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**REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN  
PARLIAMENT**

**Ninth Annual Report 2014 on the implementation of Community assistance under  
Council regulation (EC) No 389/2006 of 27 February 2006 establishing an instrument of  
financial support for encouraging the economic development of the Turkish Cypriot  
community**

# REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

## **Ninth Annual Report 2014 on the implementation of Community assistance under Council regulation (EC) No 389/2006 of 27 February 2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community**

### **1. INTRODUCTION**

Council Regulation (EC) No 389/2006<sup>1</sup> (the "Aid Regulation") is the basis for the assistance to the Turkish Cypriot community (TCc) and requires annual reporting to the Council and the European Parliament. This report covers the year 2014.

### **2. PROGRAMMING OF THE ASSISTANCE**

Between 2006 and the end of 2014, EUR 370 million was programmed for operations under the Aid Regulation. The amount of the 2014 annual programme was EUR 32.96 million<sup>2</sup>. The Multiannual Financial Framework (MFF) 2014-20 provides a multi-annual perspective to the programme with a provision for more stable, annual funding for the first time. The assistance programme is, however, temporary in nature, aiming to facilitate the reunification of Cyprus and Council Regulation No 1311/213<sup>3</sup> laying down the MFF allows for a revision in the case that a reunification is achieved during the MFF period. Following the Joint Declaration by the Greek Cypriot and Turkish Cypriot leaders in February 2014, the Commission promised to step up its efforts to help the TCc prepare for the implementation of the *acquis*.

### **3. IMPLEMENTATION MECHANISMS**

The programme is implemented in the areas of the Republic of Cyprus in which the Government of the Republic of Cyprus does not exercise effective control and where the application of the *acquis* is temporarily suspended pursuant to Protocol 10 of the Treaty of Accession. Assistance is implemented primarily through direct management by the European Commission, but some projects are indirectly managed by the United Nations Development Programme (UNDP) and by the British Council.

The Commission operates in a unique political, legal and diplomatic context. *Ad hoc* arrangements are needed to implement the programme while respecting the principles of sound financial management. In EU-funded aid programmes, in normal circumstances, agreements with a beneficiary government would establish the legal framework for development assistance. No such agreements can be made for the assistance to the TCc and the Commission has to rely on what it understands to be the rules and conditions applicable locally. Management and mitigation of the inherent risk is part of the Commission's responsibility and measures adopted include intensive monitoring and support to beneficiaries, revised payment conditions and a careful approach to the use of bank guarantees. The assistance includes a significant amount of grant support, requiring resource-intensive management.

To ensure successful and sustainable implementation in this environment, the TCc must fully engage in the move towards *acquis* alignment. Cooperation between the

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<sup>1</sup> OJ L65, 7.3.2006, p.5.

<sup>2</sup> Commission Decision C(2014)9366.

<sup>3</sup> OJ L347, 2.12.2013, p.884.

Turkish Cypriot and Greek Cypriot communities remains necessary for achieving the ultimate goal of reunification.

The Programme Team uses the EU Programme Support Office (EUPSO) in the northern part of Nicosia. The Representation of the Commission in Cyprus also hosts meetings and seminars and press conferences and communicates with the Cypriot public throughout the island, including on the programme.

#### **4. IMPLEMENTATION DURING THE REPORTING PERIOD**

##### **4.1. General overview**

There were expectations of progress in the settlement talks relaunched following the leaders' joint statement in February. The Commission stood ready to adapt the programme according to needs to facilitate and develop any agreements reached. Substantial progress in the settlement talks was regrettably not achieved in the reporting period. The Commission continues to implement the Aid Regulation with the overall aim of supporting reunification.

Important developments during 2014 included the inauguration of the new Nicosia bi-communal wastewater treatment plant at Mia Milia/Haspolat. Over 50 grants were signed under three calls for proposals launched by the European Commission to support private sector development, community development and civil society. The scholarship programme, outsourced to the British Council for 2014, supported 115 students.

The confidence-building measures supporting cultural heritage protection and the Committee on Missing Persons both delivered increased output. A new cycle of TAIEX-funded *acquis* assistance involving 60 Member State experts was started with an inception meeting in Brussels and a number of missions to Cyprus

As in the last two years, substantial efforts have been made to complete activities funded by older programmes and 225 contracts were closed in 2014. At the end of the year, 264 contracts were open, compared with 533 at the end of 2011. This reflects the mostly completed, major volume of work originating from the very large allocation at the start of implementation of the Aid Programme, particularly the substantial number of grants. A streamlining of the programme has therefore been possible, bringing a more focused approach with a more manageable volume.

One troublesome issue has been the contract for the construction of the Famagusta sewage network, which was terminated in December 2013 by the Commission. The dispute process, following the FIDIC conditions of contract has consumed a considerable amount of time and was in the amicable settlement phase at the end of 2014. This case has highlighted the important role that the TCc must play in facilitating the smooth implementation of projects as well as the resolution of disputes.

Encashment of some locally issued bank guarantees was previously blocked. The measures taken by the TCs in 2013 (changes to local legal texts and unilateral granting of special status to EUPSO) were deemed sufficient by the Commission to protect the contract dispute mechanism and the bank guarantees. This, in turn, allowed the Commission to proceed with signature of SME grants, which were dependent on a resolution to the bank guarantee problem.

Resources under the Aid Regulation are also used for supporting activities and a new 24-month contract extending the provision of office logistics in the EUPSO office until July 2017 was signed in 2014.

#### **4.2. Progress by objectives**

The overall objective of the Aid Programme is to facilitate the reunification of Cyprus by encouraging the economic development of the TCc, with particular emphasis on the economic integration of the island, on improving contacts between the two communities and with the EU, and on preparation for the *acquis*. The activities towards each of the objectives of the Aid Regulation in 2014 were:

##### **4.2.1. Objective 1: Developing and restructuring of infrastructure**

The long-delayed partial provisional acceptance of the New Generation Network *telecommunications* equipment was given in March and migration of the transmission part of the network was completed. The plan for the TCc to separate the provision of services from the network operation has not been implemented, however, and full liberalisation of the sector has not been achieved.

The inauguration of the new Nicosia bi-communal *wastewater treatment* plant (WWTP) at Mia Milia/Haspolat was held in April. This is the largest WWTP on the whole island, serving both communities in Nicosia. The construction works were implemented through the UNDP with funding from the Sewerage Board of Nicosia and from the EU. The aim is that the treated water will be re-used by both communities and design work for this will start in 2015, but agreement between the communities on water sharing arrangements must be confirmed for the works to be programmed and implemented.

The EU is also facilitating discussions concerning alignment for a major *trunk sewer* replacement that will be connected to the Mia Milia/Haspolat WWTP and serve both communities in Nicosia. This will be financed by the EU.

Most of the outstanding remedial works to address corrosion and other issues at the Morphou/Güzelyurt *wastewater treatment* plant were implemented and the (final) performance certificate is expected in 2015. A scheme for agricultural water re-use has been designed for this plant and tendering will take place in 2015.

The new *wastewater treatment* plant in Famagusta was handed over in 2013, but corrosion problems have necessitated coating or replacement of some components during the defects notification period, which continues into 2015.

Extensive stakeholders' consultation took place to shape substantial technical assistance for further strengthening of the TCc's capacity in the water, wastewater and waste sectors. This should be contracted early in 2015.

In the area of *solid waste*, action is necessary to extend the capacity of the Koutsoventis/Güngör landfill with a second "cell", as was planned in the project design. This was foreseen in the 2014 programming. A concentrated involvement in this sector is necessary to reduce and eventually eliminate uncontrolled dumping. Further assistance to finalise and implement the Solid Waste Master Plan, as required by the EU *acquis*, will begin in 2015.

On *nature protection*, a contract was signed with UNDP for completion of the information and management centres in four Special Environmental Protection Areas (SEPAs). The construction of these buildings was halted in 2011 following contract termination. No intervention has been possible in the meantime and hesitations on the side of TC counterparts persist, due to an unresolved dispute with the former

contractor. In addition, designs must be sensitive to the environment and agreement with the TCs on design details must be reached.

#### 4.2.2. *Objective 2: Promoting social and economic development*

Under the third call for proposals (EUR 3 million) for *community development* 7 grant contracts were signed. The objectives are to enhance natural and intangible cultural heritage assets, to improve basic community services and to reinforce social cohesion and local governance in rural areas. Out of the 37 grants awarded under earlier community development schemes, 13 were closed during 2014 and 12 remained ongoing.

Supporting *SME competitiveness*, 40 grants were signed to aid SME modernisation, with a component for start-ups under a EUR 5 million call. A market mapping for food processing and eco-tourism was completed, identifying potential niche products.

Continuing technical support was given to *rural development* stakeholders in the fields of plant health, crop diversification, organic farming and support for grant implementation. Combatting the Mediterranean fruit fly damage to olive crops is important for the whole island and the Commission facilitated bi-communal contacts on this topic and supported the first bi-communal olive festival, although political sensitivities limited the impact of this. A new contract was signed in 2014 for the design of a system for the disposal of animal by-products. Tendering started in 2014 concerning the provision of technical assistance for eradication of animal diseases. This should be contracted in the first quarter of 2015.

In the *education* sector, ten grants for schools signed at the end of 2013 were all underway. This is the fifth scheme (EUR 0.7 million) in this field and promotes modern teaching methods and joint projects between the two communities. Resources for schools are very limited in the northern part of Cyprus and EU grants are vital for development in many cases.

After completion of the *vocational education training and labour market* (VETLAM) project in 2012 and evaluation of sector activities, tendering was carried out for a continuation project (VETLAM II) covering development and promotion of vocational education and training systems, life-long learning and active labour market measures.

The major (EUR 9.8 million) Upgrading of Local Infrastructure Phase 2 programme, implemented by the UNDP, was concluded in 2014. The 7-year programme had many components, including works for the opening of the seventh crossing point at Limnitis/Yeşilirmak, safety measures for buildings at the Ledra/Lokmaci crossing point, replacement of asbestos water pipes in Nicosia, cultural events as well as small scale grants for environmental awareness activities in Karpasia/Karpaz.

A Project Management Unit (PMU) dedicated to supporting grant beneficiaries has been in place since 2008 to increase efficiency and regularity of implementation, checking for potentially ineligible expenses, for example. The contract came to an end in December and the contract for a new PMU was signed at the end of 2014.

Economic progress was monitored through a World Bank Trust Fund and specialist reports were produced. This activity was close to completion at the end of 2014. This work is particularly important in view of the mandate under the Aid Regulation to encourage economic development. A new contract with the World Bank is in preparation.

#### 4.2.3. *Objective 3: Fostering reconciliation, confidence building measures, and support to civil society*

The *Committee on Missing Persons* (CMP), supported through a Contribution Agreement with UNDP, reached the highest annual number of identifications of "missing" (157) so far achieved. Out of the 2001 total missing, 948 have now been exhumed and 564 have been genetically identified and returned to their families. The field work becomes more difficult as new information sources are now scarce and remaining, potential graves are less accessible. During 2014, only 17% of excavated sites revealed remains, although access was granted in 2014 to a second area previously inaccessible due to the Turkish military presence. In July, the two Cypriot leaders visited the anthropological laboratory and made a joint call to encourage witnesses to come forward with information. Communication is an important part of the CMP work and assistance will be provided under the Aid Regulation to take an exhibition showing the hard work of the bi-communal groups of scientists, held in Nicosia in April, to other locations in Cyprus and beyond. Approximately 70% of the CMP total funding has been provided under the Aid Regulation. A new Delegation Agreement with UNDP for EUR 2.6 million was signed in December.

*Cultural Heritage protection*, supporting the bi-communal Technical Committee on Cultural Heritage, continued its good progress with completed works on the Mustafa Pasha mosque (formerly Stavros church) in Famagusta, the Paphos hamam (medieval Turkish bath) and the Agios Nicolaos church in Syrianochori/Yayla. A second phase of works at the Deneia/Denya mosque was finished. The impact of this project is very important in terms of building trust between the two communities. Extra resources of EUR 1.3 million were allocated in July for other landmarks in the Famagusta walled city i.e. restoration of part of the walls between Othello Tower and Arsenal Tower, the first phase visitor access to the Ravelin Land Gate and conservation work on the Martinengo Bastion. It is important to intervene as quickly as possible in many cases to prevent further deterioration. A new Delegation Agreement (phase 3 under this programme) was signed with UNDP for EUR 1.4 million in December bringing the total EU support to date for cultural heritage protection to EUR 6.7 million.

Ten new grants under the 4<sup>th</sup> *Cypriot Civil Society in Action* call (EUR 2.5 million) were signed in 2014 to strengthen Turkish Cypriot civil society and for reconciliation and confidence building. Engagement in environmental protection, human rights protection and involvement in culture and sports was promoted. Tendering started for the provision of technical assistance to the civil society sector to complement support through grants.

#### 4.2.4. *Objective 4: Bringing the TCc closer to the EU*

The academic year 2014-15 was the first covered in a two-year Delegation Agreement signed with the British Council in 2013 for management of the *scholarship scheme* giving an opportunity for Turkish Cypriot students, researchers and professionals to study in the EU. Some implementation difficulties were experienced in the first year of this outsourced operation. Under this scheme, however, 115 grants were awarded in 2014. Considerable attention was paid to informing students about opportunities outside the UK in order to broaden the exposure of the TCc to other European cultures. A further 20 grants were awarded directly by the Commission under an earlier call covering the 2013-14 academic year.

The first *Infopoint* project, the aim of which was to inform the public about the aid programme and EU policies and increase the general knowledge of the EU through seminars, workshops and visibility events, finished in 2013. A new *Infopoint* service contract with the same mandate was signed in December.

4.2.5. *Objectives 5/6: Preparing the Turkish Cypriot community to introduce and implement the acquis*

The Commission's Technical Assistance and Information Exchange (TAIEX) instrument helps prepare the TCc for implementation of the *acquis* following the settlement of the Cyprus problem. In 2014, assistance focused on 16 main areas, or 'sectors', of the *acquis*. A new selection of EU Member State experts was carried out in 2014, but delays in agreeing the selection process with the beneficiaries meant that the total number of actions in 2014 (221) was less than in previous years. TAIEX actions included training courses, workshops, study visits and legal expert counselling.

Preparation within the TCc for future roll-out of the *acquis* remains limited, hindered by a still low level of adoption of legal texts aimed at *acquis* alignment, limited legal drafting capacities and incomplete implementation. Important legal texts on food and feed and on product safety were, however, adopted in 2014 and work on legal texts continued and accelerated in the latter part of the year.

Support to trade across the Green Line (Regulation 866/2004) continued. EU Member State experts carried out regular phytosanitary inspections of potatoes and citrus products. Independent experts also produced an updated list of vessels whose catch can be traded across the Green Line.

**4.3. Financial execution (contracts and payments)**

4.3.1. *Contracting*

Commitments were EUR 26.5 million in 2014. A number of procurements, particularly for technical assistance will be completed early in 2015. Following the substantial contract closure efforts in the last three years, programme streamlining and outsourcing actions, the commitment rate should further increase in 2015 to match more closely the amount for the yearly programmes.

4.3.2. *Payments*

Payments in 2014 were EUR 21 million. It is expected that the payment trend will be upwards as the commitment volume increases.

**4.4. Monitoring**

The Commission has direct responsibility for implementation of most projects (direct management). The level of supervision by Commission staff is high, with "spot-check" visits as well as site meetings and steering committees. A dedicated Programme Management Unit monitors grant implementation for community development, SMEs and rural enterprises and supports grant beneficiaries. TAIEX logistics are monitored through the on-line TAIEX Management System.

**4.5. Audit and controls**

An ex-post audit was also carried out on a number of procurement files (services, works and supplies) funded under the Aid Programme. The draft final report was issued at the end of 2014. No material errors were reported and there are no actions to implement.

An audit by the Internal Audit Capability was conducted in 2013 on "Joint Management" to assess internal control systems of the Directorate-General for Enlargement. The scope of this audit included projects funded under the Aid Programme. Recommendations concerning operational checks, risk assessment and monitoring have been implemented.

#### **4.6. Evaluation**

The evaluation of the TAIEX instrument was completed in 2014 with recommendations on methods for priority setting, quality control, detailing of milestones and on respecting absorption capacity. The preceding two years 2012-13 saw an extensive evaluation effort at sector and programme level and actions have already been taken or built into the programming: an indicator assessment and upgrading is underway for the programme as a whole; consultants will start work in 2015 on water and solid waste sector capacity and also on strengthening civil society organisations; TAIEX support was strengthened with new Project Action Plans and new experts.

Efficiency improvements to the CMP operation were proposed in 2014 by the Equipo Argentino de Antropología Forense (EAAF), invited by the CMP to make regular performance assessments.

#### **4.7. Information, Publicity and Visibility**

There were 53 visibility actions in 2014, notably the inauguration of the new Nicosia bi-communal wastewater treatment plant in Mia Milia/Haspolat, ceremonies marking completion of the restored Agios Nicolaos church in Syrianochori/Siryanohoro/Yayla and the Deneia/Denya mosque and a large scale event aimed at families of missing persons "Searching for our Missing" to raise awareness of the work of the CMP.

A Europe Day festival in the northern part of Nicosia was organized together with the Commission Representation in Nicosia. Several press releases on the programme actions were distributed by the Representation in Turkish, Greek and English.

#### **4.8. Consultations with the Government of the Republic of Cyprus**

Regular meetings were held with representatives of the Government of the Republic of Cyprus, in particular when senior Commission officials visited the island. The Commission continues to rely on its cooperation for verification of property rights, and also meets regularly with the Permanent Representation in Brussels.

### **5. CONCLUSIONS**

The Commission continues to deliver assistance towards the main objective of the Regulation *to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community*, but achieving the settlement will be attained through a political dialogue, which the Commission encourages and supports. A significant breakthrough in this process was not achieved in 2014, but the Commission stands ready to build on developments as they occur and are agreed by both communities. The mandate given under the Aid Regulation remains valid and the Commission has continued its work towards the objectives specified therein. A significant part of the assistance contributes to economic development, either directly through private sector grants or indirectly through improved infrastructure,



telecommunications, product quality, human resource development or through the all-important preparation for the *acquis* roll-out.

Operational problems on the ground can be quite severe in some fields due to low capacity of the beneficiaries and lack of local resources, constraining TCc engagement. The Commission cannot withdraw, however, from work in areas that are central planks of the *acquis* and vital to the economic and social well-being of EU citizens.

The general picture for investments in infrastructure is that contract management is difficult, hand-over, operation, maintenance and sustainability are problematic and a "post-delivery" support is often required. Infrastructure development is prominently mentioned in the Aid Regulation, however, and there is a significant volume of projects in the pipeline, particularly related to the environment.

Large scale implementation of projects under the Aid Regulation started on the ground in 2009 and the five years since then have delivered many lessons both to the Commission and to the beneficiaries. Despite the very wide ambitions of the Aid Regulation, the Commission's consistent approach and focus on major topics has produced results that are tangible. Many programmes, including confidence building measures and grant schemes, including those for private sector operators, schools and communities have developed a good level of appreciation and impact. The scholarship scheme, in particular, is well received and has achieved a good level of visibility.

The level of trust and positive opinion by the TCc towards the EU, as witnessed by the *Eurobarometer* surveys<sup>4</sup>, is high by wider EU standards, but maintaining EU visibility and communication with the TCc as EU citizens is an important driver in the overall settlement process.

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<sup>4</sup>

[http://ec.europa.eu/public\\_opinion/archives/eb\\_arch\\_en.htm](http://ec.europa.eu/public_opinion/archives/eb_arch_en.htm)