



**EXPERT EVALUATION NETWORK
DELIVERING POLICY ANALYSIS ON THE
PERFORMANCE OF COHESION POLICY 2007–2013**

**TASK 2: COUNTRY REPORT ON
ACHIEVEMENTS OF COHESION POLICY**

CYPRUS

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Contents

LIST OF ABBREVIATIONS	3
EXECUTIVE SUMMARY	4
SECTION 1 – SOCIO–ECONOMIC CONTEXT	6
SECTION 2 – THE REGIONAL DEVELOPMENT POLICY PURSUED, THE EU CONTRIBUTION TO THIS AND THE POLICY ACHIEVEMENTS OVER THE PERIOD	8
SECTION 3 – EFFECTS OF INTERVENTION	20
SECTION 4 – EVALUATIONS AND GOOD PRACTICE IN EVALUATION	22
SECTION 5 – CONCLUDING REMARKS – FUTURE CHALLENGES	23
REFERENCES.....	25
INTERVIEWS	28
TABLES	28

LIST OF ABBREVIATIONS

AIR	Annual Implementation Report
DESMI	Research Promotion Foundation's Framework Programme for Research, Technological Development and Innovation
EC	European Commission
EIB	European Investment Bank
EIS	European Innovation Scoreboard
ERDF	European Regional Development Fund
ESF	European Social Fund
FP	Framework Programme
GDN	Government Data Network
GIN	Government Internet Node
ICT	Information Communication Technology
JASPERS	Joint Assistance to Support Projects in European Regions
JEREMIE	Joint European Resources for Micro to Medium Enterprises
MCIT	Ministry of Commerce, Industry and Tourism
NRP	National Reform Programme
NSDP	National Strategic Development Plan
OAS	Office Automation System
OP	Operational Programme
R&D	Research and Development
RPF	Research Promotion Foundation
RTDI	Research Technology Development Innovation
SII	Summary Innovation Index
SME	Small and Medium Sized Enterprise

EXECUTIVE SUMMARY

Regional development policy is recent in Cyprus and strongly related to its accession to the EU. In that sense the country has made rapid and significant progress in designing and implementing regional policies. Taking the small size of the island and the fact that regional development policy started only a few years ago, progress is quite satisfactory. Policy design and implementation procedures are becoming increasingly effective after the learning process of the first (short) Programming Period. The contribution of the ERDF and the Cohesion Fund are relevant both in helping organise administrative capabilities and in implementing concrete, highly needed projects. The financial crisis has affected the country less than most other Member States, but has nevertheless deprived the national budget from development resources. The Structural Funds are thus more important than in the past.

The areas selected correspond to the needs of the island and its development objectives. However, policies prioritise mature projects rather than those with the highest anticipated impact (something that probably all countries do). The year 2008 was used for preparatory work but in 2009 programmes and projects started being implemented with an increasing speed.

The Port of Limassol and Solid Waste Management are among the most significant projects in terms of spending and goal achievements. Improvement of competitiveness through new investments, youth and female entrepreneurship progresses thanks to the creation/upgrade of a non-negligible number of new companies, which are technologically above the country average. Signing the JEREMIE initiative may further contribute to improving competitiveness. Satisfactory achievements are also reported in the effort to reduce unbalanced development and promote rural and urban deprived areas. This particular axis needs and may receive additional funding after the mid-term review. Information society and RTDI support are important, the former achieving more visible results; the latter has increased its interventions but they are still not mobilising the private sector to the extent that this was envisaged. Urban transport is (anecdotally) reporting positive results. Territorial cooperation with Greece is oversubscribed but with no visible achievements yet.

Environment (beyond solid waste management) and energy have accomplished their targets but the means dedicated to them were very meagre compared to the needs, comparative advantage and potential of the country. Large projects and smaller infrastructure, mostly in the form of roads connecting main axes are slower to come off the ground.

The evaluations carried out in the present programming period are mainly those imposed by the EU, limited in the ex-ante evaluation with several internal assessments. The only relevant analysis was the evaluation study of the system of indicators (result and output) used in the two

OPs. This evaluation study was prepared in December 2009 in the context of ongoing evaluation and had as an objective the determination of some intermediate goals, the preparation of adequate and reliable set of indicators and their sufficient monitoring. It concluded that the indicators chosen are manageable and can be used for the current period with some modifications (definition and quantification of a few additional output and result indicators, some reassessments in the definition of baseline and target values and determination of intermediate target values where possible).

SECTION 1 – SOCIO–ECONOMIC CONTEXT

Cyprus is a small open economy with a population of about 800 thousand and concentrated mostly in the urban areas. Tourism, financial intermediation and real estate dominate the economy. The manufacturing sector represents only 7.2% of the total Gross Value Added in 2009¹ and is composed mostly of small and very small companies. The accession of Cyprus to the EU in 2004 triggered a significant number of structural reforms to assure integration into the Single Market. Restructuring the economy and promoting competitiveness are at the core of economic policy since then.

Cyprus average real GDP growth rate reached about 3.2% in the last decade, outperforming by 1.6% the EU27 average of about 1.6%². However, the 2008–2009 crisis was felt with a decline in per head GDP growth rate of –2.3% (see Table 1)³, still much lower than the –4.5% EU average. In the field of employment and human resources, Cyprus is characterised by comparatively low unemployment rates (5.3% in 2009, 8.9% in the EU–27). More than one third of the population is employed in transport, food service industry and distribution services, but this share has decreased slightly since 2000; public administration, education, health, finance and business services are also significantly contributing to employment. Education attainment levels are relatively high (34.1% of the population aged 25–64 had tertiary education in 2009) but participation levels in life–long learning are low⁴. R&D expenditure is still extremely low in comparison with the EU average level, but is increasing.

The economy shrank further by –1.7% in 2009, again less than the EU average of –4.2% (Table 2)⁵. Measures in response to the crisis have been adopted by the government both, at the general level (tax incentives and 2009 State Budget reductions) and in the context of the European Economic Recovery Plan (short– and mid–term measures aiming at the best possible utilisation of the Community resources from the Structural and Cohesion Funds). Austerity measures, reflecting the global recession response will affect the implementation of the Operational Programmes, but they are not expected to shift their general strategy (Planning Bureau, 2009b). Tourist and construction are the sectors mostly affected with a decrease by 17% of tourist income and observable slowdown in the construction sector⁶. The most

¹ Source: Eurostat, National Accounts

http://epp.eurostat.ec.europa.eu/portal/page/portal/sector_accounts/data/database

² Own calculations for the period 2000–2009 based on the data from Eurostat, Structural indicators.

³ See Excel file for Table 1.

⁴ Planning Bureau, 2007c.

⁵ See Excel file for Table 2.

⁶ Planning Bureau, 2009c.

vulnerable small, especially new and innovative, firms in these sectors have already felt the consequences of the crisis.

Cyprus is considered as one single NUTS 2 region where the development policy is designed and implemented at the national level. Infrastructure, transport, energy, the environment and the above-mentioned priority of competitiveness constitute the major challenges and the guiding needs to be addressed in the current programming period.

In addition, significant disparities exist between rural and urban regions. The concentration of economic development is in the urban and coastal areas, while rural areas face significant and increasing development challenges. Disparities widen over time as the dynamic tertiary sector moves to the cities and tourism develops in the coastal areas. Highly dependent on agriculture, rural areas, especially remote and mountainous territories, are characterised by continuous depopulation. The rural population reduction is also reinforced by insufficient levels of services provided, the lack of basic infrastructure and insufficient connection to the urban centres⁷. By the same token, deprived areas, often in historical city centres, lead to internal disparities in urban centres. In particular, some districts in decline face the major problem of absence of cultural as well as social infrastructure⁸, which, along with the inadequate network of public transportation, results in the deterioration of quality of life and vicious circles of underdevelopment.

A problem of unbalanced regional development focused on rural areas and urban centres has been realised by the government and the promotion of balanced regional development through the regeneration of urban and rural areas in decline was set as a primary goal in the context of the 2004–2006 Strategic Development Plan. The urban centres and rural areas mostly affected by structural problems were eligible for funding under the Objective 2 of the Structural Funds. As the problems were not eliminated the challenge is reaffirmed in the new programming period. The Operational Programme Sustainable Development and Competitiveness, 2007–2013 refers to the lack of the necessary conditions for the Cypriot urban centres to become real developmental poles, which would reinforce competitiveness and improve working positions⁹ and includes the revitalisation of rural and urban areas as one of its five priority axes.

A comparatively favourable foresight for country's macroeconomic indicators against the EU average¹⁰ creates optimism for the impact of the recently adopted measures. However, corrective action is needed and the possibility of transfer of funds within the OP "Sustainable

⁷ Planning Bureau, 2007c.

⁸ Ibid.

⁹ Planning Bureau, 2007c, p.63.

¹⁰ Planning Bureau, 2009b, p. 64.

Development and Competitiveness” in order to provide stronger support to SMEs and sectors in greatest need is now under consideration.

SECTION 2 – THE REGIONAL DEVELOPMENT POLICY PURSUED, THE EU CONTRIBUTION TO THIS AND THE POLICY ACHIEVEMENTS OVER THE PERIOD

THE REGIONAL DEVELOPMENT POLICY PURSUED

Regional development policy is recent in Cyprus and strongly related to its accession to the EU. In that sense the country has made rapid and significant progress in designing and implementing regional policies. Taking the small size of the island and the fact that regional development policy started only a few years ago, progress is quite satisfactory.

As Cyprus is considered as a single region, the development policy is designed and implemented nationally based on the National Strategic Development Plan 2007–2013 (NSDP), the main strategy document, which constitutes the basis for the preparation of the programming documents introducing actions and schemes proposed for co-funding by the Structural Funds and other EU initiatives, as well as complementary national interventions.

The core objectives outlined in the NSDP include viable economic development with social cohesion, reinforcement of competitiveness, employment opportunities and the creation of high-quality working positions. Real convergence and cohesion with the most developed EU countries is also highlighted as a goal. There is also an ambition for Cyprus to become

- a “*key player*” in the economic cooperation between the EU, the Middle East and North Africa as well as
- a regional centre for provision of high value added international business services.

These ambitions were the “starting point” for the overall strategy of the OP “Sustainable Development and Competitiveness”¹¹. The strategic pillars along which the policy for the achievement of this objective is developed are reinforcement of competitiveness of the economy, promotion of research and innovation, enhancement of social cohesion, upgrading and protection of the environment, upgrading of quality of life, accessibility through the expansion and improvement of basic infrastructure, continuous development of human potential and, last but not least, rational and balanced rural and urban development. The encouragement of RTDI activities for the first time is referred as a key element for the improvement of productivity and competitiveness that requires particular importance and

¹¹ Planning Bureau 2007a.

attention¹². Reinforcement of competitiveness in the context of the sustainable growth gives an ecological dimension to the development policy.

For the current period¹³ (2007–2013), the whole territory of the country is eligible with the total funds allocated reaching approximately EUR 640 million: EUR 213 million under the Convergence objective (Cohesion Fund), EUR 399 million under the Regional Competitiveness and Employment Objective (“phasing-in” support by the ERDF and the ESF and EUR 28 million under the European Territorial Cooperation Objective (ERDF financing). They are organised in two OP.:

- The “Sustainable Development and Competitiveness” programme, which receives funding from the ERDF and the Cohesion Fund. The Cohesion Fund allocations are focused mostly on infrastructure projects involving the environment and transportation.
- The second programme, “Employment, Human Capital and Social Cohesion” is financed by the ESF only.

The major share of the community funds is allocated to environment infrastructure (more than 36% of the total Community financing). Special attention is also given to actions concerning the business environment (almost 30% of the overall EC funding) with significant amounts channelled to investments, RTDI and related activities and support to SME innovation. Significant amounts are also allocated to actions focusing on territorial development. Transport and energy are also ERDF beneficiaries.

Cyprus also participates in several cooperation programmes, of which one cross-border programme with three Greek regions¹⁴, with a total budget EUR 58.3 million with 80% ERDF contribution is the most important¹⁵. It aims at the reinforcement of the security and improvement of accessibility of the region, improvement of competitiveness and protection of natural and cultural environment in the region.

¹² Planning Bureau, 2009b.

¹³ Following the accession to the EU, regional policy was introduced in the Programming Period 2004–2006. The country as a whole was Objective 3, while areas in highest need were eligible for funding under Objective 2 of the Structural Funds.

¹⁴ Cross-border Programme with Turkey was also planned (EUR 2.3 million ERDF budget for Cyprus), but since it was not submitted to the EC by 2009, the annual ERDF contributions for 2007, 2008 and 2009 (EUR 0.8 million) were transferred to the Greece Cyprus Programme (Planning Bureau, 2009b).

¹⁵ The Mediterranean Transnational Cooperation Programme, the multilateral cross-border cooperation “Mediterranean Sea Basin Programme” and four interregional programmes (INTERREG IVC and three networking programmes: URBACT II, ESPON 2013, INTERACT II) are not studied here.

Judging from the financial allocations between policy areas (Table 3¹⁶), the focus of Structural Funds support is consistent with the national objectives and corresponds to the real challenges of the economy. The EU support is in line with the development policy promoted in the country but the resources are insufficient to achieve the ambitious development goals within the next three years, hence similar policies are expected to extend into the next programming period. Difficulties are inevitably reinforced by the public budget constraints imposed by the crisis¹⁷.

POLICY IMPLEMENTATION

The year 2008 was dedicated on the preparatory stage and procedures for the promotion of the implementation of the OP “Sustainable Development and Competitiveness”, such as the determination of processes for the selection of projects to be incorporated, setup of structures and instruments for management and control of the Programme. It was not until 2009 that implementation really started. By the end of 2009, calls for proposal were issued almost for all the Specific Objectives, (AIR 2009 of the OP “Sustainable Development and Competitiveness” (Planning Bureau, 2010).

By the end of 2009, 86 calls were launched with total budget of approximately EUR 377 million; this means that 65.1% of the OP budget was activated (the amounts for the Major Projects promoted or included in the OP are excluded). 560 projects were incorporated with total budget of approximately EUR 283 million (or 48.8% of the OP budget). Priority was given to SMEs.

Thus, significant Community funds were committed for Enterprise Environment. This concerns mostly categories related to RTDI activities and general investments in firms with the ERDF finances committed through the Framework Programme for Research, Technological Development and Innovation (DESMI) 2009 announced by the Research Promotion Foundation (RPF) as well as through funding schemes supporting SMEs competitiveness and enterprise development (promoted by the Ministry of Commerce, Industry and Tourism (MCIT) and Cyprus Tourism Organisation). Noticeable progress in the Environment and Energy policy area is observed with significant ERDF commitments made to projects such as waste, waste water and water resources management and promotion of sustainable transport system. In categories related to Urban and Rural Rehabilitation, increased interest from the side of potential beneficiaries led to oversubscription of funds, while the implementation of the Limassol Port infrastructure upgrading project has resulted in significant Cohesion Fund commitments¹⁸.

¹⁶ See Excel file for Table 3.

¹⁷ European Commission, 2009a.

¹⁸ Planning Bureau, 2010, pp 12–13.

Concerning actual spending of the allocations provided, by the end of 2009, expenditure paid by the beneficiaries included in payment claims sent to the managing authority reached EUR 43.5 million (or 7.5% of total OP budget) while the total amount of certified eligible expenditure paid by beneficiaries reached EUR 41.2 million. Additional expenditure was recorded for the first months of 2010, increasing absorption rates. Significant delays concern mainly the kick off of the Major Projects due to their complexity.

Part of the delays in the official incorporation of projects and absence of certified expenditures till mid-2009 may also be attributed to the additional time needed for setting up an upgraded Integrated Information System, which became fully operational towards the end of 2009.

The most sizable progress is observed in relation to the measures (funding schemes) promoting entrepreneurship and the development and support of new SMEs promoted under the priority axes "Productive Environment", where, in terms of the expenditure incurred, more than one third (or EUR 20 million) of the total budget allocated for the priority axes has already been implemented. Delays still concern the submission of expenditures and documentation required from the side of beneficiaries. Payments delays from beneficiaries resulting in still extremely low funds absorption rates are also observed in the framework of implementation of the funding schemes introduced by the RPF through DESMI, but, according to the AIR 2009, they are mostly explained by the specific features of research projects and the authorities in charge are taking all appropriate measures to speed up the implementation process.

Significant delays were reported in initiating several Major Projects, namely in the construction and operation of transit stations and waste treatment and disposal plants in the provinces Limassol and Nicosia. The general complexity of the planning of the large-scale projects in the sector of environment was supplemented by objections of the Communities in relation to the location of the Units close to their area. Intervention of the Ministry of Interior for finding the acceptable locations is expected to resolve the problem and accelerate the progress in implementation of the projects. Minor delays were observed in the implementation of other Major Project, the construction of the Road linking the port in Limassol with the motorway Limassol-Paphos, which were related to the necessity of some modifications in the initial construction planning. Additional projects mainly environment-oriented, but also in the context of other priority axes, are being promoted in order to eliminate any risk of losing Community funds¹⁹.

¹⁹ Planning Bureau, 2010.

TERRITORIAL COOPERATION (progress)

Concerning the implementation of Greece–Cyprus cooperation programme, the first call of EUR 23.75 million (EUR 19 million ERDF financing) common for all the three priority axes²⁰, was only published at the end of 2009 and no projects were incorporated up to the moment. The call activated more than 40% of the total Programme. The major share of the budget is allocated to projects of the Security and Accessibility of the Area PA (EUR 10 million), while EUR 7.5 million goes to the Competitiveness PA and EUR 6.25 million – to the Natural and Cultural Environment.

According to the Annual Implementation Report 2009 of the programme (European Commission, 2010b), in the framework of the first Call, 213 proposal of the total budget of EUR 217.3 million were submitted oversubscribing the budget 9.2 times. The major budget share of the proposals (more than EUR 112 million) is concentrated on the PA Natural and Cultural Environment with the Competitiveness (EUR 78.3 million) and Security and Accessibility of the Area (EUR 26.2 million) to follow. Final evaluation of the proposals is expected to be completed till autumn 2010²¹.

The crisis does not appear to reduce the demand for support but creates limitations in the national budget. To stimulate the economy new infrastructure projects are envisaged National pre–funding from the Government Budget of infrastructure projects that are promoted for co–financing from the EU has also been decided. Financial agreement for the implementation of JERERMIE as well as incorporation of all the Major Projects into the JASPERS Action Plan were decided as a means to confront the challenges generated by the financial crisis.

ACHIEVEMENTS OF THE PROGRAMMES SO FAR

There is still little evidence on outcomes of the interventions since the majority of projects were only incorporated in the OP “Sustainable Development and Competitiveness” in 2009 and launched recently. The progress attained concerns mostly continuation of publication of calls for proposals (budget activating) as well as submission, evaluation and incorporation of projects and the launch of their implementation. So, the quantitative data on the achievements of the programme is limited. Data on progress of the output and results indicators is almost absent with the exception of those assessing the achievements of the interventions of the “Productive Environment” priority axis and few other indicators for which some data is available.

As far as the consistency of the projects and measures funded with the stated policy objectives is concerned, according to the AIR 2009, the projects incorporated in the Programme up to date are assumed as properly contributing to the Programme’s general goals. Significant amounts

²⁰ Competitiveness, Natural and Cultural Environment and Security and Accessibility of the Area.

²¹ A range of delays related to administrative issues had as a result a transfer of the completion of the 2009 time–schedule to 2010.

were dedicated to the development of the solid waste management infrastructures²², creating the sense that the resources committed to some interventions related to the revitalisation of rural areas, promotion of renewable energy sources and urban transportation were lower than the real needs.

Entrepreneurship funding schemes are expected to produce the most visible results. At the same time infrastructure projects are expected, beside their long term effects, to stimulate the construction sector, which has been significantly affected by the recent crisis.

No tangible outcomes are visible yet for the projects promoted by the Greece–Cyprus Cooperation Programme. The first call covering all three priority axes of the Programme was only announced in December 2009 and no projects were incorporated so far.

The following is the more detailed analysis on the achievements of the interventions co-financed by the ERDF and the Cohesion Fund by Policy Area.

Enterprise support, including assistance to large firms, SMEs and handicrafts, RTDI

Support to business environment is covered mainly by the interventions under the Priority Axis “Productive Environment” of the OP “Sustainable Development and Competitiveness”. These include funding schemes focused on the improvement of the competitiveness of the manufacturing sector, upgrading of touristic product and support to female and youth entrepreneurship. Assistance is focused mainly on SMEs, which constitute the largest share of enterprises in the country.

Mainly due to the nature of such measures (incentive schemes for businesses) and to the fact that their implementation launched comparatively early, in 2007–2008 period, their implementation already recorded tangible outcomes. Thus, by the end of 2009, support was given to 107 firms in the sectors of manufacturing and services to help them upgrade their technology. Given that the target value for the corresponding output indicator is 220 enterprises by the end of 2015, the progress is satisfactory. The budget for the “Incentive scheme for strengthening of competitiveness of SMEs in the manufacturing sector” was increased. This step proves the increased interest for the scheme from the side of the business sector and, the intention of the government to more effectively confront the negative consequences of the financial crisis by stronger support of SMEs.

About 85 new businesses were created through the youth and female entrepreneurship schemes, 35 by women and 50 by young entrepreneurs. This figure is low compared to the target of 335 firms by the end of 2015. However, the overall response by potential entrepreneurs and the general success of the measures in the past (the schemes were internally

²² Planning Bureau 2007a.

assessed as meeting their goals and contributing to the national targets in the past), it is expected that they will be evenly successful in the current period. Moreover, the start-ups financed by these schemes appear closer to the knowledge-based society than the average Cypriot firms. The “Youth entrepreneurship” scheme is internally considered to be a good practice.

The JEREMIE Initiative was signed in April 2009 with total budget of EUR 20 million (EUR 17 million from ERDF) between the Government of Cyprus and the European Investment Bank (EIB) and the promotion of the first funding instrument (namely, the Funded Risk Sharing Financial Instrument) of the total budget of about EUR 10 million. The promoted financial instrument concerns the loans that are co-financed by the EIB with more favourable reimbursement conditions than those of commercial banks. This Financial Agreement was also assessed as good practice.

A plethora of measures were introduced or reinforced by the RPF in the framework of DESMI 2008–2010 in support of RTDI that lead to the introduction of almost 200 projects and the completion of implementation of 15 of them by the end of 2009.

The need for determination of more specific sectoral priorities in the research policy was highlighted in the Ex-Ante Evaluation Report of the OP “Sustainable Development and Competitiveness” (Planning Bureau, 2007a). Internal reorganisations and the opportunities offered by the ERDF have shifted emphasis to innovation, despite the fact that the mobilisation of SMEs was lower than anticipated. Representatives from universities and research centres remained the main recipients of funding provided through the calls suggesting that the impact on the economy might be rather limited.

The evidence available so far witnesses noticeable progress in the indicators towards their target values as regard to the entrepreneurship funding schemes. Concerning the RDTI promotion activities, the picture is yet quite vague. Efforts to intensify the implementation process may lead to improving results in the near future, but the Planning Bureau and the RPF have split views on the future potential.

Although the majority of interventions in this Priority Area base their support on non-refundable grants, the introduction of new financial instrument under the JEREMIE Initiative discloses the intention to provide the ERDF funding in less traditional way.

No major problems in implementing policy in this Area were observed. Some delays, according to the AIR 2009, were observed in the implementation of the projects promoted by DESMI that can be explained by the specific character of the research projects.

Human Resources

Support for the development of Human Resources is provided under the OP “Employment, Human Capital and Social Cohesion” and is concerned mostly with promotion of lifelong learning, modernisation and adaptation of the operations of firms and tertiary education, upgrade of the public sector services, increase of labour force and employment mainly among youth, women and socially weak. All these interventions are co-funded by the ESF.

Some measures, co-financed by the ERDF, may have more indirect effect on the human resources development. Such are, for example, the projects aiming at strengthening infrastructure of public tertiary education (e-university) promoted by the OP “Sustainable development and competitiveness”. A call was announced in 2009, but the proposals are not yet evaluated and the implementation was not launched by the end of 2009.

Other important interventions that have more direct influence in this policy area include the initiatives launched by the RPF that target to create research culture and promote researcher careers among the young Cypriots (“Programme for the Support of Young Researchers (PENEK)” and “DIDACTOR – PhD Degrees in Cooperation with Enterprises”). There are no tangible results of the implementation of these measures in the current period, but the positive evidence is the significant interest demonstrated to almost all the actions included in these programmes from the side of potential beneficiaries and their positive assessment in previous similar calls. The exception is the action DIDACTOR in Enterprises, for which the participation rates are low demonstrating insufficient interest of the business sector to RTDI activities. Experience from the previous years indicates that these two measures are likely to contribute to their immediate targets (increase the number of researchers and PhD holders), but the effect that it will have on the economy will depend on the operation of the knowledge transfer mechanism, which is still too weak.

Transport and telecommunications

Under this Priority Area, support is divided between the projects promoting upgrade of Port, Road Infrastructures and creation of sustainable urban transport system. Transport infrastructure projects are co-financed by the Cohesion Fund, while those aiming at the urban transport receive funding from the ERDF. All of them are included in the OP “Sustainable development and Competitiveness”. Concerning telecommunications, the same OP promotes interventions aiming at the diffusion of the use of ICT (ERDF funding).

One of the major projects promoted and implemented under this Priority Area is the expansion and upgrade of the Port in Limassol. The implementation of the project started at the beginning of 2008 and the first phase (out of two) was completed in autumn 2008 according to plan. The major outcome of this intervention is the upgraded Port infrastructure giving the possibility to service ships of the 3rd and 4th generation. Given the significant progress observed so far and

the fact that there were no serious problems during the implementation process, it is very likely that, once the works are completed, the expected outputs and result will become visible. At the moment capacity utilisation is below expectations but this is attributed to the global crisis, which has affected maritime transport.

These works are complemented by the construction of the road that links the Port with the motorway Limassol–Paphos, the large-scale project promoted for co-financing by the EU Structural Funds²³. Previous experiences indicate that this type of projects is executed on time and within budget (upgrade of the Limassol bypass co-financed by the Cohesion Fund in the 2004–2006 period and completed within the planned time-frames).

As regards the Road Infrastructure projects, introduced by the OP “Sustainable Development and Competitiveness”, their promotion was not as successful as that of the Port Infrastructure. There were no proposals submitted for the first call announced in 2008 and it was replicated in 2010. The proposals submitted are still under evaluation resulting in no projects submitted until now.

Support for urban transport is concentrated on the development of the sustainable transport system and includes studies on the development of the public transportation system and its upgrade, improvement of the parts of the urban road transportation and links of the airports with the city centres via public transportation. There is no data on the progress of the corresponding indicators and no other evaluations are available. However, the impact of these interventions is already evident. In July 2010, the new universal system of urban public transportation launched its operation in Cyprus with the co-financed by the ERDF projects playing important role in its materialisation. This new system results in the higher frequency of the itinerary, new bus lines and lower charges and will be implemented in whole in about two years. Interviewees suggest that the impact on reducing congestion is visible.

With regard to telecommunications, priority is given to the expansion of the utilisation of ICT in order to upgrade the services offered by the public sector. ERDF supported measures (e-government, e-inclusion, e-health, e-commerce) progressed during the last years. Since January 2006 all government ministries, departments, and services have their own website. At the same year the first government web portal, was launched: the Government Data Network (GDN) and Government Internet Node (GIN), the e-Procurement System and the Office Automation System (OAS)²⁴ are facilitating innovation in the public service. The annual e-Government survey of the United Nations places Cyprus among the top 35 countries in the

²³ In order to speed up the implementation, it is funded by the national resources until the approval of the project from the EU

²⁴ Planning Bureau, 2009c.

2008 e-Government Readiness Index. There has also been satisfactory progress in the area of e-Health. Based on all this, it is expected that the new projects promoted and launched its implementation in the current period (including Data warehouse, Geographic Information System, e-filing, etc.) will have the similar positive results. However, despite the significant improvements in the sector thanks to the ERDF, Cyprus is still underperforming, if benchmarked with the EU-27.

In general, it seems that the interventions promoted under this Policy Area are consistent with the national needs. Because of its geographic characteristics (small island far-off the EU centre of economic activity), Cyprus faces serious accessibility problems. Thus and given that the international trade of the country is based mainly on its marine force, the upgraded Port in Limassol may become one of the most significant instruments for Cyprus to exploit the benefits of its geographical location and become a European centre of transportation and trading with the third countries. As Cyprus already has an adequate road network has no need for new roads, priority is given mostly to the construction of the linking roads (connection of the national motorway with the port in Limassol) and road bypasses in the urban centres²⁵. Urban public transportation in Cyprus is among the worst in the EU and the bus utilisation is decreasing over the years. There is urgent need for improvements in this field and ERDF co-financing is essential. It was, however, observed that the resources committed to this through the OP are still insufficient in relation to the real needs²⁶.

The indicators chosen to assess the progress seem meaningful and the targets set in line with the objectives.

There were no major problems in the implementation of the interventions, as indicated in the AIR 2009, with the exception of minor delays during the implementation of the large-scale project for the construction of the road that links the Port with the motorway Limassol-Paphos.

Environment and energy

Substantial funding over the current period goes to this area. A significant share of this is directed to the management of waste water and water resources. No data are available on the progress in the achievements of the projects incorporated. However, given the quite fast rhythms of implementation observed during the 2008–2009 period, it is likely that the interventions will be implemented in the time-frames planned. The establishment of the drainage system in the Kokkinochori area is also envisaged, but it is too early to have any outcome. This is assessed as large-scale project and is now promoted for incorporation for the

²⁵ ECORYS Nederland BV, 2006.

²⁶ Planning Bureau 2007a.

co-funding from the Cohesion Fund (because of the maturity of the project, it is expected by September 2010²⁷).

Another field where the Cohesion Fund resources are concentrated is solid waste management and the harmonisation of Cyprus to the *acquis communautaire* in the waste management sector. Although not yet launched this is the most important sector in terms of the funding allocated. The projects implemented are directed at the utilisation of the government strategic planning for integrated solid waste management. They are, to all intents, the continuation and expansion of the interventions co-financed by the Cohesion Fund in the previous period. No results are visible yet, but the past experience suggests that, if properly implemented, the interventions will contribute greatly towards the targets set. In June 2010 the new modern integrated domestic solid waste management facility was inaugurated in Cyprus. The plant will cover the needs of Larnaca and Ammochostos Municipalities and, given its high standards and the usage of cutting edge technology, it may be characterised as the unique in the EU. It includes the whole series of units and infrastructures needed for the integrated waste disposal and equipped with modern technological mechanisms (for example, the usage of optical fibres in sorting out processes). The completion of this project is expected to have as a direct result the service of about 29% of the population from the plant²⁸. Moreover, thanks to the establishment of the plant, some rubbish dumps had been closed. Thus, although the construction of two other similar units (in Nicosia and Limassol) is not yet completed²⁹ and their outcomes not yet assessed, they are expected to deliver similar results. These are considered as large-scale projects and they are not still receiving funding from the EU, but are promoted and are likely to be included recently for co-financing from the Cohesion Fund. Several other projects, such as rehabilitation of waste disposal areas in Paphos province and the development of Green Points all over Cyprus are expected to complement the large-scale projects. Already 37 rubbish dumps all over the Paphos area have got out of functioning once the first phase of the sanitary landfill and it is expected that by 2012 such areas will be wholly restored.

Smaller scale support is directed to alternative and renewable sources of energy. These include provisions for the establishment of the photovoltaic systems and solar heating and freezing systems on the public buildings. Projects have already been incorporated and launch their implementation in 2009 and are accomplished in 2010. Support in this area is of extreme importance since Cyprus energy system is almost exclusively based on the imported fuels

²⁷ Planning Bureau, 2010.

²⁸ Planning Bureau, 2007a.

²⁹ It is expected that these units will be wholly operational by 2014 (source: <http://www.moi.gov.cy/MOI/pio/pio.nsf/All/8E11D7AFE0B9D5AEC225774A0049D56C?OpenDocument>)

(96%), while local renewable sources only cover 4% of the country's needs³⁰ at the time that the possibility of their wider exploitation (especially the solar ones) are tremendous. As highlighted in the Ex-Ante Evaluation Report, the interventions in this area are, however, rather limited despite the relative advantage of the country concerning the exploitation of solar energy.

All in all, the projects funded are in line with the objectives and targets set. The results of their implementation, however, are not still clear, but based assessments building on the past experience.

Development of integrated waste management system is highly essential in the case of Cyprus where the chaotic and uncontrolled location of rubbish dumps is the reality³¹. The large-scale projects already implemented and expecting for co-financing from the EU, such as the construction of the integrated domestic solid waste management plants in Nicosia and Limassol as well as rehabilitation works on waste disposal areas in Paphos are expected to (at least partly) solve this problem.

Territorial development

Funding in this Priority Area is concentrated on the revitalisation of the environment in less developed urban and rural areas, development of cultural infrastructure and improvement of transportation (urban areas), rural tourism and development of mountain areas.

Visible outcomes are already observed in the projects focusing on revitalisation of urban environment: four revitalisation plans aiming at the improvement of the attractiveness of the areas have already been developed by the end of 2009. If considered that the target value is eight such plans by 2015, the progress is satisfactory. In addition, the area revitalised reached 4,335 sq.m (that is about 6.2% of the planned 70,000 sq.m by 2015). Taking into consideration the fact that the project only launched its implementation in 2009, the indicators are also reasonable.

As regards other fields, yet there are no tangible results observed. It is, however, essential that the focus of the projects co-funded by the ERDF is concentrated in the particular and most pressing needs in this area. Territories in most need (mountain rural and degrading urban territories) were selected for support. Revitalisation of degrading urban areas and works for the improvement of urban transport system, described in the section "Transport and Telecommunications", are already giving some visible positive outcomes.

Although no tangible achievements are reported yet, but the previous experience from the similar projects suggests that such interventions may indeed lead to visible improvements in

³⁰ Planning Bureau 2007a.

³¹ 117 rubbish dumps that operate under no or elementary control were reported in Cyprus (source: <http://www.moi.gov.cy/MOI/pio/pio.nsf/All/8E11D7AFE0B9D5AEC225774A0049D56C?OpenDocument>)

the areas in question. The example is the project for the integrated development of the Community of Kalopanagioti (2005–2009). During this period, public works on rehabilitation of the community and the development of culture infrastructure were implemented. In addition, 7 tourist accommodations were co-funded in the framework of the incentive schemes for SMEs operating in the rural tourism sector. The Community of Kalopanagioti example is assessed as the development model not only for Cyprus but also for the EU³². Projects involved in the development of the community incorporate elements of innovativeness regarding the creation of new products and services. They also are observed to have significant effect on the overall development in the region (improved competitiveness of the local economy, reinforcement of entrepreneurship, development of work positions and improvement of the environment and quality of life)³³. If taking as model the projects for the development of the Community of Kalopanagioti, other interventions for mountain areas development may achieve some meaningful results in the specific territories. However, the resources allocated to this sector were assessed as rather limited in relation to the real needs³⁴ and need for further reinforcement is still present.

As highlighted above, projects incorporated and implemented under this Priority Area are consistent with the objectives set and the most urgent needs. The direct targets set seem to be meaningful and achievable, given already available data on some few indicators. No major problems and delays were observed so far (with exception of the comparatively low absorption rates) making it more possible that the implementation will take place within the time-frames planned and will contribute to the targets set.

SECTION 3 – EFFECTS OF INTERVENTION

Overall projects are incorporated into the OPs following their maturity and not any algorithm of relevance of anticipated impact.

There are no official documents attempting to identify the wider effects of the current Cohesion Policy interventions on the development of regions receiving funding. Given, however, the significant increase in finances committed from the EU Structural and Cohesion Funds in this period as compared to 2004–2006, the impact of the interventions can be expected to produce commensurate effects. Moreover, the experience from the previous period, which was the first programming period for the Cohesion Policy in Cyprus, helped to define more focused

³² Planning Bureau, 2009b.

³³ Planning Bureau, 2009b.

³⁴ Planning Bureau 2007a.

development strategy, set measurable targets and provided support to projects and measures directed to the most crucial needs³⁵.

Based on the little evidence available so far, co-financed programmes implemented in the current period, contribute significantly to the improvement of competitiveness of the local economies receiving support and their sustainable development by strengthening tourism and reinforcement of entrepreneurship in these areas. Strong emphasis given to SMEs (main enterprise model in Cyprus) and to their innovativeness and the positive results already visible from the implementation of such initiatives are other signs suggesting the positive contribution of the Cohesion Policy to competitiveness improvement. According to the Lisbon Review 2008 (Planning Bureau, 2009b, p.13), Cyprus has significantly improved its competitiveness level³⁶. It is mainly explained by the extensive promotion of the Information Society and the social inclusion interventions³⁷. Cohesion Policy in Cyprus gives special emphasis to promotion of ICT and supports e-economy promoting interventions, making valuable contribution to the overall country's information society strategy and thus, to the enhancement of competitiveness.

Cohesion funding resulted also in stronger focus on innovation in defining development policy and promoting measures. Thanks to substantial funding provided for innovation and innovation-related activities (directly through DESMI measures or indirectly through incentive schemes for entrepreneurship with focus on innovative and technology-intensive activities), Cyprus has reported progress on its levels of innovation. According to the European Innovation Scoreboard (EIS) 2008 and 2009 Summary Innovation Index (SII), Cyprus considerably improved its position in 2008-2009 passing from the Catching-up country to Innovation Follower, outperforming among others Norway and showing the overall highest rate of improvement. As innovation represents the driving force for the improvement of competitiveness and the overall economy, the impact of the EU Funds in this field is essential.

In accordance with the needs of the local economy, priority, among others, is attached to the severe problem of unbalanced internal development. Thus, support is given to the degrading urban areas as well as to the less-favoured rural areas and is helping them to adapt to new challenges.

In addition to all these, interventions co-financed by the ERDF and the Cohesion Fund led to more environmentally friendly development through the increased usage of renewable energy sources and more environment-oriented waste management system promoted but at a scale that cannot yet make a significant difference.

³⁵ European Commission, Ex Post Evaluation of Cohesion Policy Programmes 2000-2006 (CYPRUS).

³⁶ Cyprus comes 13th among 27 EU countries in 2008, while in 2006 was only 21st.

³⁷ Planning Bureau, 2009b.

Cohesion Policy in Cyprus in view of economic crisis and the consequences it has /may have on the economy helped to maintain public investment by the following means:

- Promotion of additional infrastructure projects to benefit the economy as a whole and help the construction sector overcome short term problems, associated with the crisis,
- Incorporation of the Major projects in the national processes basis and the launch of their implementation before their approval from the EU,
- National pre-funding of the projects that are promoted for co-financing,
- Upgrade of the assistance offered for planning and maturing of the Major Projects through their incorporation in JASPERS Action Plan,
- Simplification of processes.

The most visible impact is in the development of integrated waste management system, construction of environmentally oriented waste disposal plants, upgrade of the existent ones and closure of rubbish dumps. Support (even if quite limited yet) to renewable energy sources (mostly, solar) contribute to better energy security. Support towards the improvement of competitiveness and more balanced internal development gives also some positive results.

SECTION 4 – EVALUATIONS AND GOOD PRACTICE IN EVALUATION

Evaluation is extremely weak in Cyprus. Very short experience (since 2004–2006 period), the lack of evaluation culture and limited capacity for evaluation due to the lack of specialised evaluators and small number of companies with expertise in the topic create an unfavourable framework for production of timely and reliable evaluations. The absence of evaluations of the interventions co-financed in the 2004–2006 period resulted in the lack of reliable data and caused difficulties in the presentation of the results of the previous period as well as in the determination of goals and objectives of the current OP.

The majority of evaluations carried out in this programming period were those implemented with the responsibility of the European Commission (strategic evaluations on Innovation and the Knowledge based Economy, on Environment and Risk Prevention, on Transport Investment Priorities for the current period). The Ex-Ante Evaluation of the OP “Sustainable Development and Competitiveness 2007–2013” was carried out in 2007 with the general aim to make some improvements in the OP. No on-going evaluation on the effectiveness in achieving the policy objectives set implemented by Cypriot authorities is available so far.

The only relevant evaluation was the evaluation study of the system of indicators (result and output) used in the two OPs³⁸. This evaluation study was prepared in December 2009 in the context of ongoing evaluation and had as an objective the determination of some intermediate goals, the preparation of adequate and reliable set of indicators and their sufficient monitoring.

The methodological approach of the study included the collection of a large amount of data for both periods in the first place and their review, the analysis of the coherence of indicators with the specific objectives of the OPs and with the EU core indicators as well as capturing of outputs and results and, finally, the evaluation of indicators by using the SMART principle.

The study concluded that the indicators chosen are manageable and can be used for the current period with some modifications (definition and quantification of a few additional output and result indicators, some reassessments in the definition of baseline and target values and determination of intermediate target values where possible). A set of financial and administrative indicators was also proposed in order to ensure adequate monitoring of the implementation of the projects. It was also recommended that the possibility of utilisation of econometric models be examined.

There is no specific plan or strategy for assessment of the Cohesion Policy performance. However, in the framework of the abovementioned study recommendations were made for horizontal/thematic evaluations in the form of Evaluation Plan. In order to improve programming and implementation of evaluation actions the respective Steering Committee³⁹ was set up and its first meeting was held in March 2009. The core responsibility of the Committee is the general coordination of the evaluations that are implemented for each OP. In the second meeting of the Commission, which is going to be held in the second semester of 2010, the overall plan for evaluation of the OPs will be discussed based on the recommendations made in the abovementioned study.

SECTION 5 – CONCLUDING REMARKS – FUTURE CHALLENGES

Cohesion Policy is very recent in Cyprus and its implementation still faces difficulties. The experience from the previous period has contributed to better programming and coordination of actions, as well as to the improvement of the management and monitoring processes of the OPs⁴⁰, the administrative mechanism weakened by the lack of experienced personnel is still not as adequate as it should be for more effective planning and implementation. This especially

³⁸ Planning Bureau 2009a.

³⁹ Steering Committee of for the Evaluation Actions of the Operational Programmes Co-financed by the Structural and Cohesion Funds for 2007–2013 period.

⁴⁰ Planning Bureau, 2009b.

concerns the local authorities involved in the territorial policy interventions and leads to shortcomings in formulation of integrated policies in this area⁴¹.

Progress made so far may be characterised as satisfactory. Taking into consideration the limited funding compared to the needs and ambitions of the country, as well as the weaknesses observed in the previous period (rather ambitious programmes and not all targets met⁴²), projects and measures introduced by the OP seem to be adequate and in accordance with the country needs. Focus was given to the crucial problems of the economy.

The future challenges include:

- Faster implementation of the Major Projects.
- More emphasis on rural development deprived urban areas and renewable energy sources, as well as environmental protection in a broader scope than as yet.
- Intensification of the utilisation of the recently adopted EU mechanisms such as JEREMIE and JASPERS and accelerated the process for the involvement of the technical assistance.
- Further improving of the administrative capacity of public authorities as regards the programming and management of the programmes including the promotion of more systematic evaluation.
- In a more ambitious policy setting in the future Structural Funds' projects could be prioritised according to their potential impact and not their maturity.

It is expected that as the country slowly comes out of the recent financial crisis national resources will complement the EU Structural Funds for meeting these challenges.

⁴¹ Planning Bureau 2007a

⁴² European Commission, Ex Post Evaluation of Cohesion Policy Programmes 2000–2006 (CYPRUS).

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ECORYS Nederland BV (2006) Study on Strategic Evaluation on Transport Investment Priorities under Structural and Cohesion funds for the Programming Period 2007–2013, Report Cyprus to the European Commission, September 2006

Scope: Specific aspects of the Cohesion Policy

Focus: Strategic evaluation of the investment priorities in the transport sector with the aim to feed in the process of determining transport investment priorities and the preparation of the national strategic reference frameworks and operational programmes.

Method used: Assessment was carried out based on the range of data from different sources

Period referred: Analysis of the 2004–2006 period and recommendations for the 2007–2013

European Commission Ex Post Evaluation of Cohesion Policy Programmes 2000–2006 financed by the European Regional Development Fund in Objective 1 and 2 regions. Work package 1: Coordination, analysis and synthesis. Task 4: Development and achievements in Member States – CYPRUS prepared by the Applica–Ismeri Europa– wiiw Consortium

Scope: Across operational programmes

Focus:

- “Summarise the main aspects of regional disparities, the changes in these which occurred over the 2000–2006 programming period and the principal features of regional development policy over this period in terms of the objectives, the way that it was implemented and the contribution of the Structural Funds”,
- Review “the evidence on the effects of policy as regards both the direct results of expenditure in the different policy areas and the wider impact on development as such”

Method used: The evaluation is based on the three following primary sources of information:

- Eurostat (statistical data on regional and national developments over the period),
- INFOVIEW database maintained by DG REGIO (data on the allocation of funding and expenditure),
- various programming documents and national evaluation reports as well as from impact studies (information on policy objectives, on the results of expenditure and the wider effects of this and on the procedures adopted as regards the implementation of policy)

Period referred: 2000–2006

GHK et al. (2006) Strategic evaluation on Environment and Risk Prevention under Structural and Cohesion Funds for period 2007–2013, National Evaluation Report for Cyprus, Report to the European Commission, November 2006

Scope: Specific aspects of the Cohesion Policy

Focus: Evaluation of the environment and risk prevention and identification of the environment investment priorities

Method used: Assessment was carried out based on the range of data from different sources

Period referred: Analysis of the 2004–2006 period and recommendations for the 2007–2013

Planning Bureau (2007a) in cooperation with LKN ANALYSIS Ltd., OMAS S.A. and RTD Talos LTD EX Ante Evaluation Report of the *Operational Programme Sustainable Development and Competitiveness, 2007–2013*. July 2007

Scope: OP “Sustainable Development and Competitiveness”

Focus: Focused on:

- *Appropriateness of the strategy,*
- *Evaluation of the sufficiency of the strategy, clearness of the objectives and the priorities and feasibility of the targets set,*
- *Consistency of the strategy with other EU and national policies,*
- *Evaluation of the appropriateness of the quantification of the Programme,*
- *Evaluation of the results of the proposed strategy,*
- *Appropriateness of the implementation mechanisms for the achievement of the targets.*

Method used: The overall evaluation consists of 6 evaluations (Chapters):

- *Evaluation of the socio-economic analysis,*
- *Evaluation of the level of consistency of the strategy with the level of venturousness of the implementation of the strategy,*
- *Analysis of the coherence of the strategy with the national policies and the Community Strategic Guidelines,*
- *Evaluation of the expected results and impacts,*
- *Examination of the proposed systems /processes of implementation,*
- *Evaluation of the territorial dimension and the contribution of the OP to the Community Value added.*

Period referred: 2007–2013

Planning Bureau (2009a) Evaluation of the Indicators of the Operational Programmes “Sustainable Development and Competitiveness” and “Employment, Human Capital and Social Cohesion” (Summary), December 2009

Scope: Across operational programmes

Focus: Set up of a comprehensive indicators system (output and result indicators) and development of integrated monitoring system of the abovementioned indicators

Method used: The following steps have been made:

- *Data collection and review*
- *Analysis of a coherence of indicators with the specific objectives of the OPs as well as with the EU core indicators*
- *Evaluation of indicators by using the SMART principle*

Period referred: 2007–2013

Technopolis et al (2006) Strategic Evaluation on Innovation and the Knowledge Based Economy in relation to the Structural and Cohesion Funds, for the Programming Period 2007–2013, A Report to the European Commission, October 2006

Scope: Specific aspects of the Cohesion Policy

Focus: Provide conclusions and recommendations (basic strategic and operational orientations) for Structural Fund investments in innovation and knowledge

Method used: Assessment was carried out based on the range of data from different sources

Period referred: Analysis of the 2004–2006 period and recommendations for the 2007–2013

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⁴³ Following the split of the Ministry of Economy and Finance in two separate Ministries (Ministry of Finance and Ministry of Economy, Competitiveness and Shipping) in 2009, this Office is now a part of the latter.

<http://www.moi.gov.cy/MOI/pio/pio.nsf/All/8E11D7AFE0B9D5AEC225774A0049D56C?OpenDocument>

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TABLES

Table 1: Regional disparities and trends

Table 2: Macro-economic developments

Table 3: Financial allocation by main policy area