

ANNEX D: INVESTMENT GUIDANCE ON COHESION POLICY FUNDING 2021-2027 FOR CYPRUS

Building on the Commission's proposal for the next Multi-Annual Financial Framework for the period 2021-2027 of 2 May 2018 (COM (2018) 321), this Annex presents the preliminary Commission services' views on priority investment areas and framework conditions for effective delivery for the 2021-2027 Cohesion Policy. These priority investment areas are derived from the broader context of investment bottlenecks, investment needs and regional disparities assessed in the report. This Annex provides the basis for a dialogue between Cyprus and the Commission services in view of the programming of the Cohesion policy funds (European Regional Development Fund, Cohesion Fund and European Social Fund Plus).

This Annex is to be considered in conjunction with the EC Proposal for a Regulation of the European Parliament and of the Council on the European Regional Development Fund and on the Cohesion Fund COM(2018) 372 and the EC Proposal for a Regulation of the European Parliament and of the Council on the European Social Fund Plus COM(2018) 382, in particular as regards the requirements for thematic concentration and urban earmarking outlined in these proposals.

The intensity of needs is classified in three categories in a descending order – high priority needs, priority needs, needs.

Policy Objective 1: A Smarter Europe – Innovative and smart industrial transformation

Cyprus remains a moderate innovator, with innovation performance having declined since 2010. Public and private research and development expenditure levels are among the lowest in the EU and interaction between academia and businesses is very limited. In order to strengthen innovation performance and foster productivity growth, investments should be geared towards already identified or potential new smart specialisation areas, on the basis of national needs and potential. Priority investment needs have been identified to **enhance research and innovation capacity of the business sector and increase the uptake of advanced technologies**, and in particular:

- promotion of business investment in research and innovation and entrepreneurial universities and collaboration between research institutions, universities and businesses;
- promotion of business technology transfer, networking, clusters and open innovation, including in cooperation with other countries;
- support of activities that allow innovations to reach the market, including diffusion of digital and other key enabling technologies, especially for start-ups and small and medium-sized enterprises;
- support of the establishment of Living Labs, test-beds and ecosystems that bring together the demand and supply sides to promote the development and actual use of innovative solutions for public sector needs.

Cyprus has a moderate digital enabling environment and low performance on digital transformation. Priority investments needs have been identified to **reap the benefits offered by digitalisation and E-services for citizens, businesses and public sector**, and in particular to:

- provide support for the increase of Information and Communications Technology uptake in small and medium-sized enterprises, including supporting infrastructures and services;
- increase the range of e-service provision (e-government, e-procurement, e-inclusion, e-health, e-learning, e-skilling, e-commerce) and their uptake by citizens and businesses.

Increasing entrepreneurship and the innovation capacity of the business sector and boosting investments and access to finance are crucial for the country to improve competitiveness of small and medium-sized enterprises. High priority investment needs have been identified to **enhance growth and competitiveness** and to increase export market shares of small and medium-sized enterprises, and in particular to:

- foster the creation of new firms, growth of start-ups/scale-ups, accelerators; develop and implement new business models for small and medium-sized enterprises through business advisory services;

- facilitate access to finance and advanced business services for small and medium-sized enterprises;
- boost internationalisation of small and medium-sized enterprises through cooperation and clustering, identification of and participation in new export markets, participation in industry led and research driven inter-regional cooperation networks and clusters;
- support training and reskilling for smart specialisation areas within firms, research institutions, advisory services and build the necessary administrative capacity, in particular in digital skills.

Policy Objective 2: A low carbon and greener Europe – Clean and fair energy transition, Green and blue investment, circular economy, climate adaptation and risk prevention

Cyprus' building stock, constructed with no or very low level of thermal protection, represents a source of energy inefficiency.

High priority investment needs have been identified to **promote energy efficiency measures**, and in particular to:

- improve energy efficiency in residential and public buildings and small and medium-sized enterprises premises.

Cyprus is highly dependent on fossil fuels and its considerable potential for renewable energy generation has been underexploited so far. The high levels of greenhouse gas emissions are mostly due to energy production and transport. Priority investment needs have been identified to **promote renewable energy**, and in particular solar power, also in the context of the "Clean Energy for EU islands" Initiative, namely to:

- promote small-scale electricity generation based on renewable energy sources, e.g. by renewable energy self-consumers, and locally led initiatives, notably in rural areas.

Cyprus is characterised by the over-abstraction of groundwater and water scarcity, while a considerable amount of wastewater is still discharged without collection or treatment. High priority investment needs have been identified to promote **sustainable water management** and improve resource efficiency, in particular:

- reinforcement, upgrading of water supply networks, water leakage control and other water saving measures, including water reuse, for purposes other than drinking water (e.g. urban irrigation);
- collection and treatment of wastewater.

Significant gaps still remain in reaching EU's objectives in the area of solid waste management. Waste generation is higher than EU average. Cyprus landfills the majority of its solid waste and lags behind in recycling and reuse. High priority investment needs have been identified to ensure the **transition towards the circular economy** and to **improve waste management**, also in the context of the "Clean Energy for EU islands" Initiative, and in particular to:

- promote separate collection schemes and units for waste streams (paper, plastic, metal, glass, and bio-waste), reuse centres, repair networks, composting and sorting plants, other measures to prepare for reuse and recycling;
- raise awareness and support sustainable consumption practices and behaviour;
- modernise or upgrade existing recycling infrastructure to new long-term recycling targets.

Forest fires, agricultural land abandonment, erosion, desertification and loss of biodiversity are some of the consequences of climate change in Cyprus, which affect not only the rural economy but also tourism, thus compromising economic development. Investment needs have been identified to **mitigate climate change effects and enhance biodiversity**, and in particular:

- prevention and preparedness measures and awareness-raising campaigns for disaster risk management, flood protection, development of early warning systems and training for civil protection units, management of land, forests and rivers to prevent specific risks;
- support of green infrastructure in urban environment and effective management and protection of the Natura 2000 areas.

Policy Objective 3: A more connected Europe – Mobility and regional Information and Communications Technology connectivity

While road and port infrastructures are well developed, there is a very low use of green urban transport. Priority investment needs have been identified to **promote sustainable multimodal urban mobility**, in the framework of sustainable urban mobility strategies, in particular in Nicosia, as largest urban area:

- promotion of a shift towards sustainable and accessible modes of transport, such as low-carbon collective public transport and active modes of transport, only for non-fossil-based means of transport;
- support infrastructure investments into the backbone of the urban transport system, such as light rail or tramlines, in particular in Nicosia, and cycling friendly infrastructure.

Policy Objective 4: A more social Europe – Implementing the European Pillar of Social Rights

The share of youth not in education, employment or training is high and the labour market situation of young people remains precarious, while participation in, and targeting of, activation measures are limited. High priority investment needs have therefore been identified to **improve access to employment, in particular for youth and long-term unemployed, promoting self-employment and the social economy, and modernise labour market institutions and services**, and in particular to:

- improve labour market matching and upskilling/reskilling of employees and promote a tailored and inclusive strategy and approach to the labour market integration of the youth, in particular through mapping and profiling of youth not in education, employment or training by Public Employment Services;
- support active labour market measures accessible to all through the validation of competences, skills and career outplacement, targeted and well-designed wage and recruitment subsidies, job and training mobility measures, on-the-job training and second-chance programmes;
- support self-employment, job creation and social innovation by facilitating, access to (micro-) finance and business development services, including for inactive people.

Participation in vocational education and training and adult participation in learning remain low; Science, Technology, Engineering, Mathematics and Information and Communications Technology skills are lacking and a comprehensive lifelong learning approach is missing. Priority investment needs have therefore been identified to **improve the quality, effectiveness and labour market relevance of education and training and promote lifelong learning, including digital skills, better anticipating change and new skills requirements**, and in particular to:

- improve basic skills attainments, including for disadvantaged groups, and support digital skills' development and validation;
- improve the labour market relevance of education and training through enhanced monitoring and evaluation, including graduate tracking;
- make vocational education and training more attractive by combating stereotypes and set up flexible governance mechanisms; promote partnerships between relevant stakeholders in order to (a) provide information on labour market needs, (b) promote workplace learning and (c) invest in vocational education and training infrastructure in line with evolving skills needs;
- support continuous training for educators;
- implement adult learning programmes in consultation with social partners and civil society, supported by guidance and validation services.

Material deprivation and social exclusion rates are above pre-crisis levels and the number of asylum seekers is growing; healthcare spending is low and out-of-pocket payments high. Investment needs have therefore been identified to **address**

material deprivation, promote the socio-economic integration of third country nationals and marginalised communities, enhance access to affordable and effective services and social protection and improve effectiveness and resilience of healthcare systems and long-term care services, and in particular to:

- strengthen cooperation between relevant stakeholders for increased outreach and personalised services to disadvantaged people and provide social inclusion and long-term integration measures; deliver basic material assistance to people most in need, including migrants and refugees, and community-based services for vulnerable groups;
- increase the provision of affordable high-quality early childhood education and care;
- improve the healthcare system and ensure integration of primary, hospital and long-term care.

Policy Objective 5 – A Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives

Cyprus' remote mountainous and rural areas have been losing population and do not offer enough job opportunities or basic services, while some urban core areas face decline and varied problems (e.g. depopulation, deterioration of historic urban cores and of economic and social conditions). Priority investment needs have been identified, also in the context of the "Clean Energy for EU Islands" Initiative, to **foster the integrated territorial development of urban, rural and mountainous areas**, and in particular to:

- promote Sustainable Urban Development strategies in the main urban centres, fostering their social, economic and environmental development, cultural heritage and security;
- promote the integration of smaller urban centres in the urban network, including urban-rural linkages;
- regenerate disadvantaged zones/areas in the urban areas, including the promotion of productive activities and the social economy in deprived neighbourhoods;
- promote circular economy, sustainable tourism, culture and cultural heritage and alternative economic activities in mountainous and rural areas, in the context of sustainable integrated development plans.

Factors for effective delivery of Cohesion policy

- broader use of financial instruments and/or contributions to a Cyprus' compartment under Invest EU for revenue-generating and cost-saving activities;
- have in place a clear division of responsibilities in the programming, management and implementation cycle;
- improve public procurement performance, in particular by optimising the number of contracting authorities, while at the same time ensuring sufficient administrative capacity necessary for the effective administration and implementation of the Funds and its necessary support;
- ensure simplification and transparency of selection and implementation procedures;
- put in place improved and more efficient measures to prevent and address conflict of interest, fraud and corruption;
- strengthen Public Employment Services' effectiveness and enhance autonomy based on a multi-annual strategic roadmap;
- strengthen authorities' capacity to develop and implement training policy measures;
- promote social dialogue and social partners' capacity.