

Policy guidelines for regions falling under the new regional competitiveness and employment objective for the 2007 - 2013 period in the fields of the knowledge economy and the environment, in line with the Lisbon and Gothenburg objectives

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**Policy guidelines for regions falling under the
new regional competitiveness and
employment objective
for the 2007 - 2013 period**

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The Team takes full responsibility for the data, information and judgments expressed in the present report.

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LIST OF ACRONYMS

CIS	Community Innovation Survey
DG Regio	Directorate General of Regional Policy of the European Commission
ERDF	European Regional Development Fund
EKC	Environmental Kuznets Curve
EPO	European Patent Office
ESPON	European Spatial Planning Observation Network
FA	Factor Analysis
GDP	Gross Domestic Product
ICT	Information and Communication Technology
INRA	International Research Associates (Europe)
NUTS	Nomenclature of Territorial Units for Statistics
PC	Personal Computer
PCA	Principal Components Analysis
PPS	Purchasing Power Standards
R&D	Research & Development
SF	Structural Funds
TLC	Telecommunication

EXECUTIVE SUMMARY

This Report offers an assessment of economic conditions and policy priorities for the regions falling under the new Competitiveness and Employment Objective 2007-2013.

It is structured as follows:

- 1) the report presents some statistical data on the general economic conditions of the country.
- 2) a statistical analysis on the three ERDF themes: a) Innovation and the Knowledge economy; b) Accessibility; c) Environment and Risk Prevention.
- 3) a discussion of the current experience with Structural Funds and some implementation issues.
- 4) a set of policy priorities as perceived by the team of independent experts. The methodology, sources of data and description of indicators are explained in detail in Vol. I of the Report, that should be duly considered.

Contributors to the Report include: the statistical team, the core team, thematic experts and the country experts. The final version has been prepared under the responsibility of the core team (Milan).

Eligible Region: the Country

- *General Economic Conditions*

Cyprus structural indicators show a very low population density as compared with the benchmark of EU regions eligible to the Competitiveness and Employment Objective; relatively high share of employment in the primary sectors, and symmetrically low share of manufacturing. In terms of economic performance the overall ranking is intermediate, with a GDP per capita 30% below the average, but with a higher growth of GDP per person, productivity growth, and lower unemployment. Recent trends confirm positive dynamics thanks to construction, financial services, transport and tourism.

- *Innovation and knowledge economy*

The innovation potential is very limited because of the structure of the economy. This is reflected in very low R&D expenditure over GDP, very low patents applications, an employment in hi-tech services that is around one half of the benchmark and a very low share of firms' turnover due to new products. In contrast, tertiary education is 30% higher than the EU eligible regions average. Thus the overall ranking is low.

- *Accessibility*

Both multimodal transport accessibility and connectivity to transport terminals by car is low. There is a downward trend in public transport, agricultural areas are not well connected, while ports in Lemesos and Larnaka have been upgraded. Airports in Larnaka and Pafos would need improvements in buildings and services.

As for TLC/ICT share of firms with Internet access, with a website, and households with a PC and internet access are below the EU average (eligible regions), according to ESPON data, but rapidly improving according to interviewees and other sources. There is a more limited access, but increasing, to broadband through submarine fibre optic cables.

- *Environment and risk prevention*

Electricity efficiency and self-sufficiency are above the EU eligible regions average, while renewable sources play no role. The environmental impact of transport does not seem to be critical, and the same can be said overall for the indicators of natural/rural assets. There is no indication of technological risk, but a high share of burnt areas.

Water availability and treatment is a serious concern, particularly in relation to tourism. The same issue arises for solid waste treatment in seaside areas and the protection of the marine environment and of some environmentally sensitive areas.

- *Implementation of Structural Funds in the current programming period*

Cyprus started a regional programme in 2004, with policy priorities in infrastructure measures for SMEs in the manufacturing and tourism sector (60%); around 20% in transport and ICT, and the remaining in some urban and rural rehabilitation projects and others. Due to the size of the country most of the programming is managed at the central government level, even if

there is an increasing role of local prefectures. One study points on wide internal disparities (Central-Western, more rural, versus South-Eastern zone, more urban).

- *Policy priorities for discussion*

The key issue for Cyprus is the mismatch between a relatively satisfactory economic performance, and the low performance of indicators in Innovation and Accessibility. This fact is explained by a development model that points on tourism, construction, financial and maritime services, and a not negligible role of the primary sector. Some issues should be addressed by the ESF, particularly in the area of education, and others through the implementation of other EU policies.

As for ERDF, both the statistical and field analysis point to a high priority for measures in the Innovation and knowledge priority, among which promoting entrepreneurship may be the most important issue along with enhancing regional R&D capacities. We see this strategy as a way to anticipate possible long term challenges for an economy too dependent on traditional sectors. The second priority should be given to selected measures in accessibility, because of the high need for an insular economy to achieve excellent international linkages both in physical and electronic connections. Environment is definitely a minor, but in our opinion not entirely negligible concern, particularly because a sustainable tourism strategy needs specific measures to protect sensitive areas, and a prudent usage of resources.

1 Scope and methodology

1.1 Aim of the report

The aim of this Country Report is to offer the European Commission an overview of the strengths, weaknesses, opportunities and threats faced by the regions eligible for the new Competitiveness objective 2007-2013. It focuses on the three ERDF themes listed in the draft regulation, and it has been prepared as a background document, with a view to supporting the Commission in its own policy priorities analysis and negotiation with the Member States.

As a part of a comprehensive study on 19 countries including 167 regions, the present Country Report is designed as a summary assessment of some key issues. It is a preliminary assessment that should be completed by a much more detailed structural and policy analysis needed at a later stage for the preparation of the Operative Programmes. Moreover, as explained in detail in Vol. I (Statistical Analysis), and as requested by the Terms of Reference, the present report is based mainly on standardised regional statistics and a common cross-country approach. This has obvious advantages in terms of comparisons and benchmarking, but is not designed to fully capture specific features based on local data, and this fact should be duly considered when using it as a reference.

1.2 Methodology for context analysis

The analysis at regional level presents the following sections: general economic structure, innovation and the knowledge economy, accessibility, environmental and risk prevention. For each section a brief description is given according to a short list of indicators with the following characteristics:

- they are consistent and available at NUT2 level;
- they are relevant for the ERDF thematic approach;
- they are, as far as possible, policy-oriented.

The choice of this set of indicators comes from the need to provide guiding principles for policy priorities, rather than to develop comprehensive regional statistical data. For this reason it should be clear that they give some highlights of the major trends in the regions and do not offer a complete picture of all the needs and weaknesses experienced by the regions.

The rationale of the data processing is the following:

- for each aspect (economic structure plus three themes) a linear composite indicator is created and the region is ranked in comparison with all the other eligible regions;
- for each theme (except Environmental risks) the degree of correlation with the economic performance is investigated, by means of a correlation analysis.

The basic idea is to discuss the main thematic trends in the regions, with respect to the ERDF eligible interventions, in the light of the economic structure and trends and the relative position of the regions as compared to a given benchmark (the EU eligible regions average). This reading of the data helps to discover combinations of, for example, High Innovation and Low Economic Performance, that may suggest the existence of unexploited potential, hence an opportunity to invest more on transfer and adaptation than on R&D or tertiary education per se. This analysis is included in Sections 2 to 5.

This set of information is then discussed from a more qualitative point of view on the basis of inputs coming from an assessment of the current SF programming period and lessons learnt in the field analysis carried out by the national expert.

1.3 Structure of the report

Section 2 briefly summarises the general economic conditions for the eligible regions, using the following average annual data (2000-2002): regional population and its national share, population density, employment share of manufacturing, a 'rural/urban' and a 'presence of manufacturing' classification; and 1995-2002 averages for GDP per capita, rate of unemployment, growth of GDP, labour productivity growth per employee, and economic performance ranking. The latter ranking is crucial in the analysis. It is based on a linear combination of two factors ('levels' and 'growth') arising from a factor analysis (see Vol. I for details). Each data set is presented in comparison with a benchmark given by the average of the EU 168 regions eligible for the objective. Often some additional macroeconomic information is also included.

The following section is on Innovation and Knowledge Economy. It presents regional average annual data (mostly 1995-2002) on R&D expenditure as a share of GDP, EPO applications per million inhabitants, percentage of employment in high-tech services, share of population with tertiary education, share of firms' turnover due to new products (CIS data), and an overall

classification based on a factor analysis. Regions are classified High, Intermediate or Low performing in innovation with a combination of these data.

Section 4 is about Accessibility. It presents data on TLC and ICT (share of firms with Internet access and websites and share of households with a PC and access to the Internet) and data on transport indicators (the ESPON multimodal accessibility potential and connectivity to terminals by car). The analysis is supplemented by recent and forecasted trends in travel demand by mode (DG TREN data and scenario at 2020 (Tremove)). A multi-index analysis is given in the Annex.

Section 5 looks at Environment and Risk prevention. This includes standardised data on energy sustainability (electricity efficiency, self-sufficiency, renewable sources and ranking); the environmental impact of transport (vehicle density, non-fuel transport, anthropic degree, urban/rural typology); natural and technological risk (flood hazard potential, burnt areas and polluting sites). The reader should note that these data cannot cover specific sub-regional environmental risks, but consider regional averages.

Section 6 gives a quick overview of the current 2000-2006 programming period, based on a financial breakdown by re-classified priority and some qualitative comments based on the evaluation results.

The last section is about the policy priorities assessment. The first part of it presents the results of a correlation analysis between Economic Performance and Innovation, Access, and Environment summary indicators. A similar cross-reading is given for Economic Performance, Accessibility and Environment, while the presence of high Natural or Technological Risks is considered as a critical issue per se.

After this combined reading of performance and structural data, the following section is more qualitative, and based on other sources of evidence, including interviews with stakeholders, official documents, evaluation reports, academic research, and the personal assessment by the country expert. This leads to the suggestion of some indicative regional policy priorities, based on the available evidence, to be checked at a later stage when the national frameworks and regional programmes are available.

The report ends with a brief discussion of some implementation issues.

2. General economic conditions

During the last decade Cyprus has experienced a satisfactory economic performance along several indicators and not only for a high growth of GDP (as one would expect for a catching-up country).

None the less, despite an intermediate degree of urbanization, the economy of Cyprus records a still high share of employment in primary activities, while the employment in the manufacturing sector is very low (table 1).

Tab. 1 Structural indicators

	Population (thousands)	Population density	Share of primary sectors on total employment	Share of manufacturing on total employment	Rural/urban classification	Presence of manufacturing
Cyprus	702,000	5.37	12.23	8.30	Intermediate	Low
EU eligible regions	313,711	129.00	3.34	20.18		

Source: EUROSTAT.

Aside from the low level of income (GDP per capita), which is almost 30% lower than the average for the EU eligible regions, the economic performance of Cyprus can be regarded as satisfactory (intermediate) being characterised, along with relatively high rates of growth, by a good performance in terms of unemployment rate.

Tab. 2 Economic performance indicators

	GDP per capita	Rate of unemployment	Growth of GDP	Growth of GDP per employed person	Overall ranking
Cyprus	17,279	4.09	2.93	1.13	Intermediate
Average of EU eligible regions	24,162	6.42	2.34	0.99	

Source: EUROSTAT and DG Regio.

Since its independence in 1960, Cyprus has achieved substantial growth. Despite the political problems of 1963-1964, the crisis of 1972-72, the Turkish invasion of 1974 and the continuing occupation of the Northern part of the island, some periods showed very high rates of development (e.g. 35% in 1976-1977) and its economy got quickly adapted to the new global circumstances. On the other hand the political problems and the high rate of growth had important side-effects on the environment (e.g. expansion of housing areas without a plan, inefficient water protection, etc.).

Tab. 3 Economic performance indicators (European eligible regions=100)

	GDP per capita	Rate of unemployment	Growth of GDP	Growth of GDP per employed person
Cyprus	72	64	125	113

Source: EUROSTAT and DG Regio.

The rest of this section aims to present the current developments and short-term prospects of the Cyprus economy. The analysis is based on the publications of the National Statistical Service and on private additional data (monthly indicators, business and consumer surveys).

Generally, after two years of restrained growth in 2002 and 2003, the acceleration of the economic growth rate continued throughout 2004. According to the latest available data of the Statistical Service of Cyprus the GDP growth rate in real terms during the first quarter of 2005 is estimated at 3.9% over the corresponding quarter of 2004 and it is attributed to the positive performances that continued to be exhibited by the activities of construction, the real estate, financial services and transport and communications, as well as by the favourable developments in the tourism sector during the quarter. Until 2007 the GDP is expected to keep on growing due also to the EU funds.

From the demand side, growth mainly generates from domestic demand and more specifically from private consumption and investment. The private demand for goods continued to expand after the first quarter of 2004, mainly driven by demand for durable consumer goods, such as cars, but also furniture and electrical appliances. The volume of index retail trade turnover, which does not include private cars, increased by 2.1% in real terms, during the period January-August 2004, as compared to a decrease of 1.4% in the corresponding period of 2003 and a higher increase during the first quarter of 2004. Investment activity in construction works continued its course of satisfactory expansion after the first quarter of 2004.

The volume index of production in the construction sector increased by 4.3% in the first six months of 2004, as compared to a 4.1% increase in the first quarter of the year and a 1.8% increase during the first six months of 2003. The satisfactory expansion of investment in construction works is attributed to the increased interest of the private sector for residential buildings as denoted by the further expansion of the area of approved building permits, in square meters, by 14.9% during the first nine months of 2004, following an increase of 18.9% for the entire year 2003. The demand by foreigners for secondary residences was maintained at high levels, despite the fact that it falls behind compared to the levels of the previous year. According to the latest available data of the Statistical Service of Cyprus the approved building permits, in square meters, for the period January-April 2005 have been increased by 12.2% as compared with the same period of 2004.

Regarding unemployment, the rate of unemployment has slightly risen in 2004 reaching the rate of 3.6 (from 3.5 in 2003), but according to the latest available data of the Statistical Service of Cyprus the unemployment rate for the year 2005 (until June) has fallen down to 3.4%. The unemployment rate is expected to be slightly reduced until 2007, especially concerning the high skilled working force, due to the increased EU funds. From a sectoral perspective, unemployment decreased in the sectors of manufacturing, trade, financial services and agriculture. The decrease in unemployment in the sector of trade and financial services reflects the economic recovery of these sectors. In contrast, an increase in unemployment was observed in the sector of restaurants and hotels and in the construction sector. The increased unemployment in the construction sector could potentially be explained by the increased employment of T/Cs and foreigners in this sector, while the increased number of foreigners could also explain the rise in unemployment in the hotels and restaurants sector. According to the opinion of the representatives of the Chamber of Commerce, existing unemployment does not reflect an actual problem and in many cases labour force needs to be imported in order to cover the demand.

3. Innovation and knowledge economy

Being an island scarcely industrialised and oriented to primary activities, traditional services and tourism, the innovation potential of Cyprus is particularly undersized, as witnessed by the low figures of “hard” innovative activities (R&D and patenting) table 4. The negligible share of employment in high-tech industries reveals that, in contrast to other newly eligible regions such as Prague and Bratislava, Cyprus has not taken a path of development featured by a significant presence of innovative goods and services. However, Cyprus is endowed with a satisfactory level of human capital, here measured by the share of people with tertiary education.

This aspect assumes a certain importance if compared to the values recorded, for instance, by the Greek regions that have a much lower share of highly educated people. The level of advanced education leads to a moderate optimism as for the economic prospects of Cyprus, especially if it will be accompanied by substantial efforts in the fields of innovation and knowledge. Moreover, according to interviewees the actual situation in recent years could show a better picture than the one recorded by statistical data. For example, the issue of the business park is moving forward, and it is expected to play a very important role in the competitiveness of the economy in general.

Tab. 4 Indicators of innovation and knowledge economy

	R&D expenditures on GDP	EPO application per million inhabitants	Percent. of employment in high-tech manufact.	Percent. of employment in high-tech services	Share of population with tertiary education	Share of turnover due to products new to the firms	Overall ranking
Cyprus	0.26	20	0.16	1.68	32.31	6.00	Low
EU eligible Regions	1.70	136	1.49	3.23	24.81	35.21	

Source: EUROSTAT and Community Innovation Survey.

4. Accessibility

4.1. Access to transport infrastructure

Despite the limited extension that should virtually facilitate the access to terminal transports, the condition of the secondary roads network is not fully satisfactory and Cyprus can be classified as a problematic region in terms of connectivity (see table 5 below).

In road transportations, there is a lack of a satisfactory level of services in agricultural areas. Despite the incentives for establishing regional instruments, the results, until today, are not satisfactory, due to the low response.

The key feature of the field of road transportation is the downward trend and the low level of services of public passenger transport in Cyprus, mainly due to the wide use of private transport means. Moreover, in major towns a large traffic congestion is observed, as well as high levels of pollution during rush hours. The lack of appropriate spaces, in combination with the high cost of land in urban centres, set serious limitations in improving or expanding the urban road networks.

Concerning harbour infrastructures, the key ports are those of Lemesos and Larnaka, which play an important role in trade and especially in transit services. In recent years a significant effort has been made, mainly from the Cyprus Ports Authority, to complement, upgrade and expand the harbour infrastructures, especially in the port of Lemesos.

In the field of air transport a growth in activity has been observed, a fact that is directly connected with the increases in tourist traffic. The key airports are those of Larnaka and Pafos. The main problems in the infrastructures of these two airports are the insufficient building facilities and the quality of services in the existing facilities.

Tab. 5 Indicators of access to transport

Connectivity to transport terminals by car	Multimodal potential accessibility
Low	Low

Source: ESPON.

4.2. Access to telecommunications and information technologies

Overall Cyprus enjoys an intermediate access to ICT, as it comes out by looking at TLC and IT industry indicators, where it shows an intermediate to low position, at the 5th¹ level for mobile telephony (60-69 lines per 100 inhabitants) and at the 4th level for PC availability and Internet access (20-29 PCs and 20-29 users per 100 inhabitants), with a brighter position only in fixed lines (60 to 69 fixed lines per 100 inhabitants).

When only the regions eligible for Competitiveness Objective are taken into account, the position of Cyprus in ICT access does not change and the region is found towards the lower end of the spectrum, in relation to level of access, all across the indicators, with reference to supply- as well as demand-oriented phenomena, and to mature as well as emerging technologies. Demand and supply apparently have reached the same level of development and co-evolve, although some hints to better performance may be found in a slightly more active use of Internet by firms.

The figures on the households' access to ICT are also below the average of the EU eligible regions, given the way they are obtained (that is, estimated from the share of firms with Web sites). In this respect, the share of households acceding to ICT has to be interpreted as a measure of the digital potential of the country. According to some interviewees, however, statistical data may underestimate enterprises' access to Internet.

In fact, regarding the telecommunications sector, according to some field analysis the capacity of telecommunications exchanges is now adequate. The modernisation course of telecommunications infrastructures continues with satisfying results. Within this framework there is a continuous installation of modern telecommunications exchanges².

It must be finally noted that ICT access lags behind its economic performance. Therefore there may be scope for some improvements in the ICT infrastructure.

¹ See ANNEX I

² In 1998 Cyprus had an automatic telephone connection with 245 telecommunication organisations in 227 countries and packet switched data connection with 187 networks in 64 countries. Moreover, submarine fibre optic cables connecting Cyprus with Greece, Syria, Israel, Lebanon and Egypt, and through them with the rest of the world, are operational. At the same time, there are the submarine cables of Kinyra and Tefros that connect Pentaschino with Geroskipou and Agia Napa respectively, while there is a satellite connection between Cyprus and Russia with possibilities for telephony services, data transfer, teleconference services, etc.

Tab. 6 Access to TLC/ICT

	Share of firms with Internet access	Share of firms with a Web site	Share of households with PCs	Share of households with Internet access	Share of households with broadband Internet access	Overall ranking
Cyprus	65.50	35.90	36.60	14.30	0.00	Intermediate
EU eligible Regions	86.01	56.33	49.29	35.19	5.05	

Source: ESPON and INRA.

Tab. 7 Ranking by variable

	Share of firms with Internet access	Share of firms with a Web site	Share of households with PCs	Share of households with Internet access	Share of households with broadband Internet access
Ranking	18	15	16	17	18

Source: ESPON and INRA.

5. Environment and risk prevention

5.1 General analysis

The environmental status of Cyprus can be considered quite positive in the light of the results reported in tables 8-10. Two factors weaken the overall score attributed to such a region: the absence of renewable sources to produce electricity and the high share of burnt areas. These characteristics are common to many Mediterranean regions. In any case, in the field of environment and risk prevention no critical situations are detected through standard statistical data.

Tab. 8 Indicators of energy sustainability

	Electricity efficiency	Electricity self-sufficiency	Renewable sources of electric energy	Overall ranking
Cyprus	4.057	0.381	0.000	Intermediate
EU eligible Regions	3.646	0.254	0.202	

Source: EUROSTAT - New Cronos (Regio).

Tab. 9 Indicators of transportation impact

	TR1 Vehicles density	TR2 Non-fuel transportation	TR3 Traffic intensity	Overall ranking
Cyprus	0.015	0.000	-0.833	Intermediate
EU eligible Regions	0.218	0.031	0.400	

Source: EUROSTAT - New Cronos (Regio)

1) Every transport indicator - TR1, TR2 and TR3 - should be interpreted according its own dimension (and colour in column chart). Indicators cannot be compared with each other because of the difference in scales used. See Annex.

The value of the traffic intensity indicator (TR3) could be some time negative because of the method of normalization used to calculate it. Such a normalization method allows us to summarize the two heterogeneous variables which make up the indicator ("total number of driven intra-regional trips/Total Area" and "Total number of kilometres made by journeys produced-generated by the region/Total Area). Values produced by normalization are relative and not absolute values.

Tab. 10 Indicators of natural/rural assets

	Degree of protection	Wilderness degree	Anthropic degree	Urban/Rural typology	Overall ranking
Cyprus	NA	0.000	0.000	6.000	High
EU eligible Regions	0.088	0.310	0.103	2.819	

Source: IRENA Database and ESPON-CORINE Landcover Database.

Tab. 11 Indicators of natural and technological risk

	Natural risk			Technological risk	
	Flood hazard potential	Share of burnt areas	Overall ranking	Polluting sites density	Overall ranking
Cyprus	0.000	3.459	Intermediate	NA	NA
EU eligible Regions	0.763	1.622		0.447	

Source: ESPON Database and EPER - EEA.

5.2 Specific Features

Electricity efficiency and renewable energy

Electricity efficiency is relatively high in Cyprus, where every gigawatt per hour produces more than 4 million euros GDP (when the EU average is 3,5 million euros). *Electricity self-sufficiency* remains limited but anyway higher than the Union average one, while the electricity production capacity from *renewable energy sources* is equal to zero.

From the energy sustainability point of view, the composite indicator shows that the island of Cyprus belongs to the intermediate level group of regions.

Transport and environment

Vehicles density (0.015) and traffic intensity (-0.833) are very low, compared to the Union average. Non fuel transportation is still very under-developed (with a value equal to zero). As regards the composite indicator of transportation impact, Cyprus ranks as intermediate.

Natural resources assets and management

The wilderness degree and the anthropic degree are very low. Like in Greece, the territory is in prevalence constituted by rural settings, since the level reached by the indicator in question is the maximum registered among all the eligible EU regions (6.00). So, the overall rank in terms of natural/rural assets endowment is very high.

Risk Prevention

The only information available regarding the natural risks is the one concerning burnt areas (3.45), which presents a value 1 point higher than the Union average one. With a value equal to zero regarding polluting sites density, Cyprus is not concerned by technological risks.

Summing up, the degree of natural risks faced by Cyprus is intermediate.

The main weaknesses are related to the lack of infrastructure and the lack of common solutions for the protection of environmentally sensitive areas (e.g. Akamas peninsula). The creation of waste management systems in seaside areas is a very important issue here.

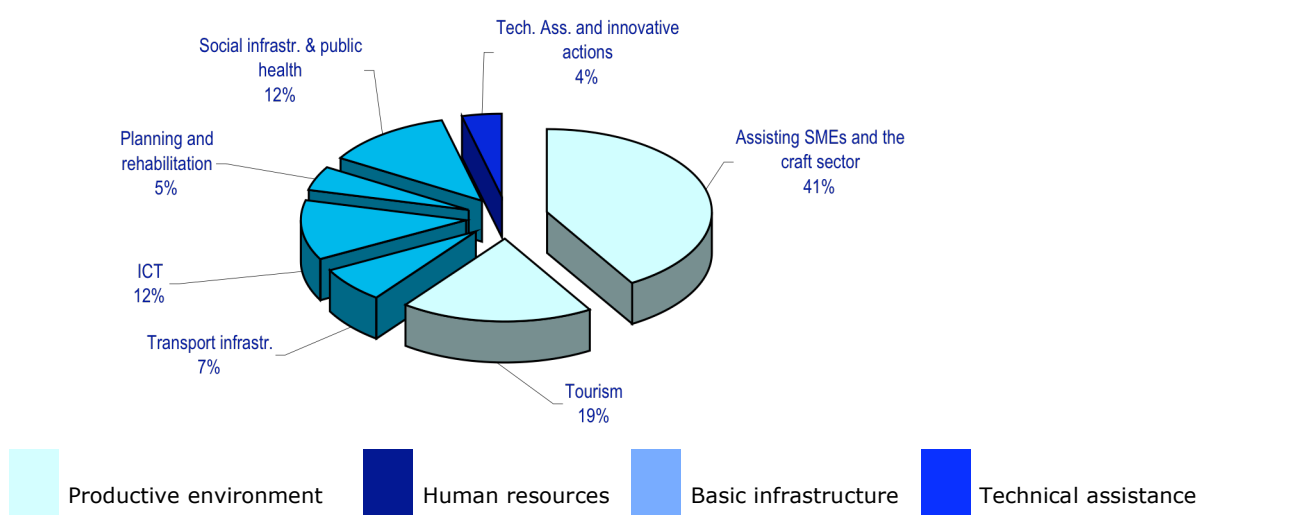
The environment-related issues that need to be addressed include waste management, the creation and protection of Natural Reserves, the NATURA 2000 programme, the management of water resources and the creation of necessary infrastructure (e.g. for the desalination of water), the establishment of water and waste management systems, the protection of the coastline and the marine environment and environment-related risk management.

6. Implementation of Structural Funds

6.1. The 2000-2006 Structural Funds programming period

Cyprus benefits from a regional programme started in 2004 that covers the southern part of the island. Rural/mountainous and agricultural-based areas as well as the urban area of Nicosia are included.

Fig. 1 EU Contribution by priority area, Objective 2 (2004-2006)



Source: our processing of DG Regio data (programme complements).

In the current programming period Cyprus receives € 28.02 million under the Objective 2; in addition to this, it benefits from € 21.95 million under Objective 3, € 4.30 from INTERREG, € 1.81 from EQUAL and € 53.94 from Cohesion Fund. The total amount of Structural Funds is € 113.44 million³.

The policy priorities in the 2004-2006 period for Cyprus regional programme are sustainable rural development and revitalisation of urban areas in decline. The first priority involves infrastructure measures to support SMEs in the manufacturing and tourism sector together with collective structure and local services aimed at the rural communities, with a particular

³ 2004 prices.

focus on job creation. SMEs assistance and tourism are the most financed typology of intervention and account respectively for 41% and 19% of total funds. The second priority is based on local integrated urban development plans designed to restore building and monuments, improve infrastructure and develop open spaces. These actions are based on the bi-communal projects financed by the European Pre-Adhesion fund which aim at the revitalization of the divided fortified city of Nicosia as a common space to support the preparation of a regulation for Cyprus. Social infrastructure and public health, jointly with planning and rehabilitation, account for 17% of total contributions.

6.2. Implementation of regional policies: lessons learnt

During its negotiations with the EU, the government of Cyprus placed great emphasis on the country's accession for political reasons. Economic and infrastructure issues were not very much stressed in comparison with the specific political tensions that Cyprus was experiencing. This is particularly true with regard to environmental infrastructure, which cannot be funded anymore under the new regional competitiveness objective. Thus there is the common feeling that specific support as accession country probably has not been enough exploited.

As far as the management structure of the programmes is concerned, it is an explicit responsibility of the national Government of Cyprus, under the control of the European Commission. The duties of the Managing Authority are fulfilled by the Programming office, which has the final responsibility for the implementation of programmes. Responsibilities are passed over from the Managing Authority to the intermediary bodies, which are mainly related to the monitoring and controlling procedures. So, the Ministry of External Affairs is the intermediary body for Objective 2, the Ministry of Labour and Social Welfare for Objective 3 and the Ministry of Agriculture, Natural Resources and the Environment for the Fishery programme.

The General Accounting Office has been appointed as Payments Body, while the Service of Internal Control has been appointed as Independent Controlling Body. Finally, Monitoring Committees have been formed in order to ensure the correct implementation of the programmes. Those are formed by representatives of state organisations, the local government, economic and social actors and representatives from non-governmental organisations. There are also representatives from the European Commission and the European Investment Bank, but without the right to vote.

7. Policy priorities assessment

7.1. Findings from the statistical analysis

By comparing the economic performance with the thematic indicators (tables 11 and 12), it arises how the status of the regional competitiveness (intermediate) does not seem dependent on the level of innovation potential and the endowment of communication and transport infrastructures.

However, this means that once the catching-up process will come to an end, there may be a risk of a deterioration of the competitiveness status of this country. In this respect, initiatives focused in promoting the endogenous creation or adaptation of knowledge should accompany the growth process.

Finally, the improvement of the ICT access as well as the connectivity to transport terminals have to be regarded equally important priorities, in particular in the perspective of a tourism development of the region.

Tab. 12 Economic performance versus innovation & knowledge economy, access to ICT and access to transport

Economic performance	Innovation and knowledge economy		Access to TLC and ICT		Access to transport	
	Ranking	Joint analysis	Ranking	Joint analysis	Criticality	Joint analysis
Intermediate	Low	Uncorrelated	Low	Uncorrelated	Low connectivity Low accessibility	Uncorrelated

Source: ESPON and INRA.

Tab. 13 Economic performance versus environment and risk prevention

Economic performance	Energy sustainability	Transport impact	Natural/rural assets	Natural risk	Technological risk
Intermediate	Intermediate	Intermediate	High	Intermediate	NA

Source: ESPON.

7.2. Findings from field analysis

According to the results from the consultation - interviews with the stakeholders, it can be concluded that there is a degree of consistency between the ten targeted priorities of the Commission and the sectoral and regional priorities of Cyprus. The need for broadening the definition of some priorities, for stating new priorities and for altering existing ones due to the special characteristics of the country and its prefectures (*Eparchia*) has been pointed out.

More specifically:

- Responsibility between National and Regional authorities is not going to change in an important degree. The size of the country naturally concentrates most decision-making procedures in central government services. Despite the fact that the legal system gives the local government several duties, the programming is a full responsibility of the center. Still, the local government (mainly the prefectures) should be given more responsibilities especially regarding development plans and land planning issues.
- The entrepreneurial environment and its upgrading, which includes measures and initiatives connected with the creation of a framework that will promote the simplification and transparency of the establishment and operation of enterprises, as well as with the substantial upgrading of institutions and infrastructure that support entrepreneurial activity (comprising the different kinds, or tools for the support of enterprises and entrepreneurial activity, e.g. consulting, funding etc structures).
- There is a common agreement that the acquisition of basic skills through education is a fundamental investment for the enhancement of the economy of knowledge and for the development targets. Cohesion policies can contribute to the already existing education policy-which should continue to play a leading part in the improvement of education models and the performance of students- and to broader European policies in order to enhance education and to promote integration, especially in less developed areas.
- The fact that the existing University of Cyprus does not cover all scientific fields was mentioned. Therefore, initiatives and actions should be taken aiming to improve the educational system's flexibility and coherence by improving its quality and effectiveness. Special emphasis has to be given on the attraction of foreign students and the already existing private universities can receive students from the Middle East. This should be accompanied by the development of new management possibilities. Apart from that, support for life-long learning and development of open and distance learning should be a priority under the ESF. Finally, the support of research activities and orientation and

linkage between research and the more dynamic sectors of the economy is a constant demand.

- Tourism was acknowledged to be a basic priority for Cyprus and a driving force of the development process that will contribute directly and indirectly to production, income and employment. This target is seen as not sufficiently covered by the Commission's priorities. Targets such as the upgrading of the entrepreneurial environment, the promotion of innovation and of the uniqueness of the tourist product through combined supporting actions, the improvement of efficiency and productivity of human resources upon which the tourism sector and the promotion of the tourist product are based can all be supported through the structural funds for the development of the regions. Of course, as mentioned before, basic infrastructure is needed for the development of high quality tourism.
- The enhancement of competition, the promotion of deregulation of the product and service market, the policy for the support of consumers through speeding up the opening of markets, the promotion of healthy competition, the increase in consumer awareness and of its relationship with the share of quality products and services in the total product of the country.
- The enhancement of entrepreneurial activity and of manufacturing, services and commercial enterprises (especially small and medium enterprises). Due to the important role of entrepreneurial activity in the development of competitiveness and the enhancement of employment it is a priority to broaden the basis of entrepreneurial activity and generally to develop an entrepreneurial culture. At the same time, support should be provided for the small and medium enterprises in order to enhance their place in competition by technological and organizational modernization and by targeting the "competitive advantage".
- The sustainable management of natural resources is a key issue for Cyprus since this is one of the most important problems. Water resources are scarce and a permanent solution is a priority. This should also be seen in relation to the potential of the tourism industry.
- According to the staff of the Programming Office, the lack of land-use planning on the basis of a zone planning scheme is a national priority directly connected with the planning of interventions. This is a problem both for the current planning period and the 2007-2013 period.

- Important national priorities in the sectors of Health and Welfare (e.g. to improve the services provided, to improve citizens' access to health and welfare services and restructuring the healthcare system) are not covered by the 10 priorities
- There is partial coverage as far as the restructuring of public administration is concerned. This is an area where national priorities are obviously broader than EU targets.
- More attention should be paid to geographically disadvantaged areas, such as mountainous areas that constitute an important part of the country. For these reasons there should be a special mention on how to deal with isolation that call for developments in the field of tourism etc.
- As already mentioned in the introduction, the regionalisation of Cyprus is an issue related to the solution of the political problem.

Regarding the question "is it better to mainly target weak sectors, trying to revitalise them, or rather target already well-developed sectors reinforcing their dynamics," in the case of Cyprus the answer is that there is no single solution, but that both the weak and dynamic sectors must be targeted. Infrastructural problems can create problems to the already well-developed sectors.

According to possible financial priorities in EU funds allocation some remarks that could be made are the following:

- The main conclusion is that the Information Society is the priority that was ranked higher than any other by all the stakeholders.
- Despite of what one would expect, the environmental issues were not highly ranked.
- Innovation and Education are two other priorities with great importance for Cyprus.

However, we suggest that some environmental issues should be considered also in relation to the potential of the tourism industry.

In conclusion, the further thematic specialization of the Objectives of the Structural Funds into ten priorities, as proposed in the working paper of the European Commission is a basis for discussion in order to improve the efficiency of structural policies in the coming period.

The target is to improve the effectiveness of the EU's regional policy through partnership and complementary regional planning. The Strategic Directions of the EU should constitute a general policy framework within which the National Strategic Frameworks will be developed, bringing forth and taking into consideration the social and economic characteristics that

differentiate the regions. Moreover, the EU interventions should aim to establish Cyprus as a pole for the development of EU relations with the Middle East.

Implementation issues

The productive sectors of Cyprus (industry, services, commerce, tourism, construction sector) are obliged to operate in a very competitive environment. Enterprises in these sectors will face a lot of problems, unless there are more measures taken.

The most important measures are the following, according to some interviews:

1. Modernisation of the educational system, connected to the productive process and the labour market
2. Implementation of a National Policy and an Investment Programme for R&D.
3. Special emphasis on the modernisation of the legal context for enterprises.
4. Further deregulation of the markets, the professional standards and the operating context of enterprises.
5. Flexibility of the labour market
6. Encouragement of entrepreneurial risk taking with special measures
7. Modernisation of Public Management and its bad effects (bureaucracy, delays).
8. Measures to motivate small enterprises to unify.

In addition to the above, other measures involve

- The decrease of operational cost (e.g. through lower electricity prices or industrial areas),
- The increase of productivity (e.g. by changing the time-schedules)
- The investments of funds from abroad
- The exploitation of new markets
- The modernisation of the legal context for the foreign investors
- The improvement of the tax system

- The legal implementation of leasing in Cyprus
- The faster establishment of a technological business park

One of the most important factors is to use its scientific force, especially in the fields of health and education, so that Cyprus can be established as a peripheral "Center of Private Health and Education Services".

Finally, there is the need for broadening the definition of some priorities, for stating new priorities and for altering existing ones due to the special spatial characteristics of the country and its geographical units. To this direction the new regional policy in Cyprus must be more spatial focused in order to face more effectively the intra-regional disparities.

According to the study that was worked out from the Regional Development Institute of Athens on behalf of the Programming Bureau of Cyprus Republic, for the delimitation of programming regions in Cyprus (2001), the spatial disparities in the Cyprus Republic are very high. Human resources, industry, services, tourist activity, population and major urban centres are concentrated on the eastern part of the island. This concentration might have significant economic, social and national implications when a substantial part of Cyprus remains for a long period of time under-developed and under-populated.

The spatial asymmetry creates the need for identifying a specialised Strategy for Regional Development for every spatial unit that will assist in balancing regional inequalities and promoting an appropriate spatial development. The presence or absence of urban centres that might act as development poles for mountainous areas, isolated agricultural areas, coastal areas, inland zones, etc. must be taken into account when formulating the development strategy.

In Cyprus there are two homogeneous geographic zones with different spatial and socio-economic characteristics and development potential, that require separate development strategies:

1. The Central and Western zone
2. The South-Eastern zone.

These zones could function as programming micro-regions.

The Central and Western zone consists mainly of semi-urban, agricultural, mountainous, and peripheral areas and is characterised by the dominance of the primary sector, the orientation to local products, the low levels of urbanisation, the small population density, as well as the

presence of problems with equipment and infrastructures. The model of development suitable for this region is that of Locally-generated–Integrated Development.

The main policy suggestions for activating this particular development model could be:

- The balanced development of the spatial units of the region.
- The utilisation of all the local advantages (agriculture, livestock farming, fishing, forestry, agro-tourism, cottage industry & local SMEs, etc.).
- The mobilisation of local entrepreneurship.

On the opposite case, the South-Eastern zone includes the major urban centres of free Cyprus. More specifically, it includes urban centres and their influence areas, as well as other urbanised areas. This zone is characterised by the major percentage of urban population, the orientation towards the secondary and tertiary sector, the high level of services provided and of equipment and Infrastructures, the potential for the development of dynamic activities.

The developmental model for this case is that of Polar Development. The basic guidelines for activating the Polar Development model in the South-Eastern zone of Cyprus could be focused on:

- The specialisation of the development role of urban centres.
- The creation and support of business and development infrastructures.
- The promotion and support of the "propulsive activities" (mainly in the secondary and tertiary sector), that originates from leading branches and that will become the steam engine for the development of the major urban centres.

ANNEX I: Telecom indicators levels

Sources and definitions

The source is: ESPON project 1.2.2 Telecommunication Services and Networks: Territorial Trends and Basic Supply of Infrastructure for Territorial Cohesion.

Main telephone lines per 100 inhabitants:

Level 1 = >70

Level 2 = 60-69

Level 3 = 50-59

Level 4 = 40-49

Level 5 = 30-39

Level 6 = <30

Cellular mobile subscribers per 100 inhabitants:

Level 1 = >90

Level 2 = 80-89

Level 3 = 70-79

Level 4 = 60-69

Level 5 = 50-59

Level 6 = <50

Estimated PC per 100 inhabitants:

Level 1 = >50

Level 2 = 40-49

Level 3 = 30-39

Level 4 = 20-29

Level 5 = 10-19

Level 6 = <10

Internet (users per 10000 inhabitants):

Level 1 = >5000

Level 2 = 4000-4999

Level 3 = 3000-3999

Level 4 = 2000-2999

Level 5 = 1000-1999

Level 6 = <1000

ANNEX II: Bibliography and sources of information

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