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Analysis of the recovery and resilience plan of Cyprus

Accompanying the document

Proposal for a COUNCIL IMPLEMENTING DECISION

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

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1. EXECUTIVE SUMMARY

The COVID-19 pandemic and the related lockdowns pushed Cyprus' economy into a deep recession in 2020 and had serious adverse effects on the social situation and business activity, especially on the country's hospitality sector. Real GDP contracted by 5,1% in 2020, reflecting in particular the restrictions in international travel and their negative impact on the tourism sector. The impact on domestic demand was somewhat mitigated by the government's support measures. In 2021, according to the Commission's 2021 Spring forecast, a modest recovery is expected, with GDP to grow by 3,1%, as the renewed lockdown at the beginning of the year has clouded the short-term growth outlook of the Cypriot economy. In 2022, the recovery is forecast to accelerate to 3,8%, mainly on the back of rising domestic demand and a small positive contribution from net exports. Unemployment increased only moderately in 2020 to 7,6% from 7,1% in 2019, helped by income support measures to preserve employment, which were partly financed under the Support to mitigate Unemployment Risks in an Emergency (SURE). In 2022, unemployment is expected to decrease to 7,2%. Public finances have been heavily impacted by the COVID-19 pandemic and, as a result, the government budget turned around from a surplus of 1,5% of GDP in 2019 to a deficit of 5,7% of GDP in 2020. In 2021, the deficit is expected to narrow to 5,1%, mainly on the back of the gradual phase-out of supporting measures, and to 2,0% in 2022. After reaching a peak of 118,2% in 2020, the debt-to-GDP ratio is expected to fall to 112,2% in 2021 and 106,6% in 2022.

The Cypriot recovery and resilience plan (hereafter "the plan") amounts to EUR 1 206 400 000. This is to be financed mainly through non-repayable financial support of EUR 1 006 080 000 (at current prices, equivalent to 4,5% of GDP). Cyprus' loan request for an amount of EUR 200 320 000 covers the remaining estimated cost of the plan.

The plan represents a comprehensive and adequate response to the challenges faced by Cyprus' economy and society and its implementation is expected to support the correction of the identified excessive macroeconomic imbalances, while promoting a more inclusive and sustainable growth model. The implementation of reforms and investments is expected to gradually have a positive impact on the economy as of the end of 2021 and, ultimately, to boost the growth potential of the country over the medium term and contribute to a green, digital, inclusive and resilient future.

The plan contains a balanced set of mutually reinforcing reforms and investments, with a total of 133 measures structured around 13 components grouped in 5 policy axes. These are (i) public health, civil protection and lessons learned from the pandemic, (ii) accelerated transition to a green economy, (iii) strengthening the resilience and competitiveness of the economy, (iv) towards a digital era, and (v) labour market, social protection, education and human capital. The measures are mainly future-oriented with a strong focus on the green and digital transition and reflecting a coherent overall strategy.

The proposed reforms and investments in the plan address to a large extent the structural challenges Cyprus faces, as identified under the European Semester. Relevant country-specific recommendations (CSRs), in particular the most recent ones in 2019 and 2020, mainly

relate to public finances and health care, labour market and social policy, education and skills, public and private investment and green and digital transitions, structural reforms to improve the functioning of the public sector, fight corruption and facilitate the reduction of non-performing loans in the banking sector. The plan is also consistent with the challenges and priorities identified in the most recent draft Council Recommendation on the economic policy in the euro area[1], which 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 implementation of the plan is expected to support financial stability, including by addressing long-standing challenges such as high private indebtedness and non-performing loans (NPLs). Crucially, the measures implemented under the plan are expected to improve the working environment for NPLs management for credit acquirers and credit servicers through adoption of dedicated legislation. The measures are also expected to tackle high private indebtedness, through improving monitoring, enhancing insolvency frameworks and improving financial literacy. By addressing the aforementioned challenges, the implementation of the plan is also expected to contribute to correcting the excessive macroeconomic imbalances that Cyprus is experiencing in this respect.

The plan contributes to the six pillars referred to in Article 3 of the Regulation establishing the Recovery and Resilience Facility (RRF Regulation)[2]. The plan's reforms and investments are 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 addresses each of the six policy pillars in a comprehensive and coherent manner.

The reforms and investments included in the plan have the potential to contribute to strengthening the growth potential, job creation and economic, social and institutional resilience. In particular, the plan includes several measures aiming at diversifying the growth sources and improving productivity as well as a wide set of investments in physical and human capital. Several measures aim at simplifying the procedures for conducting business, improving access to finance for SMEs, increasing the efficiency of public administration and contributing to safeguarding fiscal and financial stability. The plan contains measures expected to contribute to the implementation of the European Pillar of Social Rights, including through strengthening the capacity of the social welfare services, the promotion of policies creating equal opportunities for all children and increasing youth employment. It further contains reforms and investments focused on enhancing the quality and effectiveness of education and training at all levels and ages, thus addressing key skills mismatches in the labour market and promoting employment and

[1] Pending final adoption by the Council, after endorsement by the European Council. The text agreed by the Eurogroup on 16 December 2020 is available at: https://data.consilium.europa.eu/doc/document/ST-14356-2020-INIT/en/pdf

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.

inclusive growth. The plan also contains measures aiming at strengthening the effectiveness, accessibility and overall resilience of the healthcare sector.

The recovery and resilience plan is expected to ensure that no measure for the implementation of reforms and investment projects does significant harm to environmental objectives within the meaning of Article 17 of Regulation (EU) 2020/852. The assessment has been carried out in compliance with the methodology set out in the Commission's Technical guidance on the application of 'do no significant harm' under the Recovery and Resilience Facility Regulation (2021/C 58/01).

The plan has a strategic focus on the challenges of the green and digital transitions. It has a dedicated policy axis tackling the accelerated transition to a green economy and includes measures supporting the achievement of climate change objectives for an amount which represents 41% of the financial allocation, above the 37% minimum requirement of the RRF Regulation. The largest contribution stems from component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration) followed by components 2.2 (Sustainable transport) and 2.3 (Smart and sustainable water management). The measure with the largest contribution to the climate target is the 'EuroAsia Interconnector' project, which, when completed, is expected to connect the electricity network of Cyprus to the Greek network in Crete. There are also measures aiming at making a substantial contribution to the achievement of the national targets in energy efficiency and renewable energy, at addressing existing challenges in the transport sector and improving water and waste management. The plan puts forward a number of key reforms to underpin the green transition. Regarding biodiversity, Cyprus proposes one measure aiming at protecting the marine ecosystem and improving the level of efficacy as regards oil spills prevention and response mechanisms.

As regards the digital transition, the measures contributing to the achievement of digital objectives account for 23% of the financial allocation, which is above the 20% minimum requirement of the RRF Regulation. The components of Policy Axis 4 (Towards a Digital Era) focus solely on the digital transition but other components also contain measures that contribute to it. In particular, the plan presents a series of measures aiming at ensuring coverage with very high-capacity broadband for the whole population and addressing the low level of digital skills. It also contains digital projects expected to promote e-government and to result in a digital transformation of courts.

The milestones and targets of the Cypriot plan constitute an appropriate system for monitoring the plan's implementation. They are clear, realistic and relevant for the implementation of the plan and they reflect the plan's overall level of ambition.

The governance arrangements proposed by Cyprus for implementation of the overall recovery and resilience plan are robust and the monitoring and reporting mechanism is adequate. The main actors have distinct roles and clear responsibilities. The Monitoring Committee, mandated by the Council of Ministers, is expected to oversee the progress in the implementation of the plan. The Coordinating Authority has the role of monitoring the implementation of the plan at an operational level, certifying the achievement of the milestones

and targets, drafting progress reports, performing checks and controls and liaising with the European Commission, including submitting payment requests under the Facility.

The costs of implementing the measures in the plan are deemed reasonable, plausible, in line with the principle of cost-efficiency and commensurate. For the majority of the measures, the costing information is generally detailed, the methodology is mostly 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. The amount of the estimated total costs of the plan appears commensurate to the expected social and economic impact of the funded measures and in line with the principle of cost-efficiency and are expected to have a substantial positive impact on the Cypriot economy. Cyprus has also demonstrated that the measures in the plan will be subject to strong governance and control systems and has given assurances that the measures funded under the Cyprus recovery and resilience plan will not receive funding from other existing or planned European Union financing.

The recovery and resilience plan for Cyprus is a comprehensive plan, which ensures its coherence towards contributing to smart, inclusive and sustainable economic development. Within components, there is a holistic approach towards addressing different elements of each sectoral system in a mutually reinforcing way. All components contain strategic reforms, which were frontloaded to the extent possible in order to facilitate the implementation of the investments and induce behavioural changes in a sustainable way. Moreover, in all components there are elements in the reforms that contribute to the green and the digital transition, as well as elements that reinforce the plan's overall goal of sustainable growth. A lasting impact of the plan can also be enhanced through synergies, complementarity and consistency between the plan and other programmes, including those financed by the cohesion policy funds, notably by addressing in a substantive manner the territorial challenges and promoting a balanced development through a balanced territorial allocation of resources.

(1) Balanced response	(2) CSRs	(3) Growth, jobs…	(4) DNSH	(5) Green target	(6) Digital target	(7) Lasting impact	(8) M & T	(9) Costing	(10) Control systems	(11) Coherence
A	**A**	**A**	**A**	**A**	**A**	**A**	**A**	**B**	**A**	**A**

2. RECOVERY AND RESILIENCE CHALLENGES: SCENE-SETTER

2.1. Macroeconomic outlook and developments since the 2020 country report

The pandemic pushed the economy into a deep recession in 2020 before entering a recovery path in 2021 and 2022. Real GDP contracted by 5,1% in 2020, reflecting in particular the restrictions in international travel and their negative impact on the tourism sector. The impact on domestic demand was somewhat mitigated by the government's support measures. According to the plan, GDP is expected to grow by 3,6% in 2021 and 3,8% in 2022, before decelerating to 3,2% in 2023 and 2,8% in 2024. In 2021, the recovery is expected to be supported by government spending and will be reinforced by a normalisation in private spending and

investments, driven by the implementation of a several infrastructure projects in the area of tourism, energy and education. Inflation was negative in 2020 (-1,1%) due to the drop in oil prices and the value-added tax (VAT) rate reduction for the hospitality sector. However, in 2021, according to the plan, it is expected to rebound, to 1,2%, and further pick up in 2022, to 1,5%.

Cyprus' labour market and household incomes have been cushioned by the government's support measures financed by EU funds, but challenges remain. The temporary Support to mitigate Unemployment Risks in an Emergency (SURE) contributed to moderate any severe negative employment consequences by providing financial support amounting to EUR 603,7 million. In addition, wage subsidisation and support schemes for businesses have been undertaken by the government in order to support employment.[3] Unemployment rose to 7,6% in 2020, only a 0,5 percentage points increase from 2019. The hours worked decreased significantly, by 6,4%, exhibiting a higher decrease than the reduction in persons employed, indicating that employers selected to avoid massive laying offs. Employment loss was more prominent in the sector of hotels and restaurants and other tourism-related sectors. According to the plan, unemployment is expected to return to a decreasing path from the second half of the 2021 following the recovery of the economy, 7,2% in 2021 and gradually reach 5,5% in 2024. Youth unemployment remains high, at 18,2% in 2020 as compared to the average of the EU27, 16,8%, reflecting persisting skills mismatches as well as the negative effects from the pandemic.

Cyprus' public finances have been heavily impacted by the COVID-19 pandemic and the related measures adopted to support the economy in 2020. According to the Stability Programme, the budget balance deteriorated substantially in 2020 and reached a deficit of 5,8% of GDP. Government revenue decreased by around 7% compared to 2019, with revenue from taxes dropping the most. On the other hand, public expenditure increased by 9,8% in 2020, compared to the previous year. This expansion of public spending is mainly attributed to the policy response undertaken by the government in order to tackle the effects of the crisis. The fiscal impact of support measures targeting the consequences of the pandemic on health, businesses and employment positions reached 3,6% of GDP. For 2021, the Stability Programme projects a deficit of 4,7%, a decrease mainly attributed to the gradual phase-out of supporting measures. After reaching a peak of 118,2% in 2020, the Stability Programme foresees a decrease of the debt-to-GDP ratio to 111,6% in 2021.

[3] The emergency measures to protect household incomes during the crisis, together with the pre-existing tax-benefit system, cushioned about 65% of the market income losses in Cyprus, 42% of the cushioning effect due to the monetary compensation schemes. These findings are based on the Euromod model: See Christl, M, De Poli, S., Figari, F., Hufkens, T., Leventi, C., Papini, A. and Tumino, A. (2021) "The cushioning effect of fiscal *policy in the EU during the COVID-19 pandemic*", JRC Working Papers on Taxation and Structural Reforms, 02/2021 (forthcoming); and Almeida, V., Barrios, S., Christl, M., De Poli, S., Tumino, A., Van der Wielen, W. (2020): '*Households´ income and the cushioning effect of fiscal policy measures during the Great Lockdown*', JRC Working Paper on Taxation and Structural Reforms, 06/2020, available at https://ec.europa.eu/jrc/sites/jrcsh/files/jrc121598.pdf.

Overall, Cyprus is expected to face medium fiscal sustainability risk in the medium term based on the S1 indicator[4] and the country's debt sustainability analysis. Under the baseline scenario, the government debt level is expected to decrease until 2031, supported by the assumed fiscal effort and a favourable differential between the implicit interest rate on government debt and the growth rate of the economy – it would reach 83% of GDP in 2031. The deterioration in the fiscal and macroeconomic situation in the context of the COVID-19 pandemic has increased the short-term fiscal sustainability risks in Cyprus. However, the extraordinary monetary policy interventions that took place since March 2020, together with decisive EU actions since March 2020, have contributed to stabilising sovereign financing conditions, lessening significantly the risks of short-term fiscal stress. Currently, Cyprus enjoys favourable yields and favourable financing conditions. Major credit rating agencies continue to assign investment grade rating to Cyprus' sovereign debt, except for Moody's which maintains its sovereign rating in the sub-investment category. Gross financing needs are expected to decrease from around 16% of GDP in 2020 to around 14% of GDP in 2021, and around 10% of GDP in 2022.[5] Moreover, throughout 2020, Cyprus' government built a significant cash buffer to secure the necessary funds to address possible adverse scenarios.

Main contingent liability risks relate to the banking sector. Contingent liability risks are concentrated in the short term, mainly due to the still high, albeit decreasing, ratio of non-performing loans (NPLs).

Nonetheless, the Cypriot debt structure and cost have continued to develop favourably. The debt maturity profile is well balanced over forthcoming years, not exceeding EUR 2,6 billion of debt redemption related financing needs per year until 2030. In terms of structure of debt, at the end of 2020, 50% of debt was composed of foreign bonds and 32% of official loans, the rest consisted of domestic and retail securities and T-bills. Concerning the buyers of foreign bonds (EMTNs) upon issuance, over the last years there was a positive shift from hedge funds to fund managers and insurance and pension funds as major investors.

Cyprus is experiencing excessive macroeconomic imbalances related to high stocks of external, government and private debt, and still high non-performing loans, alongside a substantial current account deficit[6]. The current account deficit deteriorated substantially in 2020 to a double-digit reading, 11,7% of GDP, reflecting a marked drop in tourism exports amid the COVID-19 crisis and it is forecast to improve only slightly in the near term. External debt remains high and the negative net international investment position, even when excluding special purpose entities, is worsening in part due to the large current account deficits. The COVID-19 crisis interrupted the private sector's deleveraging as the high debt ratios increased in 2020

[4] The S1 indicator evaluates fiscal sustainability risks in the medium term. European Commission, (2021), Debt Sustainability Monitor 2020, *European Economy Institutional Paper*, No. 143.
[5] Based on Commission's computations in the context of the Commission 2021 spring forecast.
[6] On 2 June 2021, the Commission published an in-depth review under Article 5 of Regulation (EU) 1176/2011 of the European Parliament and of the Council2 for Cyprus. SWD(2021) 408 final.

mostly on account of the drop in GDP. NPLs remain among the highest in the EU, despite visible reductions in recent years. About 50% of performing loans benefited from the first loan payment moratorium - representing the highest share in the EU. While early signs were encouraging following the lifting of the 2020 moratorium, the outlook is uncertain with respect to the new inflows of NPLs. Prolonged financial problems for firms and households could pose threats to their debt repayments, and ultimately weaken banks' balance sheets. Looking forward, developments in the NPL stock would crucially depend on well-functioning insolvency and foreclosure frameworks.

Table 1: Comparison of macroeconomic developments and forecasts

	2019	2020		2021		2022		2023	2024	2025	2026
	COM	COM	RRP	COM	RRP	COM	RRP	RRP	RRP	RRP	RRP
Real GDP (% change)	3,1	-5,1	-5,1	3,1	3,6	3,8	3,8	3,2	2,8	n.a.	n.a.
HICP inflation (% change)	0,5	-1,1	-1,1	1,7	1,2	1,1	1,5	1,5	2,0	n.a.	n.a.
Employment (15-74 years, % change)	3,1	-0,6	-0,6	0,6	0,7	1,0	1,5	2,5	2,5	n.a.	n.a.
Unemployment rate (%)	7,1	7,6	7,6	7,5	7,2	7,2	6,7	6,0	5,5	n.a.	n.a.
General government balance (% of GDP)	1,5	-5,7	-5,8	-5,1	-4,7	-2,0	-0,9	0,1	1,6	n.a.	n.a.
General government gross debt (% of GDP)	94	118,2	118,2	112,2	111,9	106,6	103,9	99,5	92,9	n.a.	n.a.

Sources: Cyprus' recovery and resilience plan ("RRP" in the table), Commission 2021 spring forecast ("COM" in the table)

Compared with the Commission 2021 spring forecast, the macroeconomic scenario underpinning the recovery and resilience plan is based on slightly more cautious macroeconomic assumptions. The macroeconomic scenario underpinning the Cyprus recovery and resilience plan and the Stability Programme is favourable in both 2021 and 2022. It projects GDP growth of 3,6% in 2021 and 3,8% in 2022, compared to the Commission 2021 spring forecast projections of 3,1% and 3,8%, respectively. The Cyprus recovery and resilience plan and the Stability Programme anticipate a stronger recovery in private consumption. For 2022, the Commission forecast is driven by a strong rebound in tourism. Projections in the Cyprus recovery and resilience plan and the Stability Programme foresee a return to the pre-crisis level of output and employment in the course of 2022. Real GDP in 2022 is expected to exceed its level in 2019 by 1,6% according to the Commission forecast and by 1,7% according to the Cyprus recovery and resilience plan and the Stability Programme.

Cyprus faces a number of challenges according to the Social Scoreboard indicators underpinning the European Pillar of Social Rights and certain vulnerable groups are at risk of poverty. The youth unemployment (18,2%) and the share of young people not in employment, education or training (NEETs aged 15-29) (15,3%) remain high. Formal early childhood education and care for children younger than three is well below the EU average and

the gender employment gap remains wide, with one of the highest shares in the EU of inactive women due to caring responsibilities. Furthermore, growth of the real gross disposable household income (GDHI) per capita was one of the slowest in Cyprus in 2019. Before the COVID-19 crisis, as a result of the strong economic growth and the social protection reforms that have been implemented since 2014, the at-risk-of-poverty or social inclusion (AROPE) indicator was dropping but remained above the EU average, especially its sub-components relating to the severe material deprivation rate. The share of poorest people is increasing, while the risk of poverty or social exclusion is higher for children and people with disabilities. On a positive side, Cyprus is one of the best performers in the EU in terms of the net income of minimum income recipients as a share of the income of a low wage earner and of the poverty threshold. A new social policy strategy is under preparation and expected to be completed by mid-2021.

2.2. Challenges related to sustainable growth, cohesion, resilience and policies for the next generation

Access to finance for small and medium-sized enterprises (SMEs) has to some extent been improved, but the COVID-19 crisis is adding obstacles. Despite the measures taken by the government, the COVID-19 pandemic has severely impacted the liquidity of firms, particularly in the tourism sector. Because of late payments by struggling firms, cash flow problems can spread through the economy. Notwithstanding lending programmes supported by the European Investment Bank (EIB) and other international development banks, banks are reluctant to lend due to the high debt overhang, which underlines the need to develop alternative funding sources, notably equity and risk capital financing. Private investments and local capital markets are highly underdeveloped, weighing on access to equity finance for innovative SMEs.

Cyprus can further improve its research and innovation (R&I) and education systems to support productivity growth. Reforming the higher education system and enhancing science, technology, engineering and mathematics (STEM) courses in secondary education are essential for allowing R&I to play a greater role in the country's socio-economic development. Increased R&I funding geared towards identified or potential new smart specialisation areas, combined with targeted measures for academia-business cooperation, innovative SMEs and start-ups could support the country's competitiveness and accelerate the green and digital transition.

Cyprus experiences low levels of labour productivity. In 2018, Cyprus' labour productivity per person employed and hour worked was around 76% of the EU27 and it has been largely stagnant over the past decade, increasing by only 1% over the past four years. Total Factor Productivity (TFP) growth has not been the key driver for Cyprus' growth. During the period 2015-2018 more than half of the growth in GDP was driven by employment. Since 2013, TFP growth has picked up to some extent but remains relatively low.

The COVID-19 crisis has highlighted the need to further diversify the economy and to strengthen the sustainability of the tourism sector. The economy relies heavily on a few sectors, such as tourism, foreign-funded residential construction and professional services linked

to foreign companies. The digital transition can help to diversify the economy to sectors with growth potential. The sustainable management and efficient use of the country's natural resources are essential for Cyprus, in particular for the tourism sector, to ensure sustainable economic growth in the long term. The sector of tourism, even before the pandemic, was facing long-term structural challenges such as high dependence on a limited number of markets, low productivity and innovation absorption. Moreover, as far as the size and composition of investments is concerned, since 2011, gross fixed capital formation as a percentage of GDP is below the euro area average, by 3,7 percentage points. From 2015 onwards, the gap narrowed to 2,8 percentage points, however the COVID-19 crisis has caused it to worsen further and is currently projected to rise to 3,8 percentage points by 2022.

Safeguarding the banking systems' overall soundness and managing financial stability risks are essential for recovering from the COVID-19 crisis and for supporting the economy. While the stability of the banking sector improved significantly in recent years, the pandemic is posing strains on banks, through an increase in credit risk and pressures on profitability and capitalisation. Vulnerabilities and challenges stem from an over-indebted private sector and a high stock of NPLs, which limit the scope of credit support. The banking sector in Cyprus has the second highest NPL ratio in the euro area. Therefore, efforts to reduce NPLs remain a priority, in particular addressing 'legacy NPLs' that were long overdue before the onset of the COVID-19 pandemic. Considerable challenges lie ahead, as support measures such as payment moratoria and associated regulatory forbearance and relaxation of loan origination requirements expire. Further progress on the state-owned bank asset management company (KEDIPES), including on its organisational model and strategy, remains essential. The take-up of ESTIA (a government support scheme meant to foster the reduction of NPLs) has been disappointing, which implies that any future measures should take into account the social dimension and balance better the aim to protect vulnerable borrowers and to improve payment culture. The amendments to the foreclosure framework as endorsed by the Supreme Court in June 2020 may cause delays and undermine legal certainty for creditors. In this respect, strengthening the enforcement of claims and enhancing the use of the insolvency framework would help to underpin a sustainable workout of bad loans. Reducing the backlog in the issuance of title deeds by implementing a structural solution to address the inadequacies of the property transaction system (i.e. the issuance and transfer of title deeds) remains an important task.

The business environment in Cyprus, although improving, continues to present obstacles to boosting investments in the country. The law aiming to simplify the procedure for strategic investors to obtain permits and licences to invest in Cyprus has been amended, but it is still pending enactment. The procedures for issuing building permits are complex and lengthy. Investment potential is also hindered by slow progress in privatisations. Cyprus performs well in entrepreneurship, but the insolvency framework does not help honest entrepreneurs to get a second chance. Although the regulatory burden is overall moderate, Cyprus has more restrictive regulations than the EU average in some regulated professions. In retail, reducing regulatory

barriers and investment in digitalisation are needed. Cyprus also has limited resources devoted to applying EU single market rules, which harms the further integration of the single market for goods and services. Cyprus has made good progress in public procurement, but weak competition (in the form of single-bid procedures or direct awards) persists.

Addressing the challenges and inefficiencies of Cyprus' public administration will increase the potential for a speedy recovery from the COVID-19 crisis. Firstly, improving the coordination between central and local government and tackling the fragmentation in many municipalities is critical for ensuring coherent implementation, investments and service delivery in the country. Secondly, the public administration reform that aims to move towards performance, mobility and promotion of talented staff and move away from a seniority-based system towards one rewarding performance, is still pending. In particular, important draft legislation on a new appraisal and promotion system needs to be adopted and implemented. Thirdly, improving the public administration's eGovernment, interoperability and interconnection of IT systems and the general government is key in delivering better quality services to the public. The appointment of a Deputy Minister of Research, Innovation and Digital Policy is a first step in the right direction.

The justice system suffers from a near complete lack of digitalisation and very limited information about the judicial system is available to the public. There is no electronic information on case progress and no electronic case management system. This issue has also been highlighted in the Commission's 2020 Rule of Law Report Country Chapter on the rule of law situation in Cyprus adopted on 30 September 2020. The introduction of an electronic court administration system is one of the main objectives of the ongoing reforms. However, its implementation and the relevant public procurement procedures have been delayed since 2017. The introduction of modern civil procedure rules is also long overdue. On the basis of the findings of the EU Justice Scoreboard 2021 (forthcoming), the time needed to resolve civil, commercial and administrative cases in first instance courts (882 days in 2019 compared to 737 days in 2018) still remains among the highest in the EU. In administrative justice at first instance, the length of proceedings increased (495 days in 2019 compared to 487 days in 2018) and clearance rates decreased (around 170% in 2019 compared to around 219% in 2018).

Perception of corruption in Cyprus remains high in the business context. The Worldwide Governance Indicators and other indexes show a decline in Cyprus' performance on control of corruption (WGI, 2019, TI, 2019). Corruption perception ameliorated in the latest Eurobarometer survey, although the scores remain high, with 88% of Cypriot businesses thinking that corruption is widespread in their country (as compared to 100% in 2017). 86% of businesses believe that bribery and networking is often the easiest way to obtain certain public services, one of the highest scores in the EU (European Commission, 2019). Implementation of actions to fight corruption is progressing but coordination capacity remains insufficient and key legislation for the prevention of corruption is pending.

Diversifying the tax structure is key to improving the sustainability of public finances, while fostering inclusive growth. Cyprus' tax revenues as a share of GDP remain below the EU average and revenue growth is strongly concentrated on a few revenue items (VAT and corporate income tax). Reforms to broaden the tax base and diversify revenue sources will not only support the sustainability of public finances but carry also great potential to improve the efficiency of the tax system and make it more redistributive. To that end, there is scope for measures relating to green taxation, while in the same vein facilitating the green transition.

Cyprus' tax rules are used by companies and individuals that engage in aggressive tax planning. It is crucial to strengthen the fight against tax avoidance and close loopholes that can lead to situations of double non-taxation. The high levels of inward and outward foreign direct investment, in addition to the high levels of dividend and interest payments as a percentage of GDP, suggest that Cyprus' tax rules are used by companies and individuals that engage in aggressive tax planning. Eurostat data show that, on average, 90% of total dividend payments from Cyprus were sent to non-EU countries in 2013-2017.

Cyprus is facing a number of structural social and labour market challenges. The share of people at risk of poverty or social exclusion – though decreasing – was still higher than the EU average in 2019 in general (CY 22,3% vs EU 20,9%) for children (CY 23% vs EU 22,2%), people with disabilities (CY 38,7% vs EU 34,6%) as well as people living outside the major cities (CY 24,6% vs EU 22,4%). Labour market inefficiencies and a low-skilled work force particularly in rural areas translate into higher unemployment rates among the rural population than in the urban areas. Current efforts to increase the quality and affordability of early childhood education and care (ECEC) are steps in the right direction. ECEC provides high returns in terms of inclusive education outcomes as well as female labour market participation and given the challenges and current low capacity it should be further developed, especially for children below the age of three. The adoption and promotion of flexible working arrangements in the public and private sector could further support the labour market activation of persons with care responsibilities and mobility issues. Social services need to be strengthened also taking into account territorial disparities within Cyprus to provide support to the most vulnerable, and cooperate with the public employment services (PES) to facilitate their activation support. Issues remain regarding the coverage of benefits, especially in the COVID-19 crisis (people in low work intensity or undeclared work and non-standard workers are less covered by social protection). It is important to strengthen outreach and scale-up policies targeting job creation and easing job transitions as well as reinforce the public employment services and activation support measures, especially for young people not in employment, education or training (NEETs), in line with the Recommendation for Effective Active Support to Employment (EASE), as part of the new active labour market policy strategy to be completed by mid-2021. Reinforcing the initiatives in the Youth Employment Support (YES) package could help young people to develop their potential and support the twin transitions. Actions to mitigate the socio-economic impact, promote social inclusion and territorial cohesion and contribute to implementing the European

Pillar of Social Rights, are key to safeguarding inclusive growth and making the green and digital transitions fair.

The digital and green transitions call for more focus on education, training and skills. The education reform is progressing at a slow pace. Learning outcomes and performance in basic skills, as measured by the Programme for International Student Assessment (PISA), have yet to improve for students of all socio-economic backgrounds, as there is a wide gap in achievements of students from low and high socio-economic status (CY 29,2 percentage points vs EU 25,5 percentage points, 2018). Integrating asylum seekers into education remains a challenge. Improved recruitment and training of teachers and implementing the long-standing reform of teacher evaluation would increase the effectiveness of the education system. Despite Cyprus' highly educated population (59,8% of people aged 30-34 have tertiary education qualifications, 2020), health as well as science, technology, engineering and mathematics (STEM) graduates remain scarce, and skills mismatches prevail. Digital education is a policy focus, but implementation needs to be improved, as low digital penetration also acts as a barrier to distance learning. Although vocational education and training (VET) offers several new and updated curricula to improve links to the labour market, low participation rates in upper secondary VET make it difficult to meet labour demands. Participation in adult learning remains low, especially among the low-skilled and the unemployed who are in most need of upgrading their skills and acquiring new ones. Accelerating the education reform and developing a national skills strategy that addresses the challenges that have been identified in an integrated manner could support Cyprus' post-COVID-19 crisis recovery and contribute to the green and digital transitions.

The COVID-19 crisis has put additional strain on the health and long-term care systems' limited resources, highlighting the need for reform. The pandemic and an ageing population pose numerous economic and social challenges, putting pressure in particular on Cyprus' health care and long-term care system. The COVID-19 crisis brought to the fore the need for sound coordination mechanisms on the health system linked to streamlining the provision of care, including the integration of the long-term care system. Consolidating the recent National Health System reform is expected to foster patient equity by reducing a historically high reliance on out-of-pocket payments. In future, the resilience of the health system will be hampered in particular by a suboptimal deployment of e-Health tools and challenges in recruitment and retention of health staff. Moreover, compatibility of e-Health solutions and interoperability among the existing systems present important challenges. Improving access, affordability and quality of long-term care services for the older people and most vulnerable, including for people with disabilities, would improve their quality of life, facilitate activation of working-age family carers, who are mainly women, and contribute to reducing inequality and poverty levels. The recent pandemic further highlighted the importance of the preparedness of both the State and the general population to deal with emergencies and, in particular, the role of civil protection.

2.3. Challenges related to the green and digital transition

Green dimension

The recovery and resilience plans should contribute to the green transition and must therefore include a minimum level of 37% of expenditure related to the green dimension. The measures in the plan must contribute to achieving the climate neutrality and the 2030 energy and climate targets set out in the national energy and climate plans. They should also contribute to meeting environmental targets for waste, water, pollution control, sustainable mobility, biodiversity protection and restoration, marine and water resources and support the transition to sustainable food systems as well as to a circular economy as appropriate, while ensuring that nobody is left behind.

Cyprus is facing major challenges in relation to green growth as its economic growth model has a negative impact on the environment and hinders climate neutrality. Decisive efforts to transition to a more climate-friendly growth model are essential to improving the competitiveness and the long-term potential of the economy.[7]

Cyprus is among the Member States with the highest greenhouse gas emissions per head at 11,6 tonnes of CO_2 equivalent per head in 2017, compared with the EU average of 8,8 tonnes. Moreover, emissions increased significantly by 56% between 1990 and 2017 – among the highest increases in the EU. They are dominated by energy production in the two oil- / gas-fired power plants in Vassilikos and Dhekelia, which amounted to 33% of total emissions in 2017, closely followed by transport with a share of 21% of total emissions and the cement plant in Vassilikos. Cyprus is far from meeting its 2030 greenhouse gas emission reduction targets (gap estimated at 24 percentage points), compromising significantly the transition to climate neutrality and sustainable growth.

Ensuring sustainable and green mobility is key for Cyprus due to the large and growing proportion of CO_2 emissions in transport. Transport, which currently accounts for 40% of final energy demand, is the most energy intensive sector in the economy. The increasing CO_2 emissions from transport risks meeting the 2030 climate and energy targets. The use of private cars is well above the EU average, while the use of public transport is very low (3% of total trips). Cyprus has a very low share of renewables in transport (2,5%), and the uptake of alternative fuels in the road transport is extremely low. In addition, the national authorities' plans to increase the share of electric vehicles in the car fleet appear modest and they would not deliver results if energy keeps being produced from fossil fuels. Cyprus is unlikely to comply with requirements on renewable energy sources for road transport fuels. In 2018, the percentage of

[7] Tsemekidi-Tzeiranaki, S., Paci, D., Cuniberti, B., Economidou, M. and Bertoldi, P., Analysis of the Annual Reports 2020 under the Energy Efficiency Directive, EUR 30517 EN, Publications Office of the European Union, Luxembourg, 2020, ISBN 978-92-76-27416-2, doi:10.2760/180952, JRC122742.

biofuels was only 2,69%, which is far from the 10% renewable energy sources target for the transport sector for 2021 to 2030. Sustainable public urban and inter-urban transport is essential, through implementing integrated and multimodal sustainable urban mobility strategies, including a shift to clean and sustainable transport modes.

The transition from highly polluting oil power plants to increased use of renewable energy sources for electricity production is urgent. Apart from addressing environmental and climate concerns, a transition to renewable energy sources would also substantially reduce the costs of energy generation, especially given Cyprus' potential for solar energy generation. In addition, it would also reduce the reliance on imported fossil fuels and therefore, reduce the current account deficit and the exposure to fluctuations in global oil prices. According to the Cyprus' 2020 national energy and climate plan, the country estimates that it will reach a final share of renewable energy sources of 15% by 2021 and 22,6% by 2030. To reach these targets, policy and investment measures, especially in storage technologies, need to be stepped up. More decisive action is needed to open up the electricity market to renewable energy sources producers, to introduce a carbon tax and to promote investments in large-scale renewables. That would significantly increase electricity production from renewable energy sources, eventually replacing oil and natural gas power plants.

Improving the energy efficiency of buildings has great potential for unlocking economic, social and environmental benefits. Most buildings in Cyprus were constructed with no or low levels of thermal protection, which is a substantial source of energy inefficiency. [8] Higher energy efficiency of buildings would alleviate the rates of 'energy poverty' in Cyprus, as inability to keep homes adequately warm and in arrears on utility bills are higher than the EU average. In addition, the energy renovation at a cost optimal level of 79% of existing homes by 2050 is expected to bring primary energy savings of 2.2 TWh and to generate about 94,000 full time equivalent jobs[9].

Water scarcity leads to unsustainable water abstraction levels. The existing water pricing policy does not include sufficient behavioural incentives to encourage water saving behaviour. Agriculture puts significant pressure on surface waters, with 41% of surface waters in less than good ecological status and 3% failing to achieve good chemical status under the Water Framework Directive[10]. Collection of wastewater and the connection to public sanitation

[8] Castellazzi, L., Zangheri, P., Paci, D., Economidou, M., Labanca, N., Ribeiro Serrenho, T., Zancanella, P. and Broc, J., Assessment of second long-term renovation strategies under the Energy Efficiency Directive, EUR 29605 EN, Publications Office of the European Union, Luxembourg, 2019, ISBN 978-92-79-98727-4, doi:10.2760/973672, JRC114200; Castellazzi L, Zangheri P and Paci D. Synthesis Report on the assessment of Member States` building renovation strategies . EUR 27722. Luxembourg (Luxembourg): Publications Office of the European Union; 2016. JRC97754

[9] Zangheri, P., Armani, R., Kakoulaki, G., Bavetta, M., Martirano, G., Pignatelli, F., Baranzelli, C. Building energy renovation for decarbonisation and Covid-19 recovery. A snapshot at regional level, EUR 30433 EN, Publications Office of the European Union, Luxembourg, 2020, ISBN 978-92-76-24766-1, doi:10.2760/08629, JRC122143.

[10] European Commission Staff Working Document - second river basin management plans - Member State: Cyprus.

infrastructure is still incomplete, with 34 agglomerations failing to comply with the Urban Waste Water Treatment Directive[11]. The latest reported compliance (2016 data) showed that CY is 76% compliant with the Urban Waste Water Treatment Directive (Reference: 10th UWWTD implementation report, European Commission, 2020). On the positive side, the percentage of treated wastewater that is reused reaches 97% in Cyprus (the highest in the EU-12).

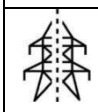
Cyprus' weak performance in waste management is worrying, while the transition towards a circular economy has barely begun. The current facilities for waste treatment are based on mechanical and biological treatment, mainly of mixed waste. The absence of financial incentives makes recycling unattractive. In 2018, Cyprus recycled only 17% of waste, well below the EU-27 average for recycling (38%)[12] and considerably lower than the 2025 target of 55%. An overarching policy framework for the circular economy is lacking. The circular material use rate in 2018 was 2,7%, while the EU-27 average was 11,6%[13]. Promoting waste prevention and putting in place the necessary infrastructure for re-use, source separation, recycling and high-level composting remains a challenge.

On biodiversity, only 45% of habitats of community interest in Cyprus are in favourable conservation status, according to the latest reporting on the progress made with the implementation of the Habitats Directive[14]. Incompatible activities and infrastructure, such as construction, agriculture, tourism and transport, pose a great threat to Natura 2000 sites, especially coastal zone areas.

Table 2 gives an overview of Cyprus' objectives, targets and contributions under Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action.

[11] European Commission 10th UWWTD Implementation report.
[12] Eurostat – Databases on Waste – waste generation and waste treatment.
[13] Eurostat – Main tables on Circular economy – secondary raw materials.
[14] Habitats Directive reporting 2013-2018. National summaries (CY).

Table 2: Overview of Cyprus' objectives, targets and contributions under the Governance Regulation[15]

	National targets and contributions	Latest available data	2020	2030	Assessment of 2030 ambition level
	Binding target for greenhouse gas emissions compared to 2005 under the Effort Sharing Regulation (%)	0%	-5%	-24%	As in ESR
	National target / contribution for renewable energy: Share of energy from renewable sources in gross final consumption of energy (%)	13,6%	13%	22,6%	Slightly below 23% (result of RES formula)
	**National contribution for energy efficiency:**				
	Primary energy consumption (Mtoe)	2,55 Mtoe	2,5 Mtoe	2,4 Mtoe	Low
	Final energy consumption (Mtoe)	1,86 Mtoe	1,9 Mtoe	2,0 Mtoe	Very low
	Level of electricity interconnectivity (%)	Non-interconnected	Non-interconnected	200%	N.A.

Source: Assessment of the final national energy and climate plan of Cyprus, SWD (2020) 912 final.

Digital dimension

The recovery and resilience plan should contribute to the digital transition and at least 20% of the financial allocation needs to contribute to digital objectives. The measures in the plan should among other things contribute to the digital transformation of the economic and social sectors (including public administration, public services, and the justice and health systems). The objective of the measures in the plan should be to not only improve competitiveness, but also resilience, agility, and security of companies and public actors, all while ensuring inclusiveness.

Cyprus ranks among the last Member States (24 out of 27) in the Commission's DESI Report for 2020 and falls short of the EU average in all 5 sub-dimensions.

On connectivity, in DESI 2021, Cyprus is below the EU average in most performance indicators. It performs well in fast broadband coverage (100%, ranking at the top exceeding the EU average of 87%) and also ranks above the EU average in the overall fixed broadband take-up (92%, compared to the EU average of 77%) and mobile broadband take-up (117 subscriptions per 100 people). However, despite significant progress, from 10% in 2019 to 26% in 2020, it still lags behind in the coverage of fixed very high capacity network (VHCN) (26% against 59% of

[15] Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, OJ L 328, 21.12.2018

the EU average). It also ranks among the lowest in the EU in the ultrafast fixed broadband take-up (3% of the total households against the EU average of 34%), as well as in the broadband price index, where Cyprus scores below the EU average (42 against 69 of the EU average in 2020). Cyprus' 4G performance is better, with coverage 99,6%, reaching the EU average (99,7%). For 5G, Cyprus has assigned spectrum in the 700 MHz and the 3,4-3,8GHz band (pioneer bands), whereas the award assignment of the 26 GHz band is pending. The relevant processes in the '5G ready' bands (the paired terrestrial 2 GHz band and the 2,6 GHz band) are expected to start still in 2021 and must be completed before 2026. While current 5G coverage stands at 0% against EU average of 14%, it is noted that Cyprus has assigned 67% of the total harmonised spectrum for 5G, with the EU average being 39%. Even though some submarine cables land in Cyprus, the cost of backbone connectivity is very high.

Cyprus ranks below the EU average on digital skills. Despite the progress made in recent years, the level of basic digital skills remains below the EU average. Only 45% of people aged 16 to 74 have at least basic digital skills (against the EU average of 56%). The share of ICT specialists in the workforce is lower than the EU average (3,1% compared to 4,3% for ages of 15-74). The share of ICT specialists that are female is at 18% in Cyprus, almost reaching the EU average of 19%. Cyprus needs to make efforts to enhance digital skills in all population groups (public administration, enterprises and society at large), as well as to promote Science, Technology, Engineering and Maths (STEM) education and professional path, also amongst girls and women, in order to effectively address the market shortage in ICT professionals.

On the integration of digital technology in business activities, Cyprus ranks below the EU average but is making progress. Cypriot businesses take advantage of new technologies using social media (38% compared to the EU average of 23%), while 15% of SMEs are selling online (below the EU average of 17%). The adoption of new dynamic technologies is improving but still relatively low, in particular regarding cloud services (22% compared to the EU average of 26%), Big Data analytics for business purposes (6%, below the EU average of 14%), while no data on Artificial Intelligence (AI) is provided. Businesses are increasingly taking advantage of the opportunities offered online, but 41% of businesses that recruited ICT specialists had difficulties in doing so, although Cypriot companies are still better off than the EU average (55%) in this respect.

In digital public services Cyprus ranks below the average in the EU. Cyprus performs well in digital public services for businesses as it scores above the EU average (86[16] against 84[16] of the EU). It also performs above the EU average on open data with 87%. However, the level of online interaction between public authorities and the general public could be improved as 59% of Cypriot internet users are actively engaged in e-government services, compared to the EU average of 64%. Finally, in digital public services for citizens, Cyprus scores below the EU average of 75[16] with a score of 66[15]. It should be noted that the government is developing the

[16] Indicator, score (0 to 100).

national eID scheme following the eIDAS Regulation[17]. However, Cyprus has not yet notified an eID scheme to the Commission, which is a pre-condition for the cross-border recognition of national eIDs.

On e-Health, Cyprus is moving towards cross-border integration[18]. Cyprus will be part of a secure peer-to-peer network allowing the exchange of patient summaries and e-prescriptions via MyHealth@EU using the eHealth Digital Service Infrastructure (eHDSI). In future, further possible support by EU4Health funding[19] may help expand and deploy the technical functionalities of the system, enabling the exchange of other structured documents, such as medical images and reports, laboratory reports, hospital discharge letters and finally the complete electronic health record. The objective is to align the Cypriot health infrastructure with the standards set by the Commission for exchanging health data, across national borders within the EU, and to provide interoperable e-Health services. Cyprus is one of the signatories of the 'Declaration towards access to at least 1 million sequenced genomes in the EU by 2022' and part of the '1+Million Genomes' initiative[20].

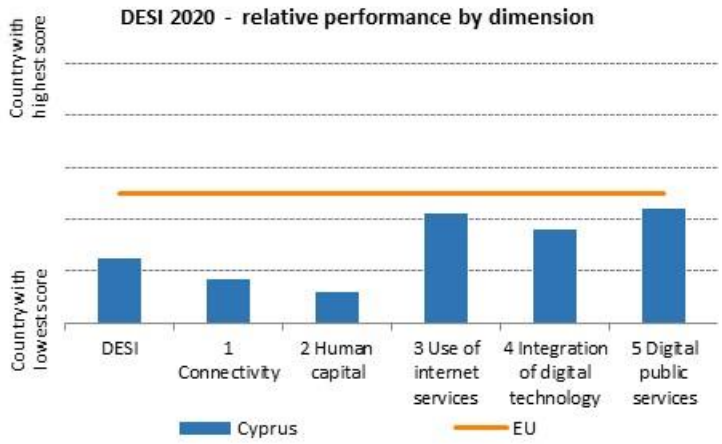
Cyprus is committed to advancing on new digital technologies and investing in them through EU-coordinated programmes and plans[21]. It concerns, among others, HPC[22], Blockchain[23] and artificial intelligence[24]. In addition, Cyprus signed in 2019 a declaration agreeing to explore, together with 24 Member States, how to develop and deploy a quantum communication infrastructure across the EU over the next 10 years.

Although the digital sector is currently responsible for just 3,5% of global CO_2 emissions[25], efforts must also be made to reduce its own footprint, in order to work towards the future objectives of decarbonisation and climate neutrality. The energy, climate and environmental impacts of the digital sector can be alleviated by adopting energy efficient policies, including renewables and complying with the 'do no significant harm' principle[26]. In addition, the EU

[17] The eIDAS Regulation on eID and Trust Services unlocks our Digital Single Market. Its importance was particularly highlighted by the COVID-19 pandemic.
[18] Law on e-Health (59(I)/2019).
[19] https://ec.europa.eu/health/funding/eu4health_en
[20] https://ec.europa.eu/digital-single-market/en/european-1-million-genomes-initiative.
[21] Cyprus performs 31.4 in the index on investment in emerging technologies, i.e. Internet of Things (IoT), Advanced Analytics and Artificial Intelligence, Augmented Virtual Reality and Wearables, Advanced Robotics and 3D Printing.
[22] HPC: High Performance Computing. Cyprus hosts the 'Cy-Tera' institute which has the necessary know-how to upgrade and successfully operate a more powerful HPC capacity, and has extensive experience in HPC-powered applications. Cyprus has recently established its National HPC Competence Centre.
[23] https://digital-strategy.ec.europa.eu/en/policies/blockchain-strategy.
[24] https://ec.europa.eu/digital-single-market/en/artificial-intelligence
[25] According to a 2018 study, https://www.mdpi.com/2071-1050/10/9/3027
[26] Communication from the Commission - Powering a climate-neutral economy: An EU strategy for Energy System Integration. COM(2020) 299 final.

circular action plan needs to be strengthened to harness the full potential of digital technologies to achieve its objectives.

Figure 1. DESI 2020 - relative performance of Cyprus by dimension



Note: EU aggregate corresponds to EU28, based on 2020 DESI report.

Box 1: Progress towards the Sustainable Development Goals

The objectives of the Sustainable Development Goals (SDG) are integrated in the European Semester since the 2020 cycle. This provides a strong commitment towards sustainability in coordination of economic and employment policies in the EU. In that respect, this section outlines Cyprus' performance with respect to SDGs with particular relevance for the four dimensions underpinning the 2021 Annual Sustainable Growth Strategy and of relevance to the recovery and resilience plans (green transition, fairness, digital transition and productivity, and macroeconomic stability), indicating possible areas where investments and reforms in line with the objectives of the Facility could further accelerate the progress on the SDGs.

Figure 2: SDGs and key dimensions of the recovery and resilience plan

In this figure, the United Nations' Sustainable Development Goals are represented under a specific Commission guiding principle for competitive sustainability from the 2021 Annual Sustainable Growth Strategy, to which they are strongly associated. It should be noted that most Sustainable Development Goals contribute, to varying degrees, to several guiding principles.



1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnership for the goals

Green Transition

Cyprus does not perform well on many SDGs linked to the green transition. The country performs below EU average with respect to environmental impact of agriculture (SDG 2), clean water and sanitation (SDG 6), affordable and clean energy (SDG 7), responsible consumption and production (SDG 12), climate action (SDG 13) and life on land (SDG 5). Many of the indicators in those areas are further deteriorating from already sub-par levels and this is particularly the case for nitrate in groundwater and soil sealing index, which seems consistent with the fact that Cyprus scores below the EU average and has further deteriorated when it comes to the waste generation and recycling rate. Cyprus' position regarding final energy consumption, resource productivity and climate mitigation has also worsened, which does not bode well for its environmental outcomes in the future. Cyprus is among the Member States with the highest greenhouse gas emissions per person at 11,6 tonnes of CO_2 equivalent per person in 2017 (versus 8,8 tonnes EU average). Reducing the carbon-intensity of the Cypriot economy would lead to progress on affordable and clean energy (SDG 7) and climate action (SDG 13).

Fairness

Cyprus' performance on indicators assessing the fairness of society and economy is uneven. Overall, Cyprus progresses towards ending poverty (SDG 1), notably regarding the share of people living in households with very low work intensity (CY 6,8% vs. EU-27 8,3%, 2019) and the in work at-risk-of-poverty rate (CY 6,7% vs. EU-27 9%, 2019). However, the rate of people at risk of poverty or social exclusion (22,3%, 2019), though declining, is still above the EU average (20,9%). Further, Cyprus has one of the highest shares of people unable to keep their houses adequately warm in the EU (CY 21% vs. EU-27 6,9%, 2019) and the share of population living in poor housing conditions has increased (CY 31,1% vs. EU-27 12,7%, 2019). Cyprus performs slightly above the EU average on good health and well-being (SDG 3), showing a considerable improvement on self-reported unmet need for medical care (CY 4,7%, 2014 vs. 1%, 2019). However, the proportion of adults smoking is still higher than the EU average (CY 28% vs. EU-27 25%, 2020). Compared to the EU average, Cyprus is underperforming when it comes to gender equality (SDG 5) particularly as regards the gender gap for tertiary educational attainment and the gender gap in the inactive population due to caring responsibilities. Although Cyprus scores above the EU average for tertiary educational attainment, major challenges remain regarding quality education (SDG 4). The situation is further deteriorating regarding underachievement in reading and science, as well as regarding adult participation in learning (CY 4,7% vs. EU-27 9,2%, 2020).

Digital transition and productivity

There is significant room for improvement regarding Cyprus' performance in industry, innovation, and infrastructure (SDG 9). With 0,6% of GDP allocated to R&D in 2019, Cyprus has a substantially lower R&D spending compared to the EU average (2,2%). Cyprus ranks below the EU average on digital skills: Only 45% of people between 16 and 74 years of age have at least basic digital skills (compared to the EU average of 56%, 2019). The share of ICT specialists in the workforce is lower than the EU average (2,7% compared to 3,6%). The level of

e-commerce is low (CY 31,8% vs. EU-27 40,1%, 2019). In 2020, Cyprus had 0% 5G readiness compared to 21% in the EU. Increased R&D funding combined with targeted measures for skills development, academia-business cooperation, innovative SMEs and start-ups could support the country's productivity growth, competitiveness and accelerate the digital transition.

Macroeconomic stability

Cyprus shows overall good progress on decent work and economic growth (SDG 8), with an increasing employment and decreasing long term unemployment rate. However, notably, the increasing share of young people aged 15-29 that are not in employment, education or training (NEETs) in the current economic downturn (CY 15,3% vs. EU-27 13,7%, 2020) calls for targeted measures supporting the next generation. Real GDP per person and the investment share of GDP are still below the EU average with the former having further decreased in 2020. Cyprus still needs to improve towards objectives of peace, justice and strong institutions (SDG 16), including reducing corruption. This would also contribute to a strong business environment. The percentage of the population with confidence in the European Institutions and, therefore, trust in European policies, increased in 2020.

3. OBJECTIVES, STRUCTURE AND GOVERNANCE OF THE PLAN

3.1. Overall strategy of the plan

The Cyprus recovery and resilience plan is a forceful response to the economic repercussions from the COVID-19 pandemic and consists mainly of future-oriented measures, with a strong focus on the green transition and digital transformation. It is composed of 13 components grouped in five policy axes: (i) public health, civil protection and lessons learned from the pandemic (ii) accelerated transition to a green economy, (iii) strengthening the resilience and competitiveness of the economy, (iv) towards a digital era, and (v) labour market, social protection, education and human capital.

Policy Axis 1 focuses on health and civil protection

- Component 1.1 (Resilient and effective health system, enhanced civil protection) consists of 3 reforms and 7 investments, for a total financial envelope of EUR 74,1 million.

The component addresses the challenge of universal access to high-quality healthcare in Cyprus as well as civil protection's overall emergency preparedness and response. Its objective is to strengthen the effectiveness, accessibility and overall resilience of the healthcare sector supporting the recently introduced National Health System through various interventions. These include the (i) modernisation and digitalisation of health care infrastructure and equipment, (ii) stepping-up of e-Health services, (iii) accreditation of provided health care services and introduction of evidence-based clinical protocols and quality monitoring systems, as well as (iv) upskilling opportunities for health workers. It further aims at enhancing Cyprus' civil protection system by stablishing a modern Public Warning System. The reforms and investments included in the component contribute to addressing CSR 1 of 2020 and CSR 3 in 2019.

Policy Axis 2 focuses on green economy and contains measures within the domains of energy policy, urban mobility and transport and water resource management.

- Component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration) consists of 4 reforms and 11 investments, for a total financial envelope of EUR 269,1 million.

The component addresses the challenge of climate change mitigation and contribute to the country's transition to climate neutrality through measures relating to green taxation, the opening up of the electricity market and the facilitation of licensing of renewable energy and renovation projects. The component seeks to contribute to the achievement of the national energy efficiency and renewable energy targets for 2030 by improving the energy efficiency of the building stock and other infrastructure and supporting green investments for SMEs, households, the wider public sector and NGOs. The component also targets the alleviation of energy poverty and addresses Cyprus' energy isolation. The component supports addressing the CSRs that recommend focusing investment and investment-related policies on energy efficiency and renewable energy (CSR 4 in 2019 and CSR 3 in 2020).

- Component 2.2 (Sustainable transport) consists of 3 reforms and 3 investments, for a total financial envelope of EUR 91,3 million.

The component aims at promoting cleaner, smarter, safer and fairer urban mobility by encouraging a modal shift from private cars to more sustainable modes of transport such as public transport, cycling, walking, and to promote the use of zero or low-emission vehicles (LEVs) as well as the use of digital systems in the transport sector. The component addresses the CSRs on investment in sustainable transport (CSR 4 in 2019 and CSR 3 in 2020).

- Component 2.3 (Smart and sustainable water management) consists of 1 reform and 8 investments, for a total financial envelope of EUR 87,3 million.

The component aims to ensure adequate and uninterrupted supply of good quality drinking water, maximising the infrastructure for waste water collection systems, waste water treatment and reuse of treated effluent in agriculture; reducing water supply and distribution system water losses, reducing the non-revenue water and groundwater abstraction, improving operational efficiency of the services being provided to the consumers through technological advances and establishing transparency in financial transactions. The component aims to achieve three strategic goals in the water management sector: (i) promote green and blue development, (ii) protect the environment while promoting the efficient use of resources and (iii) reduce greenhouse gas emissions and adapt to climate change. The component addresses the CSRs related to water management (CSR 3 in 2020 and CSR 4 in 2019).

Policy Axis 3 focuses on strengthening the resilience and competitiveness of the economy, through its diversification and integrating elements, such as of the circular economy, that support resilience and competitiveness, the enhancement of research and innovation, and

the legislative and financial support to businesses. In addition, it aims at improving administrative efficiency of the public sector, including local authorities, and of the justice system, supporting the competitiveness of the business environment. Moreover, it includes measures to safeguard the fiscal and financial stability of the economy.

- Component 3.1 (New growth model and diversification of the economy) consists of 5 reforms and 13 investments, for a total financial envelope of EUR 166,4 million.

The component addresses the challenges of the Cypriot economy with regard to competitiveness, productivity and investment. It also aims to reduce overreliance on certain economic sectors, such as tourism, by helping the economy move to a new economic growth model (of Sustainable Business and Trade Centre of Europe) by addressing sectoral challenges in the primary and secondary sectors as well as by promoting sustainable tourism and reputable healthcare. Moreover, it aims to promote circular economy (with emphasis on waste management). The component contributes to addressing the country specific recommendation related to focus investment on the green and digital transition and on waste and water management (CSR 3 in 2020), to focus investment-related economic policy on sustainable transport and on environment, in particular waste and water management (CSR 4 in 2019). All that is in line with the recently adopted Commission Communication "Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery".

- Component 3.2 (Enhanced research and innovation) consists of 3 reforms and 4 investments, for a total financial envelope of EUR 64 million.

The component addresses the challenges that Cyprus faces as regards the Research and Development (R&D) ecosystem that plays a relatively limited role in economic growth, by strengthening links between research organisations and enterprises, facilitating commercialisation of research results, increasing intensity in R&D and investments by both public and private organisations therein. The component also aims to make all publicly funded research infrastructure accessible to the entire ecosystem. Furthermore, it aims to enhance financial support to start-ups, scale-ups, SMEs, internationalisation, to develop local talent and attract talent from abroad to work in research and innovation, with emphasis on specific thematic areas, including ICT. The component addresses the CSR on increasing the focus on investment-related economic policy on research and innovation (CSR 3 in 2020 and CSR 4 in 2019).

- Component 3.3 (Business support for competitiveness) consists of 6 reforms and 6 investments, for a total financial envelope of EUR 51,44 million.

The component addresses the challenges of low productivity and competitiveness of the economy, driven by the enterprises' small size on average, the complex licensing process requested for an investment and difficulties of access to funding to business. In particular, it aims to support entrepreneurs and enterprises and improve their competitiveness and contribution to the growth of the economy by improving the regulatory framework regarding investment and

entrepreneurial activity and to enhance SMEs productivity, mainly through digitalisation. The component addresses the parts of CSR 3 in 2020 and CSR 4 in 2019.

- Component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption) consists of 10 reforms and 9 investments, for a total financial envelope of EUR 96 million.

The component aims to (i) increase the effectiveness, efficiency and relevance of government processes, (ii) strengthen the administrative capacity and cooperation of the Ministry of Interior and local governments to ensure the effective implementation of the new local administration model, (iii) improve the quality and efficiency of the justice system, through accelerating the delivery of justice and reducing the backlog of cases, and (iv) achieve greater coherence to the government's efforts to fight corruption. The reforms and investments included in the component contribute to addressing the CSRs on improving efficiency in the public sector, in particular as regards the functioning of the public administration and of local governments (CSRs 1 in 2019 and CSR 4 in 2020), on promoting flexible working arrangements (CSR 2 of 2020), on improving the efficiency and digitalisation of the judicial system (CSR 5 in 2019 and CSR 4 in 2020) and on anti-corruption reforms (CSR 5 in 2019).

- Component 3.5 (Safeguarding fiscal and financial stability) consists of 10 reforms and 2 investments, for a total financial envelope of EUR 44,5 million.

The component addresses the challenges of fiscal and financial vulnerabilities, as well as the related excessive macroeconomic imbalances. The objective is to safeguard financial stability by (i) reducing legacy risks in the banking sector, to a large extent related to remaining stocks of non-performing loans, (ii) putting in place measures against high private indebtedness, such as improving monitoring, enhancing insolvency frameworks and improving financial literacy, and (iii) improving supervision in the non-bank sector (insurance, pension funds, and securities markets). To ensure fiscal stability, Cyprus aims at combating tax evasion, tax avoidance and aggressive tax planning; and providing policy makers with comprehensive data in order to design a fair tax system. The envisaged measures are expected to make revenue collection more efficient and Cyprus' tax system fairer, reducing the spill-over effects from aggressive tax planning. Specifically, Cyprus plans to introduce a withholding tax on dividends, interest, and royalty payments in a first step to jurisdictions included in the EU list of non-cooperative jurisdictions and in a second step to low corporate tax jurisdictions. Regarding low tax jurisdictions and in respect of interest and royalty payments, the Cypriot authorities may explore instead the approach of applying non-deductibility. Importantly, Cyprus also envisages to make a subsequent holistic evaluation of various measures related to aggressive tax planning, including those adopted under the plan to tackle aggressive tax planning. The evaluation is expected to, among others, estimate the expected impact of the measures on relevant cross-border flows. The evaluation is also expected to include the 17 July 2020 measure on intangible assets. If the evaluation identifies shortcomings, Cyprus will follow up with policy action, including through legislative changes. The component supports addressing the CSRs on financial stability and

private indebtedness (CSRs 2 and 5 in 2019), and on addressing features of the tax system that facilitate aggressive tax planning by individuals and multinationals (CSR 4 of 2020 and CSR 1 in 2019).

Policy Axis 4 focuses on driving forward Cyprus' digital transformation notably by addressing infrastructure challenges in the area of data connectivity and by achieving the digital transformation of the public sector.

- Component 4.1 (Upgrade infrastructure for connectivity) consists of 2 reforms and 3 investments, for a total financial envelope of EUR 53 million.

The component addresses infrastructure challenges and shortcomings in the area of connectivity, particularly in rural areas, with a view to narrowing the rural-urban divide, as well as differences along gender, age, income and education. The objective of the component is to enhance access to communication infrastructure for all citizens, thus bridging the digital divide and supporting an inclusive digital transformation. The component addresses the CSRs on investment in the digital transition and the digitalisation (CSR 4 in 2019 and CSR 3 in 2020).

- Component 4.2 (Promote e-government) consists of 4 reforms and 2 investments, for a total financial envelope of EUR 36,4 million.

The component aims to contribute to accelerating the digital transformation of Cyprus through the digitalisation of government services (G2G), as well as by enhancing the efficiency and the provision of online, secure and prompt services to citizens, in a user friendly, efficient and effective way. This is expected to facilitate the interaction between citizens and the public services, without the need for physical presence. The objective of the component is to build a secured, integrated and modern digital architecture to achieve the transformation to a digital government. The component addresses the CSR on investment in the digital transition and the digitalisation (CSR 4 in 2019 and CSR 3 in 2020).

Policy Axis 5 targets education and training, labour market and social policies. It focuses on the development of skills of the current and future workforce in order to respond effectively to the trends and needs of the labour market, including those arising from the green and digital transition. In addition, the Axis includes actions on early childhood education and care and social welfare, and it addresses employment weaknesses such as gaps in social protection, limited flexible working arrangements and youth activation.

- Component 5.1 (Educational system modernisation, upskilling and retraining) consists of 5 reforms and 2 investments, for a total financial envelope of EUR 94 million.

The component addresses the challenges of low participation in vocational education and training (VET) and lifelong learning, rising skills mismatches (particularly among young graduates) and poor digital skills. It further addresses the quality of teaching and the availability and affordability of early childhood education and care (ECEC) for children aged four years old. Its objective is to (i) improve the quality and effectiveness of education and training at all levels,

(ii) foster the uptake of labour market-relevant reskilling and upskilling opportunities, in particular regarding the twin transitions, across society regardless of employment status, skills level or age, and (iii) modernise the school structures making them fit for the digital transition.
The reforms and investments included in the component contribute to addressing the CSR on education and skills (CSR 2 in 2020 and CSR 3 in 2019), early childhood education and care (CSR 3 in 2019) as well as on digital skills (CSR 4 in 2019 and CSR 3 in 2020).

- Component 5.2 (Labour Market, social protection, social welfare and inclusion) consists of 2 reforms and 5 investments, for a total financial envelope of EUR 78,9 million.

The component addresses (i) inefficiencies and gaps in social protection notably for the self-employed and people working in non-standard forms of employment, (ii) the lack of legislation for flexible working arrangements in the form of teleworking, (iii) challenges related to unemployment and youth unemployment and the high level of young people not in employment, education or training (NEETs), (iv) gaps in early childhood education and care (ECEC) and (v) challenges with respect to social inclusion and welfare, including a high level of people at risk of poverty or social exclusion (AROPE) and increasing needs in long-term care. The reforms and investments included in the component contribute towards addressing the CSRs on improving the effectiveness of the public employment services and the education and training system (CSR 3 in 2019 and CSR 2 in 2020), providing social protection for all and introducing flexible working arrangements (CSR 2 of 2020), and improving the efficiency and digitalisation of the public sector (CSR 1 in 2019 and CSR 4 in 2020).

Table 3: Components and associated costs

Component	Costs (EUR million)
1.1 Resilient and effective health system, enhanced civil protection	74,1
2.1 Climate neutrality, energy efficiency and renewable energy penetration	269,1
2.2 Sustainable transport	91,3
2.3 Smart and sustainable water management	87,3
3.1 New growth model and diversification of the economy	166,4
3.2 Enhanced research and innovation	64,0
3.3 Business support for competitiveness	51,4
3.4 Modernising public and local authorities, making justice more efficient and fighting corruption	96,0
3.5 Safeguarding fiscal and financial stability	44,5
4.1 Upgrade infrastructure for connectivity	53,0
4.2 Promote e-government	36,4
5.1 Educational system modernisation and reform	94,0
5.2 Labour market, social protection, social welfare and inclusion	78,9
Total cost of Cyprus' plan	1 206,4

3.2. Implementation aspects of the plan

Consistency with other programmes

The plan contributes to, and is aligned with, the following programmes:

1. The Integrated National Energy and Climate Action Plan (INECP): The national targets for the next decade are monitored in detail in the INECP until 2030 and serves as a basis for the long-term strategy aiming towards the minimisation of greenhouse gas emissions by 2050. The recovery and resilience plan supports and promotes investments and reforms to improve climate resilience through the implementation of the national strategy and action plan on climate change adaptation that was adopted in 2017. Most of the priority areas of the NECP overlap with those of the RRF, regarding the green transition.[27] These include the building renovation and affordable, energy-efficient housing, deployment of renewables, sustainable transport, energy system integration, dealing with negative externalities, energy efficiency measures, clean industry, other clean energy technologies, and including environmental impacts (i.e. on natural resources and biodiversity). The recovery and resilience plan ensures consistency and complementarity with these policy areas through the components of Policy Axis 2 (Accelerated transition to a green economy), which are component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration), component 2.2 (Sustainable transport) and component 2.3 (Smart and sustainable water management). In general, the implementation of the reforms and investments envisaged in the context of these components will assist with achieving the targets in the context of attaining the national energy and climate objectives for 2030 and beyond.

2. The Youth Guarantee implementation plan, and the Territorial Just Transition plan under the Just Transition Fund: The Cypriot recovery and resilience plan is consistent with the reinforced Youth Guarantee and the short- and medium-term investment priorities and the ambition "Youth Employment Support: A Bridge to Jobs for the Next Generation". Measures under the reinforced Youth Guarantee are financed by national resources, the RRF, the Union instruments under cohesion policy and in particular the Youth Employment Initiative, the European Social Fund (ESF) and other EU funding sources in line with their legal framework. The consistency between the plan and the reinforced Youth Guarantee will be primarily achieved through the investment *Improving the effectiveness of the Department of Labour and Public Employment Services and reinforcing support for young people* in component 5.2 (Labour market, social protection, social welfare and inclusion) and the investment *Skilling, reskilling and upskilling* in component 5.1 (Educational system modernisation, upskilling and retraining).

[27] For the assessment of targets and measures of the NECP please see: Economidou, M., Ringel, M., Valentova, M., Zancanella, P., Tsemekidi Tzeiranak, S., Zangheri, P., Paci, D., Ribeiro Serrenho, T., Palermo, V. and Bertoldi, P., National Energy and Climate Plans for 2021-2030 under the EU Energy Union, EUR 30487 EN, Publications Office of the European Union, Luxembourg, 2020, ISBN 978-92-76-27013-3, doi:10.2760/678371, JRC122862

3. The **partnership agreements** and **operational programmes under the Union funds while they are at the stage of negotiation**, Table A and Table B of Annex I of the plan provide a mapping of the plan and Cohesion Policy mapping with the CSRs. They also provide the full list of Cohesion Policy objectives and projects contributing to CSRs. The RRP is also consistent and complementary with the **Common Agricultural Policy** in terms of the planned reforms/investments for agriculture and rural development.

4. The Technical Support Instrument (TSI) provides expertise in building capacities to implement the plan in a number of areas covered such as healthcare, education, labour market, green and digital transition, public financial management and revenue administration, as well as for the overall implementation of the plan. Sectoral support for the design, implementation and evaluation of research and innovation policy reforms will also be available via the Horizon Policy Support Facility.

Consistency with the challenges and priorities identified in the most recent euro area recommendation

The plan is also consistent with the challenges and priorities identified in the most recent euro area recommendation[28]. In particular, the plan includes reforms linked to improving the business environment in component 3.3 (Business support for competitiveness), to the efficiency of public administration and the effectiveness of the justice system, including anti-corruption in component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption), and to securing tax collection capacity and improving tax administration in component 3.5 (Safeguarding fiscal and financial stability).

Coordination and implementation framework

The coordinating structure for the plan for Cyprus was endorsed by the Council of Ministers, as described in Section 4.8**.** This is presented in the governance, control and audit part of the plan. The Coordinating Authority of the plan of Cyprus is the European Commission's Directorate General for European Programmes, Coordination and Development (DG-EPCD). This is done in cooperation with the Ministry of Finance.

Gender equality and equal opportunities for all

With regard to gender equality and equal opportunities for all, the plan describes existing national challenges, explains which reforms and investments are expected to contribute to overcoming them and contains a series of measures across several components that contribute to addressing the challenges in this area. The plan provides information about the

[28] Pending final adoption by the Council, after endorsement by the European Council. The text agreed by the Eurogroup on 16 December 2020 is available at: https://data.consilium.europa.eu/doc/document/ST-14356-2020-INIT/en/pdf

country's governance structure for equality, and underlines that the promotion of equality, non-discrimination and accessibility during the implementation of the plan will be ensured through the involvement of the competent authorities. The plan describes the views of these authorities on the potential equality impacts of the measures included in the plans. It includes data disaggregated by sex to a limited extent. Relevant measures aim to improve 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 (NEETs) is expected to over-proportionally benefit young people from vulnerable backgrounds, including with migration backgrounds. Throughout the plan needs of persons with disabilities are taken into account and a quantitative target for the improvement of energy performance in households with persons with disabilities is included.

Stakeholder consultations

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. Also, the Cypriot Economy and Competitiveness Council, equivalent to a national productivity board, has been consulted.

Specifically, the authorities ran a consultation with social partners and political parties. They met separately with:

- the employers' association and the Chamber of Commerce;
- the trade unions;
- the Youth Board of Cyprus;
- the Cyprus Scientific and Technical Chamber;
- the Pancyprian Teachers Association;
- Birdlife Cyprus;
- the Federation of Environmental Organisations of Cyprus;
- representatives from all political parties (at a frequent basis).

Each counterpart submitted project proposals for the plan, for consideration by the government. Following the consultation of all relevant stakeholders, part of the initially planned reforms and investments have been adapted from the plan. Acoordination 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 and civil society, throughout the implementation of the investments and reforms included in the plan.

Security self-assessment

The Cypriot plan includes a security self-assessment for investments in digital capacities and connectivity, in line with the Article 18(4) point (g) of the RRF Regulation. As regards investments in connectivity, in particular in 5G networks, the plan identifies relevant security issues. It also details how they will be addressed, based on the common objective criteria included in the EU toolbox for 5G networks Cybersecurity. Strategic measures mentioned in the security self-assessment would need to be closely monitored during the implementation of the plan.

Cross-border projects

Cyprus included two cross-border projects in its plan for an electricity interconnector and submarine cables for connectivity. Both projects would have a cross border element with Greece. First, the 'EuroAsia Interconnector' in component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration) 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 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. The project is expected to end the energy isolation of Cyprus. Second, the project for the submarine cables in component 4.1 (Upgrade infrastructure for connectivity) 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 should strategically support connectivity in the island. 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 should offer significantly higher performance compared to existing dated cables.

Communication

Regarding communication, the recovery and resilience plan presents a detailed communication strategy. Cyprus foresees an estimated budget of EUR 1 million for the implementation of the envisaged communication strategy. The objectives of the communication strategy are consistent with the RRF Regulation. The strategy aims to ensure awareness about the EU's contribution to mitigate the economic and social consequences of the COVID-19 pandemic and to the twin transition. The overall responsibility for the implementation of the communication strategy and plan, coordinating and supervising all communication activities, is under the Coordinating Authority of the plan (the DG-EPCD). In this context, the DG-EPCD presents its plan in relation to the aims of the communication strategy, as well as its implementation phases. In particular, the DG-EPCD main aim is to set up the most appropriate mechanisms and tools for maximum visibility and communication impact (including of a website on which the plan is uploaded). Moreover, the communication strategy will be closely linked with the implementation of the plan. At times when important milestones have been achieved, it will display its results when these are visible and measurable. Thus, the communication activities presented will be planned in three phases, each of which addresses a separate audience.

Communication activities will be monitored through a set of qualitative and quantitative indicators to ensure high-quality implementation.

The target audiences are clearly defined and justified based on their specific role in relation to the RRF. These are expected to cover beneficiaries, stakeholders and media, reaching also to under-represented groups of the society, such as people with disabilities, and promote how the RRP invests in such under-represented groups, including women, youth and elderly. The communication strategy will emphasise customised messages that will resonate with citizens and businesses. Innovative ideas will be put in place to increase the engagement. The main channels of disseminating information will be media coverage, online communication tools, events, printed communication material and outdoor advertising. Key reforms and investment projects from the plan will be selected for communication and promotion purposes. The plan foresees close cooperation with the Commission on the implementation of the communication strategy.

State aid

State aid and competition rules fully apply to the measures funded by the RRF. Union funds channelled through the authorities of Member States, like the RRF funds, become State resources and can constitute State aid if all the other criteria of Article 107(1) TFEU are met. When this is the case and State aid is present, these measures must be notified and approved by the Commission before Member States can grant the aid, unless those measures are covered by an existing aid scheme or comply with the applicable conditions of a block exemption regulation, in particular the General Block Exemption Regulation (GBER) declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 TFEU[29]. When State aid is present and it requires notification, it is the duty of the Member State to notify State aid measures to the Commission before granting them, in compliance with Article 108(3) TFEU. In this respect, the State aid analysis carried out by Cyprus in the recovery and resilience plan cannot be deemed a State aid notification. In as far as Cyprus considers that a specific measure contained in the recovery and resilience plan entails *de minimis* aid or aid exempted from the notification requirement, it is the responsibility of Cyprus to ensure full compliance with the applicable rules. Irrespective of whether they comply with the EU's State aid regime, measures taken under this framework should be compatible with the EU's international obligations, in particular under World Trade Organization rules.

4. SUMMARY OF THE ASSESSMENT OF THE PLAN

4.1. Comprehensive and adequately balanced response to the economic and social situation

The plan puts forward a well-balanced package of reforms and investments that jointly cover in a comprehensive manner the six pillars of the Recovery and Resilience Facility,

[29]Commission Regulation 651/2014, OJ L 187, 26.6.2014, p. 1.

taking into account the specific policy challenges of the Cypriot economy and society. The plan features 75 investments and 58 reforms, spread out over 13 components that each have a particular focus (see Section 3.1) and are 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 provides a detailed explanation of its contributions to the six pillars of the RRF. The coverage of the six pillars of the Facility is summarised in Table 4. All pillars are covered by at least one component, while each component contributes to several pillars. The pillar "Smart, sustainable and inclusive growth*"* is covered by a large majority of components, reflecting its close link to the overarching objective of the plan as described above. This predominant position is therefore justified by the country-specific challenges faced by Cyprus. In summary, the plan ensures that each pillar is addressed in a comprehensive and coherent manner.

Table 4: Coverage of the six pillars of the Facility by the Cypriot plan's components

	Green transition	**Digital transformation**	**Smart, sustainable & inclusive growth**	**Social and territorial cohesion**	**Health, and economic, social and institutional resilience**	**Policies for the next genera-tion**
1.1 Resilient and effective health system, enhanced civil protection	○	●	○	●	●	●
2.1 Climate neutrality, energy efficiency and renewable energy penetration	●	○	●	●	○	○
2.2 Sustainable transport	●	○	●	○		○
2.3 Smart and sustainable water management	●	○				○
3.1 New growth model and diversification of the economy	○	○	●	●	○	○
3.2 Enhanced research and innovation	○	○	●		○	
3.3 Business support for competitiveness		○	●		○	
3.4 Modernising public and local authorities, making justice more efficient and fighting corruption	○	●	●	○	●	○
3.5 Safeguarding fiscal and financial stability		○	●		●	
4.1 Upgrade infrastructure for connectivity		●	●	●	○	●
4.2 Promote e-government		●	●	●	○	●
5.1 Educational system modernisation, upskilling and retraining	●	●	●	○	●	●
5.2 Labour market, social protection, social welfare and inclusion	○	●	●	●	●	●

Key: "●" investments and reforms of the component significantly contribute to the pillar; "○" the component partially contributes to the pillar

Green transition

The plan addresses key challenges related to the green transition, which are substantial. Cyprus has relatively high greenhouse gas emissions per head, notably in energy generation, energy efficiency of buildings and transport sectors (see Section 2.3). Emissions have been increasing over the years, contrasting with ambitious EU and Cyprus' targets toward the green transition. Cyprus also faces challenges in water and waste management and in enhancing biodiversity and wildlife.

The plan dedicates 41% of the total allocation to measures contributing to the green transition. With a total climate allocation of approximately EUR 491 million, the plan therefore complies with the minimum requirement of at least 37% of the total allocation supporting climate change objectives. The proposed measures reflect the identified challenges and are in line with the comprehensive Integrated National Energy and Climate Plan (INECP) of January 2020.

Policy Axis 2 represents the main lever of the green transition in the plan. It includes measures that contribute to Cyprus' transition to climate neutrality through energy efficiency, renewable energy, promotion of sustainable transport and improved water management. Specifically, it envisages to improve the environmental and climate policy through the introduction of green taxation, the opening-up of the electricity market and the facilitation of licensing of renewable energy and renovation projects. It aims to improve the energy efficiency of the building stock and other infrastructure and to support green investments. Furthermore, an envisaged electricity interconnector aims to tackle Cyprus' energy isolation and thus its vulnerability to energy supply and price shocks. Dedicated measures aim at accelerating the replacement of conventional transport rolling stock with zero and low emission vehicles accompanied with the necessary infrastructure and the use of alternative and cleaner means of transport. The axis further envisages smart and efficient water management mainly through introduction of new technology. The axis 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.

Other components of the plan also contribute to the green transition. In particular, the plan includes envisaged construction of energy efficient buildings and energy efficient renovation of existing ones in component 1.1 (Resilient and effective health system, enhanced civil protection), the development and promotion of circular economy and investment in new port infrastructure for the aquaculture sector in component 3.1 (New growth model and diversification of the economy), and support for smart cities and the renovation of Nicosia inner city in component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption). Also, a share of funding programmes is dedicated to research and innovation on green transition in component 3.2 (Enhanced research and innovation). Policy Axis 5 contributes through dedicated investment in green skills and indirectly through measures promoting flexible working arrangements, mostly telework, thus reducing commuting to work and in turn carbon footprint.

Digital transformation

The plan's measures related to digital transformation are well anchored in the analysis of Cyprus' main challenges in digitalisation. Cyprus lies at the lower end of the ranking of EU Member States in the DESI. While improving on some of the dimensions over past years, Cyprus has not succeeded in reducing the gap to the EU average. The relative performance gap is particularly marked in connectivity (mostly in terms of fixed broadband, above 100 Mbps) and digital skills where the gap has recently increased.

The plan dedicates about 23% of the total allocation to measures contributing to digital objectives. With a digital contribution of EUR 282 million, the plan complies with the minimum requirement of at least 20% of the total allocation supporting digital transition. The proposed measures reflect recommendations of the new National Digital Strategy of June 2020, whose objectives are the digital transformation of the public and private sectors and promotion of digital innovation.

Policy Axis 4 represents the main lever of digitalisation in the plan. Component 4.1 (Upgrade infrastructure for connectivity) and component 4.2 (Promote e-government) aim to improve connectivity infrastructure and developing e-government solutions. The plan's objective of ensuring high-capacity connectivity for the whole population living in organised communities, together with 5G coverage of main corridors, is expected to foster the use of digital services by both the private and public sectors and ensure an inclusive digital transformation. Measures promoting e-government are expected to simplify the communication of citizens and businesses with the authorities, reduce the administrative burden and benefit the business environment. In addition, the creation of a Public and Governmental Cloud environment is expected to significantly contribute to the digital transformation of Cyprus.

Several other components of the plan also feature digitalisation concerns at their core and significantly contribute to the digital transformation. Public sector digitalisation spans well beyond the Policy Axis 4 and involves specific sectors of the public administration. In Policy Axis 3, ambitious digital measures are included in taxation and customs, the application of the insolvency framework, supervision of financial markets and financial institutions, modernisation of central and local administrative functions and of the justice system. Digitalisation also features as a central element of the enhancements of the Cypriot health system, including the deployment of cross border e-Health services in Cyprus. The private sector is expected to indirectly benefit from the digital measures in the public sector, and its digitalisation should be directly supported through measures accompanying the productivity and competitiveness of companies, including SMEs. The development of digital skills is among the key aims of education and skills measures in component 5.1 (Educational system modernisation, upskilling and retraining). Reforms and investments across all levels of education are foreseen to integrate digital skills in school curricula and invest in digital technologies to increase long term employment and productivity. Similarly, the plan addresses enhancing the attractiveness of STEM subjects from an early age, which is relevant for the digital transition. Component 5.2 (Labour market, social protection, social welfare and inclusion) fosters digitalisation as part of the reform of the social insurance

system and of social insurance services, and of the investment improving the effectiveness of the Department of Labour and Public Employment Services.

Smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well-functioning single market with strong SMEs

The plan addresses numerous challenges related to smart, sustainable and inclusive growth in the context of the pandemic. Cyprus' underperformance in terms of sustainable economic growth is principally a result of low competitiveness, investment gap and an untapped potential to further diversify the economy and work 'smarter', i.e. more efficiently (see Section 2.2). Moreover, in Cyprus at times of economic stress, productive investments tended to decrease significantly with firms facing difficulties with access to finance, notably due to expensive bank lending coupled with a lack of equity funding. To make growth more sustainable, there is a need to shift focus to the green and digital transitions. Cyprus scores low on issues that relate to ICT and digital, innovation indicators, business efficiency measures, such as productivity and management. Cyprus also faces weaknesses in the business environment and institutions, such as the efficiency of the judicial system. Finally, there is a significant skills mismatch in Cyprus.

The plan is expected to create jobs through stimulating public and private investment. The overall plan serves the purpose of providing a stimulus to the economy, directly and indirectly. The post-pandemic recovery and job creation should be particularly helped by rolling out investments into green construction sector activities (both building and reconstructions), renewables, sustainable transport and digital infrastructure and systems falling under various components (see also the preceding sub-sections on green transition and digital transformation). In turn, the expected resulting increase in the competitiveness of businesses through reduced energy costs and increased attractiveness to foreign investors would further stimulate job creation indirectly. Upskilling and reskilling initiatives and the modernisation of education curricula in component 5.1 (Educational system modernisation, upskilling and retraining) would also increase the employability of the workforce.

Policy Axis 3 is focused on achieving smarter and more sustainable growth, through diversification, innovation, improved access to funding and a simplified and investment-friendly business environment. In particular, measures in component 3.1 (New growth model and diversification of the economy) contribute to this objective through the promotion of a resilient and competitive primary sector, the promotion of an innovative and competitive secondary sector, the promotion of a sustainable, high value-added tourism sector and the further development of a circular economy. The reforms and investments in component 3.2 (Enhanced research and innovation) are expected to contribute to increasing Cyprus' competitiveness through innovation by strengthening the linkage and collaboration between research and industry, improving commercialisation of research results, increasing in intensity of R&D activity and investments and in making the research infrastructure accessible to the entire ecosystem. Furthermore, the plan aims to enhance the financial support to innovative start-ups, scale-ups and SMEs, with emphasis on specific thematic areas, while developing local talent, including through measures in component 5.1 (Educational system modernisation, upskilling and

retraining), and attracting talent from abroad to work in R&I. Measures in components 3.3 (Business support for competitiveness) and 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption) improve framework conditions through, among others, the modernisation of the Cyprus Companies Law, including the insolvency framework, the creation of alternative financing mechanisms, an effectively reformed local administration and a reorganised judicial system. Other measures entail direct support to businesses for capacity building and digital upgrade. Finally, component 3.5 (Safeguarding fiscal and financial stability) includes measures to strengthen the soundness of the banking system by supporting further declines of NPLs and consolidating the crisis management framework for credit institutions, improving the application of the insolvency framework and measures for combating private indebtedness. It also aims to increase the efficiency, effectiveness and fairness of the tax system and tax administration, including through measures to tackle aggressive tax planning.

Several other components of the plan also contribute substantially to boosting potential growth that is sustainable and inclusive. In particular, measures in component 4.1 (Upgrade infrastructure for connectivity) aim at improving framework conditions for digital transition in terms of very high-capacity connectivity infrastructure across the entire Cyprus' territory. This paves the way for Cyprus to benefit fully from high-capacity digital technologies, thus increasing the efficiency and competitiveness of Cyprus' economy. Relatedly, measures in component 4.2 (Promote e-government) aim at digitalising and thus rendering more efficient and effective public services. This is rendered future-proof through reforms to improve the delivery, maintenance and operating model of large-scale e-government projects. Smart growth will also be promoted through measures improving Cyprus' competitiveness and productivity mainly through digitalisation throughout the plan, including component 1.1 (Resilient and effective health system, enhanced civil protection). Policy Axis 5 contains measures to reduce the skills mismatch and to improve educational outcomes, to reform the social security system, to improve the effectiveness of the Department of Labour and Public Employment Services, to reinforce outreach for young people and to facilitate activation through flexible working arrangements and expanded care services. As regards the sustainable growth, the plan's key reform and investment initiatives should, among others, contribute to a cleaner energy mix, lower carbon footprint by enterprises and households and greening of transport (under Policy Axis 2). The plan aims at strengthening the inclusion through reducing the digital divide and the negative impact of children's socio-economic background on educational outcomes under Policy Axis 4 and in component 5.1 (Educational system modernisation, upskilling and retraining).

Social and territorial cohesion

Cyprus faces several structural challenges in the area of social and territorial cohesion, which were further aggravated by the effects of the COVID crisis. The labour market and social effects of the economic downturn of 2020 have affected disproportionately some categories of workers, such as women and the youth (see Section 2.2). Outreach to young people not in employment, education or training is a key challenge for Cyprus, requiring structural improvements and efforts at the local level. The gender employment gap is high and reflects to

some extent gaps in early childhood, education and care where the needs are high. Moreover, the share of people at risk of poverty or social exclusion remains high relative to the EU, while social services need enhancements that would reflect existing territorial disparities within the country.

The plan addresses challenges in social and territorial cohesion through a mix of reforms and investments in education, health care and social protection. Measures in component 1.1 (Resilient and effective health system, enhanced civil protection) aim at enhancing the healthcare sector, improving its accessibility and resilience and implementing a patient-centred approach that will benefit both social and territorial cohesion. Component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration) puts forward an incentive framework conducive to building renovations, including social infrastructure and housing, and addresses also energy poverty issues. Building renovations at a large scale are also likely to help create jobs and boost economic activity. Component 3.1 (New growth model and diversification of the economy) includes measures addressing the uneven distribution of tourism activity, aiming at improving territorial cohesion by better spreading it benefits for local communities. This is the time for the sector to accelerate meaningful changes with regard to these inequalities that are expected to make a lasting difference for future generations Measures in component 4.1 (Upgrade infrastructure for connectivity) are expected to benefit territorial cohesion by reducing the digital divides and increasing accessibility of digital infrastructures. Component 5.2 (Labour market, social protection, social welfare and inclusion) should bring about reforms and investment supporting employment of women and the youth, as well as that of persons with caring responsibilities for children and other dependents. It is also expected to improve the engagement with young people in the NEET category. In parallel, the reform of social insurance frameworks and improved work of the Department of Labour and Public Employment Services, is expected to jointly benefit social cohesion.

Health, and economic, social and institutional resilience, with the aim of, inter alia, increasing crisis preparedness and crisis reaction capacity

The COVID-19 pandemic highlighted weaknesses in Cyprus' health system as well as weak resilience of its economy, notably due to its high dependence on a few sectors and to the high level of indebtedness. The COVID-19 pandemic and population ageing pose numerous economic and social challenges, putting pressure in particular on the healthcare system. While still relatively new, the National Health System reform has already made Cyprus more resilient to the pandemic and allowed more equitable access to healthcare services. These gains are expected to be consolidated through further implementation of the reform. The recent pandemic crisis further highlighted the importance of the preparedness to deal with emergencies in civil protection. The economy's high concentration in a limited number of sectors, high level of indebtedness for both private and public sector and a relatively narrow tax base, heavily dependent on corporate income tax revenue, render it vulnerable to external shocks and thus has a significant bearing on its economic resilience and adjustment capacity (see Section 2.2).

Several components contribute significantly to increasing economic resilience. The plan entails measures to create a more resilient Cyprus' economy with reduced vulnerability to shocks (see sub-section on Smart, sustainable and inclusive growth).

Regarding social resilience and the social protection system, several measures in Policy Axis 5 are expected to contribute to the implementation of the principles of the European Pillar of Social, translating into improvements of the indicators of its Social Scoreboard (see Section 4.3). The key measures aim to reach out to young people not in employment, education or training and, to facilitate the activation of, among others, women and persons with caring responsibilities. Moreover, this policy axis seeks to reform the social insurance system to widen social protection for all regardless of the type and duration of employment by extending and improving coverage of various benefits. Further, investments and reforms improve the access to quality education and training at all levels and across population groups contributing to improved education outcomes and reduced skills mismatches.

The resilience, effectiveness and accessibility of the health and long-term care sectors should be strengthened by the investments and reforms contained in component 1.1 (Resilient and effective health system, enhanced civil protection). The reforms in the health sector should increase the resilience, effectiveness and accessibility of the system, notably by supporting the recently introduced National Health System through various measures, particularly modernisation of health care infrastructure and equipment, modernisation and digitalisation of healthcare procedures and processes, including introduction of cross-border e-Health services, of evidence-based clinical protocols and of value-based healthcare. In addition, it entails an investment to enhance Cyprus' civil protection system through a modern public warning system.

Finally, institutional changes are taking place including in relation to the justice system, the fight against the corruption (particularly through an establishment of an independent authority against corruption, legislation to protect whistle-blowers and to enhance transparency in public decision-making processes and to prevent conflict of interest), in revisiting the companies' law, facilitating the licensing for strategic investments, easing the doing-business procedure, reviewing the research and innovation policy along with the modernisation and digitalisation of public services, as well as the digitalisation of central and local administrations, schools and health institutions.

Policies for the next generation, children and the youth, such as education and skills

Children and young people have endured a large share of the adverse effects of the COVID crisis, in part due to long-standing structural weaknesses in education and labour market policies. The downturn initiated by the pandemic has disproportionately affected the youth (see Section 2.2). These effects are compounded by challenges in the education system, limited access to early childhood education and care, in particular for children below the age of three, skills mismatches in the economy. Moreover, specific skills related to the digital and green transitions also need supportive measures.

Modernisation of education, upskilling and retraining proposed in Policy Axis 5 address the issues of educational quality, inclusiveness and readiness for the digital transition. A reformed teacher and school evaluation system together with updated school curricula, as part in component 5.1 (Educational system modernisation, upskilling and retraining), are an important step towards improving educational outcomes. Extended pre-primary education from the age of four and investments into early childhood education and care capacities, backed by a national strategy, are expected to have benefits in terms of subsequent educational outcomes but also care affordability, and to benefit social inclusion, in particular of children from disadvantaged and/or migrant background. Improved and more accessible vocational education and training should increase its attractiveness and relevance for the economy's needs, ultimately benefitting the labour market prospects of its graduates.

The plan features a number of labour market and social measures expected to lead to improved social cohesion, in accordance with the objectives of the European Pillar of Social Rights. Component 5.2 (Labour market, social protection, social welfare and inclusion) has the ambition to significantly expand the outreach towards young people not in employment, education or training with the ultimate goal of ensuring their inclusion on the labour market. Support for the employment of persons with care obligations, to women and to unemployed youth is expected to help increase their labour market participation. Social insurance coverage will be reviewed to reflect new employment patterns, while the component also aims at improved efficiency and quality of social insurance services. Other measures support and improve care for children under the guardianship of social services, for persons with disabilities and for people in need of long-term care. Moreover, component 1.1 (Resilient and effective health system, enhanced civil protection) includes the enhancement of a hospital dedicated to children's health care. By making access to digital infrastructure more even, component 4.1 (Upgrade infrastructure for connectivity) will aim at reducing the digital divide among young generations.

Taking into consideration all reforms and investments envisaged by Cyprus, its recovery and resilience plan represents, to a large extent 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 the RRF Regulation, taking the specific challenges and the financial allocation of Cyprus into account. This would warrant a rating of A under the assessment criterion 2.1 in Annex V to the RRF Regulation.

4.2. Link with country-specific recommendations and the European Semester

In line with assessment criterion 2.2 in Annex V to the RRF Regulation, this section provides an overview of the assessment of whether Cyprus' plan is expected to effectively address all or a significant subset of the country's economic and social challenges. These challenges are identified in the relevant country-specific recommendations (CSRs) addressed to Cyprus in July 2019 and July 2020, including the fiscal aspects thereof, and recommendations

made pursuant to Article 6 of Regulation (EU) No 1176/2011, based on the in-depth review for Cyprus under Article 5 of Regulation (EU) No 1176/2011 published in 2019 and 2020.

By addressing the aforementioned challenges, the recovery and resilience plan is expected to also contribute to correcting the excessive macroeconomic imbalances that Cyprus is experiencing[30]. The 2021 in-depth review concluded that Cyprus' excessive macroeconomic imbalances continue to relate to high stocks of external, government, and private debt, and still high non-performing loans, alongside a substantial current account deficit[31]. Addressing these challenges is expected to significantly boost the growth potential of the Cypriot economy and enhance economic resilience. The COVID-19 crisis has interrupted the adjustment process initiated in previous years. The recent crisis has also brought to the fore the importance of bolstering the country's growth prospects in correcting the legacy imbalances and strengthening its economic and social resilience.

Against this background, the plan focus on CSRs addressed to Cyprus in 2019 and 2020 under the European Semester covering the areas of public finances, health, labour, education, investments, green and digital transition and financial sector:

(1) *Public finances and health care*: The authorities were called on to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience and capacity of the health system to ensure quality and affordable services, including by improving health workers' working conditions. Cyprus was also invited to address features of the tax system that facilitate aggressive tax planning by individuals and multinationals.

(2) *Labour market, education and skills and social policy*: Cyprus was invited to provide adequate income replacement and access to social protection for all. Strengthen public employment services and reinforce outreach and activation support for young people, promote flexible working arrangements and improve labour market relevance of education and training. The Council also recommended Cyprus to deliver on the reform of the education and training system, including teacher evaluation, and increase employers' engagement and learners' participation in vocational education and training, and affordable childhood education and care.

(3) *Public and private investment*: The authorities were called on to secure adequate access to finance and liquidity, especially for small and medium-sized enterprises to simplify the procedures for strategic investors to obtain necessary permits and licences and resume the

[30] COM(2021) 500 final.

[31] On 2 June 2021, the Commission published an in-depth review under Article 5 of Regulation (EU) 1176/2011 of the European Parliament and of the Council2 for Cyprus. SWD(2021) 408 final.

implementation of privatisation projects. Cyprus was also invited to front-load mature public investment projects and promote private investment to foster the economic recovery.

(4) *Green and digital transition*: 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, research and innovation.

(5) *Structural reforms to improve the functioning of the public sector and fight corruption*: The authorities are encouraged to implement structural reforms to improve the efficiency and digitalisation of the judicial system and the public sector, including the governance of State-owned entities and local governments. The authorities were also invited to take measures to strengthen the legal enforcement of claims and ensure reliable and swift systems for the issuance and transfer of title deeds and immovable property rights. Accelerate anti-corruption reforms, safeguard the independence of the prosecution and strengthen the capacity of law enforcement.

(6) *Structural reforms to facilitate the reduction of non-performing loans*: Cyprus was invited to set up an effective governance structure for the State-owned bank asset management company, take steps to improve payment discipline and strengthen the supervision of credit-acquiring companies. The authorities were also called on strengthening supervision capacities in the non-bank financial sector, including by fully integrating the insurance and pension-fund supervisors.

Overall, the plan represents a comprehensive and adequate response to the challenges faced by Cyprus' economy and society and its implementation is expected to support the correction of the identified excessive macroeconomic imbalances, while promoting a more inclusive and sustainable growth model. The plan builds on the reform agenda initiated under the economic adjustment programme and currently monitored under the post programme surveillance, including reforms to reduce the non-performing loans and safeguard financial stability. Moreover, the plan introduces reforms and investments in the areas of access to finance for small and medium enterprises, taxation, resilience of the health system, modernisation of the public administration, local governments, justice system, promoting social inclusion, education and skills and investing in early childhood education and care. The plan is centred on the objective of supporting a digital and green transition. These constitute a significant subset of the challenges identified in the CSRs to Cyprus. Nevertheless, considering that these challenges are long-standing, further efforts may be needed in the coming years in some areas such as the governance of State-owned enterprises, the legal enforcement of claims and payment discipline and privatisations. In addition, the plan provides a response to common challenges, notably in particular the flagships identified in the 2021 Annual Sustainable Growth Strategy.

Public finances and health care

The COVID-19 pandemic and the related lockdown measures increased financing needs and significantly affected the government deficit and debt. In 2020, the budget balance

reached a deficit of 5,7% of GDP, while the government debt rose to 118,2% of GDP. Cyprus has introduced support measures to cushion the economy from the pandemic, and to support the healthcare sector, employment and businesses by providing liquidity to households and enterprises, suspending VAT payments and preserving jobs by providing support schemes to businesses on the condition not to lay off employees. The plan complements the policy response undertaken by the authorities to mitigate the effects of the crisis by sustaining the economy and supporting the ensuing recovery (CSR 1 in 2020).

The plan includes measures aiming at addressing tax evasion and aggressive tax planning practices (CSR 1 in 2019 and CSR 4 in 2020). To combat tax evasion and aggressive tax planning by multinationals in particular, the plan foresees the introduction of withholding taxes to outbound payments of interest, dividends and royalty payments, including to low tax jurisdictions. It also includes a corporate tax residency test based on the incorporation of each entity, which should be additional to the management and control test. The assessment of the overall set of measures related to aggressive tax planning is expected to be carried out by an independent evaluator. The evaluation is expected to conclude with policy actions to be implemented by the authorities in case shortcomings are identified. The plan presents a range of reforms and investments to improve the tax administration and tax collection, including the integration of two major tax departments and introduction on new IT systems.

The plan addresses the challenges faced by the Cypriot healthcare sector and complements the efforts undertaken to tackle the COVID-19 crisis. Objectives of the reforms and investments introduced in the plan are to strengthen the healthcare system and the availability of healthcare solutions to patients (CSR 1 in 2020). The implementation of the National Health System (NHS) started in mid-2019 with the first phase. The roll-out of the second phase initiated in June 2020 was slowed down due to the outbreak of the COVID-19 pandemic and is expected to be gradually completed within 2021 (CSR 3 in 2019). The crisis highlighted some crucial weaknesses of the health sector such as the shortage of a flexible workforce and skilled personnel able to effectively act in case of urgent needs. In addition, Cyprus lags in digitalisation, modern equipment and monitoring capabilities in the health system. Cyprus is addressing these challenges in the plan notably through an upgrade of medical equipment and investments in ICT systems and e-Health. Extension and construction of additional units are also envisaged.

Labour market, education and skills and social policy

The plan adequately complements Cyprus' efforts to tackle challenges in the labour market and skills mismatches (CSR 3 in 2019 and CSR 2 in 2020). The plan presents a series of targeted upskilling and reskilling programmes including in the digital and green economy, and contains measures to improve the effectiveness of the Public Employment Services including by developing a performance management system and digitalising of incentive schemes. In addition, the plan includes measures to support young people not in employment, education or training (NEETs), by providing for outreach activities, counselling and hiring incentive schemes.

Furthermore, unemployed young people are expected to benefit from coaching and career guidance. The plan also introduces a national graduate tracking system, which is expected to help inform the update of secondary schools' educational curricula to improve digital literacy, emotional intelligence, soft skills and entrepreneurship skills, along with several training schemes to enhance the digital skills across all population groups. All these measures are expected to significantly improve labour market relevance of education and training.

The plan effectively addresses challenges facing the Cypriot education system (CSR 3 in 2019). It proposes a new teacher and school evaluation system, which, among others, should provide incentives for teachers to systematically retrain and improve their skills and assess better the quality of the education provided, as well as to start the free and compulsory pre-primary education from the age of four instead of four years and eight months, under the current system. These reforms aim to improve educational outcomes. Furthermore, targeted investments and the adoption of a national strategy on early childhood education and care (ECEC) are expected to improve quality and affordability of the services provided. Vocational education and training (VET) is planned to be expanded by the construction of two model technical schools with state of the art equipment and improved geographical accessibility.

The plan addresses effectively social challenges (CSR 2 in 2020). The social protection system is planned to be extended to cover several benefits such as unemployment, accident at work and occupational disease for the self-employed and people working with contracts or new forms of employment, such as digital platform workers. With the reform of the Social Insurance System and digitalising of the business processes of the Social Security Services, all gainfully occupied persons in Cyprus should enjoy the same protection and improved services. A law to regulate flexible working arrangements in the form of telework is also included in the plan, a so far important missing element in the labour market. The plan aims to increase the social and economic inclusion of vulnerable groups of the population via access to high quality social services. The plan includes measures (i) to improve the infrastructure capacity of Social Welfare Services to meet the hosting and care needs of unaccompanied minors and other children under their guardianship, (ii) to provide support for adolescents with serious conduct issues, (iii) to provide persons with disabilities with suitable, comfortable, accessible, family-type homes in the community to live with safety, dignity and quality of life (iv) to establish community-based care centres for people who are in need for long term care, and (v) to improve the infrastructure of two special education schools.

Public and private investment

The plan highlights the front-loading of mature public investment projects and promotes public and private investments in priority sectors, including the ones contributing to the digital and green transition (CSR 3 in 2020). The plan puts emphasis on streamlining procedures and modernising public administration through the implementation of digital platforms and trainings. The plan focuses also on the enhancement of the efficiency and digitalisation of the judicial system. Research and development as well as innovation are

important features of the plan, aiming at increasing the competitiveness of firms active in various sectors and boosting growth, also through their cooperation with research academia. Moreover, a number of reforms and investments are included in the plan, focusing on renewable energy and energy efficiency, sustainable transport and smart and sustainable water management. These measures are complemented by the establishment of National Promotional Agency, aiming at providing financial instruments to SMEs and start-ups, and measures addressing aggressive tax planning and corruption issues.

The plan addresses challenges related to access to funding, especially for SMEs and start-ups (CSR 4 in 2019 and CSR 3 in 2020). Access to finance and to alternative mechanisms of finance are limited in particular, for SMEs and start-ups. This barrier hampers the establishment of new businesses and the expansion of existing units by making new investments (see Section 2.2).The plan aims at improving the access to funding by establishing a National Promotional Agency, which would provide financial instruments such as loans, guarantees and equity financing in a coordinated way and ensure expertise. In addition, the plan promotes the implementation of funding programmes and schemes, with the objective of enhancing the growth and competitiveness of start-ups, SMEs and innovative firms.

The plan includes measures to simplify the processes to obtain necessary licenses and permits (CSR 4 in 2019). To facilitate strategic investments, the plan proposes the creation of a new unit at the Department of Town Planning and Housing that streamline the licensing of strategic investments. The reform's objective is to facilitate the rules and procedures for obtaining licences and permits. The privatisation of the Cyprus Stock Exchange (CSE) consists of finding the most suitable strategic investor through a tender process to appoint a reputable independent advisor or consortium, with extensive relevant expertise. The objective of this privatisation project is to enhance the CSE by making it more competitive and flexible.

Green and digital transition

The plan contains a number of reforms and investments aiming at supporting the green and digital transition. Energy efficiency and renewable energy (CSR 4 in 2019 and CSR 3 in 2020) represent some main areas where Cyprus needs to undertake efforts, as numerous challenges remain, such as building stock with low energy efficiency rating, lack of competitive electricity market and long permitting procedures for RES projects (see Section 2.3). The plan includes reforms and investments addressing the mentioned issues through the green taxation, opening of electricity market, enhancement of permitting processes and upgrading of buildings. The plan also targets the alleviation of energy poverty and addresses Cyprus' energy isolation. Regarding the transport sector (CSR 4 in 2019 and CSR 3 in 2020), reforms and investments aim at tackling the air and noise pollution and support the green transition of the sector. The plan also addresses key concerns in the transport sector such as high dependency on private vehicles, road safety and suboptimal public transport (see Section 2.3), through the development of electro-mobility and related charging infrastructure, the promotion of a modal shift from private cars to

more sustainable modes of transport such as public transport, cycling, walking, and the use of zero or low-emission vehicles (LEVs). In addition, the plan encourages the digitalisation of the transport sector through the establishment of an Intelligent Transport System using Digital Twin Technologies and the scrapping of the most polluting vehicles combined with incentives for sustainable mobility options. Water scarcity, inefficient and ageing water infrastructure, water losses and non-revenue water (CSR 4 in 2019 and CSR 3 in 2020) are key features that are negatively impacting the Cypriot development, environment, agriculture and public health. The plan by complementing the actions under the Common Agricultural Policy addresses those problems through the enhancement of infrastructure and water quality, and the introduction of technological advances in order to provide more efficient services to consumers.

The plan promotes digitalisation projects in various areas such as health, SMEs, education and public administration (CSR 4 in 2019 and CSR 3 in 2020). Concerning the healthcare sector, the objective of various projects proposed in the plan is to sustain the digital transition of the sector. In particular, e-Health initiatives would be promoted with the establishment of cross border e-Health services in the country, and the deployment of an ICT System aiming at reducing the existing paperwork processes. Moreover, a number of reforms and investments in the plan aim at promoting digitalisation and innovation to strengthen the competitiveness of all firms in the country, active in agriculture amongst others. In addition, the plan highlights the need to digitalise the public administration, which is facing significant efficiency challenges notably due to heavy and lengthy procedures, and structural weaknesses. The plan proposes reforms and investments aiming at promoting e-government and increasing the efficiency of public administration (CSR 1 in 2019 and CSR 4 in 2020) through enhancing the administrative capacity, procedures and functioning as well as by developing digital skills and competences. The digitalisation of procurement procedures should decrease compliance costs and alleviate the administrative burden on firms, in particular SMEs and start-ups. Furthermore, the plan includes reforms for the modernization of social insurance IT systems, the digitalization of applications to schemes of the Public Employment Services and a reform aiming at promoting flexible work arrangements in the form of telework. Regarding education, there is a need to increase the informational literacy and students' digital skills (see Section 2.2). The plan proposes to address the challenge through the provision of necessary resources in schools to develop e-classes and training of teachers.

The plan encourages research and innovation (CSR 4 in 2019 and CSR 3 in 2020). While the research and development (R&D) ecosystem in Cyprus is growing, it remains small and the interaction with businesses is limited, which affects the commercialisation of research results and firms' innovation capacity. In addition, Cyprus has a low share of STEM graduates and funding is restricted (see Section 2.2). The plan highlights the importance of research and innovation (R&I) for the economic growth and social prosperity. It promotes various funding programs to increase the intensity of the R&D and to allow in particular SMEs and start-ups to access financing. The establishment of a central knowledge transfer office aims at making research

accessible to the entire ecosystem, and the implementation of policies and incentives intend to encourage and attract talents, notably from abroad, to work in R&I.

Structural reforms to improve the functioning of the public sector and fight corruption

The plan contains measures addressing inefficiencies in the public administration stemming from the legal framework and structural weaknesses (CSR 1 in 2019). Improving the efficiency of the public administration is key to allow citizens, businesses and the public sector itself to benefit from flexible, modern and productive public services. The plan addresses this challenge by proposing a reform aiming at improving human resource management framework of the public administration and improving the administrative capacity of the Cyprus Police. In addition, the digitalisation of the Cypriot administration is taken into account in the plan. Improved governance of local administration is proposed, with a reform aiming at improving the decision-making power, the administrative autonomy and at aligning resources and responsibilities. The governance of State-owned enterprises is not addressed in the plan.

The serious efficiency issues of the Cypriot judicial system are addressed in the plan. Challenges are mainly related to the length of court proceedings, which are the longest among EU countries. The high level of backlog cases, lack of ICT case management and communication technologies are additional deficiencies in the system (see Section 2.2). Reforms and investments included in the plan aim at improving the effectiveness of the justice system (CSR 5 in 2019 and CSR 4 in 2020) through the deployment of a digital transformation of courts, training of judges and improvement of infrastructure of courts.

The plan addresses inefficiencies in the system of issuing and transferring title deeds, which affect the property rights, foreclosure procedures and liquidation of collaterals (CSR 5 in 2019). The plan addresses these challenges by implementing reforms, with the objectives of (i) examination and issuance of title deeds for pending cases, (ii) extension of the new planning and building permit policy to enhance the permitting procedures, (iii) review of the Streets and Buildings Regulation Law to introduce the right incentives for the supervising engineer to further discourage irregularities that would result in title deeds not being issued, (iv) amendment of the Sale of Property (Specific Performance) Law to ensure that the transfer of immovable property is executed as soon as the buyer fulfils his/her contractual obligations. Nevertheless, the enhancement of the system of issuance of title deeds for future cases can be considered as not ambitious enough.

The plan tackles issues related to corruption, which is perceived as high in Cyprus (CSR 5 in 2019). Corruption affects citizens', businesses' as well as civil servants' trust in administration, with negative consequences on the social life, the operation of the Public Service and the business environment. The implementation of a National Horizontal Action Plan against Corruption aims at achieving a greater coherence in the fight against corruption. This strategy consists of providing legislation, which aims at protecting whistle-blowers, enhance transparency in the public decision-making processes and prevent conflict of interest. An Independent

Authority against Corruption should be established in order to coordinate the efforts of all bodies engaged in the fight against corruption, as well as supervise the implementation of actions by various competent Services. Anti-corruption training and Awareness Campaign have as objectives to raise consciousness, and to educate and train citizens about issues concerning corruption. Additional step of the strategy against corruption is the reinforcement of the Internal Audit Units in all the Ministries and the Internal Audit Service. In addition, the introduction of the ISO 37100 accreditation for private and public sectors should help in increasing transparency, stamping out bribes and creating an ethical business culture. Nevertheless, the plan does not include measures on prosecution and capacity law enforcement.

Structural reforms to facilitate the reduction of non-performing loan

The plan addresses challenges in the banking sector, notably related to the high level of non-performing loans (NPLs), payment discipline, supervision of credit-acquiring companies and non-bank financial sector (CSR 2 in 2019). Although the level of NPLs has decreased substantially, Cyprus records the second highest level in the EU (see Section 2.2). The recovery and resilience plan addresses financial risk related to legacy NPLs in the banking sector by implementing an action plan on NPLs, which consists of sales of NPLs to specialised credit acquiring companies, reclassifications of NPLs into performing loans as well as government-backed schemes for loans collateralised by primary residences. The improvement of the working environment for NPLs management for credit acquirers and credit services is crucial. The plan includes the adoption of a package of bills regarding credit acquiring companies and servicers, covering access to the land registry and alignment of notification requirements in case of purchase of a loan by a credit acquiring company. Regarding payment discipline, the plan expects an improvement through the implementation of the strategy for Combating Financial illiteracy, which aims at enhancing financial education within the general population, enhancing financial decision making, correcting wrong attitudes and biases, supporting more informed and financially responsible citizens. Nevertheless, the plan does not include any safeguards to maintain the effective foreclosure framework. The strengthening of supervision of the insurance and pension funds sectors is expected to be achieved through the increase of personnel and supervisory tools in the insurance and pension supervisory bodies, without their full integration.

Table 5: Mapping of country challenges identified in 2019-20 CSRs and the Cyprus plan components

Country challenges (as identified in Section 2)	Associated CSR (2019-2020) and European Semester recommendations	Component 1.1 Resilient and effective health system, enhanced civil protection	Component 2.1 Climate neutrality, energy efficiency and renewable energy penetration	Component 2.2 Sustainable transport	Component 2.3 Smart and sustainable water management	Component 3.1 New growth model and diversification of the economy	Component 3.2 Enhanced research and innovation	Component 3.3 Business support for competitiveness	Component 3.4 Modernising public and local authorities, improving the quality and efficiency of justice and fighting corruption	Component 3.5 Safeguarding fiscal and financial stability	Component 4.1 Upgrade infrastructure for connectivity	Component 4.2 Promote e-government	Component 5.1 Educational system modernisation, upskilling and retraining	Component 5.2 Labour market, social protection, social welfare and inclusion
Improve business environment and access to finance	2019 4.6, 4.7, 4.8 2020 3.1, 3.2, 3.3		○	○	○	●	●	●	●	○	○	○		
Increase Research and Innovation and productivity	2019 4.5 2020 3.8	○					●				○			
Diversify the economy	2020 3.2, 3.3		○			●								
Safeguard the soundness of the banking system and financial stability	2019 2.1, 2.2, 2.3, 2.4									●				
Address the challenges and inefficiencies in the public sector	2019 1.1, 1.2, 1.3, 1.4 2019 5.1, 5.2, 5.3 2020 1.1, 4.1, 4.2, 4.3	○	○	○	○	●	○	○	●	○		●		
Address labour market, education and skills, and social challenges	2019 3.1, 3.2, 3.3 2020 2.1, 2.2, 2.3, 2.4	○		○	○				○		○		●	●
Improve health and long-term care systems	2019 3.4 2020 1.1, 1.2	●			○									●
Facilitate the green transition	2019 4.1, 4.2, 4.3 2020 3.4, 3.5, 3.6	○	●	●	●	●					○		●	○
Facilitate the digital transition	2019 4.4 2020 3.7	●		●		●		○	○	○	●	●	●	●

Key: "●" investments and reforms of the component significantly address the challenge; "○" the component partially addresses the challenge

Taking into consideration the reforms and investments envisaged by Cyprus, its recovery and resilience plan is expected to contribute to effectively addressing all or a significant subset of challenges identified in the country-specific recommendations, or challenges in other relevant documents officially adopted by the Commission under the European Semester, and the recovery and resilience plan represents an adequate response to the economic and social situation of Cyprus. This would warrant a rating of A under the assessment criterion 2.2 in Annex V to the RRF Regulation.

4.3. Growth potential, job creation, economic, institutional and social resilience, European Pillar of Social Rights, mitigating the impact of the crisis, and social territorial cohesion and convergence

Fostering economic growth and jobs

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 at accelerating the economic recovery in Cyprus and laying the base for a sustainable growth model in the long-term. The measures included in the plan are expected to ultimately reduce the country's vulnerability to shocks by improving growth potential, creating jobs and increasing economic, social and institutional resilience.

Several measures aim at diversifying the sources of economic growth and improving productivity. Even before the pandemic, Cyprus' was facing challenges to its growth model and low productivity, which have been discussed in Section 2.2. The plan addresses several causes of this issue. Component 3.1 (New growth model and diversification of the economy) includes actions to increase the productivity of the primary sector, primarily through agri-tech, and the secondary sector, aiming at developing a competitive light manufacturing. The component also invests in sustainable tourism by diversifying the services offered as well as to the circular economy. Components 2.1 and 2.2, 4.1 (Upgrade infrastructure for connectivity) and 4.2 (Promote e-government) include measures such as green taxation, promotion of renewables, sustainable transport and investments in digital connectivity and digitalisation of government services, which are expected to help the country transit to a greener and digital-based economy. In particular, component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration) is expected to ensure more competitive wholesale electricity prices by connecting the electricity network of Cyprus to the Greek network in Crete, thus improving the competitiveness of the economy. Components 5.1 (Educational system modernisation, upskilling and retraining) and 5.2 (Labour market, social protection, social welfare and inclusion) complement the efforts of diversification and productivity boosting by including reforms and investments addressing skills mismatches in the labour market. Component 3.3 (Business support for competitiveness) aims at improving the business environment, along with component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption), which includes reforms such as the national promotional agency and equity fund, which are expected to improve access to finance for the SMEs. Finally, component 3.2 (Enhanced research and innovation) makes an important contribution through strengthening the

linkage and collaboration between research and businesses, commercialising research results and intensifying R&D activity.

The plan aims at simplifying the business environment and improving access to finance for the SMEs. Component 3.3 (Business support for competitiveness) is key in efforts to create a simplified and investment-friendly business environment, provide financing opportunities to SMEs and improve internationalisation opportunities for Cypriot companies. The component includes measures such as the introduction of an integrated framework for the procedures related to the investment and entrepreneurial activity in Cyprus and modernisation of the companies law, including the insolvency framework. Furthermore, measures include, capacity building of SMEs through the provision of consulting and mentoring, the digital upgrade of the enterprises and the provision of incentives aimed at improving the productivity of the business community, and especially that of SMEs. Reforms are expected to also be implemented to facilitate and promote the creation of alternative financing mechanisms like equity funding, to meet the financing needs of enterprises, especially innovative enterprises and start-ups. Component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption) is expected to underpin the business environment and enhance ease-of-doing-business by investing in a modern public administration, increasing the quality and efficiency of the justice system and introducing several anti-corruption reforms.

Implementation of measures aimed at safeguarding fiscal and financial stability is expected to improve the resilience of the economy and underpin growth. Component 3.5 (Safeguarding fiscal and financial stability) includes measures for increasing the efficiency, effectiveness and fairness of the tax system and tax administration and securing revenue collection, as well as measures to address aggressive tax planning. The component also includes measures to strengthen and safeguard the soundness of the financial system (banking, capital markets, society/users and beneficiaries of the system) through reforms related to the high stock of NPLs and improvement of the insolvency regime, as well as measures for combating private indebtedness including new legal framework and system of exchange of data and credit bureaus and an action plan for the development of a liability monitoring register.

Important steps are taken to improve the efficiency of the judicial system. The plan also includes an ambitious agenda to improve the quality and efficiency of the justice system. Component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption) is expected to complete the digitalisation of judicial procedures and foresees the use of updated rules of civil procedure. This is accompanied by an upgrade the existing infrastructure and measures to improve the skills of judges and judicial staff and to accelerate justice administration.

The plan aims at addressing key skills mismatches in the labour market and promoting employment. Component 5.1 (Educational system modernisation, upskilling and retraining) contains reforms and investments focused on enhancing the quality and effectiveness of education at all levels and to help learners acquire the right skills, including digital skills and competences for the needs of the economy. Additionally, Component 5.2 (Labour market, social protection, social welfare and inclusion) addresses the challenges of self-employed people and

people working in new forms of employment who do not enjoy adequate social protection, as well as at facilitating employment for young people and people with caring responsibilities of dependents, mostly women.

The investments foreseen under the plan are expected to increase public investment. Public investment in Cyprus has been below the EU average and concentrated in construction (see Section 2.2). Based on the analysis included in the plan, growth enhancing expenditure as a share of GDP would be on average 0,7 percentage points higher due to the measures financed through the Recovery and Resilience Facility compared to the baseline. The plan can be thus understood as additional to the expenditure policy currently in place.

The Cypriot authorities have provided an estimation of impact of the plan on growth and jobs. The quantification was done by the Economics Research Centre of the University of Cyprus using several complementary methods and techniques, such as a production function approach, econometric models, and an Input-Output framework. Focusing on the period of the implementation of the plan, it could contribute on average an additional 1,2 percentage points of GDP growth per year during 2021-2026, compared to the non-plan baseline scenario. During the same period, the plan increases employment by more than 2,5% cumulatively. Considering also spill-over effects from other countries, the results on the GDP impact using Commission's QUEST model are presented below (see Box 2).

Box 2: Stylised NGEU impact simulations with QUEST - Cyprus

Model simulations conducted by the Commission using the QUEST model show that the economic impact of the NGEU in Cyprus could lead to an increase of GDP of between 1,1% and 1,8% by 2026.[32] After 20 years, GDP could be 0,6% higher. Spill overs account for a sizable part of the effect.

According to these simulations, this would translate into up around 3,000 additional jobs. Cross border (GDP) spill overs account for 0,5 percentage points in 2026, showing the value added of synchronised expenditure across Member States (line 2). Even assuming that half of the expenditure is not productive still leads to a significant impact (line 3). [33]

Table 6: QUEST simulation results (%-deviation of real GDP level from non-NGEU case, linear disbursement assumption over 6 years)

Scenario	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2040
Baseline	1,0	1,5	1,5	1,6	1,7	1,8	1,4	1,1	1,1	1,1	0,6
of which spill over	0,5	0,5	0,5	0,5	0,5	0,5	0,4	0,3	0,3	0,2	0,1
Low productivity	0,7	1,1	1,0	1,0	1,0	1,1	0,7	0,3	0,4	0,4	0,3

Source: European Commission

This stylised scenario does not include the possible positive impact of structural reforms, which can be substantial. A model-based benchmarking exercise shows that undertaking structural reforms that would result in halving the gap vis-à-vis best performers in terms of indicators of structural reforms could raise Cyprus' GDP by 8% in 20 years' time, compared to 11% for the EU average[34].

Due to the differences in the assumptions and methodology **the results of this stylised assessment cannot be directly compared to the numbers reported in chapter 4 of Cyprus' plan.**

Strengthening social cohesion

[32] RRF amounts to roughly 90% of NGEU, which also includes ReactEU, Horizon, InvestEU, JTF, Rural Development and RescEU.
[33] Technically, the low productivity scenario considers a significantly reduced output elasticity of public capital.
[34] Varga, J, in 't Veld J. (2014), "The potential growth impact of structural reforms in the EU: a benchmarking exercise", European Economy Economic Papers no. 541.
http://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp541_en.pdf.

The plan presents a comprehensive set of measures to address labour market challenges and to improve social cohesion. These policies include investments in education and skills, activation policies and social services, fighting inequalities, modernising the labour market, and increasing social inclusion. The plan is also expected to contribute to the implementation of the European Pillar of Social Rights, including through the promotion of policies reducing child poverty and increasing youth employment, and help Cyprus further in being an inclusive society with good access to healthcare and a productive and sustainable economy.

Measures under policy axis five "*Labour market, social protection, education and human capital*" of the plan are expected to strengthen social cohesion and contribute to the implementation of the European Pillar of Social Rights action plan. The measures in component 5.2 (Labour market, social protection, social welfare and inclusion) aim to reach out to young people not in employment, education or training (NEETs) and put them in employment. There are also measures to facilitate the activation of young unemployed people, women as well as persons with caring responsibilities. Moreover, this policy axis seeks to reform the social insurance system to widen social protection for all regardless of the type and duration of employment by extending and improving coverage of various benefits. The plan also provides measures to strengthen the capacity of the social welfare services to host and care for unaccompanied minors and other children such as adolescents with serious conduct issues and to provide persons with disabilities and people in need of long-term care such as the elderly with suitable, comfortable, accessible, family-type homes in the community to live with safety, dignity and quality of life. In addition, through the construction of two special education schools the aim is to strengthen learning outcomes by improving the school environment for students with special educational needs. Component 5.1 (Educational system modernisation, upskilling and retraining) improves the quality of human capital through increased spending on education, training, reskilling, and upskilling. This is expected to address another vulnerability of the Cypriot economy: skill mismatches which contribute to unemployment of young people. It also improves access and affordability of early childhood education and care. Moreover, component 1.1 (Resilient and effective health system, enhanced civil protection) is expected to help improve accessibility to healthcare and component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration) through higher energy efficiency of buildings energy poverty' in Cyprus, as inability to keep homes adequately warm and in arrears on utility bills are higher than the EU average.

Reducing vulnerability and increasing resilience

Several measures and components aim at reducing Cyprus' vulnerabilities and increasing its capacity to absorb shocks. The main vulnerabilities are identified by the Macroeconomic Imbalances Procedure (see Sections 2.1 and 4.2). These vulnerabilities are long-standing legacies from the economic and financial crisis in 2013 and correcting them requires time. The common feature of these imbalances is that their correction requires improving growth potential, competitiveness and employment in a sustainable and inclusive manner. Most of the measures discussed in the previous two sub-sections are therefore highly relevant to address them.

The plan underpins the new growth model of Cyprus which aspires to improve the resilience of the economy. The economy of Cyprus depends heavily on few sectors of economic activity. Four sectors of economic activity drive around 70% of the growth in GDP and four sectors accounted for the 80% of exports of services. Component 3.1 (New growth model and diversification of the economy) aims to diversify the economy and in particular to develop a competitive agriculture sector by investing in the modernisation of agricultural technology and practices, animal husbandry and establishing strong collaboration between farmers, higher-education institutions and the Agricultural Research Centre. Furthermore, the plan foresees upskilling of farmers to adapt to the needs of agri-tech. The plan also provides for the construction of a collaborative infrastructure for marine aquaculture to accommodate the needs of marine offshore aquaculture activities and boost the sector of fisheries. Concerning the manufacturing sector, the plan focuses on light manufacturing by setting up the first Eco-Industrial Science Park in the country, creating a national commercial identity and promote the traditional product "halloumi". The plan also foresees support to the manufacturing sector to modernise and digitalise enterprises engaged in manufacturing and trading of agricultural products. The plan is expected to enhance the resilience of the tourism services by supporting SMEs to invest in development of the tourism sector in the mountains, remote and inland areas.

The planned reforms in the labour market are expected to improve its resilience by addressing skills mismatches. Component 5.1 (Educational system modernisation, upskilling and retraining) addresses the skills mismatches in the labour market, by introducing a graduate tracking system and reform secondary and tertiary education curricula according to the results of the tracking system. This reform is expected to contribute over the medium-term to the resilience of the labour market and the economy. Labour market resilience is also expected to be strengthened by further reforms and investments in component 5.2 (Labour market, social protection, social welfare and inclusion) that promote and support vocational education and training and early childhood education and care. Moreover, in this component and component 5.1 (Educational system modernisation, upskilling and retraining) sizeable investments in active labour market policies, including reskilling and upskilling as well as providing hiring incentives, accompanied by enhancement of the public employment service are expected to help reduce unemployment and the relatively high percentage of young people not in employment, education or training.

The plan includes a number of measures to strengthen the financial sector. It includes reforms related to the high stock of NPLs and improvement of the insolvency regime as well as measures for combating private indebtedness, including a new legal framework, a system of exchange of data and credit bureaus and an action plan for the development of a liability monitoring register. These measures should be beneficial in reducing asymmetric information between public entities, financial institutions, households and businesses, which may lead to a more efficient allocation of credit and facilitate the functioning of the secondary market for non-performing loans. The plan also includes measures to address financial illiteracy. Furthermore, component 3.3 (Business support for competitiveness) includes reforms and investments which are expected to help the corporate sector by providing alternative sources of financing, which may in turn improve the resilience of the economy as a whole.

Resilience is also expected to be improved through investments in and measures supporting the health system. Component 1.1 (Resilient and effective health system, enhanced civil protection) aims to strengthen the effectiveness, accessibility and overall resilience of the healthcare sector by supporting the recently introduced National Health System through various interventions, such as modernisation and digitalisation of health care infrastructure and equipment, improved e-Health services, accreditation of provided health care services and introduction of evidence-based clinical protocols and upskilling for health workers. In addition, it aims to enhance Cyprus' civil protection system through a modern Public Warning System.

Further strengthening of the tax and public administration are expected to support a more resilient economy. Over the medium and long term, reducing tax evasion and creating a fair and growth-friendly tax environment can be beneficial to provide fiscal space for necessary policy interventions. Component 3.5 (Safeguarding fiscal and financial stability) includes reforms to improve tax collection and effectiveness of the Tax Department and to address aggressive tax planning. In addition, Components 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption) and 4.2 (Promote e-government) invest in modernising the public administration and increase e-governance. Finally, institutional changes included in the plan in relation to the justice system and the fight against corruption are expected to increase transparency and boost the business environment.

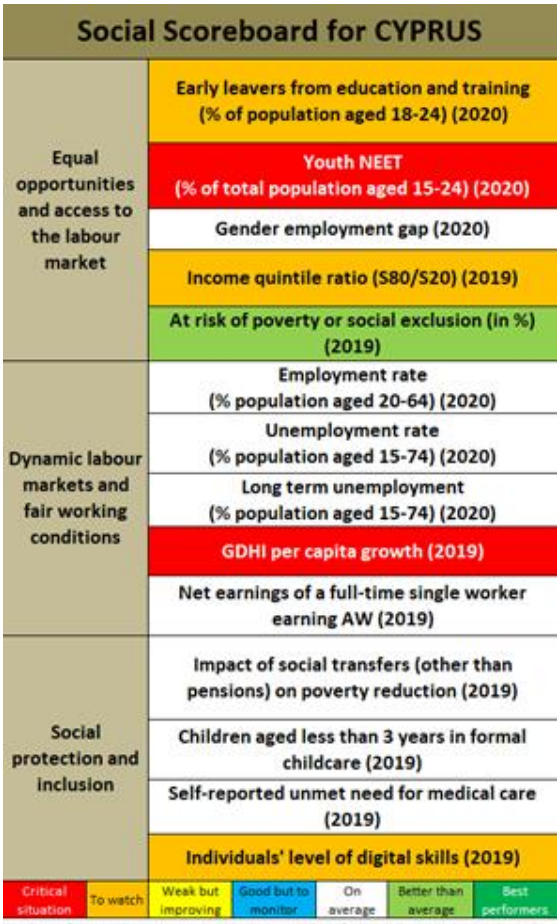
Cohesion and convergence

The plan is expected to contribute to enhancing economic, social and territorial cohesion and convergence. The COVID-19 crisis brought into surface considerable economic and social disparities in Cyprus, including relatively high unemployment for youth, high percentage of young people not in employment, education or training (NEETs) and increased risk of poverty and social exclusion (especially among children and people with disabilities). Some socio-economic differences persist within Cyprus, notably between rural and mountainous regions and urban centres. The plan includes measures to enhance the tourism sector in rural and mountainous regions and upgrade infrastructure for connectivity to bridge gaps and ensure an inclusive digital transformation and access to communication infrastructures for all citizens. Furthermore, the investment *Regeneration and revitalisation of Nicosia inner city* aims to attract young people to reside in this area. The investments on early childhood education and care facilities aim to cover considerable geographical needs. Concerning social cohesion, the plan includes measures that would facilitate the employment of young people women and people with caring responsibilities for children and other dependents. In addition, the plan aims at improving the hosting infrastructure and services for unaccompanied minors and children under the responsibility of the social welfare services. The reform of the Social Insurance System should extend coverage for all independent of their form of employment. As discussed in previous subsections, the plan includes a wide range of measures that are expected to help the economy to recover, reduce socio-economic disparities and develop a sustainable growth model. Within these measures, the ones that aim to support small and medium sized enterprises are particularly relevant for reducing economic disparities, the improvement of the business environment, including simplification of procedures, improvement of the financial sector and upskilling.

Box 3: Employment and social challenges in light of the Social Scoreboard accompanying the European Pillar of Social Rights

The Social Scoreboard supporting the European Pillar of Social Rights points to a number of employment and social challenges in Cyprus. The COVID-19 crisis has halted the positive labour market developments of the past years and risks leading to an increase in the share of people at risk of poverty or social exclusion, despite improvements prior to the pandemic. Unemployment and employment indicators have worsened, although apart from youth employment, they remain around EU average. Poor digital literacy (55% of the population lacking basic digital skills in 2019) negatively impacts on employability.

The employment situation of young people in Cyprus is critical. The already high share of young people aged 15-29 not in employment, education or training (NEETs) worsened in the current crisis, reaching 15,3% in 2020 (vs. 14,1% in 2019). The youth unemployment rate rose from 16,6% in 2019 to 18,2% in 2020 (EU average: 15% and 16,8%, respectively). Also, the rate of early leavers from education and training increased to 11,5% in 2020, above the EU average (9,9%).



Update of 29 April 2021. Members States are classified on the Social Scoreboard according to a statistical methodology agreed with the EMCO and SPC Committees. It looks jointly at levels and changes of the indicators in comparison with the respective EU averages and classifies Member States in seven categories. For methodological details, please consult the Joint Employment Report 2021; NEET: neither in employment nor in education and training; GDHI: gross disposable household income.

The COVID-19 crisis may exacerbate already existing social challenges. Growth of real gross disposable household income (GDHI) per person was one of the slowest in Cyprus in 2019 and wages (both nominal and real) contracted from Q2 2020. Income of the top 20% of the income distribution was 4,58 times that of the bottom 20% in 2019 (S80/S20), while the at risk of poverty or social exclusion rate (AROPE) stood at 22,3%, following a steady reduction from its peak in 2015 (28,9%), but still above the EU average (20,9%). The AROPE rate for persons with disabilities remains higher than the EU average (CY 33% vs. EU-27 28,4% in 2019).

The plan of Cyprus addresses employment and social challenges relevant for the implementation of the Pillar. To foster equal opportunities and access to the labour market, the plan proposes reforms to enhance digital and green skills, modernise teachers' and schools' evaluation system, and address overall skills

mismatches. Investments to further upgrade vocational education and training (VET) and provide activation for youth are also envisaged, complementing ESF+ actions. To improve labour market dynamics and working conditions, Cyprus has proposed a number of measures (including legislative) 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 (PES) and active labour market policies (ALMPs), in line with the Commission Recommendation on Effective Active Support to Employment (EASE). 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, to be further developed and integrated in the National Health System.

Cyprus is taking steps to address the availability and affordability of quality early childhood education and care (ECEC). The Cypriot plan includes a reform for the adoption of a new Law on the gradual eight-month extension of the entry age in free compulsory pre-primary education from the age of four years and provides grants to community and private kindergartens. Furthermore, investments are also envisaged to increase childcare capacity and infrastructure with the establishment of multifunctional child centres and the construction of new public childcare centres. These actions aim to increase children's learning outcomes, ensure equal access to quality and affordable ECEC, and facilitate labour market activation for people with caring responsibilities, particularly women.

Taking into consideration all reforms and investments envisaged by Cyprus, its recovery and resilience plan is expected to have a high impact on strengthening the growth potential, job creation, and economic, social and institutional resilience of the Member State, on 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. This would warrant a rating of A under the assessment criterion 2.3 in Annex V to the RRF Regulation.

4.4. The principle of 'do no significant harm'

The RRF Regulation provides that no measure included in the recovery and resilience plan should lead to significant harm to any of the six environmental objectives within the meaning of Article 17 of the Taxonomy Regulation[35]. In line with the RRF Regulation and the

[35] The six environmental objectives comprise (1) climate change mitigation, (2) climate change adaptation, (3) sustainable use and protection of water and marine resources, (4) the circular economy, (5) pollution prevention and control, and (6) protection and restoration of biodiversity and ecosystems.

Technical Guidance on the Application of 'do no significant harm' under the RRF Regulation (2021/C58/01; 'DNSH Technical Guidance'), Member States provide a 'do no significant harm' (DNSH) assessment, on which basis the Commission assesses whether each and every measure (i.e. each reform and each investment) included in the plans complies with the DNSH principle. Compliance with the DNSH principle is a necessary condition for the Commission to positively assess the recovery and resilience plan. Cyprus has included a satisfactory DNSH assessment for each measure in its plan and has provided more detail, when relevant, in accordance with the template provided by the Commission, and in line with the DNSH Technical Guidance. The Commission has assessed whether and how each measure in Cyprus' plan complies with the DNSH principle on that basis.

Cyprus ensures that no significant harm is done to environmental objectives by selecting or designing measures complying with the DNSH principle, and by substantiating DNSH compliance as part of the DNSH assessment. By selecting measures that either contribute substantially to environmental objectives, or have no or an insignificant foreseeable impact on environmental objectives, many measures in Cyprus' plan can be considered DNSH compliant from the outset (e.g. certain measures in education and training, labour market, public administration and justice, and digitalisation of systems and processes). Other measures are designed to ensure compliance with DNSH, including broad support schemes that span across sectors and activities (e.g. in R&D&I, and support to SMEs, or more widely across industries). For measures requiring a 'substantive DNSH assessment' according to the DNSH Technical Guidance (e.g. healthcare, sustainable mobility, energy efficiency and renewable energy investments in buildings, the 'EuroAsia Interconnector'), Cyprus has provided evidence and assurances substantiating that the measures do not lead to significant harm to any of the six environmental objectives.

Cyprus has committed to apply a number of DNSH requirements horizontally across the plan. For example, in all measures involving construction of new buildings, these must be Nearly Zero-Energy Buildings in line with the relevant EU legislation (Energy Performance of Buildings Directives 2010/31/EU and (EU) 2018/844). In all measures that involve building renovations, compliance with the Energy Performance of Buildings Directives 2010/31/EU and Directive (EU) 2018/844 is required. For both new buildings and renovations, it is ensured that they are not located in areas vulnerable to floods, and the design of the buildings ensures a low impact of heat waves on interior thermal comfort.

All measures that involve the purchasing and installation of biomass boilers and biomass-based fireplaces via the energy efficiency schemes in component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration) must comply with the provisions of Renewable Energy Directive 2018/2001/EU (REDII) and related implementing and delegated acts, as well as with national legislation on air pollutant emissions from such installations. This would prevent the use of biomass from high carbon stock land and high biodiverse land, or the use of high indirect land use change-risk biomass, providing a first level of DNSH-Biodiversity and DNSH-Mitigation.

Vehicles or vessels to be procured must comply with high environmental performance standards, e.g. <50 g CO_2 emissions / km in the case of light duty road vehicles. In case of special purpose vehicles, the best-available technology in that vehicle category should be supported (e.g. for firefighting aircraft and vehicles, fire trucks and tractors in measure C2.1I9 - Forest Fires Protection).

None of the investments and reforms included in the plan are located in or near biodiversity-sensitive areas. Moreover, they must not affect nor have significant effect to the areas and species protected by relevant national legislation, the Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas.

Where relevant, compliance with Strategic Environmental Assessment/ Environmental Impact Assessments/ Appropriate Assessments will be ensured and the results of relevant assessments will be taken into account.

The Cypriot plan also includes several broad measures spanning across sectors and activities, which are designed to be DNSH compliant (in line with Technical Guidance (2021/C58/01). These include the support scheme for reducing CO2 emissions in industries, businesses and organisations; the scheme for the enhancement of competitiveness in the manufacturing sector; the action plan for enhancing circular economy in industry, as well as the innovation funding programmes and funding schemes for the enhancement of growth & competitiveness of start-ups, innovative companies and SMEs.

Provisions and milestones associated to these measures necessitate introducing appropriate criteria in the development of the terms of reference of the calls for proposals or calls for interest. The terms of reference should ensure that all projects selected under these calls comply with the 'do no significant harm' principle, by preventing activities that could do significant harm to environmental objectives (e.g. activities related to fossil fuels, activities above the ETS benchmarks for free allocation, waste landfills and incinerators, among others) from being selected as part of the calls. For the activities under the ETS, where the emission reductions are not substantially lower than the relevant benchmarks, an explanation on why this level of emission reductions cannot be achieved is expected to be provided.

As regards the 'EuroAsia Interconnector', an Environmental Impact Assessment has been carried out. Cyprus has committed to adhering to the mitigating measures identified in this assessment with regard to the impact on the marine environment, which have also been incorporated into the construction permit for the project.

Taking into consideration the assessment of all the measures envisaged, no measure for the implementation of reforms and investments projects included in Cyprus' recovery and resilience plan is expected to do a significant harm to environmental objectives within the meaning of Article 17 of Regulation (EU) No 2020/852 (the principle of 'do no significant harm'). This would warrant a rating of A under the assessment criterion 2.4 in Annex V to the RRF Regulation.

4.5. Green transition

Climate target

The Cypriot plan includes measures supporting the achievement of the climate change objectives for an amount which represents 41% of the plan's total allocation (EUR 491 million out of EUR 1,2 billion), based on the methodology for climate tracking set out in Annex VI of the RRF Regulation. This exceeds the minimum climate target of 37% as set out in the RRF Regulation. The climate change contribution of each of the components of the recovery and resilience plan of Cyprus is set out in Table 7.

The largest contribution in the plan to the achievement of the climate change objectives stems from the policy axis 2. In particular, the largest contribution (EUR 269 million) stems from component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration), followed by components 2.2 Sustainable transport (EUR 63 million) and 2.3 Smart and Sustainable Water Management (EUR 55 million). Other components with significant contributions to the climate objectives are components 3.1 New Growth Model and diversification of the economy (EUR 39 million) and component 1.1 (Resilient and effective health system, enhanced civil protection; EUR 38 million).

Table 7: Share of climate contribution by component

Component	Cost (EUR million)	Climate contribu-tion (EUR million)	Share dedicated to climate (% of total compo-nent cost)	Share dedicated to climate (% of total allocation)
1.1 Resilient and effective health system, enhanced civil protection	74	38	51%	3%
2.1 Climate neutrality, energy efficiency and renewable energy penetration	269	269	100%	22%
2.2 Sustainable transport	91	63	69%	5%
2.3 Smart and sustainable water management	87	55	63%	5%
3.1 New growth model and diversification of the economy	166	39	23%	3%
3.2 Enhanced research and innovation	64	8	13%	1%
3.3 Business support for competitiveness	51	0	0%	0%
3.4 Modernising public and local authorities, making justice more efficient and fighting corruption	96	18	19%	1%
3.5 Safeguarding fiscal and financial stability	45	0	0%	0%
4.1 Upgrade infrastructure for connectivity	53	0	0%	0%
4.2 Promote e-government	36	0	0%	0%
5.1 Educational system modernisation, upskilling and retraining	94	3	3%	0%
5.2 Labour market, social protection, social welfare and inclusion	79	0	0%	0%
Total	**1 206**	**491**	**--**	**41%**

Source: Cyprus' plan

The measure with the most important contribution to the achievement of the climate change objectives is the 'EuroAsia Interconnector' project (EUR 100 million). The project included in Cyprus' recovery and resilience plan is part of a larger investment, which comprises the electricity interconnection between the grids of Israel, Cyprus and Greece with a total capacity of 2000MW. The project is an energy highway bridging Asia and Europe, with a total length of 1,208 km. This investment is expected to enable the import and export of electricity, which should aid electricity generation from cleaner sources, in particular renewables.

Large contributions to the achievement of the climate change objectives are provided by various support schemes that support energy-efficiency and renewable energy investments for households, enterprises, municipalities, communities, the wider public sector and NGOs. Sizeable contributions are also provided by investments encouraging a shift from private cars to public transport, cycling, walking, and promoting the use of clean vehicles.

Another important feature of the Cypriot plan is the inclusion of several measures with significant contribution to climate adaptation. These include measures such as C1.1I7 Public warning system for supporting emergency operations through SMS (EUR 4,5 million); C2.1I9 Forests fire protection (EUR 18,7 million); C2.3I5 Anti-flood and water collection measures (EUR 16 million); C2.3I6 Enhance water security for Nicosia and Larnaca regions (EUR 6,04 million).

Cyprus' plan correctly follows the methodology for climate tracking set out in Annex VI of the RRF Regulation. It identifies intervention fields and corresponding coefficients for the calculation of support to the climate objectives, for each measure. It should be noted that:

- a number of climate-relevant reform measures (i.e. green taxation (C2.1R1), the independence of the Cyprus Transmission System Operator from the incumbent Electricity Authority of Cyprus (C2.1R2) and the Energy Storage Regulatory Framework (C2.1R4)) do not have any associated cost within the plan. In this context, the plan does not identify intervention fields for them, and they do not directly contribute to reaching the climate target.
- for the purposes of calculating the contribution to the climate objectives, the measures are split into sub-measures in such a way that the corresponding costs can be tagged with a suitable intervention field. For some measures, this split, which is presented in the table in Annex I of this document, differs from the sub-measures listed in the Council Implementing Decision and other sections in the present Staff Working Document, where the sub-measures are defined as to facilitate and monitor the measure's implementation.
- the choice of intervention fields for the climate transition is well justified and reflects the nature, focus, objective or expected outcome of the investments.
- the plan includes an increase of the climate coefficients, in line with the Regulation, for a number of investments in component 2.3 (Smart and sustainable water management; notably the investment *Smart water networks management*). The increase of climate coefficients for these measures takes account of the accompanying reform on water resource management, which credibly increases the impact of these investments on their

climate objectives. The resulting increase to the climate contribution stays within the 3% limit provided by the RRF Regulation.

- in a limited number of cases, Cyprus has indicated two different intervention fields for the purpose of climate and digital tagging, respectively, which is shown in the table in Annex I of this document. This has been applied when the measure cannot be split into different sub-parts, when no single intervention field that reflects the contribution to both climate and digital objectives can be applied, and when the measure is considered as fully or partly contributing to both climate and digital objectives.

Green transition

The recovery and resilience plan puts a significant focus on the green transition with a dedicated policy axis tackling the accelerated transition to a green economy. Policy axis 2 on accelerated transition to a green economy is the second largest policy axis in the plan with 36% of the total allocation and measures addressing energy efficiency and renewable energy, sustainable mobility, as well as sustainable water management. There are also other measures spread across the rest of the Policy axes, which promote the circular economy and research and innovation linked to the green transition. Overall, the proposed actions are in line with the context of the European Green Deal and put in perspective both the environmental and economic benefits of the green transition to foster recovery and resilience. The plan addresses significant challenges to the green transition that Cyprus is facing (see Section 2.3 and Section 4.1). The investment *Skilling, reskilling and upskilling* in component 5.1 (Educational system modernisation, upskilling and retraining) addresses some of the just transition challenges, aligning skills with the future economy.

The Cypriot plan puts forward a number of key reforms to underpin the green transition. These reforms are linked to the introduction of green taxation, the liberalisation of the electricity market, licensing of renewable energy and renovation projects, water management, as well as the regulatory reforms aiming to facilitate and accelerate investments in electric mobility.

Energy efficiency and renewable energy penetration

The Cypriot recovery and resilience plan includes measures which aim at making a substantial contribution to the achievement of the national targets in energy efficiency and renewable energy for 2030 in line with the National Energy and Climate Plan (NECP). Component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration) includes reforms relating to the introduction of green taxation, the independence of the Transmission System Operator from the incumbent electricity supplier to facilitate the opening of the electricity market to competition, as well as the establishment of digital one stop shops for licensing Renewable Energy Sources (RES) projects and facilitating energy renovations in buildings. The component further includes various support schemes aiming to assist households, enterprises, municipalities, communities, the wider public sector and NGOs to implement energy efficiency and renewable energy investments and to combat energy poverty. It includes investments related to the energy upgrade of public buildings and other public infrastructure, including in the water treatment sector. Incentives for the reduction of greenhouse gas emissions

in agriculture, industries, businesses and other organisations are also incorporated in this component, as well as the development of advanced testing procedures in the area of renewable energy and smart grids for promoting high-quality research. The component includes investments relating to the mass roll-out of smart meters in Cyprus, as well as the 'EuroAsia Interconnector' project aiming to enhance the energy interconnection between Cyprus, Greece and Israel. While these measures are expected to help with the uptake of more renewable capacity into the electricity mix in the future, the plan itself does not make major investments in increasing renewable energy generation.

Sustainable mobility

Cyprus uses the plan to address existing challenges in the transport sector. The relevant measures are included in component 2.2 (Sustainable transport). The component supports the European Flagship 'Recharge and refuel' and promotes clean technologies towards a sustainable, accessible and smart transport. In particular, the plan contains kick-starting the replacement of conventional vehicles with zero- and low-emission vehicles accompanied with charging infrastructure sufficient for the planned number of electric vehicles and promotes the use of alternative, cleaner fuels and means of transport, as well a wider use of public transport. Actions and policy measures included in the component contribute to promoting Renewable Energy Sources (RES) projects and improving energy efficiency in accordance with the high-level goal of reaching the 2050 climate neutrality objective.

Water Management

Improving water management is one of the main environmental challenges that Cyprus is facing and the plan addresses existing investment needs in its component 2.3 (Smart and sustainable water management). The component is comprised of a set of interrelated and reinforcing investments enhanced by a water management reform, all of which are aimed at modernising water resource management and making it more sustainable. More specifically, the measures in the component aim to ensure adequate and uninterrupted supply of good quality drinking water, maximising the infrastructure for waste water collection systems, waste water treatment and reuse of treated effluent in agriculture, reducing water supply and distribution system water losses, reducing the non-revenue water and groundwater abstraction, improving operational efficiency of the services being provided to the consumers through technological advances and establishing transparency in financial transactions.

Circular economy

Through its recovery and resilience plan, Cyprus intends to promote the circular economy as part of the efforts to establish a new growth model and diversify its economy. Component 3.1 (New growth model and diversification of the economy) includes measures that aim at enhancement of the circular economy in the tourism and industrial sector, as well as at increasing sustainable waste management practices, including recycling. This is expected to contribute to making better use of raw materials, as well as reducing waste, raising awareness for sustainable development and switching to renewable energy in order to mitigate the climate crisis, protecting social well-being and building a resilient economy.

Climate change adaptation and biodiversity

Cyprus addresses the challenges of climate change adaptation. As a country particularly vulnerable to the impacts of climate change, the Cypriot plan foresees protective and preventative measures. Component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration) includes measures to increase the country's responsiveness to forest fires, which are at risk of increasing due to climate change impacts. Component 2.3 (Smart and sustainable water management) includes anti-flood and water collection measures for the creation or upgrading of existing anti-flood infrastructure.

Regarding biodiversity, component 2.3 (Smart and sustainable water management) includes an investment related to the protection of the marine ecosystem from hazards and the improvement of the level of efficacy as regards oil spills prevention and response mechanisms. The objective of the measure is to protect marine ecosystems through an upgrade of the operational capacity of the Department of Fisheries and Marine Research to respond promptly, adequately and effectively to incidents from oil pollution to marine pollution. The aforementioned investments in adaptation such as protection of forests in component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration) are expected to also have benefits for biodiversity. In addition, component 3.1 (New growth model and diversification of the economy) includes several measures that are expected to have an indirect contribution to protecting biodiversity such as building collaborative marine aquaculture infrastructure, developing touristic routes, extension of the Cyprus Green Points Network for improving waste collection and recycling. Finally, the DNSH assessment ensures that the country's Natura 2000 sites are not threatened by any measure included in the plan.

Research and innovation linked to the green transition

Cyprus also plans investments in research and innovation focusing on the green transition. Component 3.2 (Enhanced research and innovation) includes a thematic research and innovation support programme on the green transition. The objective of the measure is to provide grant funding through thematic R&I programmes focusing on green transition. The supported projects should focus on renewable energy, energy efficiency and sustainable transport. They should entail collaboration with Centres of Excellence for R&I, and facilitate the commercialisation of research results.

Taking into consideration the assessment of all the measures envisaged, the recovery and resilience plan is expected, to a large extent, to make a significant contribution to the green transition or to address the challenges resulting from it and ensures that at least 37% of its total allocation contribute to the climate target. This would warrant a rating of A under criterion 2.5 in Annex V to the RRF Regulation.

4.6. Digital transition

Digital tagging

The plan follows the methodology for digital tracking set out in Annex VII of the RRF Regulation by identifying intervention fields and corresponding coefficients for the calculation of contribution to the digital objectives. The choice of intervention fields for the digital transition is well-justified and reflects the nature, focus, objective or expected outcome of the investments included in the component. To ensure an accurate selection of the intervention fields and to avoid any overestimations of the contribution of certain measures to the digital objectives, Cyprus has split the measures based on their costs whenever possible. In a limited number of cases, Cyprus has indicated two different intervention fields for the purpose of climate and digital tagging, respectively. This has been applied when the measure cannot be split into different sub-parts, when no single intervention field that reflects the contribution to both climate and digital objectives can be applied, and when the measure is considered as fully or partly contributing to both climate and digital objectives. The plan does not propose any increased digital coefficients for any measure.

Overall, based on the methodology, the contribution to achievement of the digital objectives accounts for 23% of the recovery and resilience plan's total allocation, which is above the 20% target of the RRF Regulation. Out of the thirteen components of the plan, almost all of them include measures related to digital and eight of them are directly supporting the digital transition or addressing related challenges. The most important contributions come from components addressing connectivity infrastructure in component 4.1 (Upgrade infrastructure for connectivity) and the digitalisation of the public sector in component 4.2 (Promote e-government), followed by the two components addressing e-justice in component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption) and fiscal and financial stability in component 3.5 (Safeguarding fiscal and financial stability). Therefore, while Policy Axis 4 (Towards a Digital Era) focuses solely on the digital transition, measures related to digital are spread out throughout the Cypriot plan.

Table 8: Digital contribution per component

Component	Total Cost (EUR million)	Digital contribu-tion (EUR million)	Share dedicated to digital (% of total component cost)	Share dedicated to digital (% of total allocation)
1.1 Resilient and effective health system, enhanced civil protection	74	15	20%	1%
2.1 Climate neutrality, energy efficiency and renewable energy penetration	269	17	6%	1%
2.2 Sustainable transport	91	4	4%	0%
2.3 Smart and sustainable water management	87	23	27%	2%
3.1 New growth model and diversification of the economy	166	2	1%	0%
3.2 Enhanced research and innovation	64	0	0%	0%
3.3 Business support for competitiveness	51	17	33%	1%
3.4 Modernising public and local authorities, making justice more efficient and fighting corruption	96	54	57%	5%
3.5 Safeguarding fiscal and financial stability	45	28	63%	2%
4.1 Upgrade infrastructure for connectivity	53	53	100%	4%
4.2 Promote e-government	36	35	98%	3%
5.1 Educational system moderation, upskilling and retraining	94	24	26%	2%
5.2 Labour market, social protection, social welfare and inclusion	79	10	12%	1%
Total	**1206**	**282**	**--**	**23%**

Source: Cyprus' plan

Digital transition

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. The measures of the plan cover five of the seven priority areas identified in Annex VII to the RRF Regulation: connectivity, human capital, the digitalisation of public services, the digitalisation of businesses, investments in digital capacities and advanced technologies. The plan also tackles the four strategic priorities identified at EU level and reaffirmed in the recent communication on Europe's Digital Decade[36]: skills, infrastructures, digital transformation of businesses and digitalisation of public services. Finally, the proposed

[36] COM(2021) 118 - 2030 Digital Compass: the European way for the Digital Decade, 9 March 2021.

measures are aligned with the four digital flagship initiatives identified in the Annual Sustainable Growth Strategy 2021[37]: Connect, Modernise, Scale-Up and Reskill and Upskill.

Component 4.1 (Upgrade infrastructure for connectivity), solely dedicated to connectivity, includes both reforms and investments that aim to foster and facilitate the widespread deployment of very high-capacity networks (VHCN). This includes 5G and fibre, in line with EU's 2025 connectivity objectives, with the 5G Action Plan and in some cases with the implementation of the Connectivity Toolbox. By identifying and removing the administrative bottlenecks and barriers to the rapid deployment of VHCN, the reforms are expected to facilitate investments by private operators. Investments should also support the build-up of VHCN in areas of no private interest thereby addressing territorial disparities of broadband availability. For completeness, with component 4.1 (Upgrade infrastructure for connectivity), Cyprus will also implement a voucher scheme for physical persons, to encourage the construction of their building internal cabling, for connection to a VHCN passing close to their premises. Finally, the installation of a high-capacity resilient backbone internet connectivity for Cyprus through a new submarine link for data connectivity between Cyprus and Greece should further improve connectivity on the island. As Cyprus ranks last for connectivity on the DESI of 2020, enhancing access to communication infrastructure for all citizens, in order to bridge the digital divide and to support an inclusive digital transformation is particularly a key set of measures of the Cypriot plan.

The digitalisation of public administrations is a priority of the Cypriot plan. Component 4.2 (Promote e-government) is dedicated to the promotion of e-government, a goal that is also envisaged by various other, complementary measures of the plan. The reforms and investments in component 4.2 (Promote e-government) are expected to contribute to accelerating the digital transformation of Cyprus through the digitalisation of government services enhancing the efficiency and the provision of online, secure and prompt services to citizens, in a user friendly, efficient and effective way. This is expected to facilitate the interaction between citizens and the public services, without the need for physical presence. The measures include notably the creation of a new delivery model for the development of end-to-end quality digital services to the public, the development of government cloud (G-Cloud), the creation of a new platform (Digipol) for police procedures, the creation of a modernised registry for companies, digitalising key workflows in a number of ministries and central government services, digitalising key processes in the Cyprus Ports Authority to improve their efficiency and effectiveness. Cyprus ranks below EU average for Digital Public Services according to the DESI 2020, and the included measures are expected to build a secured, integrated and modern digital architecture and thus contribute to the digital transformation of the government, benefitting all citizens in Cyprus.

Digitalisation of public administration and services is also covered beyond component 4.2 (Promote e-government) and is covered throughout the plan. Measures in component 3.5

[37] COM(2020) 575 - Annual Sustainable Growth Strategy 2021, 17 September 2020.

(Safeguarding fiscal and financial stability) are expected to support digitalisation of the tax and customs departments and provide their staff and users with modern digital tools. The reform of the insolvency framework includes an enhancement of the IT system used by the Department of Insolvency to increase its efficiency and to facilitate the use of insolvency tools in the economy. The investment into a cloud-based IT system for the Cypriot Securities and Exchange Commission is expected to allow it to handle more efficiently large amounts of transaction data to fulfil its supervisory tasks.

An important focus of the digitalisation of the public sector of the Cypriot plan is entailed in component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption). The Cypriot plan contains measures using digitalisation as a way to modernise and reinforce the efficiency of key administrative functions and of the justice system. Such measures include the improvement of public procurement by using an e-procurement tool that is expected to simplify participation in procurement in particular for SMEs, the digital transformation of the Law Office to improve efficiency and working conditions of the employees, enhancing the e-system for issuing building permits to allow for a fully digital process, as well as addressing the inefficiencies of the justice system through the digitalisation of currently manual or paper-based processes.

Digitalisation is also an essential aspect of the measures envisaged to modernise the Cypriot health system. Several measures in component 1.1 (Resilient and effective health system, enhanced civil protection) are expected to make medical and operational processes in institutional care and civil protection more efficient. These measures are also expected to increase the quality, accessibility and equity of healthcare and civil protection. The development of the dedicated platforms is expected to provide an electronic access to the healthcare staff on (i) the clinical standards and protocols, (ii) infectious disease and epidemiological data and the analysis of such data, and (iii) antibiotic consumption, antimicrobial resistance and healthcare-associated infections. Deployment of generic cross border e-Health services in Cyprus is expected to contribute to developing the core of electronic health records based on a common European exchange format to give European citizens secure access to and exchange of health data across the EU, while designed to comply with requirements for a European Health Data Space. In turn, this is expected to allow for more targeted and faster research, diagnosis and treatment. At the same time, data analytics modules to be developed are expected to reply and endorse trustworthy artificial intelligence (AI) as defined in the white paper on AI and "Technology that works for people" pillar of the EU digital strategy. In the field of civil protection, a new public warning system is expected to increase public safety, preparedness and resilience.

The digitalisation of the public sector is rightfully complemented by measures enhancing digitalisation of the private sector, notably through measures accompanying the productivity SMEs, mainly through digitalisation. Component 3.3 (Business support for competitiveness) is expected to unlock the potential of digital technologies and to contribute to the digital transition of SMEs, notably with a scheme for the digital upgrade of enterprises that is expected to have a long-lasting impact effect on the economy's resilience and growth.

The development of digital skills, an essential prerequisite for successfully meeting the challenges of the digital transformation, is among the main objectives of measures in component 5.1 (Educational system modernisation, upskilling and retraining). The envisaged measures put digital skills development at their core, combining the reform in teacher and school evaluation, transformed curriculum, development of new educational material, training of teachers and investments in the digital equipment of schools. Taken together, the related reforms are expected to contribute to the development of a digital learning ecosystem. Improved access to digital equipment and infrastructure for students of low socio-economic background and general improvement of digital skills teaching is expected to help overcome educational barriers for disadvantaged children and make society more resilient to crises. In parallel, Cyprus will develop a national e-Skills action plan targeting the enhancement of digital skills across all population groups (including in public administration, enterprises and society at large), to ensure continued inclusion of all adults in a society transformed by digitalisation. The e-Skills action plan envisages targeted measures aimed at developing specialised IT skills for professionals working in the public sector. The plan also envisages a targeted investment to, amongst others, improve the digital skills of elderly and unemployed.

The measures that contribute to the digital share of Cyprus recovery and resilience plan are expected to have a lasting impact on the digital transition. The digitalisation of public administration, enhanced connectivity, digitalisation of the health and justice systems as well as the take up of digital skills are expected to have a lasting impact on the accessibility of the public services and on the way in which citizens and businesses are able to interact with them. The measures should also improve the efficiency of public services provision and will increase their resilience, while also ensuring social and territorial cohesion.

Taking into consideration the assessment of all the measures envisaged, the recovery and resilience plan is expected, to a large extent, to make a significant contribution to the digital transition or to address the challenges resulting from it and ensures that at least 20% of its total allocation contribute to support digital objectives. This would warrant a rating of A under criterion 2.6 in Annex V to the RRF Regulation.

4.7. Lasting impact of the plan

Structural change in administration and institutions

The plan presents a series of measures to contribute to the digital transition and to addressing the low level of digital public services. Components 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption), 4.1 (Upgrade infrastructure for connectivity) and 4.2 (Promote e-government) are particularly relevant in this respect. It is expected to introduce structural improvements in the functioning of key services and to narrow the gap on the quality and use of digital public services, on which Cyprus ranked 27th among 28 countries assessed in the Digital Economy and Society Index in 2020. The measures included are expected to ensure coverage 5G and very high-capacity broadband 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 and Gigabit connectivity. The plan is expected to promote e-government. Digital projects, such as 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, 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.

The plan includes an overhaul of the justice system. Reforms and investments included in the plan aim at having a lasting positive impact on the effectiveness of the justice system through the deployment of a digital transformation of courts, training of judges and introducing updated rules of civil procedures which are expected to increase significantly the efficiency of the courts to adjudicate legal cases.

The lasting impact of the plan can also be enhanced through synergies, complementarity, and consistency between the plan and other programmes, including those financed by the cohesion policy funds, notably by addressing territorial challenges and promoting a balanced development. In order to promote wider coherence across these instruments, a balanced territorial allocation of resources is encouraged.

Structural change in policies

Further, the plan is expected to address a number of structural changes to strengthen the financial sector and the business environment. Component 3.5 (Safeguarding fiscal and financial stability) introduces measures to tackle private indebtedness, assist the monitoring of financial market information and credit expansion, and remove information asymmetries that are expected to address inherent weakness in the financial sector and increase the resilience of the economy to future shocks. Measures in components 3.1 (New growth model and diversification of the economy), 3.2 (Enhanced research and innovation), 3.3 (Business support for competitiveness) and 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption) are expected to improve the regulatory and further ease doing business, inter alia, by supporting SMEs, simplifying procedures for strategic investments, boost Research and Innovation and digitalise the law-making process.

The plan puts forward a number of key reforms to underpin the green transition address problems associated with Cyprus' excessive reliance on fossil fuels. These reforms are related to the introduction of green taxation, the liberalisation of the electricity market, licensing of renewable energy and renovation projects, water management, as well as the regulatory reforms aiming to facilitate and accelerate investments in electric mobility.

Lasting impact

The implementation of the plan is expected to result in lasting improvements in the education 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, adapting the curricula of higher and secondary education according to the needs of the labour market and foster digital skills in schools. Furthermore, the plan includes the preparation of a national strategy for the early childhood education and care. These measures are expected to improve the quality of education for all ages and students' performance and make better connections between the school and the labour market.

Taking into consideration all reforms and investments envisaged by Cyprus in its recovery and resilience plan, their implementation is expected, to a large extent, to bring about a structural change in the administration or in relevant policies and to have a lasting impact. This would warrant a rating of A under criterion 2.7 in Annex V to the RRF Regulation.

4.8. Milestones, targets, monitoring and implementation

The governance arrangements proposed by Cyprus for implementation of the overall plan are robust and the monitoring and reporting mechanism appears sufficient. The main actors are the Monitoring Committee, the Coordinating Authority, the Costing Coordinator, the Monitoring Bodies and the Implementing Bodies.

A Monitoring Committee, approved by the Council of Ministers for the high-level monitoring of the progress in the implementation of the plan and for addressing risks and resolving issues which may have an impact on implementation is going to be established. The Monitoring Committee will be chaired by the Director-General of Directorate General for European Programmes, Coordination and Development (DG EPCD).The Directors-General of all Ministries and Deputy Ministries involved in the plan are expected to attend it as participants. They will meet at least quarterly or on an ad-hoc basis if deemed necessary.

The Directorate for Recovery and Resilience (D-RR) of the DG-EPCD has been designated as the Coordinating Authority. Overall, its responsibility is to coordinate and monitor the implementation of the plan at operational level, as well as to ensure compliance with provisions of the monitoring and control system and with the national legislation. It is responsible for monitoring and certifying the achievement of the milestones and targets. It is also responsible for coordinating the work of the Implementing Bodies for the timely implementation of the milestones and targets, in accordance with the plan's timetable. It is the point of contact to exchange information and liaise with the Commission. It has been designated to prepare and submit to the Commission the reports on the progress of the implementation of the plan in the context of the European Semester in line with Article 27 of the RRF Regulation. It should also be responsible for the preparation of the payment requests and, in case needed, for any revision of the plan. The continuous cooperation of the D-RR with the other Directorates in DG EPCD is expected to ensure that all programmes financed by EU funds are coordinated horizontally and that there is no double funding from different programmes. In addition, the Coordinating Authority prepares and coordinates the meetings of the Monitoring Committee. It supports the Monitoring Bodies and the Implementing Bodies (see below) in the exercise of their tasks. The administrative capacity of the Coordinating Authority consists of 10 staff, including the Director of the D-RR, who have relevant experience in coordinating, monitoring, controlling and managing programmes and projects in Cyprus, both at national and at EU level. The

Coordinating Authority is also planning to hire three additional staff in the near future and support may be granted, where necessary, by the staff of other Directorates in DG-EPCD.

The Verifications and Certification Directorate of the Treasury of the Republic of Cyprus is designated as the Costing Coordinator of the plan. It acts as the central intermediate body for administrative verifications of expenditure and supports the financial management of all operational programmes co-financed through European Structural and Investment Funds. This experience provides an additional safeguard as regards avoidance of double funding. The Costing Coordinator is staffed with one senior accountant and ten accountants, all qualified accountants and members of the Cyprus Association of Certified Accountants, with years of experience in financial management and control of co-financed projects and programmes and analysis of investment costs and reforms.

The specialised Monitoring Bodies are entrusted with the task of monitoring the progress, supporting the implementing bodies in addressing problems, supporting the Coordinating Authority in drawing up progress reports and certifying the achievement of the milestones and targets for parts of the plan that require specialised input. They have a reporting line to the Coordinating Authority. The Deputy Ministry of Research, Innovation and Digital Policy is responsible for monitoring the implementation and certifying the achievement of the plan's milestones and targets that relate to digital interventions, while the Directorate of Control of the Ministry of Transport, Communications and Works is responsible for monitoring the implementation and for certifying the achievement of the plan's milestones and targets that will be implemented by the State Health Services Organisation of Cyprus (regrouping public healthcare providers, notably hospitals).

Lastly, the Implementing Bodies are responsible for implementing the reforms and investments of the plan. As deemed necessary, they may be directly supervised by the Coordinating Authority and/or the Monitoring Bodies, by their own internal control mechanisms, by the Auditor General of the Republic and by other bodies implementing horizontal policies such as the Office of the Commissioner for State Aid Control, Public Procurement Directorate of the Treasury of the Republic of Cyprus, Department of Environment of the Ministry of Agriculture, Rural Development and Environment, the Ministry of Justice and Public Order as regards gender equality and the Department of Labour of the Ministry of Labour, Welfare and Social Insurance as regards non-discrimination.

The controls and audit arrangements are described in Section 4.10.

The milestones and targets of the Cypriot plan constitute an appropriate system for monitoring the plan's implementation. They constitute key steps of the measures and represent concrete achievements directly linked to the implementation of the measures. The milestones and targets are designed in a way that they are under the control of the Cypriot authorities. They are realistic, relevant for the implementation of the plan and reflect the plan's overall level of ambition. The verification mechanisms, data collection and responsibilities described by the Cypriot authorities appear sufficiently robust to justify adequately the payment requests once the

milestones and targets are completed. The monitoring indicators are in general sufficiently clear and comprehensive to ensure that the implementation of the measures is on track.

The arrangements proposed by Cyprus in its recovery and resilience plan are expected to be adequate to ensure effective monitoring and implementation of the recovery and resilience plan, including the envisaged timetable, milestones and targets, and the related indicators. This would warrant a rating of A under the assessment criterion 2.8 in Annex V to the RRF Regulation.

4.9. Costing

Cyprus provided cost estimates for all investments and reforms included in the plan for which funding through the Facility is requested. In many cases, supporting documentation or additional information on costing were also provided, including references and links to external sources. For some reforms, no request for funding was envisaged and thus no costing information included.

The reforms and investments included in the plan comply with the eligibility criteria set out in the RRF Regulation. Based on the information presented in the plan, all measures are set to be implemented and generate costs only after 1 February 2020, thus fulfilling the related eligibility criteria. Similarly, according to the planned milestones and targets and associated payments requests, no funding is planned to be requested after the cut-off date of 31 August 2026. Furthermore, the cost estimates in the plan do not include VAT, which is an eligible cost only in very special circumstances. In one case, related to the setting-up and operation of an Anti-corruption agency, RRF funding would cover recurrent costs in the form of permanent staff costs. While in general not an eligible cost, under special circumstances such costs could still be accepted. In this case, the measure relates directly to a CSR addressed to Cyprus and the recurrent cost element is limited in size. The plan also clearly states the intention of the government to continue financing the agency via the state budget beyond the time horizon of the plan.

The information in the Cypriot plan seems to indicate that the costing is to a medium extent reasonable and plausible. In particular, the costing information provided for the different measures are generally rather detailed, with methods explained and calculations possible to follow. For many measures, in particular the larger ones, supporting evidence was provided, which gives greater assurance that the cost estimates in the plan are reasonable. For some smaller measures, the plan refers to the existence of such supporting evidence.

The information on costing provided suggests that costs would be in line with the nature and type of the envisaged reforms and investments, thus supporting their plausibility. Depending on the type of measure, it can be more or less challenging to provide costing estimates. For instance, in the case of funding programmes, where final beneficiaries have to submit applications for intended projects, ex-ante cost estimations risk being less precise than for measures where the type and nature of projects are clear from the beginning. However, experience from similar programmes can give an idea of the expected take-up and thus reduce

the uncertainty regarding plausibility. Such information was provided for a number of measures in the Cypriot plan.

The Cypriot plan states that costs expected to be financed by the Facility will not be funded at the same time from other EU sources. This provides some reassurance that the additionality criterion of the RRF Regulation will be respected. To maximise the recovery impact, the authorities aim at making the various European financing tools operate in synergy with the plan. Therefore, the plan reports that coordination mechanisms have been established to allocate the proposed measures between the various instruments, safeguarding consistency, enhancing synergies and complementarity and avoiding overlaps and double funding with other EU sources. For that purpose, there has also been collaboration between public and private actors, both at policy, technical and advisory level.

The amount of the estimated total costs of the plan appears commensurate to the expected social and economic impact of the funded measures and in line with the principle of cost-efficiency. A large part of the measures included in the Cypriot plan addresses CSRs and the overall size of the Cypriot plan of around 4,5% of GDP would make a significant contribution to the recovery of the Cypriot economy. The full implementation of the plan could have a significant impact on both GDP and employment in both the short and long term, initially driven by investment and then driven increasingly by productivity gains induced by reforms (see Section 4.3). Thus, the envisaged social and economic gains that would flow from the plan seem commensurate with the measures envisaged and would be in line with the principle of cost-efficiency.

The justification provided by Cyprus on the amount of the estimated total costs of the recovery and resilience plan is to a medium extent reasonable, plausible, in line with the principle of cost-efficiency and is commensurate to the expected national economic and social impact. Cyprus provided sufficient information and evidence that the amount of the estimated cost of the reforms and investments of the plan to be financed under the Facility is not covered by existing or planned Union financing. The above would warrant a rating of B under the assessment criterion 2.9 in Annex V to the RRF Regulation.

4.10. Controls and audit

Robustness of internal control system and distribution of roles and responsibilities

The plan clearly identifies the actors responsible for controls and audit and defines their roles (see also section 4.8 of this document). The key actors for controls and audit, as identified in Annex 4 to the recovery and resilience plan, are: the Monitoring Committee; the Coordinating Authority, namely D-RR of the DG-EPCD; the Costing Coordinator; the specialised Monitoring Bodies; the Implementing Bodies; the contact point for the European Anti-Fraud Office (OLAF), which is the Treasury of the Republic of Cyprus; the Audit Bodies, which include the Internal Audit Service of the Republic of Cyprus (IAS) and the Audit Service of the Republic of Cyprus; the National Coordinating Body for the fight against fraud against the interests of the EU (AFCOS); and the Prosecutor General of the Republic and Police. Control mechanisms of implementing bodies are set out in detail, with dedicated roles for audit officers, officials in

charge and Financial Management Directorates in the line ministries. The envisaged verifications are well-explained and listed, covering verifications of the contracts, on-the-spot checks and all the interventions under the plan, when appropriate, subject to risk assessment.

The National Control and Audit Coordinator for the implementation of the plan, which is the Verifications and Certification Directorate of the Treasury of the Republic of Cyprus, supports the Coordinating Authority in overseeing controls by all stakeholders, including Implementing Bodies, in accordance with the management and control system of the plan and the national and EU legislation. In that respect, it is expected to also monitor the status of the findings of ex post audits, acting as the intermediate body between the Coordinating Authority and the IAS and the Audit Office of the Republic of Cyprus (together, "the audit bodies"). The National Control and Audit Coordinator is not expected to be involved in the planning and execution of the audits, which is within the sole responsibility of the audit bodies. The Control and Audit Coordinator has the responsibility to oversee the treatment of serious irregularities, meaning fraud, corruption and conflicts of interests, and to ensure that double funding is avoided.

The Implementing Bodies will have the first line responsibility to prevent, detect, report and correct conflicts of interest, corruption and fraud, and avoid double funding. To that end, they will undertake first level controls and verifications of the physical and financial aspect of the measures under their responsibility and regularly update the Coordinating Authority and the specialised Monitoring Bodies, where relevant, regarding progress in achieving the milestones and targets of the measures under their responsibility and by providing all the necessary supporting documentation.

The envisaged audit processes are adequate. The IAS and the Audit Service of the Republic of Cyprus have audit strategies laid out in the plan, setting out the risk assessment to be undertaken, types of audits to be conducted, an explanation of the sampling approach, an explanation of how the annual audit plans will be drawn up and arrangements to make sure that activities related to the recovery and resilience plan will be included in the audit plans. In particular, the IAS is responsible for conducting ex post internal audits in any central government body including the audit of the achievement of milestones and targets of the plan, through an appropriate sampling method. The Audit Office of the Republic of Cyprus is responsible for conducting financial, performance and compliance ex post (and in some cases real time) external audits for projects implemented under the national budget through an appropriate sampling method which complies with the International Organisation of Supreme Audit Institutions (INTOSAI) standards. The plan sets out how the audit trail will be ensured: how data will be kept in the future Monitoring Information System (MIS), in the archiving systems of the bodies involved, and how archiving and record keeping will be conducted before the MIS is ready.

Any weaknesses identified will be reported to the Commission and where relevant to OLAF. Every payment application, prepared by the Coordinating Authority, will be accompanied by a management declaration and a summary of the audits carried out, including weaknesses identified and any corrective actions taken. To that end, the National Control and Audit Coordinator will support the Coordinating Authority in retrieving the results of audit

procedures undertaken by the audit bodies (including the Internal Audit Service and the Audit Office), as well as all cases of serious irregularities, including cases of fraud or suspicion of fraud, corruption and conflicts of interest, that will feed into the summary of audits. AFCOS will inform the European Commission and OLAF of cases of suspected irregularities of fraud, corruption or conflict of interest.

The plan stipulates that the key national actors responsible for audit, namely the IAS and the Audit Service of the Republic, are independent. The IAS and the Internal Audit Officer are independent of the directorates of the audited bodies. The Audit Office of the Republic is an independent service of the Republic and not attached to any Ministry. Moreover, the plan details provisions ensuring the independence of the Prosecutor General (with regard to criminal prosecutions, including cases of irregularities) and the Ombudsman (the institution of extra-judicial review of the administration in Cyprus). There is a draft law in preparation to establish an Independent Anti-Corruption Authority by 31 March 2022 (see also Section 4.2 subsection *Structural reforms to improve the functioning of the public sector and fight corruption*). In the meantime, AFCOS is tasked with fighting corruption.

The plan sets out several additional layers of controls to avoid serious irregularities and avoid double funding. The Coordinating Authority will maintain a single central list of contractors, subcontractors, final recipients of aid or their actual beneficiaries, for all the plan's measures. It makes the central list available to the National Control and Audit Coordinator for the exercise of its responsibilities. Notably, for the avoidance of double funding, besides the initial screening when projects in the recovery and resilience plan were selected, the Implementing Bodies will do, among others, automated checks or on–the-spot checks. The National Control and Audit Coordinator will do horizontal controls on a sample basis and cross-checks versus the central list, if new applicants (contractors, sub-contractors, final beneficiaries) have applied or are financed, including from European structural and investment funds or national programmes. The risk of conflicts of interest is expected to be minimised through declarations of honour by the evaluators of tenders and proposals for the selection of contractors or final recipients of aid. In addition, potential conflicts of interest can be checked with the help of the future Monitoring Information System (MIS), or the Register of Operating Beneficiaries of the Registrar of Companies, or by means of a central list. Furthermore, serious irregularities can come to the attention of the Coordinating Authority through complaints lodged to the Audit Office of the Republic or the Ombudsman or through information from AFCOS.

There are also adequate procedures in place for the correction of serious irregularities, including recovery of funds and prosecution.

Adequacy of repository systems and other relevant arrangements

A dedicated Monitoring Information System (MIS) will be used by the Coordinating Authority for the implementation of the plan. Its core functionalities, or a contingent repository system with the required functionalities, are expected to be in place by 31 December 2021. Cyprus is expected to submit a dedicated audit report confirming the effectiveness of the functionalities of the repository system by 31 March 2022 and in any case by the first payment request. In terms of core required functionalities, a repository system will, as a minimum, 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)(d) (i) to (iii) of the RRF Regulation, by the first payment request. In addition to the above functionalities, the MIS will extract data from third party systems, indicatively including the EU ARACHNE system, to utilise the offered functionality for the management of risks and indicators of fraud and corruption. The plan adequately describes what data will be collected and how it will be made available. There is also a description of how data will be kept before the MIS is ready and a description of the processes to transfer data to the MIS when it is ready.

Legal empowerment and administrative capacity of control function

The legal mandates for bodies responsible for audit and control are set out appropriately. The existing legal mandates of the bodies involved are well explained. Moreover, it is explicitly explained that by means of the Council of Ministers decision of 14 May 2021, which approved the plan, the monitoring and implementation procedures described in the plan are adopted and enter into force, and responsibilities of the bodies involved are defined.

The plan describes the administrative capacity at length (see also Section 4.8). The plan describes organisation and staffing of the various actors involved in controls and audit, notably the Coordinating Authority, the specialised Monitoring Bodies, the Internal Audit Service and the Audit Service of the Republic of Cyprus. The plan goes so far as to describe the training and experience of key staff and to provide information on vacancies that are to be filled. The plan also explains new posts that were created for the plan-related work.

The arrangements proposed by Cyprus in the recovery and resilience plan to prevent, detect and correct corruption, fraud and conflicts of interest when using the funds provided under the Facility, including the arrangements aimed to avoid double funding from the Facility and other Union programmes, are assessed to be adequate, subject to a repository system being put in place before the first payment request. This would warrant a rating of A under the assessment criterion 2.10 in Annex V to the RRF Regulation.

4.11. Coherence

Mutually-reinforcing measures

The recovery and resilience plan for Cyprus is a comprehensive plan, which coherently contributes to smart, inclusive and sustainable economic development. The plan is structured around thirteen components grouped around five main policy axes ("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"), which include measures that are mutually reinforcing (both within and across the policy axes) and expected to generate synergies when implemented. In most components there is a measure that sets the strategic dimensions of the sectoral system reform, reforms that foresee the legislative and administrative framework of the system and investments that facilitate behavioural changes of the private sector in a sustainable way. Moreover, in all components there are elements in the reforms that have green or digital transition efforts, as well as elements that reinforce the plan's overall goal of sustainable growth. Policy Axis 1 and Policy Axis 5 ("Resilient and Effective Health System, Enhanced Civil Protection" and "Labour market, social protection, education and human capital") are mutually reinforcing in social welfare, in fostering the quality of healthcare services covered, long-term care support, social protection and inclusiveness. Policy Axis 3 ("Strengthening the resilience and competitiveness of the economy") has mutually-reinforcing measures with both Policy Axis 2 and 4 ("Climate neutrality, energy efficiency and renewable energy penetration" and "Towards a digital era"). The links are particularly strong with Policy Axis 1, as - in an attempt to increase the resilience

and competitiveness of the economy - the plan includes measures to strengthen agriculture and make it more attractive and promotes circular economy. It also foresees incentives for the digitalisation of business and of the government, mutually reinforcing the measures of Policy Axis 4.

Complementarity of measures

The Cypriot plan is coherent and exploits complementarity between measures and between components. The plan was coordinated by the DG-EPCD, in co-ordination with the Ministry of Finance. As these bodies are also responsible for the economic strategies of Cyprus (including the long-term economic strategy), the European Semester and thus the National Reform Programme, the measures are carefully designed to satisfy the fulfilment of the CSRs.

The components related to the green transition, such as those in components 2.1, 2.2 and 2.3, reinforce each other and act as complementary reforms and investments as they jointly contribute to the energy transition. The objective of these measures is to produce cleaner energy on the one hand and save on final energy consumption on the other hand, while ensuring to reach EU climate and energy goals by 2030. The reforms in component 2.1 (Climate neutrality, energy efficiency and renewable energy penetration) contribute to the climate and energy plans through investments and reforms that intend to accelerate the development of renewables. All this is complementary to the sustainable development of the Cypriot economy. Similarly, the reforms and investments in component 2.2 (Sustainable transport) and in component 2.3 (Smart and sustainable water management) are coherent with enhancing economic growth, creating job opportunities and promoting social resilience.

The Cypriot plan also presents measures for the digital transition in components 4.1 (Upgrade infrastructure for connectivity) and 4.2 (Promote e-government), which are complementary to the measures under the public administration in component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption), research and innovation in component 3.2 (Enhanced research and innovation), as well as modernising key economic sectors in component 3.1 (New growth model and diversification of the economy). Measures linked to digital transformation reforms and investments, together with simplified taxation system are also coherent and consistent with component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption) and strengthening the financial sector and capital markets in component 3.5 (Safeguarding fiscal and financial stability). Measures and investment under the former two components will contribute to improved business environment, creating friendlier conditions for investors and companies by modernising procedures and institutional frameworks. Component 4.1 (Upgrade infrastructure for connectivity) presents the necessary reforms for the transition to fast broadband connections and pave the way towards 5G technology and component 4.2 (Promote e-government) aims to digitalise the Cyprus public sector, coherent with the measures in component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption) to improve its operational model and to achieve improved quality services to citizens and businesses. Socio-economic policies and measures, related to the labour market in component 5.2 (Labour market, social protection, social welfare and inclusion), job creation and

education, training, and skills, including the promotion of digital skills and investing in digital infrastructure in education in component 5.1 (Educational system modernisation, upskilling and retraining), are complementary and go hand in hand with the green and digital transition. In order to promote wider coherence across instruments, notably with the European cohesion policy funds, a balanced territorial allocation of resources is encouraged.

Taking into consideration the qualitative assessment of all components of Cyprus' recovery and resilience plan, their individual weight (importance, relevance, financial allocation) and their interactions, the plan contains measures for the implementation of reforms and public investments which, to a high extent, represent coherent actions. This would warrant a rating of A under the assessment criterion 2.11 in Annex V to the RRF Regulation.

ANNEX: CLIMATE TRACKING AND DIGITAL TAGGING TABLE[38]

Int. Field = intervention field
Coeff. = Coefficient for the calculation of support to climate change objectives and to digital transition, on the basis of Annex VI and Annex VII of the RRF Regulation

Measure ID	(Sub-)Measure name	Budget (EUR m)	Climate		Digital	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C1.1R1	Reform 1: National Centre for Clinical Evidence and Quality Improvement - Digital platform	1.00			095	100%
C1.1R2	Reform 2: Design of an Electronic platform for the surveillance of Nosocomial Antibiotic Consumption and Healthcare – Associated Infections	0.40			095	100%
C1.1I1	Investment 1: New facilities for the Cyprus Blood Establishment and procurement of the latest technology attendant equipment - Construction of new buildings	3.52	025ter	40%		
C1.1I2	Investment 2: Cyprus Innovative Public Health ICT System (CIPHIS)	5.70			095	100%
C1.1I5	Investment 5: Enhancement, modernization and upgrade of Cyprus State Hospitals - Construction of new buildings [Haemodyalisis unit at Paphos Hospital]	3.79	025ter	40%		
C1.1I5	Investment 5: Enhancement, modernization and upgrade of Cyprus State Hospitals - Energy efficient renovation	30.18	026bis	100%		
C1.1I5	Investment 5: Enhancement, modernization and upgrade of Cyprus State Hospitals - Digitalisation in Health Care	1.18			095	100%
C1.1I6	Investment 6: Deployment of generic cross border e-Health services in Cyprus	1.94			013	100%
C1.1I7	Investment 7: Public warning system for supporting emergency operations	4.50	036	100%	055	100%

[38] While the total cost of Cyprus' recovery and resilience plan exceeds the total allocation of non-repayable financial support and loans to Cyprus, Cyprus will ensure that all spending related to the measures mentioned in this table as contributing to climate objectives are fully financed by the funds from the Recovery and Resilience Facility.

Measure ID	(Sub-)Measure name	Budget (EUR m)	Climate		Digital	
			Int. Field	Coeff. %	Int. Field	Coeff. %
	through SMS					
C2.1R3	Reform 3: Digital One-Stop Shops to streamline RES projects permitting and to facilitate Energy Renovation in Buildings	0.50	011bis	40%	011bis	100%
C2.1I1	Investment 1: Promoting energy efficiency investments in SMEs, municipalities, communities and the wider public sector	40.00	024ter	100%		
C2.1I2	Investment 2: Promoting renewables and individual energy efficiency measures in dwellings and tackling energy poverty in households with people with disabilities	20.50	025bis	100%		
C2.1I3	Investment 3: Encouraging the use of renewables and energy savings by local/wider public authorities as well as NGOs and facilitating the transition of local communities towards climate mitigation & adaptation	12.50	026bis	100%		
C2.1I4	Investment 4: Reduction of CO2 emissions in industries, businesses and organizations	20.00	027	100%		
C2.1I5	Investment 5: Energy Efficiency Upgrading of public buildings - Schools & Fire Service	8.35	026bis	100%		
C2.1I5	Investment 5: Energy Efficiency Upgrading of public buildings - Nicosia Hospital & Water	3.10	029	100%		
C2.1I6	Investment 6: Upgrading renewable energy and smart grids testing infrastructure at the University of Cyprus	1.59	033	100%	033	40%
C2.1I7	Investment 7: Mass installation and operation by the Distribution System Operator (DSO) of Smart Metering Infrastructure (Advanced Metering Infrastructure)	35.00	033	100%	033	40%
C2.1I8	Investment 8: Monitoring and reduction of GHG emissions in agriculture	4.13	022	100%		
C2.1I9	Investment 9: Forests fire protection	18.70	036	100%		

Measure ID	(Sub-)Measure name	Budget (EUR m)	Climate		Digital	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C2.1I10	Investment 10: Market Management System to facilitate the opening of the electricity market to competition	4.70	033	100%	033	40%
C2.1I11	Investment 11: Ending energy isolation - Project of Common Interest 'EuroAsia Interconnector'	100.00	033	100%		
C2.2R1	Reform 1: Establishment of an Intelligent Transport System using Digital Twin technologies	4.00	076bis	40%	076bis	100%
C2.2R2	Reform 2: Provide the regulatory framework for an interoperable and effective electric vehicle (EV) recharging infrastructure and an efficient EV recharging market	0.20	073	100%		
C2.2I1	Investment 1: Implementation of Sustainable Urban Mobility Projects (SUMP) and accessibility enhancing measures - SUMP / Cycling Infrastructure & accessibility enhancing measures	14.50	075	100%		
C2.2I2	Investment 2: Creation of electro-mobility infrastructure	6.79	073	100%		
C2.2I3	Investment 3: Promote widespread use of Electric Vehicles (EVs) - new electric cars + PS vehicles (ZEV)	33.81	n/a[39]	100%		
C2.2I3	Investment 3: Promote widespread use of Electric Vehicles (EVs) - scrapping + new LEV	15.00	n/a[40]	40%		
C2.3R1	Reform 1: Water Resource Management Reform	0.74	040	40%		
C2.3I1	Investment 1: Choirokitia- Famagusta Conveyor Replacement	11.76	040	40%		

[39] The 'Methodology for climate tracking' annexed to the Recovery and Resilience Facility Regulation does not set out intervention fields that would allow for climate or environmental tracking of electric vehicles or plug-in hybrid vehicles, except for vehicles for urban transport falling under intervention field 074. According to Article 18(4)(e) of the Regulation, the methodology should however 'be used accordingly for measures that cannot be directly assigned to an intervention field listed in Annex VI'. In this context, the Commission has applied a 100% climate contribution coefficient for zero-emission vehicles of all categories (this includes battery electric and fuel cell/hydrogen-powered vehicles); a 40% climate contribution coefficient for plug-in hybrid light-duty vehicles; and, in line with the criteria under the Taxonomy Regulation, a 100% climate coefficient for low-emission heavy-duty vehicles.

Measure ID	(Sub-)Measure name	Budget (EUR m)	Climate		Digital	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C2.3I2	Investment 2: Water Treatment Plants: upgrade for water quality improvement	6.02	040	40%		
C2.3I3	Investment 3: Integrated Monitoring and Control Management System for the Water Development Department's infrastructure	5.96	040	40%	055	100%
C2.3I4	Investment 4: Smart Water and Sewerage Networks Management - Larnaca Sewerage (digital)	0.33	010ter	100% *	010ter	100%
C2.3I4	Investment 4: Smart Water and Sewerage Networks Management - Larnaca Sewerage (solar)	0.95	029	100%		
C2.3I4	Investment 4: Smart Water and Sewerage Networks Management - Larnaca Sewerage (energy efficiency)	0.25	024	100% *		
C2.3I4	Investment 4: Smart Water and Sewerage Networks Management - Larnaca & Limassol Waterboard / water management	17.00	040	100% *	055	100%
C2.3I5	Investment 5: Anti-flood and water collection measures	16.00	035	100%		
C2.3I6	Investment 6: Enhance water security for Nicosia and Larnaca regions	6.04	037	100%		
C2.3I7	Investment 7: Eastern Nicosia infrastructure for the re-use of treated wastewater	10.95	040	40%		
C3.1R2	Reform 2: On-line, cloud-based platform for improving the trade and information symmetry in the fresh produce supply chain	0.54			011	100%
C3.1R3	Reform 3: Genetic improvement of the Cyprus sheep and goat population - Digital	0.20			011	100%
C3.1I1	Investment 1: Construction of a collaborative marine aquaculture infrastructure (port and land facilities) in the Pentakomo coastal area	29.00	081bis	40%		
C3.1I2	Investment 2: Enhancing the existing isotopic databases of Cypriot local traditional food/drinks, by developing a Block Chain platform, to ensure their identity	1.00			011	100%
C3.1I4	Investment 4: Initiating the setup of the first Eco-Industrial Science Park	0.10	022	100%		

Measure ID	(Sub-)Measure name	Budget (EUR m)	Climate		Digital	
			Int. Field	Coeff. %	Int. Field	Coeff. %
C3.1I9	Investment 9: Promotion of circular economy in hotel establishments	1.40	047	40%		
C3.1I10	Investment 10: Enrichment of the tourism product in rural, mountainous and remote areas - Natural heritage	1.80	050	40%		
C3.1R4	Reform 4: Enhancement of Circular Economy in the Industry	15.00	047	40%		
C3.1I11	Investment 11: Improvement and extension of the Cyprus Green Points Network and creation of a network of Collection Points and Recycling Corners	10.00	047	40%		
C3.1I12	Investment 12: Waste management towards circular economy	14.30	042	40%		
C3.1I13	Investment 13: Establishment of the Orounda Livestock Waste and Animal-By-Product Management Facilities	25.00	047	40%		
C3.2I2	Investment 2: Innovation Funding Programs & Funding schemes for the enhancement of growth & competitiveness of start-ups, innovative companies and SMEs - Green transition	2.00	022	100%		
C3.2I3	Investment 3: Thematic research and innovation funding program on green transition	6.00	022	100%		
C3.3I1	Investment 1: Integrated Information system for the Registrar of Companies and Official Receiver	6.58			011	100%
C3.3I2	Investment 2: Creation of a Regulatory Sandbox to enable FinTech	0.40			021ter	100%
C3.3I4	Investment 4: Scheme for the digital upgrade of enterprises	10.00			010	100%
C3.4R4	Reform 4: Strengthen administrative capacity and transparency through the professionalisation of public procurement and further digitalisation of its process - Digital	4.00			011	100%
C3.4R5	Reform 5: Enhancement of the capacity of the Law Office	1.03			011	100%
C3.4I1	Investment 1: Rationalisation of the shift system through the implementation of a Roster Planning	0.55			011	100%

Measure ID	(Sub-)Measure name	Budget (EUR m)	Climate		Digital	
			Int. Field	Coeff. %	Int. Field	Coeff. %
	System					
C3.4I2	Investment 2: Digitalisation of the law-making process	1.69			011	100%
C3.4R7	Reform 7: Urban land consolidation - Digital	0.12			011	100%
C3.4I4	Investment 4: Enhancing e-system for issuing building permits	1.12			011	100%
C3.4I5	Investment 5: Smart cities	35.00	055bis	40%	055bis	100%
C3.4I6	Investment 6: Regeneration and Revitalization of Nicosia Inner City - Renovation	10.00	025	40%		
C3.4R9	Reform 9: Digital transformation of courts	10.89			011quater	100%
C3.5R6	Reform 6: Reinforcing and strengthening the insolvency framework - Digital	0.60			011	100%
C3.5I1	Investment 1: Enhancement of the Supervisory Function of Cyprus Securities and Exchange Commission	0.25			011	100%
C3.5R9	Reform 9: Improving tax collection and effectiveness of the Tax Department - Digital	16.43			011	100%
C3.5I2	Investment 2: Modernisation of Customs and Electronic Payment System	10.58			011	100%
C4.1R1	Reform 1: Empower the National Regulatory Authority (OCECPR)	0.50			011	100%
C4.1I1	Investment 1: Expansion of Very High-Capacity Networks in underserved areas	35.00			053	100%
C4.1I2	Investment 2: Enhance building cabling to be “Gigabit-ready” and promote connectivity take-up	10.00			053	100%
C4.1I3	Investment 3: Submarine link to Greece	7.50			051	100%
C4.2R1	Reform 1: Digital Services Factory (DSF)	4.70			011	100%
C4.2R2	Reform 2: Definition and implementation of a new cloud policy with regard to government IT systems	6.00			011	100%

Measure ID	(Sub-)Measure name	Budget (EUR m)	Climate		Digital	
			Int. Field	Coeff. %	Int. Field	Coeff. %
	and services					
C4.2R3	Reform 3: Police Procedures Digitalization (“Digipol”)	8.00			011	100%
C4.2R4	Reform 4: Setting up the Beneficial Ownership Registry	0.40			011	100%
C4.2I1	Investment 1: Digitalisation in various central government ministries/services - system development, hardware	13.10			011	100%
C4.2I2	Investment 2: Digitalisation of the Cyprus Ports Authority	3.28			011	100%
C5.1R2	Reform 2: A new teacher and school evaluation system - digital	0.30			011	100%
C5.1R4	Reform 4: Digital transformation of school units with the aim of enhancing digital skills and skills related to STEM education	13.80			012	100%
C5.1R5	Reform 5: E-skills Action Plan – Implementation of specific actions	1.85			108	100%
C5.1I2	Investment 2: Skilling, reskilling and upskilling - green skills	2.58	01	100%		
C5.1I2	Investment 2: Skilling, reskilling and upskilling - digital skills	8.42			108	100%
C5.2R1	Reform 1: Reform of the Social Insurance System and Restructuring of the Social Insurance Services - Digital	7.25			011	100%
C5.2I1	Investment 1: Improving the effectiveness of the Department of Labour and Public Employment Services (PES) and reinforcing support for young people - Digital	2.30			011	100%

A single asterisk (*) indicates that the coefficient was uplifted, as the investment is reinforced by an accompanying reform.

For some measures and sub-measures, two different intervention fields are used for the purpose of climate and digital tagging. This is applied when the investment cannot be split into different sub-parts, when no single intervention field that reflects the contribution to both climate and digital objectives can be applied, and when the measure is considered as fully or partly contributing to both climate and digital objectives.

In the above table, the measures are split into sub-measures in such a way that the corresponding costs can be tagged with a suitable intervention field. For some measures, this split differs from the sub-

measures listed in the Council Implementing Decision and other sections in the Staff Working Document, where the sub-measures are defined instead to facilitate and monitor the measure's implementation.