted in accordance with the national legal framework, of local authorities, social partners, civil society organisations, youth organisations and other relevant stakeholders. The national ownership of the recovery and resilience plans is underpinning their successful implementation and lasting impact at national level and credibility at European level. Pursuant to Article 19 of that Regulation, the Commission has assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation.

(6) The recovery and resilience plans should pursue the general objectives of the Recovery and Resilience Facility established by Regulation (EU) 2021/241 and of the EU Recovery Instrument set up by Council Regulation (EU) 2020/2094[3] in order to support the recovery in the aftermath of the COVID-19 crisis. They should promote the Union's economic, social and territorial cohesion by contributing to the six pillars referred to in Article 3 of Regulation (EU) 2021/241.

(7) The implementation of the Member States' recovery and resilience plans will constitute a coordinated effort of investment and reforms across the Union. Through the coordinated and simultaneous implementation of these reforms and investments and the implementation of cross-border projects, these reforms and investments will mutually reinforce each other and generate positive spillovers across the whole Union. Therefore, about one third of the impact of the Facility on Member States' growth and job creation should come from spillovers from other Member States.

Balanced response contributing to the six pillars

(8) In accordance with Article 19(3), point (a) and section 2.1 of Annex V to Regulation (EU) 2021/241, the recovery and resilience plan represents to a large extent (Rating A) a comprehensive and adequately balanced response to the economic and social situation, thereby contributing appropriately to all six pillars referred to in Article 3 of Regulation (EU) 2021/241, taking the specific challenges and the financial allocation of the Member State concerned into account.

(9) The recovery and resilience plan consists of a wide and balanced set of reforms and investments that supports addressing the main policy challenges of the Cypriot society and economy, while at the same time responding adequately to the impacts of the COVID-19 pandemic. The plan is designed around the overarching objective of strengthening the economy's resilience and the country's potential for economically, socially and environmentally sustainable long-term growth and welfare. The plan focuses on five priority policy axes: health and civil protection; transition to a green economy; resilience and competitiveness of the economy; digital transformation; and labour market, social protection, education and human capital. The plan clearly explains how each policy axis contributes to the six pillars referred to in Article 3 of Regulation (EU) 2021/241. This contributes to ensuring that each pillar is comprehensively addressed in a coherent manner.

[3] Council Regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis (OJ L 433I , 22.12.2020, p. 23).

(10) The plan aims to contribute to addressing key challenges related to the green transition, including high greenhouse gas emissions, gaps in water and waste management, the need to safeguard biodiversity and wildlife. Measures in this context include the introduction of green taxation, a reform of the electricity market accompanied by facilitation of deployment of renewable energy, renovations of the building stock with a view to improving energy efficiency, greening of the vehicles stock, forest fire protection, protection of the marine ecosystem and smart water management. The plan also includes measures with the aim to contribute to the digital transformation, with emphasis on connectivity and e-government solutions, and integrating digitalisation concerns into measures in other areas, such as in the reform of the justice, health and education and training systems. Digitalisation of companies, in particular small and medium-sized enterprises, is supported through direct measures aimed at increasing their productivity and competitiveness. Smart, sustainable and inclusive growth is expected to be fostered by measures improving access to finance of companies, targeted research and innovation reforms and investments, an education reform contributing to addressing both the quality of educational outcomes and the need to reduce socio-economic divides, and support to a cleaner energy mix and lower carbon footprint of the economy in a fair and inclusive manner. In parallel, a component dedicated to financial and fiscal stability aims to strengthen the soundness of the banking sector, improve the functioning of the insolvency framework and prevent high private debt, along with a more effective and fair tax system, thus improving the resilience of the economy. The plan also contributes to addressing challenges of the Cypriot economy with regards to competiveness, productivity and the need to diversify the growth model, through reforms and investments in the agro-food sector, light manufacturing, sustainable tourism and circular economy.

(11) The plan contributes to enhancing the economic, social and territorial cohesion and convergence of Cyprus with the Union through measures improving the accessibility, resilience and quality of the health and long-term care systems, renovating social infrastructure, combatting energy poverty, making access to digital infrastructures more equal, and strengthening employment and social support to more vulnerable groups. Some of those measures should also benefit health and economic, social and institutional resilience and should act in synergy with other targeted reforms and investments, such as closing gaps in the social protection system, reducing skills mismatches on the labour market through upskilling and reskilling initiatives as well as guidance, and modernising and digitalising public administration and services, including schools and health institutions. Policies for the next generation, children and the youth are also prominent in the plan, covering the modernisation and enhancement of the education and training system at all levels, more accessible early childhood education and care, better outreach to young people not in employment, education or training, and support at all levels for the development of skills relevant for the digital and green transitions.

Addressing all or a significant subset of challenges identified in Country Specific Recommendations

(12) In accordance with Article 19(3), point (b) and section 2.2 of Annex V to Regulation (EU) 2021/241, the recovery and resilience plan is expected to contribute to effectively addressing all or a significant subset of challenges (Rating A) identified in the relevant country-specific recommendations, including fiscal aspects thereof and recommendations made pursuant to Article 6 of Regulation (EU) No 1176/2011,

addressed to Cyprus or challenges identified in other relevant documents officially adopted by the Commission in the context of the European Semester.

(13) The plan includes an extensive set of mutually reinforcing reforms and investments that contribute to effectively addressing all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Cyprus by the Council in the European Semester in 2019 and in 2020. By addressing the aforementioned challenges, the recovery and resilience plan is expected to also contribute to correcting the excessive macroeconomic imbalances[4] that Cyprus is experiencing, notably with respect to high stocks of external, government and private debt, and still high non-performing loans, alongside a substantial current account deficit.

(14) The expansion of very high capacity networks in underserved areas and building cabling to be "Gigabit-ready" is expected to improve internet connectivity in Cyprus and promote its take-up. Digitalising government services and introducing e-justice, e-health and smart cities are expected to help the digital transition. Furthermore, the plan is expected to improve the efficiency of public administration by strengthening the strategic role of the personnel department and the capacity of the line ministries' administrations to better implement public administration policies and human resource functions, introducing a new framework for filling public service vacancies and for the evaluation of employee performance. The introduction of a new legal framework for local governments is expected to improve their functioning. Moreover, the establishment of an anti-corruption authority is expected to help fight corruption more effectively, which should also contribute to preventing, detecting and correcting irregularities in the use of public funds. The plan includes measures which are expected to address features of Cyprus' tax system that facilitate aggressive tax planning, in particular by multinationals, including the introduction of withholding taxes to outbound payments of dividends, royalty payments and interest.

(15) The establishment of a national graduate tracking system and the update of secondary schools' educational curricula to improve digital literacy, soft skills and entrepreneurship skills, along with several training schemes to enhance digital, green, blue and entrepreneurship skills across different population groups, are expected to improve the quality and labour market relevance of education and training. Furthermore, the digitalisation of the hiring incentive schemes system and the development of a performance management system for the public employment services are expected to improve the efficiency of operations and the quality of the services. Provision of counselling and guidance as well as a hiring incentives scheme for young people not in employment, education or training are expected to reinforce outreach and activation support for young people. The education and training system is expected to be improved by a new teacher and school evaluation system, by the implementation of a national action plan addressing skills mismatches, by the extension of free compulsory pre-primary education from the age of four and by the construction of two model technical schools further strengthening vocational education and training. Furthermore, investments in early childhood education and care and the adoption of a national strategy and action plan are expected to improve

[4] These macroeconomic imbalances refer to the recommendations made pursuant to Article 6 of Regulation (EU) No 1176/2011 in 2019 and 2020.

quality and affordability of early childhood education and care. The plan also provides for a law to regulate flexible working arrangements in the form of telework and extension of social protection to self-employed and workers in new forms of employment in line with the relevant country specific recommendations. The implementation of the plan is expected to strengthen the capacity, quality and resilience of the health and civil protection systems through measures aiming at upgrading equipment and setting up dedicated information systems, next to promoting investments in communication systems and e-Health. Extension and construction of additional specialised care units are also envisaged.

(16) The establishment of a National Promotional Agency and the introduction of funding programmes and schemes are expected to improve access to finance and liquidity, especially for small and medium-sized enterprises. Grant schemes for research and innovation as well as the establishment of a central knowledge transfer office are expected to increase investments in research and innovation.

(17) The recovery and resilience plan contains measures that are expected to contribute to the green transition. The plan promotes clean and efficient production and use of energy through various measures, which include green taxation, opening of the electricity market, green investments support and energy renovation projects of the building stock and other infrastructure. The plan also includes measures aiming at strengthening forest fire protection and the protection of the marine ecosystem. Waste and water management related measures aim at reducing water losses, upgrading existing infrastructure and water management. Moreover, investments in zero- or low-emission vehicles as well as in the digitalisation of the transport sector are foreseen to promote sustainable transport.

(18) The plan aims to reduce risks in the banking sector related to legacy non-performing loans through a dedicated action plan as well as through measures to improve the working environment for credit acquirers and credit servicers. Regarding high private debt and payment discipline, the plan puts forward improved monitoring of debts, enhancements to the functioning of the insolvency framework, and a strategy for combating financial illiteracy. Improved supervision of the insurance and pension funds sectors is expected to be achieved through an increase in available human resources and an improvement of available supervisory tools.

(19) The recommendations related to the immediate fiscal policy response to the pandemic can be considered as falling outside the scope of Cyprus' recovery and resilience plan, notwithstanding the fact that Cyprus has generally responded adequately and sufficiently to the immediate need to support the economy through fiscal means in 2020 and 2021, in line with the provisions of the General Escape Clause.

Contribution to growth potential, job creation and economic, social and institutional resilience

(20) In accordance with Article 19(3), point (c) and section 2.3 of Annex V to Regulation (EU) 2021/241, the recovery and resilience plan is expected to have a high impact (Rating A) on strengthening the growth potential, job creation, and economic, social and institutional resilience of the Member State, contributing to the implementation of the European Pillar of Social Rights, including through the promotion of policies for children and youth, and on mitigating the economic and social impact of the COVID-19 crisis, thereby enhancing the economic, social and territorial cohesion and convergence within the Union.

(21) Simulations by the Commission services show that the plan has the potential to increase the GDP of Cyprus by between 1,1% and 1,8% until 2026[5]. The plan includes a wide set of investments in physical and human capital and reforms that are expected to contribute to economic growth and increasing employment. The plan aims to accelerate the economic recovery in Cyprus and to lay the basis for a sustainable growth model in the long-term. By improving the growth potential, creating jobs and increasing economic, social and institutional resilience, the measures included in the plan are expected to reduce the country's vulnerability to shocks. The plan is also expected to contribute to the implementation of the European Pillar of Social Rights, including through the promotion of policies creating equal opportunities for all children and increasing youth employment, and help Cyprus in being an inclusive society with good access to health care and a productive and sustainable economy.

(22) The Cypriot plan addresses employment, education and skills and social challenges relevant for the implementation of the European Pillar of Social Rights. To foster equal opportunities and access to the labour market, the plan proposes reforms to enhance digital and green skills, modernise the evaluation system of teachers and schools and address overall skills mismatches. Investments to upgrade vocational education and training and provide activation support for young people are also envisaged, complementing actions of the European Social Fund Plus. To improve labour market dynamics and working conditions, Cyprus has proposed a number of measures, including legislative ones, to make flexible working arrangements available more widely. The plan takes an integrated approach to labour market services and policies such as public employment services and active labour market policies, in line with the Commission Recommendation on Effective Active Support to Employment[6]. The main target group is the youth, with the plan including a targeted hiring incentive associated with training. To improve social protection and inclusion, the plan proposes measures supporting deinstitutionalisation and long-term care services.

(23) The plan presents a comprehensive set of measures to address labour market challenges and to improve social cohesion. Those measures include reforms and investments in education and skills, activation policies and social services, fighting inequalities, modernising the labour market, and increasing social inclusion. The plan provides a detailed mapping of selected interventions to address the vulnerabilities identified by the Social Scoreboard underpinning the European Pillar of Social Rights.

(24) The plan contains reforms of the public administration aiming to advance the digitalisation of government, to reduce the administrative burden on citizens and firms and to further speed up the planning and approval of public investment projects. Those measures are expected to make the business climate more investment-friendly in the long run and the economy more competitive, by ensuring efficient digital government services and enabling long-lasting productivity enhancing effects.

Do no significant harm

[5] Such simulations reflect the overall impact of NGEU, which also includes funding for ReactEU, and increased funding for Horizon Europe, InvestEU, JTF, Rural Development and RescEU. Such simulation does not include the possible positive impact of structural reforms, which can be substantial.

[6] Commission Recommendation (EU) 2021/402 of 4 March 2021 on an effective active support to employment following the COVID-19 crisis (EASE) (OJ L 80, 8.3.2021).

(25) In accordance with Article 19(3), point (d) and section 2.4 of Annex V to Regulation (EU) 2021/241, the recovery and resilience plan is expected to ensure that no measure (Rating A) for the implementation of reforms and investments projects included in the recovery and resilience plan does significant harm to environmental objectives within the meaning of Article 17 of Regulation (EU) 2020/852 of the European Parliament and of the Council[7] (the principle of 'do no significant harm').

(26) For each of the measures, Cyprus' recovery and resilience plan is expected to ensure that no significant harm is done to any of the six environmental objectives within the meaning of Article 17 of Regulation (EU) 2020/852, namely climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. Cyprus provided justifications in accordance with the 'do no significant harm' technical guidance of the European Commission (2021/C 58/01).

(27) For some measures where calls for proposals or calls for expressions of interest should be necessary to select specific projects in the future, the principle of 'do no significant harm' should be complied with by ensuring, through appropriate milestones associated with those measures, that the terms of reference of the calls for proposals or calls for expressions of interest contain exclusion criteria to prevent activities that may do significant harm to environmental objectives from being selected.

Contribution to the green transition including biodiversity

(28) In accordance with Article 19(3), point (e) and section 2.5 of Annex V to Regulation (EU) 2021/241, the recovery and resilience plan contains measures that contribute to a large extent (Rating A) to the green transition, including biodiversity, or to addressing the challenges resulting therefrom. The measures supporting climate objectives account for an amount which represents 41% of the plan's total allocation calculated in accordance with the methodology of Annex VI to Regulation (EU) 2021/241. In accordance with Article 17 of Regulation (EU) 2021/241, the recovery and resilience plan is consistent with the information included in the National Energy and Climate Plan 2021-2030.

(29) In terms of contribution to the achievement of the Union 2030 climate and energy-related targets, the implementation of the plan is expected to contribute to addressing some of the key policy challenges identified in the Commission's recommendations to the Cypriot National Energy and Climate Plan. The plan includes reforms relating to the introduction of green taxation, the liberalisation of the electricity market, facilitating energy renovations in buildings and accelerating electric mobility. The plan further includes a broad range of energy efficiency and renewable energy investments targeting households, enterprises, municipalities and the wider public sector and non-governmental organisations. The plan includes investments relating to the mass roll-out of smart meters as well as the EuroAsia Interconnector project, which should aid electricity generation from cleaner sources, in particular renewables. The plan also promotes the replacement of conventional vehicles with zero- and low-

[7] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

emission vehicles, the use of alternative, cleaner fuels and means of transport as well as the use of public transport.

(30) The implementation of the plan is also expected to contribute to the achievement of the Union's objectives on environmental policy with a strong focus on water management and the circular economy. The plan includes a water management reform as well as a set of interrelated and reinforcing investments aimed at modernising water resource management and making it more sustainable. The plan also includes measures that aim at the enhancement of the circular economy in the sector of tourism and in the industrial sector as well as at increasing sustainable waste management practices, including recycling. The plan further addresses the challenges of climate change adaptation through a number of protective and preventive measures in the areas of forest fire protection and anti-flood management. Biodiversity preservation is addressed with one measure focusing on the protection of the marine ecosystem from hazards.

Contribution to the digital transition

(31) In accordance with Article 19(3), point (f) and section 2.6 of Annex V to Regulation (EU) 2021/241, the recovery and resilience plan contains measures that contribute to a large extent (Rating A) to the digital transition or to addressing the challenges resulting from it. The measures supporting digital objectives account for an amount which represents 23% of the plan's total allocation calculated in accordance with the methodology of Annex VII to Regulation (EU) 2021/241.

(32) With a significant share of the overall budget and a prominence of digital aspects across the majority of its components, the recovery and resilience plan proposed by Cyprus puts a strong emphasis on the digital transition and addressing the challenges resulting from it across all sectors.

(33) Almost each component includes measures directly supporting the digital transition or addressing related challenges. The most important contributions come from components dedicated to connectivity infrastructure and the digitalisation of the public sector, followed by the three components addressing e-justice, fiscal and financial stability and the support of digital skills. Therefore, measures related to digital transition, or to addressing the challenges resulting from it, are spread out throughout the plan. They are expected to contribute to the digital transformation of several economic and social sectors, such as the education or health sector, and to addressing the country specific challenges resulting from the digital transition.

Lasting impact

(34) In accordance with Article 19(3), point (g) and section 2.7 of Annex V to Regulation (EU) 2021/241, the recovery and resilience plan is expected to have a lasting impact on Cyprus to a large extent (Rating A).

(35) The plan presents a series of measures with the aim to contribute to the digital transition and to addressing the low level of digital public services. The measures included are expected to ensure coverage with very high-capacity broadband, fixed and wireless, including mobile, that is to say 5G, for 100% of the population living in organised communities, including deployment of 5G along the main terrestrial corridors, and enabling universal and affordable access to Gigabit connectivity in all urban and rural areas, including 5G connectivity. The plan aims also at promoting e-government with a set of reforms and investments. Digital projects, such as the digital

transformation of courts, smart cities and digitalising the law making process in combination with projects for improving the management system, evaluation and recruitment of the staff in the public administration and an overhaul of the local authorities are expected to make a structural and lasting change in the functioning of the public administration and justice system, which should ultimately improve the business environment. The establishment of an independent authority to coordinate and oversee measures to fight corruption is a key element of the plan concerning structural change in institutions.

(36) The implementation of reforms and investments envisaged in the Cypriot plan is expected to bring lasting changes in the education and training system and the labour market. The plan includes major reforms in the education system, such as introducing a new system for teacher and school evaluation, extending free compulsory preschool education and adapting the curricula of higher and secondary education according to the needs of the labour market. The plan also contains the provision of trainings to foster the digital skills of students, employed persons and the unemployed. Furthermore, the plan includes the development of a comprehensive national strategy to address skills mismatches as well as the preparation of a national strategy for early childhood education and care. These measures are expected to improve the quality of education and training for all ages and students' performance and make better connections between the education system and the labour market.

(37) Lasting impact of the plan can also be enhanced through synergies between the plan and other programmes financed by the cohesion policy funds, notably by addressing in a substantive manner territorial challenges and promoting a balanced development.

Monitoring and implementation

(38) In accordance with Article 19(3), point (h) and section 2.8 of Annex V to Regulation (EU) 2021/241, the arrangements proposed in the recovery and resilience plan are adequate (Rating A) to ensure effective monitoring and implementation of the recovery and resilience plan, including the envisaged timetable, milestones and targets, and the related indicators.

(39) The Monitoring Committee, chaired by the Director General of the Directorate General for European Programmes, Coordination and Development ('DG EPCD') and attended by the Directors-General of Ministries and Deputy Ministries involved in the plan, is responsible for centrally monitoring progress in implementation. The overall responsibility for the monitoring and implementation of the recovery and resilience plan is assigned to the Directorate for Recovery and Resilience of DG EPCD, which is the Coordinating Authority. Its role consists in coordinating the implementation of the measures, certifying the achievement of the milestones and targets, drafting progress reports, and liaising with the Commission, including submitting payment requests under Regulation (EU) 2021/241. In that role it is assisted by two specialised monitoring bodies that would certify the achievement of the milestones and targets for the measures in the plan that require specialised input. The implementation of the various investments and reforms in the plan is the responsibility of the implementing bodies.

(40) The milestones and targets of the Cypriot plan constitute an appropriate system for monitoring the plan's implementation. They are sufficiently clear, realistic and comprehensive to ensure that their completion can be traced and verified and the proposed indicators for those milestones and targets are relevant, acceptable and

robust. Milestones and targets are also relevant for measures already completed which are eligible according to Article 17(2) of Regulation (EU) 2021/241. The satisfactory fulfilment of those milestones and targets over time is required to justify a disbursement request. The verification mechanisms, data collection and responsibilities described by the Cypriot authorities appear sufficiently robust to justify in an adequate manner the disbursement requests once the milestones and targets are assessed as completed.

(41) Member States should ensure that financial support under the Facility is communicated and acknowledged in line with Article 34 of Regulation (EU) 2021/241. Technical support may be requested under the Technical Support Instrument to assist Member States in the implementation of their plan.

Costing

(42) In accordance with Article 19(3), point (i) and section 2.9 of Annex V to Regulation (EU) 2021/241, the justification provided in the plan on the amount of the estimated total costs of the recovery and resilience plan is to a medium extent (Rating B) reasonable and plausible, is in line with the principle of cost efficiency and is commensurate to the expected national economic and social impact.

(43) For the majority of the measures, the costing information provided is rather detailed, the methodology is well explained with calculations that are easy to follow and supported by evidence. The information provided suggests that costs would be in line with the nature and type of the envisaged reforms and investments, thus supporting their plausibility. However, a small amount of the costs were assessed as reasonable and plausible only up to a medium extent. Finally, the estimated total cost of the recovery and resilience plan is in line with the principle of cost-efficiency and is commensurate to the expected national economic and social impact.

Protection of financial interests

(44) In accordance with Article 19(3), point (j) and section 2.10 of Annex V to Regulation (EU) 2021/241, the arrangements proposed in the recovery and resilience plan and the additional measures contained in this Decision are adequate (Rating A) to prevent, detect and correct corruption, fraud and conflicts of interests when using the funds provided under that Regulation, and the arrangements are expected to effectively avoid double funding under that Regulation and other Union programmes. This is without prejudice to the application of other instruments and tools to promote and enforce compliance with Union law, including for preventing, detecting and correcting corruption, fraud and conflicts of interests, and for protecting the Union finances in line with Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council[8].

(45) The control and audit system developed by Cyprus is coherently designed to meet the requirements of Regulation (EU) 2021/241. In particular, pending development of a dedicated Monitoring Information System for management and monitoring of the plan in line with Article 22(2), point (d) of Regulation (EU) 2021/241, an adequate transitory repository system should be set up. A transitory repository system or the

[8] Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget (OJ L 433I, 22.12.2020, p. 1.)

dedicated Monitoring Information System should record and store the relevant data related to the implementation of the recovery and resilience plan, in particular on the achievement of milestones and targets, data on final recipients, contractors, subcontractors and beneficial owners in line with Article 22(2) point (d) of Regulation (EU) 2021/241. In accordance with Article 20(5), point (e) of Regulation (EU) 2021/241, Cyprus should implement the transitory repository system or the dedicated Monitoring Information System with the required functionalities in order to comply with Article 22 of that Regulation, by confirming the completion of its implementation with the submission of the first payment request. A dedicated audit of the system should attest that it has the required functionalities in line with Article 22(2), point (d) of Regulation (EU) 2021/241.

(46) The internal control system is based on robust processes and structures. Roles and responsibilities of the actors for controls and audits are clear, relevant control functions are appropriately segregated and the independence of actors performing audits is ensured. The actors responsible for controls have the legal empowerment and administrative capacity to exercise their planned roles and tasks. The procedures described in the plan for controls and audits have entered into force and responsibilities of the bodies involved have been defined by means of the decision of the Council of Ministers approving the plan. The designated audit bodies are the Audit Office of the Republic of Cyprus and the Internal Audit Service of the Republic of Cyprus. They are mandated to conduct ex-post audits to check whether implementing bodies carry out procedures to prevent, detect and correct fraud, corruption and conflicts of interest, when using the funds provided under Regulation (EU) 2021/241. Moreover, there are control arrangements at several levels aimed at avoiding double funding from other Union programmes as well as compliance with applicable rules.

Coherence of the plan

(47) In accordance with Article 19(3), point (k) and section 2.11 of Annex V to Regulation (EU) 2021/241, the plan includes to a high extent (Rating A) measures for the implementation of reforms and public investment projects that represent coherent actions.

(48) Reforms and investments presented in the Cypriot recovery and resilience plan are complementary to each other. They are based on a comprehensive growth plan, which ensures its coherence towards contributing to smart, inclusive and sustainable economic development in the future. The five main policy axes of the Plan, "Resilient and Effective Health System, Enhanced Civil Protection", "Climate neutrality, energy efficiency and renewable energy penetration", "Strengthening the resilience and competitiveness of the economy", "Towards a digital era", and "Labour market, social protection, education and human capital" are interlinked and mutually reinforcing. They contain measures related to the digital transformation, which are key enablers for the green and circular transition of the Cypriot economy. The plan also contains reforms that reinforce planned investments, such as in the water management sector and a tax reform to incentivise emission reductions and green investments. The policy axis "Strengthening the resilience and competitiveness of the economy" involves public investment to boost competitiveness, support productivity and long-run growth and to create new jobs, supported by reforms to improve the institutional framework and hence the business environment. The policy axis "Labour market, social protection, education and human capital" contributes to enabling the green and digital transitions by improving the education and skills development system at all levels,

thus equipping the Cypriot society with the necessary skills, ensuring that digital and green transitions should be fair by prioritising sustainable job creation, in particular for young people, as well as investments in social care services, while the policy axis "Resilient and Effective Health System, Enhanced Civil Protection" aims at universal access to high quality and effective health services, including digital. In order to promote wider coherence across instruments, notably with the European cohesion policy funds, a balanced territorial allocation of resources is encouraged.

Equality

(49) The plan contains a series of measures across several components that are expected to contribute to addressing the challenges in the area of gender equality and equal opportunities for all. Particularly relevant measures include those that aim at improving the access to affordable quality early childhood education and care and long-term care as well as to promote flexible working arrangements facilitating labour market activation for people with caring responsibilities, particularly women, social inclusion and the reduction of socio-economic disadvantages. Challenges regarding female entrepreneurship or financial illiteracy of older women are also addressed. Support for young people not in employment, education or training is expected to benefit young people from vulnerable backgrounds, including with migration backgrounds. Throughout the plan, needs of persons with disabilities are taken into account and a quantitive target for the improvement of energy performance in households with persons with disabilities is included.

Security self-assessment

(50) The plan includes a security-self assessment for investments in digital capacities and connectivity. As regards investments in connectivity, the plan identifies the relevant security issues and associated risks and identifies mitigating measures to be enacted for each of them based on the common objective criteria included in the EU toolbox for Cybersecurity of 5G networks.

Cross-border and multi-country projects

(51) Cyprus has included two cross-border projects in its plan for an electricity interconnector and submarine cables for data connectivity. Both projects have a cross-border element with Greece. First, the construction of the EuroAsia interconnector aims to ensure security of supply and more competitive wholesale electricity prices and to enable the increased use of electricity from cleaner sources, in particular renewables, by connecting the electricity network of Cyprus to the Union continental system through the Greek network in Crete. This is part of a broader investment building a cross-border interconnector with a total length of 1 208 km between Crete, Cyprus and Israel. Second, for the submarine cables, the project aims at creating high-capacity resilient backbone internet connectivity for Cyprus through a new submarine link for data connectivity between Cyprus and Greece. The deployment of a new separate backbone route between Cyprus and Greece is expected to support connectivity in Cyprus. It is also expected to have a positive impact on the available capacity and the commercial offers of backbone connectivity needed to provide very-high-speed services to end-users. Finally, it is expected to offer higher performance compared to existing dated cables.

Consultation process

(52) Based on the summary of the consultation process included in the plan, all relevant stakeholders such as social partners, civil society organisations and youth organisations have been consulted in the preparation phase of the plan in accordance with the national legal framework. Within the scope of their responsibilities, the different Ministries, governmental services and local authorities have been involved at an early stage and in numerous steps in the elaboration of the plan. The Parliament has been regularly informed about the content of the plan. Furthermore, the Cyprus Economy and Competitiveness Council, equivalent to a national productivity board, has been consulted. Following the consultation of all relevant stakeholders, part of the initially planned reforms and investments have been adapted or removed from the plan.

(53) A coordination process with all relevant stakeholders, including social partners and civil society, is expected to take place also for the implementation phase of the plan. To ensure ownership by the relevant actors, it is crucial to involve all local authorities and stakeholders concerned, including social partners, throughout the implementation of the investments and reforms included in the plan.

Positive assessment

(54) Following the positive assessment of the Commission concerning the Cypriot recovery and resilience plan with the finding that the plan satisfactorily complies with the criteria for assessment set out in Regulation (EU) 2021/241, in accordance with Article 20(2) of that Regulation, this Decision should set out the reforms and investment projects necessary for the implementation of the plan, the relevant milestones, targets and indicators, and the amount made available from the Union for the implementation of the plan in the form of non-repayable financial and loan support.

Financial contribution

(55) The estimated total cost of the recovery and resilience plan of Cyprus is EUR 1 206 400 000. As the recovery and resilience plan satisfactorily complies with the criteria for assessment set out in Regulation (EU) 2021/241 and, furthermore, as the amount of the estimated total costs of the recovery and resilience plan is higher than the maximum financial contribution available for Cyprus, the financial contribution allocated for the Cypriot recovery and resilience plan should be equal to the total amount of the financial contribution available to Cyprus.

(56) In accordance with Article 11(2) of Regulation (EU) 2021/241, the calculation of the maximum financial contribution for Cyprus is to be updated by 30 June 2022. As such, in accordance with Article 23(1) of that Regulation, an amount for Cyprus should be made available now for a legal commitment by 31 December 2022. Where necessary following the updated maximum financial contribution, the Council, on a proposal from the Commission, should amend this Decision to include the updated maximum financial contribution without undue delay.

(57) Furthermore, in order to support additional reforms and investments, Cyprus has requested loan support. The maximum volume of the loan requested by Cyprus is less than 6,8% of its 2019 Gross National Income in current prices. The amount of the estimated total costs of the recovery and resilience plan is higher to the combined financial contribution available for Cyprus and requested loan support.

(58) The support to be provided is to be financed from the borrowing by the Commission on behalf of the Union on the basis of Article 5 of Council Decision (EU, Euratom) 2020/2053[9]. The support should be paid in instalments once Cyprus has satisfactorily fulfilled the relevant milestones and targets identified in relation to the implementation of the recovery and resilience plan.

(59) Cyprus has requested pre-financing of 13% of the financial contribution and of 13% of the loan. That amount should be made available to Cyprus subject to the entry into force and in accordance with the Financing Agreement provided for in Article 23(1) of Regulation (EU) 2021/241 and the Loan Agreement provided for in Article 15(2) of that Regulation.

(60) This Decision should be without prejudice to the outcome of any procedures relating to the award of Union funds under any other Union programme than Regulation (EU) 2021/241 or to procedures relating to distortions of the operation of the internal market that may be undertaken, in particular under Articles 107 and 108 of the Treaty. It does not override the requirement for Member States to notify instances of potential State aid to the Commission under Article 108 of the Treaty,

HAS ADOPTED THIS DECISION:

Article 1
Approval of the assessment of the recovery and resilience plan

The assessment of the recovery and resilience plan of Cyprus on the basis of the criteria provided for by Article 19(3) of Regulation (EU) 2021/241 is approved. The reforms and investment projects under the recovery and resilience plan, the arrangements and timetable for monitoring and implementation of the recovery and resilience plan, including the relevant milestones and targets and the additional milestones and targets related to the payment of the loan, the relevant indicators relating to the fulfilment of the envisaged milestones and targets, and the arrangements for providing full access by the Commission to the underlying relevant data are set out in the Annex to this Decision.

Article 2
Financial contribution

1. The Union shall make available to Cyprus a financial contribution in the form of non-repayable support amounting to EUR 1 005 946 047.[10] An amount of EUR 818 213 837 shall be available to be legally committed by 31 December 2022. Subject to the update provided for in Article 11(2) of Regulation (EU) 2021/241 calculating an amount for Cyprus equal to or more than this amount, a further amount of EUR 187 732 210 shall be available to be legally committed from 1 January 2023 until 31 December 2023.

2. The Union financial contribution shall be made available by the Commission to Cyprus in instalments in accordance with the Annex. An amount of

[9] Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom (OJ L 424, 15.12.2020, p. 1).

[10] This amount corresponds to the financial allocation after deduction of the Cyprus' proportional share of the expenses of Article 6(2) of Regulation (EU) 2021/241, calculated in accordance with the methodology of Article 11 of that Regulation.

EUR 130 772 986 shall be made available as a pre-financing payment, equal to 13% of the financial contribution. The pre-financing and instalments may be disbursed by the Commission in one or several tranches. The size of the tranches shall be subject to the availability of funding.

3. The pre-financing shall be released subject to the entry into force and in accordance with the Financing Agreement provided for in Article 23(1) of Regulation (EU) 2021/241. Pre-financing shall be cleared by being proportionally deducted against the payment of the instalments.

4. The release of instalments in accordance with the Financing Agreement shall be conditional on available funding and a decision by the Commission, taken in accordance with Article 24 of Regulation (EU) 2021/241, that Cyprus has satisfactorily fulfilled the relevant milestones and targets identified in relation to the implementation of the recovery and resilience plan. Subject to the entry into force of the legal commitments referred to in paragraph 1, to be eligible for payment, milestones and targets shall be completed no later than 31 August 2026.

Article 3
Loan support

1. The Union shall make available to Cyprus a loan amounting to a maximum of EUR 200 320 000.

2. The loan support shall be made available by the Commission to Cyprus in instalments in accordance with the Annex. An amount of EUR 26 041 600 shall be made available as a pre-financing payment, equal to 13% of the loan. The pre-financing and instalments may be disbursed by the Commission in one or several tranches. The size of the tranches shall be subject to the availability of funding.

3. The pre-financing shall be released subject to the entry into force and in accordance with the Loan Agreement provided for in Article 15(2) of Regulation (EU) 2021/241. Pre-financing shall be cleared by being proportionally deducted against the payment of the instalments.

4. The release of instalments in accordance with the Loan Agreement shall be conditional on available funding and a decision by the Commission, taken in accordance with Article 24 of Regulation (EU) 2021/241, that Cyprus has satisfactorily fulfilled the additional milestones and targets covered by the loan and identified in relation to the implementation of the recovery and resilience plan. To be eligible for payment, the additional milestones and targets covered by the loan shall be completed no later than 31 August 2026.

Article 4
Addressee

This Decision is addressed to the Republic of Cyprus.

Done at Brussels,

For the Council
The President