

Instrument of financial support for encouraging the economic development of the Turkish Cypriot community

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The Commission presents the Ninth Annual Report 2013 on the implementation of Community assistance under Council regulation (EC) No 389/2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community (TCc).

The Commission recalled the key objectives of the Aid Programme which since 2006 has allowed the granting of some EUR 370 million to Cyprus for operations carried out under the Regulation. For the purposes of programming in 2014, an amount of EUR 32.96 million has been committed for actions on the island.

The Multiannual Financial Framework (MFF) 2014-2020 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. 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.

Actions financed in 2014: 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. 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.

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

Main 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.

Visibility: lastly, the report noted that maintaining EU visibility and communication with the TCc as EU citizens is an important driver in the overall settlement process.