Basic information

2004/0145(CNS) CNS - Consultation procedure Regulation	Procedure completed
Instrument of financial support for encouraging the economic development of the Turkish Cypriot community Amending Regulation (EC) No 2667/2000 2000/0112(CNS) **Subject** 6.20.03 Bilateral economic and trade agreements and relations 6.30.02 Financial and technical cooperation and assistance 6.40.05.01 Relations with Southern European countries 8.70 Budget of the Union **Geographical area** Cyprus	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
AFET Foreign Affairs	ROTHE Mechtild (PSE)	13/09/2004

Committee for opinion	Rapporteur for opinion	Appointed
INTA International Trade	The committee decided not to give an opinion.	
BUDG Budgets (Associated committee)	SILVA PENEDA José Albino (PPE-DE)	20/09/2004

Council of the European Union

Council configuration	Meetings	Date
General Affairs	2711	2006-02-27

European Commission

Commission DG	Commissioner
Neighbourhood and Enlargement Negotiations	

Key events

Date	Event	Reference	Summary

07/07/2004	Legislative proposal published	COM(2004)0465	Summary
13/09/2004	Committee referral announced in Parliament		
21/10/2004	Modified legislative proposal published	COM(2004)0696	Summary
26/10/2004	Vote in committee		Summary
28/10/2004	Referral to associated committees announced in Parliament		
03/11/2004	Committee report tabled for plenary, 1st reading/single reading	A6-0032/2004	
16/11/2004	Debate in Parliament		
17/11/2004	Decision by Parliament	T6-0057/2004	Summary
17/11/2004	Results of vote in Parliament		
27/02/2006	Act adopted by Council after consultation of Parliament		
27/02/2006	End of procedure in Parliament		
07/03/2006	Final act published in Official Journal		

Technical information

Procedure reference	2004/0145(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Regulation
Amendments and repeals	Amending Regulation (EC) No 2667/2000 2000/0112(CNS)
Legal basis	EC Treaty (after Amsterdam) EC 308
Stage reached in procedure	Procedure completed
Committee dossier	AFET/6/22589

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee opinion	BUDG	PE347.157	27/10/2004	
Committee report tabled for plenary, 1st reading/single reading		A6-0032/2004	03/11/2004	
Text adopted by Parliament, 1st reading/single reading		T6-0057/2004 OJ C 201 18.08.2005, p. 0020-0069 E	17/11/2004	Summary

Council of the EU

Document type	Reference	Date	Summary

Supplementary legislative basic document	13195/2004	08/10/2004	Summary

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2004)0465	07/07/2004	Summary
Modified legislative proposal	COM(2004)0696	21/10/2004	Summary
Commission response to text adopted in plenary	SP(2004)3173	15/12/2004	
Follow-up document	COM(2007)0536	18/09/2007	Summary
Follow-up document	COM(2008)0551	15/09/2008	Summary
Follow-up document	SEC(2008)2469	15/09/2008	
Follow-up document	COM(2009)0286	08/07/2009	Summary
Follow-up document	COM(2010)0468	20/09/2010	Summary
Follow-up document	COM(2011)0283	30/05/2011	Summary
Follow-up document	COM(2012)0243	01/06/2012	Summary
Follow-up document	COM(2013)0332	04/06/2013	Summary
Follow-up document	COM(2014)0282	16/05/2014	Summary
Follow-up document	COM(2015)0208	18/05/2015	Summary
Follow-up document	COM(2016)0495	04/08/2016	Summary
Follow-up document	COM(2017)0372	07/07/2017	Summary
Follow-up document	COM(2018)0487	22/06/2018	Summary
Follow-up document	COM(2019)0322	05/07/2019	Summary
Follow-up document	COM(2020)0238	18/06/2020	
Follow-up document	COM(2021)0272	02/06/2021	
	COM(2022)0256		

Follow-up document		07/06/2022	
Follow-up document	COM(2023)0355	29/06/2023	
Follow-up document	COM(2024)0268	04/07/2024	

National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary
Contribution	PT_PARLIAMENT	COM(2018)0487	01/10/2018	

Additional information

Source	Document	Date
European Commission	EUR-Lex	

Final act

Regulation 2006/0389
OJ L 065 07.03.2006, p. 0005-0008 Summary

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

2004/0145(CNS) - 01/06/2012 - Follow-up document

The Commission presents its sixth annual report, covering the year 2011, on the implementation of Community assistance under Council Regulation (EC) No 389/2006 (‘the Aid Regulation”) establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community.

The report recalls that between 2006 and 2010, EUR 264 million was programmed under the Aid Regulation and many of the projects arising from this earlier funding were still underway in 2011. The 2011 allocation of EUR 28 million was made available under two Commission Decisions.

The overall objective of the Aid Programme is to facilitate the reunification of Cyprus by encouraging the development of the Turkish Cypriot community, with particular emphasis on the economic integration of the island, on improving contacts between the two communities and with the EU, and on preparation of the implementation of EU law in case of a comprehensive settlement of the Cyprus problem. A considerable contribution has been made towards improvements in some areas, **notably water, waste water and environment**, and there is **some evidence that the GDP/capita gap between the government controlled areas and the northern part of Cyprus has been reduced**, although the picture is not entirely clear due to incomplete data.

Implementation: the report notes that the programme is implemented in an EU Member State in an area that is not under the effective control of the Member State authorities and where the application of the EU acquis is suspended. 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, a Financing Agreement with the beneficiary Government establishes the legal framework of the assistance. No such agreement exists for the assistance to the Turkish Cypriot community. The Commission has to rely on what it understands to be the rules and conditions applicable locally and this introduces a certain level of risk. Management and mitigation of these risks is part of the Commission's responsibility and adopted measures include **intensive monitoring and support to beneficiaries, revised payment conditions, linking advance payments with proof of signed procurement contracts and a more widespread use of bank guarantees.**

In the absence of a Financing Agreement to establish the legal framework under which the assistance is implemented, sector development programmes cannot easily be conceived. The assistance programme, therefore, includes a **significant amount of grant support**, particularly to non-public actors including NGOs, SMEs, farmers and students. Management of this grant assistance (over 1000 grants since 2009) is demanding in terms of EUPSO human resources, and the **staffing situation** was particularly challenging in 2011, with reduced numbers and a high turnover, requiring strict priority setting.

Financing: one challenge of the EU assistance to the Turkish Cypriot community is the **difficulty of medium and long- term planning.** The programme is currently financed from the margins of the EU budget as it is **not included in the multi-annual financial framework for 2007-2013** and annual allocations are not guaranteed. There are, however, a number of sectors, including those important for future acquis compliance, where **multi-annual support is required for intervention to succeed fully.**

Projects: the year 2011 saw the major supply and large construction contracts from the 2006 programme moving towards completion in water, solid waste, nature protection, energy and telecommunications. The **Morphou wastewater treatment** plant started to receive wastewater and the pilot solar power plant, completed and handed over in July, is operating at full capacity. Efforts have been made to prepare the beneficiary for handover and future operation, but lack of resources and experience mean that substantial further commitment and input is required from the Turkish Cypriot administration to ensure sustainability of the investments. **Inefficient structures and unclear responsibilities** are the underlying causes in many cases. This must be addressed in 2012.

Despite the fact that some major infrastructure is close to the point of hand-over to the beneficiary, there continue to be **problems of project sustainability**. Works contracts for the seawater desalination plant near Sirianokhori/Kumköy and the construction of nature protection facilities in four Special Environmental Protection Areas, defined as potential Natura 2000 sites, had to be cancelled by the Commission.

One further problem that arose in 2011 was the **status of bank guarantees** issued in the northern part of Cyprus. One local contractor filed a suit with the local "court" to prevent the Commission from calling advance and performance guarantees after a contract termination. This matter is of relevance to the programme in general and, until the matter is resolved, **concerns about the effectiveness of local bank guarantees will remain**.

The report concludes that progress towards meeting the objective of the Regulation to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community remains **difficult to achieve, given the operating environment** and the sui generis political and economic situation prevailing in the northern part of Cyprus. The process of preparing for the future adoption and implementation of the acquis is slow and the Turkish Cypriot community is likely to require considerable support to meet acquis requirements in many areas following a settlement and reunification.

As the major part of the 2006 programme is completed, an overall review evaluation of the Aid Programme, as well as sector-specific impact studies are necessary and will be carried out in 2012.

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

2004/0145(CNS) - 16/05/2014 - Follow-up document

The Commission presents the Eighth 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.

The Commission recalls the key objectives of the Aid Programme which since 2006 has allowed the granting of some EUR 337 millions to Cyprus for operations carried out under the Regulation. For the purposes of programming in 2013, an amount of EUR 31 millions has been committed for actions on the island.

Actions financed in 2013: The year 2013 saw some significant successes:

- the new Nicosia bicommunal wastewater treatment plant at Mia Milia/Haspolat (the largest in Cyprus);
- the work of the Committee on Missing Persons programme accelerated, achieving the highest rate so far of identification of missing persons;
- the work on cultural heritage achieved some high profile project completions;
- the highly valued scholarship programme reached more students in 2013 than in any previous year and grants supporting schools and farmers were signed.

An overall programme evaluation indicated generally ‘good’ quality. The Commission was also successful in achieving a multiannual perspective for the support to the Turkish Cypriot community under the MFF for 2014-20.

However, the political context prevents decisive progress on some areas and 2013 was marked by the escalation of an already existing problem, **the referral by local contractors of contract disputes to the local ‘courts’ and resultant ‘court’ awards against the Commission** including an injunction preventing the call-up of bank guarantees issued by local banks. This was partly defused through changes to local legal texts, but it is yet to be seen if the protection of locally-issued bank guarantees is adequate.

Additionally, this protection does not seem to have retroactive effect and the Commission is still unable to cash some bank guarantees. This problem has delayed grant contract signatures.

Main conclusions: the report details the progress of projects by the Regulation objectives. In general, the report concludes that it is necessary to make further progress towards meeting the main objective of the Regulation, **to facilitate thereunification of Cyprus** by encouraging the economic development. This objective remains difficult to achieve, given the operating context in the northern part of the island.

The report recalls that the settlement of the Cypriot question will be attained through a political process, but the EU assistance programme will be vital in accelerating the economic and social integration.

Despite operating in the challenging environment of the northern part of Cyprus, **solid achievements are now visible, building on previously completed projects**. Moreover, the value of a consistent approach is also being demonstrated, since some projects are now becoming much more efficient and productive after several years of implementation.

The year 2013 was a year in which previously identified risks, particularly those related to the protection of contracts and bank guarantees, actually led to serious problems and delays in some projects. This negatively affected absorption capacity. It is the Commission's task not only to monitor and control the risk level, but also to ensure that allocated funds are fully absorbed to deal with the social and economic challenges that undoubtedly exist.

Delivery of infrastructure and major equipment continues to be difficult, but where these projects have succeeded, they have been **visible** and important successes. Even less visible projects previously delivered, such as renewed water networks, have led to significant improvements in daily life for Turkish Cypriots.

Next steps: the more stable perspective offered by the MFF 2014-20 should further support progress on some areas. The 2013 programme evaluation was generally positive in its conclusions, although lessons are continuously being learned. In some areas, fully successful intervention remains difficult and long-term sustainability does remain an issue, because **of low capacity of the beneficiaries and lack of local resources**, constraining Turkish Cypriot community engagement and affecting project sustainability.

The Commission cannot withdraw, however, from work in such areas since many are central planks of the *acquis* and vital to **the economic and social wellbeing of EU citizens**.

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

2004/0145(CNS) - 04/08/2016 - Follow-up document

The Commission presented its 10th annual report (2015) 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.

Programming of the assistance: between 2006 and the end of 2015, EUR 402 million was programmed for operations under the Aid Regulation. The amount committed in December for **the 2015 annual programme was EUR 32 337 900**.

The Multiannual Financial Framework (MFF) 2014-20 provides a multi-annual perspective to the programme with a provision for stable, annual funding. The assistance programme is, however, temporary in nature.

General overview of implementation in 2015: the Commission continues to implement the Aid Regulation with the overall aim of supporting **reunification** . The Commission stood ready to adapt the programme as a result of any agreements reached and action was taken to finance the opening of two new crossing points proposed by the two leaders as a confidence building measure.

The operations in 2015 included the continuation of a number of established and successful projects, for example **confidence building measures** (support to the Committee on Missing Persons and protection of cultural heritage) and EU scholarships.

New impetus has been given in a number of fields with the conclusion of substantial technical assistance (TA) contracts and consistent technical support will be particularly crucial in the period preparing for the settlement.

However, the report stated that significant gaps in the capacity of beneficiaries still exist. Extensive adaption will be required before the acquis can be implemented, but the TCc now has a firmer understanding of the challenge.

Financing: grant support is an important element of the programme. Given the importance of relatively small grants for most of the potential beneficiaries, the Commission continues to seek solutions to help ensure that grants reach the beneficiaries in a timely and efficient manner. This includes outsourcing, and the Commission has expanded the indirect management component in the 2015 programme.

The popular **scholarship grant programme was extended until 2020** through a new Delegation Agreement with the British Council.

One continuing troublesome issue has been the contract for the construction of the Famagusta sewage network, which was terminated in December 2013 by the Commission and for which neither the dispute nor the arrangements for project completion have been resolved. In addition, a boycott by local contractors has affected tendering for other projects.

At the end of the year, **284 contracts were running**. This number has dropped significantly in recent years due to completion of activities funded by older programmes and closure or changes in management mode of grant contracts.

As to Commission's specific activities, the Commission reaffirmed its support for reunification.

Main conclusions: the Commission remains committed to supporting the settlement process under the United Nations auspices. It continues to deliver assistance under the Aid Regulation to facilitate the reunification of Cyprus by **encouraging the economic development of the Turkish Cypriot community, by working under its six objectives**.

During 2015, assistance brought closer focus on areas that present particular problems in future acquis compliance, in particular the **environment and animal health**.

In view of the low capacity and lack of resources of the beneficiary in many fields and gaps in readiness for the future acquis roll-out, **project sustainability** must be carefully considered.

The Commission remains active in supporting particular projects for periods after the hand-over to beneficiaries. **Major infrastructure and plant** that has been delivered is, however, now operating and maintained successfully by the beneficiaries.

The Commission concludes that it is necessary to quickly respond to the needs of the beneficiary becomes ever more important as the settlement talks evolve.

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

2004/0145(CNS) - 22/06/2018 - Follow-up document

The Commission presented its twelfth annual report (2017) 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 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.

Financial programming: between 2006 and the end of 2017, **EUR 485 million** was programmed for operations under the Aid Regulation. The amount committed in December 2017 for the 2017 annual programme was EUR 34 836 240. Assistance is implemented primarily through direct management by the Commission, but some projects are indirectly managed by the United Nations Development Programme (UNDP), the European Bank for Reconstruction and Development (EBRD) or the British Council.

Contracting: the Commission signed legal commitments in 2017 amounting to EUR 23.2 million (compared to EUR 15.5 million in 2016).

Payments in 2017 were EUR 17.2 million (EUR 21.4 million in 2016).

General overview of implementation in 2016: the Commission continues to implement the Aid Regulation with the overall aim of supporting reunification. Operations in 2017 included the continuation of a number of established and successful projects, such as EU scholarships and confidence building measures in support to the Committee on Missing Persons and to the Technical Committee on Cultural Heritage.

Assistance provided to key economic sectors preparing for a settlement was reinforced through projects for the development of the private sector and rural areas as well as human resources development. Efforts towards tangible improvements in the area of animal diseases eradication and food safety continued.

Considerable gaps in the capacity of the beneficiaries to effectively implement the acquis still exist and the adoption of many legal texts remains pending.

Grant support remains an essential element of the programme.

One continuing issue has been the **construction of the Famagusta sewage network**, the contract for which was terminated in December 2013 by the Commission. The dispute with the former contractor has been brought to arbitration as all options for an amicable settlement had been exhausted. In parallel, the related **repair works will be tendered in 2018**.

At the end of the year, 274 contracts were overall running under the Programme.

Progress by objectives: the report notes the following:

- in the **water sector**, the design and the tender dossier for the construction of a new trunk sewer to convey waste water of Nicosia to the bi-communal waste water treatment plant (WWTP) in Nicosia have been finalised;
- the tender dossier for the necessary remedial works to the Famagusta sewage networks was drafted and the Works tender is to be launched in early 2018. Preparatory activities were initiated for the first phase of the **decommissioning** of the old Nicosia WWTP and for setting up of a bicycle-walking path along the Pedieos river;
- the Technical Assistance to the Private Sector (TAPS) project, launched in November 2015, was extended to September 2018. This project aims at promoting private sector growth and job creation.
- in the period 2006-2018 the EU contributed with a total of EUR 22 million which amounts to 80% of the overall funding provided to the **Committee on missing persons**;

- the high demand for **information on the EU** in the TCc continued in 2017. The EU Infopoint started functioning in early 2015 and the project was extended in July 2017 until January 2020 with a total budget of EUR 3 million. It generated a high level of visibility for the EU, its policies and the aid programme;
- the Commission's Technical Assistance and Information Exchange (TAIEX) instrument is used to implement objectives 5 and 6 of the Aid Regulation. Assistance continued in 2017 and new experts were selected in 17 main areas. In total, the number of events organised in 2017 was 118.

Main conclusions: the Commission continues to deliver assistance under the Aid Regulation to facilitate the reunification of Cyprus and stands ready to support settlement negotiations under UN auspices as needed. During 2017, assistance continued to focus on areas that present **particular problems with future acquis compliance**. In view of the capacity constraints, limited human and financial resources and gaps in readiness for the future acquis roll-out, the sustainability of projects must be carefully considered. The track record of past assistance and the maturity of projects will be continuously reflected in future programming exercises.

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

2004/0145(CNS) - 07/07/2017 - Follow-up document

The Commission presented its eleventh annual report (2016) 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 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.

Financial programming: between 2006 and the end of 2016, **EUR 450.2 million** was programmed for operations under the Aid Regulation. The amount committed in December 2016 for the 2016 annual programme was EUR 33 408 392. Assistance is implemented primarily through **direct management** by the European Commission, but some projects are indirectly managed by the United Nations Development Programme (UNDP), the European Bank for Reconstruction and Development (EBRD) or the British Council.

General overview of the implementation in 2016: the Commission continues to implement the Aid Regulation with the overall aim of supporting reunification. It stands ready to adapt the programme as a result of any agreements reached in the settlement talks, and action was taken to finance the opening of two new crossing points as a confidence building measure.

Operations in 2016 included the continuation of a **number of established and successful projects**, such as EU scholarships.

Assistance provided to **key economic sectors** preparing for a settlement was reinforced through projects for the development of the private sector, and rural and human resources.

Grant support remains an essential element of the programme. At the end of the year, 252 contracts were overall running under the Programme.

However, the report noted that **considerable gaps in the capacity of the beneficiaries** to effectively implement the acquis still exist. Adaptations will be needed before the EU acquis can be implemented, but the Turkish Cypriot community now has a firmer understanding of the challenges ahead.

Progress by objectives: the report noted the positive effects of the assistance provided under the Commission's Technical Assistance and Information Exchange Instrument (**TAIEX**), used to implement Objectives 5 and 6 of the programme, to prepare the Turkish Cypriot community to introduce and implement the acquis.

Project support under Objectives 1 and 2 of the Aid Programme (infrastructure investments and supplies, technical assistance grants) had a positive impact on the work of the bi-communal ad-hoc committee on EU preparations, which operates under UN auspices.

The part of the Next Generation Network telecommunications equipment for delivering data (**internet**) services, already provisionally accepted was running without major incidents.

The bi-communal Nicosia wastewater treatment plant at Mia Milia/Haspolat has been producing clean effluent since 2012, but a number of related projects still have to be carried out. The design of the new trunk sewer serving the whole of Nicosia and connecting to the bi-communal water waste treatment plan made good progress.

The **protection of cultural heritage** through the bi-communal technical committee on cultural heritage continued to play an essential role in the efforts to promote reconciliation and confidence-building.

Main conclusions: the Commission remains committed to **supporting the settlement process** under the UN auspices and continues to deliver assistance under the Aid Regulation to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community, through work under its six objectives.

Major infrastructure projects are, however, now operating and maintained successfully by the beneficiaries. In view of the capacity constraints, limited human and financial resources and gaps in readiness for the future acquis roll-out, the **sustainability of projects** must be carefully considered.

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

2004/0145(CNS) - 05/07/2019 - Follow-up document

The Commission presented its 13th Annual Report (2018) 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.

The Commission shall continue to provide support in line with the Aid Regulation in order to facilitate the reunification of Cyprus by promoting the economic development of the Turkish Cypriot community through actions under the six objectives of the said Regulation. During 2018, assistance remained focused on areas that pose particular problems in terms of future compliance with the acquis.

Programming of assistance

Between 2006 and the end of 2018, EUR 520 million was programmed for operations under the Aid Regulation. The amount committed in October 2018 for the 2018 annual action programme was EUR 34.5 million.

Payments in 2018 were EUR 26.3 million (EUR 17.2 million in 2017).

The Commission has direct responsibility for implementation of most projects (direct management). However, some projects are managed indirectly by the United Nations Development Programme (UNDP), the European Bank for Reconstruction and Development (EBRD), the British Council or NI-CO (Northern Ireland Co-operation Overseas).

To ensure successful and sustainable implementation in this environment, the Turkish Cypriot community must fully engage in the preparation for the acquis roll-out following settlement of the Cyprus question.

Implementation of the Aid Regulation

The Commission continues to implement the Aid Regulation with the overall aim of supporting reunification. Operations in 2018 included the continuation of a number of established and successful projects, such as EU scholarships and confidence building measures.

Assistance provided to key economic sectors preparing for a settlement was reinforced through projects for the development of the private sector and rural areas as well as human resources development. Efforts towards tangible improvements in the area of animal diseases eradication and food safety continued. Considerable

At the end of the year, 206 contracts were overall running under the Programme.

One continuing issue has been the construction of the Famagusta sewage network, the contract for which was terminated in December 2013 by the Commission.

The ability of the beneficiaries to implement the acquis effectively, following a comprehensive settlement of the Cyprus issue, still has considerable shortcomings, although the Turkish Cypriot community has a better understanding of the challenges related to the implementation of legal texts aligned with European Union standards.

Progress achieved

The report describes the activities carried out in 2018 to achieve each of the objectives set out in the Aid Regulation. These activities include, among others:

- the signature of a contribution agreement with UNDP for the implementation of the new Local Infrastructure Facility (LIF). This mechanism is designed as a transparent mechanism streamlining priority infrastructure investments under the assistance programme. The contribution agreement covers an amount of EUR 17.7 million over a three-year period;

- the completion of the EU-funded feasibility study for the rehabilitation of the Pedieos River/Kanlıdere;

- the signature, in the water sector, of a EUR 10.9 million works contract for the construction of the Nicosia branch of the northern Nicosia trunk sewer;

- continued support in the solid waste sector, the completion of a legal text on packaging waste in line with EU packaging waste standards and the commissioning of a new sterilisation facility for the treatment of hazardous medical waste;

- the launch of a call for proposals entitled 'Competitive enterprises, clusters and business support organisations' with a budget of EUR 5 million;

- improving the capacity of veterinary specialists to prevent, control and eradicate animal diseases through EU technical assistance.

With regard to reconciliation, confidence-building and support to civil society, the Committee on Missing Persons (CMP), supported by the Aid Programme through an indirect management arrangement with UNDP, continued its field and laboratory work. By the end of 2018, out of the 2 002 total missing persons, the CMP had exhumed 1 202 sets of remains; 927 of them were genetically identified and returned to their families.

In December 2018, the contribution agreement with UNDP was extended to provide funding for the operations of the CMP for the year 2019, for an amount of EUR 3 million.

With regard to the EU scholarship programme, the budget envelope available under the 2018-2019 call funded 171 scholarships for the 2018/2019 academic year. The scholarship programme has ensured access to scholarships to more than 1 400 Turkish Cypriot students and professionals since 2007.

Perspectives

In view of the capacity constraints, limited human and financial resources and gaps in readiness for the future acquis roll-out, the sustainability of projects must be carefully considered. The track record of past assistance and the maturity of projects will be continuously reflected in future programming exercises.

Efforts will keep focusing on bringing more impact in priority areas through fewer but larger actions. The Commission stands ready to deploy resources, including under the Aid Programme, to support settlement negotiations under UN auspices as needed.

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

2004/0145(CNS) - 17/11/2004 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted a resolution drafted by Mechtild ROTHE (PES, DE) and approved the Commission proposal with a few amendments. (Please see the document dated 26/10/04).

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

2004/0145(CNS) - 07/07/2004 - Legislative proposal

PURPOSE : to establish an instrument of financial support for encouraging the economic development of the Turkish Cypriot community.

LEGISLATIVE ACT : Council Regulation.

CONTENT : to recall, on 24 April, the "Comprehensive Settlement of the Cyprus Problem" as proposed by the UN Secretary General Kofi Annan did not pass the simultaneous referenda in Cyprus, despite approval by the Turkish Cypriot electorate, given that it was rejected by the Greek Cypriot electorate. Following the outcome of the referenda, the Council stated on 26 April that it was "determined to put an end to the isolation of the Turkish Cypriot community and to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community".

The Council therefore invited the Commission to bring forward comprehensive proposals to this end, with particular emphasis on the economic integration of the island and on improving contact between the two communities and with the EU.

Responding to the Council's invitation, the Commission has proposed a comprehensive package of aid and trade measures which aim to put an end to the isolation of the Turkish Cypriot community and to facilitate the reunification of Cyprus. More specifically, it establishes an instrument of financial support for encouraging the economic development of the Turkish Cypriot community. In view of the political situation and with a view to allocating the financial support in the most efficient and rapid way it provides that assistance be supplied directly to the beneficiaries.

These measures will facilitate trade from the northern part of the island and strengthen its economic integration through financial assistance of EUR 259 million. They also set specific rules for goods crossing the green line separating the Greek Cypriot and the Turkish Cypriot communities.

Priority will be given in particular to the following objectives :

– the promotion of social and economic development, in particular concerning rural development, human resources development and regional development;

- the development and restructuring of infrastructure, in particular in the areas of energy, environment (including water supply);

- telecommunications and transport (including projects to develop links between the Cypriot communities);

– reconciliation and confidence building measures, including support to civil society;

– improved understanding of the European Union's political and legal order;

– promotion of youth exchange and scholarships;

– progressive alignment with the acquis communautaire and preparation for implementation of the acquis.

FINANCIAL IMPLICATIONS :

- Budget line : 22.01.04.07 - Financial support for encouraging the economic development of the Turkish Cypriot Community – Expenditure on administrative management; 22.02.11 - Financial support for encouraging the economic development of the Turkish Cypriot Community.

- Total allocation for action (Part B): EUR 259 million for commitment.

- Period of application: 2004-2006 for commitments. The legislative financial statement for this Regulation will present an amount of EUR 6 million for 2004, mainly dedicated to feasibility studies for the implementation of the financial support over the years 2005 (EUR 114 million) and 2006 (EUR 139 million). A part of the assistance will be used to finance the support expenditure linked to the implementation.

- Overall financial impact of human resources and other administrative expenditure : EUR 4.135 million.

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

2004/0145(CNS) - 30/05/2011 - Follow-up document

The Commission presents the fifth Annual Report 2010 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. This fifth report covers the period from **1 January until 31 December 2010**. The overall objective of the Aid Programme is to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community 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 implementation of the EU law in case of a comprehensive settlement of the Cyprus problem.

Programming of the assistance: under the 2010 budget EUR 3 million was committed for the support of the Committee on Missing Persons (CMP). A programming exercise took place for the allocation of EUR 28 million under the 2011 budget. The external evaluations from 2009 and 2010, internal evaluation and consultations with the stakeholders served as the basis for it.

Implementation during the reporting period: the Aid Programme entered into the phase of fully fledged implementation. Efforts concentrated on monitoring, ensuring projects' sustainability and building up capacity of beneficiaries to take over projects when completed, particularly large scale works and supplies. Lack of experience with regard to the implementation of grant contracts by Turkish Cypriot beneficiaries required training as well as very close monitoring.

The total number of contracts being implemented in 2010 amounted to 984 (works, services, supplies and grants), out of which 200 were closed. In the course of 2010, funding from the Aid Programme provided a major contribution to confidence building measures as de-mining, support to the CMP and the opening of the new crossing point at Kato Pyrgos and Karavostasi (also known as Limnitis/Yeşilırmak crossing point).

The report goes on to describe progress by objectives, discussing infrastructure development, social and economic development, fostering reconciliation, confidence building measures, and support to civil society bringing the Turkish Cypriot community closer to the EU and preparing the Turkish Cypriot community to implement the acquis communautaire. During the reporting period, activities focused on the implementation and monitoring of projects, and the programming of the 2011 funds.

Some challenges mentioned in previous reports are still present. In the reporting period issues affecting the Aid Programme implementation included the following:

- cooperation between Turkish Cypriot and Greek Cypriot communities is necessary to achieve the goal of the Aid Programme, but needs time and support through different activities;
- there is low absorption capacity by the beneficiary community: Building up capacity is a long-term process. However, there is continuous improvement with progress on projects implementation;
- lack of experience with EU procurement rules delays the implementation of grants. The beneficiaries are assisted by the Programme Team and technical assistance teams to gain the experience;
- there are risks to the sustainability of the large infrastructure, which requires the Turkish Cypriots to make available the necessary skilled staff and funds;
- insufficient site preparation in energy and telecom projects caused delays;
- Commission staff reductions due to budgetary constraints require strict priority setting and reallocation of staff resources to ensure adequate monitoring and presenting risks to the ability to communicate on the achievements of the programme.

Financial execution (contracts and payments): EUR 2.5 million of the 2009 **commitments appropriations** was available out of which 78% was contracted. 106 new contracts for scholarships 2010/2011 and schools have been signed. In 2006-2010 the total allocation for this Aid Programme amounted to EUR 264.5 million.

With regard to **payments**, the Commission disbursed EUR 62.7 million in 2010, around 18% lower than foreseen in the initial planning. This was due to the late start of the seawater desalination project of EUR27.5 million and rural development grants of EUR 4 million in total. A total of EUR 132 million (52% of the overall contracted amount) was disbursed by the end of 2010.

Evaluation: in 2010 mid term sectoral evaluations were carried out in the civil society and rural development sectors. The conclusion underlined the necessity of continuous multiannual funding to ensure sustainability of on-going projects.

Lastly, the report notes that as regards the verification of property ownership, the Commission relied in 2010 on continued co-operation with the relevant services of the Government of the Republic of Cyprus, in particular with regard to being able to proceed with the rehabilitation of the old dumpsite near Kato Dhikomo/Aşağı Dikmen partly located on land owned by Greek Cypriot private owners.

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

2004/0145(CNS) - 21/10/2004 - Modified legislative proposal

The overall objective of the proposal for a Council Regulation establishing an instrument of financial support is to provide assistance to the Turkish Cypriot community with particular emphasis on economic development, on the economic integration of the island and by improving contacts between the two communities and with the EU in order to facilitate the reunification of Cyprus. The considerable amount of EUR 259 million available (to be committed over 2004-2006 and to be implemented until 2009) requires specific means of management and implementation of the assistance.

According to Article 3 of the proposal the Commission shall be responsible for administering the aid. Article 5 of the proposal provides for different ways of implementation according to the rules set down in Title IV of part 2 of Council Regulation 1605/2002. The aid in the field of infrastructure projects will focus inter alia on power plants, waste and water management, renovation and development of transport projects including links connecting the two sides of the island. It is therefore obvious that a large part of the funds will be used for infrastructure investments. The best solution appears to be to entrust the European Agency for Reconstruction (EAR) with the implementation of assistance. The EAR was set up in the aftermath of the Kosovo crisis to manage the EU's assistance to UN administered Kosovo. Its mandate covers the full project cycle, from identification (including preparatory studies) to final payments, monitoring and evaluation of projects under its responsibility. The EAR is Contracting Authority on behalf of the Commission (and eventually of other donors). It has got legal personality and is legally fully responsible vis-à-vis third parties (e.g. staff, contractors, beneficiaries). Since its establishment, the mandate of the EAR was extended already twice: in late 2000 to the Republic of Yugoslavia (today State Union of Serbia & Montenegro), and in late 2001 to the former Yugoslav Republic of Macedonia. On 28 June 2004 the Commission proposed to extend the Agency's mandate to the countries concerned for another two years until 31 December 2006. The mandate of the EAR could be extended further to cover also the northern part of Cyprus.

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

2004/0145(CNS) - 08/10/2004 - Supplementary legislative basic document

At a meeting of the Permanent Representatives' Committee (Coreper) on 6 October 2004, delegations agreed on the amended version of the draft Regulation with a series of technical and policy amendments to be taken into consideration when being examined by the European Parliament.

To recall, the Council of 26 April 2004, considering that the Turkish Cypriot community has expressed their clear desire for a future within the European Union, recommended that the funds earmarked for the northern part of Cyprus in the event of a settlement should be used to put an end to the isolation of that community and to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community, with particular emphasis on the economic integration of the island and on improving contact between the two communities and with the EU.

This revised draft is without prejudice to further work by the Permanent Representatives' Committee on the draft Council Regulation on special conditions for trade with those areas of the Republic of Cyprus in which the Government of the Republic of Cyprus does not exercise effective control (doc. 11603/04).

The revised draft Council Regulation stipulates that the Community shall provide assistance to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community 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 communautaire. Assistance shall benefit inter alia local bodies, cooperatives and representatives of civil society, in particular organisations of the social partners, business support organisations, bodies carrying out functions in the general interest in the areas, local or traditional communities, associations, foundations, non-profit organisations, non-governmental organisations, and natural and legal persons. The draft states that granting of such assistance shall not imply recognition of any public authority in the areas other than the Government of the Republic of Cyprus.

The amendments drafted by Coreper can be summarized as follows:

- measures to be financed under this Regulation are of an exceptional and transitional nature and are intended, in particular, to prepare and facilitate, as appropriate, the full application of the acquis communautaire in the areas following a solution to the Cyprus problem;

- with a view to allocating the financial support in the most efficient and rapid way, it is desirable to provide that assistance can be supplied directly to the beneficiaries;

- the development and restructuring of infrastructure, in particular in the areas of energy and transport, the environment, telecommunications and water supply should take account of island-wide planning, where appropriate;

- in the implementation of actions financed under this Regulation, the rights of natural and legal persons, including the rights to possessions and property, should be respected.

One also notes the amendments aiming to provide a new comitology procedure instead of and replacing the one preferred by the Commission in its proposal (Coreper prefers the management committee procedure for the decisions on financing instead of the consultative committee).

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

2004/0145(CNS) - 15/09/2008 - Follow-up document

The Commission presents its Second Annual Report 2007 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. This second report covers the period from 1 March until 31 December 2007.

The Commission describes the focus of activities during the reporting period.

Reaching cruising speed in implementation: preparatory measures in terms of preparing tender documents, as well as calls for proposal for grant schemes and works and service contracts were launched. All direct agreements not entailing calls for proposals as mentioned in the Commission Decisions were signed with UNDP and the Council of Europe with the exception of the History Teaching project where the Council of Europe did not countersign as it did not deem itself to be in a position to implement the project. The Republic of Cyprus put forward objections, saying that the way the project was structured and funded altered its previous existing co-operation framework with the Council of Europe and had requested the conclusion of formal arrangements (through the signing of a memorandum of understanding)not acceptable to the Council of Europe.

Consolidating the implementation mechanisms by recruiting additional staff and putting in place the required implementation procedures: due to programme's specific nature and the context in which the Commission is operating, this has entailed tailor-made arrangements. Implementation is and remains difficult because of the unique context within which the Commission is operating. Some of the challenges identified in the first annual report were encountered also during the course of 2007 and remain valid for the remainder of the implementation period:

Tight contracting deadlines and squeezing of the programme duration:

- contracting of large-scale infrastructure investments within three years is proving challenging due to the lack of previous project preparation;

- activities planned to be carried out on an annual basis can only take place for three consecutive years (2007-2009) rather than the originally planned five (2005-2009). 2009 will be the last year when call for proposals for grant schemes for farmers, schools, local communities, civil society organisations, etc. will be launched. The last call for the scholarship scheme will be in September 2008. Additional funding will be needed to continue to support the Turkish Cypriot community after 2009.

Property issues: the location of most planned infrastructure investments has yet to be determined. Given the amount of property owned by Greek Cypriot private owners, some investments would be able to proceed only if these owners give their consent. The considerable time required by the Government of the Republic of Cyprus to provide information on private owners' names and the need to obtain consent has to be factored into an already very tight implementation schedule. Reserve projects will be prepared, in order to mitigate the risks of some projects not being able to go ahead due to the owners' lack of consent, but this might not be a sufficient mitigating measure to ensure contracting of all the planned investment projects.

Low absorption capacity by the beneficiary community: the Turkish Cypriot community is small and not well-equipped in terms of structures to receive such large resources in such a short time. Despite increasing ownership and co-operation, results are still mixed on this front.

Co-operation between the Turkish Cypriot and Greek Cypriot communities: the programme's success of the programme in attaining the overall objective of facilitating the reunification of Cyprus depends greatly on successful co-operation between the two communities on the island. Political issues not directly related to the aid programme per se but, rather, to the overall political context might induce either community to block implementation of certain parts of the programme. Implementation would be greatly facilitated by progress on the reunification process. The decision taken by the two Leaders to start their full-fledged negotiations on 3 September 2008, under the good offices mission of the United Nations Secretary-General will create a positive framework for facilitating the implementation and the success of this aid programme.

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

2004/0145(CNS) - 27/02/2006 - Final act

PURPOSE : to establish an instrument of financial support for encouraging the economic development of the Turkish Cypriot community.

LEGISLATIVE ACT : Council Regulation 389/2006/EC establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community and amending Council Regulation 2667/2000/EC on the European Agency for Reconstruction.

CONTENT : the Council adopted a regulation establishing a financial support instrument for encouraging the economic development of the Turkish Cypriot community in the northern part of Cyprus. This represents a significant step towards meeting the Council conclusions on Cyprus adopted on 26 April 2004. A total of EUR 139 million will be made available to the Turkish Cypriot community in 2006, with a view to promoting the economic integration of the island and improving contact between the two communities and with the EU.

The agreement on the financial support instrument follows intense efforts by the Austrian presidency to find a way forward on all issues relevant to the follow-up to the April 2004 Council conclusions. Measures to be financed by the financial instrument are of an exceptional and transitional nature. They are intended, in particular, to prepare and facilitate the full application of the acquis communautaire in the areas in which the government of the

Republic of Cyprus does not exercise effective control, once a comprehensive solution to the Cyprus problem has been achieved. With a view to allocating the financial support in the most efficient and rapid way, assistance may be supplied directly to the beneficiaries.

The assistance will benefit local bodies, cooperatives and representatives of civil society, in particular organisations of the social partners, business support organisations, bodies carrying out functions in the general interest in the areas, local or traditional communities, associations, foundations, non-profit organisations, non-governmental organisations, and natural and legal persons.

The granting of assistance will not imply recognition of any public authority in the areas other than the Government of the Republic of Cyprus.

Assistance will be used to support:

- the promotion of social and economic development including restructuring, in particular concerning rural development, human resources development and regional development;

- the development and restructuring of infrastructure, in particular in the areas of energy and transport, the environment, telecommunications and water supply;

- reconciliation, confidence building measures, and support to civil society;

- bringing the Turkish Cypriot community closer to the Union, through inter aliainformation on the EU's political and legal order, promotion of people to people contacts and Community scholarships;

- preparation of legal texts aligned with the acquis communautaire for the purpose of these being immediately applicable upon the entry into force of a comprehensive settlement of the Cyprus problem;

- preparation for implementation of the acquis communautaire in view of the withdrawal of its suspension in accordance with Article 1 of Protocol No 10 to the Act of Accession.

The Commission may decide to entrust tasks of public authority, and in particular implementation tasks, to the European Agency for Reconstruction or other recognised bodies.

Each year the Commission will send to the European Parliament and the Council a report on the implementation of Community assistance under this Regulation.

Finally, in the event of a comprehensive settlement of the Cyprus problem, the Council shall decide unanimously on the necessary adaptations to the Regulation.

ENTRY INTO FORCE : 10/03/2006.

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

2004/0145(CNS) - 18/09/2007 - Follow-up document

To recall, in 2006 the Community established an instrument of financial support that seeks to encourage the economic development of the Turkish Cypriot Community. A sum of EUR 259 million has been earmarked from the Pre-accession strategy to fulfil this purpose.

In accordance with provisions set out in Regulation (EC) No 389/2006 the Commission is obliged to prepare annual reports containing information on actions financed during the year and on the findings of monitoring work. It is also required to give an assessment of the results achieved in the implementation of the assistance.

This report, the first such one, covers the period from February 2006 to February 2007. It covers, in particular: i) financial assistance; ii) the implementation mechanisms for the programme; iii) the first actions in terms of tendering and contracting; and iv) conclusions that include an assessment of the challenges posed by this specific programme.

Financial Assistance programming: Out of the EUR 259 million allocated to the aid programme, EUR 240.15 million has been earmarked to operational activities, whilst the remainder (i.e. 7.2% of the overall financial allocation) has been earmarked to support the implementation of the aid programme. Three financing decisions were adopted that represent a balanced package of actions. Financial assistance focuses on five priority objectives:

- **Objective 1: Developing and restructuring of infrastructure** (approx. EUR 129.25 million): Objective 1 seeks to redress the serious gap in infrastructure provisions that currently exist in the northern part of Cyprus, Focus will therefore be given to funding water and sanitation, solid waste, nature protection; energy; traffic safety; and telecommunications. Following years of underinvestment and neglect, key infrastructure sectors are in need of rehabilitation and upgrading in order for the Community's body of law to be applied. Certain flexibility has been built into the programme as regards the funding of reserve projects should some of them be unable to proceed due to the respect of property rights.
- **Objective 2: Promoting social and economic development** (approx. EUR 70.2 million): This priority covers a broad range of activities that seek to enhance the long term economic sustainability of the Turkish Cypriot Community and includes: rural development; the restoration of urban and local infrastructure; new crossing points across the Green Line; human resources development; and actions promoting the competitiveness of the private sector.

- **Objective 3: Fostering reconciliation, confidence building measures, and support to civil society**. (approx. EUR 13 million): Under this priority, the aid programme will fund activities that seek to strengthen civil society and support reconciliation and confidence building measures; it will seek to continue de-mining the buffer zone with special attention given to the de-mining of future crossing points; and it will seek to support work between the two communities in the field of history teaching.
- **Objective 4: Bringing the Turkish Cypriot Community closer to the European Union** (approx. EUR 9.5 million): The main priority of this heading will be to remove the isolation of the Turkish Cypriot community by facilitating contacts with the EU. This is to be achieved through: community scholarship schemes; grants for people-to-people contacts; and raising awareness of the EU and its policies. An EU information point will be set up in the northern part of Cyprus.
- **Objective 5: Applying the Community's *acquis communautaire***(approx. EUR 13.46 million): Objective 5 will assist with the preparation of legal texts as well as reinforcing the ability of the Turkish Cypriot Community to implement the *acquis* in view of the withdrawal of its suspension in accordance with Article 1 of Protocol 10 to the Act of Accession.
- **Unallocated Technical Assistance and Programme Reserve Facility** (approx. EUR 4.74 million): This will provide some limited resources to respond to requests for new activities, which may become needed once implementation starts and which may arise from changes in the political situation.

Implementation mechanisms: The Commission is responsible for administering the assistance. Implementation follows Article 53 (a) of the Financial Regulation with DG Enlargement acting as the Contracting Authority. To implement the programme, a dedicated Programme Team, composed of Commission officials and contract agents has been set up as part of the Turkish Cypriot Community Task Force within DG Enlargement. During the reporting period, the Programme Team has gradually been built up. At the end of February 2007, the Programme Team comprised of 20 staff including 2 statutory Commission officials, 8 contract agents and 10 staff provided for by a private contractor.

Actions Financed: Most financing decisions were taken in Autumn 2006. Initial activities include:

- **The setting up of TAIEX:** TAIEX has delivered technical assistance to the Turkish Cypriot community under previous funding arrangements. Funds under the aid programme were used for setting up the TAIEC Local Support Point.
- **Information and publicity**: Funding was given to raising awareness of the aid instrument. Information was provided through kick-off seminars; press conferences and the production and distribution of leaflets. A DG Enlargement website dedicated to the aid programme was also funded.
- **Financial executions (contracting and disbursement):** At the end of the reporting period, a total of EUR 14.5 million was earmarked for contracts. Of this amount, around EUR 13.2 million was contracted under the operational part of the aid programme and EUR 1.3 million for supporting activities. As regards disbursement, the Commission disbursed a sum of around EUR 4.25 million to its contractors. Of this amount, around EUR 3.7 million was contracted under the operational part of the aid programme and EUR 550 000 for supporting activities. Additionally, the Commission spent around EUR 400,000 on staff and mission costs.

Conclusions: Most of the activities undertaken during the reporting period focused on: the programming of assistance; the setting up of the implementation mechanism; and ensuring continuity with previous EU funded activities. The legal, diplomatic and political context within which the Commission is operating is unique and poses a number of challenges and risks to the successful implementation of this aid Regulation.

These challenges include:

- tight contracting deadlines;
- property issues (it is estimated that 78% of privately owned land in the northern part of Cyprus belongs to Greek Cypriots);
- low absorption capacity by the beneficiary community (the Turkish Cypriot Community is small and not well equipped in terms of infrastructure);
- staffing of the Commission Programme Team (due to staff rules a major staff turnover will take place in 2009 close to the contracting deadline) and lastly;
- cooperation between the Turkish Cypriot Community and the Greek Cypriot Community.

The overall success of the programme depends greatly on the successful cooperation of the two communities. Political issued not directly related to the aid programme *per se* but rather to the overall political context on the island might induce both communities to block implementation of certain parts of the programme. In this sense, implementation will be greatly facilitated by progress on the reunification process under UN auspices.

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

2004/0145(CNS) - 20/09/2010 - Follow-up document

The Commission presents its fourth Annual Report 2009 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. On the basis of this regulation, EUR 259 million was allocated from the 2006 Community budget.

This fourth report covers the period from 1 January until 31 December 2009.

During the reporting period, activities focused on:

Contracting: more than 60% of the operational part of the programme was contracted in the reporting period. During the reporting period, EUR 181 million was contracted under the operational part of the programme. By the contracting deadline of December 2009, EUR 247.6 i.e. 99.38% (out of a

total of EUR 249.15 million of the operational part of the Aid Programme) was contracted. The bulk of these funds was contracted in the last quarter of the year. As regards the staff and mission component of the programme (i.e. EUR 9.85 million), EUR 2.8 million remained unused due to the decision to use administrative credits for staff expenditure rather than operational credits as initially foreseen.

Implementation: monitoring the use of EU funds by contractors and grant recipients. Generally in EU-funded aid programmes, a Financing Agreement with the

Government of the beneficiary country establishes the legal framework under which the assistance is implemented, regulating issues such as taxation and work and residence permits. No such agreement exists for this programme. Therefore, the Commission has to rely on what it understands to be the rules and conditions currently applicable locally. The possibilities of enforcement might therefore be difficult and might change during the lifetime of a contract. The lack of a Financing Agreement means that the Commission, in entering into contractual arrangement with its contractors, takes on more risks than it would normally encounter.

Because of the political context, enforcement of recovery orders for amounts to be recovered from Turkish Cypriot entities (in case of non-compliance with terms of contract) may be difficult. The Commission has adopted measures to mitigate this risk including intensive monitoring and support, revised payment conditions, linking advance payments with proof of signed procurement contracts and the extensive use of bank guarantees. The Commission relies on the support of the Turkish Cypriot community to make this programme a success and in particular to ensure its sustainability in the long-term. Turkish Cypriot experts were involved in drawing up technical specifications and terms of reference and took part in tender evaluation panels. Turkish Cypriot beneficiaries play a key role in project steering committees.

Some challenges mentioned in previous reports are still present. In the reporting period issues affecting the Aid Programme implementation included:

- **cooperation between Turkish Cypriot and Greek Cypriot communities**: this is the key to the programme's success;
- **low absorption capacity by the beneficiary community**: the Turkish Cypriot community is small and receiving such large resources for projects contracted in such a concentrated timescale is a major challenge. However, improved capacity was noted in the course of 2009;
- **delivery issue**: the time needed to prepare, contract and implement projects has to a certain extent affected the credibility of the delivery of financial support from the EU This problem will be substantially addressed by the high level of implementation expected in 2010 following the high level of contracting in 2009;
- **property issue**: rights of private owners were rigorously respected. This particularly affected implementation of the waste management sector where three construction contracts were signed with a suspension clause to allow sufficient time to regularise all property issues;
- **sustainability issue**: in key sectors (telecom, energy), there is a need to convince the Turkish Cypriot community of the importance of reform. This delays implementation and puts at risk sustainability of the investment.

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

2004/0145(CNS) - 08/07/2009 - Follow-up document

The Commission presents its Third Annual Report 2008 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. This third report covers the period from 1 January until 31 December 2008.

It should be highlighted that 2008 saw the start of UN-facilitated talks on a comprehensive settlement between two leaders of Cypriot communities. By the end of the year, 13 rounds of negotiation had been held.

The Commission describes the focus of activities during the reporting period:

Implementation: preparing and revising tender dossiers, calls for proposals for grant schemes, works and services tenders and contracts, as well as supervision of the execution of contracts signed.

Turkish Cypriot counterparts are identified for each project. Turkish Cypriots are becoming familiar with EC procedures, in particular competitive tendering and selection procedures. As regards grant schemes, absorption capacity increased in the course of 2008. Some of the risks highlighted in the Second Annual Report 2007, in particular how the overall political context impacts on implementation of the aid, were encountered during this reporting period. In the course of February and March 2008, Cyprus submitted eight cases against the Commission before the Court of First Instance as well as eight requests for interim measures, arguing that the text of the procurement notices used in the programme implementation could imply recognition of a public authority other than the government of Cyprus and

requested the annulment of all procedures based on these notices.

Progress by objective:the overall objective of the Aid Programme is to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community 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 communautaire.

Further strengthening of the Programme Team: to facilitate contracting and programme implementation ten additional staff were employed.

Some challenges mentioned in previous reports are still present. In the reporting period issues affecting the Aid Programme implementation included:

- **Cooperation between Turkish Cypriot and Greek Cypriot communities**: meetings were held with representatives of the Government as well as line ministries, particularly in the fields of environment, energy and telecommunications, with a view to taking into account island-wide planning

aspects. As for property rights, there was a significant increase in project preparation in 2008 requiring verification of property ownership. To this end, the Commission requested the support of the Government of Cyprus to confirm the names of private owners. Obtaining the private owners' names is only the first step. The Commission must then request and receive their consent before signing works contracts. Improved cooperation in 2008 facilitated programme implementation.

- **Low absorption capacity by the beneficiary community**: the Turkish Cypriot community is small and not well-equipped in terms of structures to receive such large resources in a short time. Considerable improvement was noted in the course of 2008.
- **Court cases, now withdrawn**: caused two to three months of delay in implementation of certain projects.
- **Delays concerning property**: as regards property, the Commission welcomes the increased pace of information provision by Cyprus during the second part of 2008. However, the time required to identify owners' names and the need to obtain their consent has to fit into the tight implementation schedule. This issue becomes more important as the 2009 contracting deadline approaches.
- **Shortage of funds**: following the preparation of technical documentation and adjustment of projects there is a significant shortage of funds and it might not be possible to finance one or more of the planned projects under the currently available funds.
- **Financing**: no additional resources requiring programming were made available under the 2008 budget.

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

2004/0145(CNS) - 04/06/2013 - Follow-up document

This Seventh Annual Report 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) covers the year 2012. Its main conclusions are as follows:

Big contributions to environment: the programme, which effectively started its implementation on the ground in 2009, has brought some visible benefits to the TCc during 2012, notably with big contributions to wastewater and solid waste management. More efforts will have to be made, however, to make progress in other environmental sectors, in particular on nature protection, and especially in respect of potential Natura 2000 sites. It is important to show that the EU can deliver effective assistance and a positive message. The Commission believes that it is now up to the TCc to ensure the sustainability of projects which have been delivered and accelerate the implementation of the assistance.

Economic development: progress towards meeting the main objective of the Regulation to facilitate the reunification of Cyprus by encouraging the economic development is difficult to achieve, given the operating context in the northern part of the island. The report recalls in this regard that Commission operates in a unique political, legal and diplomatic context. 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. This introduces a **certain level of risk**.

Therefore, in order to protect the EU's financial interests, the Commission will not sign contracts requiring bank guarantees until legal certainty is ensured.

Adoption of the *acquis*: preparation for the future adoption and implementation of the *acquis* slowed down in 2012. The TCc needs considerable support in order to meet *acquis* requirements in many areas following a settlement and reunification. Lack of resources, inefficient structures and unclear responsibilities remain serious issues to be urgently addressed in order to ensure the sustainability of EU-funded projects. **The TCc has reassured the Commission that EU-funded assets shall not be subject to privatisation**. Some parts of the programme have become established as core components with particular value in confidence building or in bringing the TCc closer to the EU. These include the support to the Committee on Missing Persons (CMP) and to the Committee on Cultural Heritage and the scholarship programme. The completion of many of the projects from the 2006 programme brings a natural milestone and a considerable evaluation effort has been made in 2012.

Medium and long-term planning is challenging in the **absence of predictability of annual allocations**. Sectors important for future *acquis* compliance require multiannual support for intervention to succeed fully. In its 2012 report, the European Court of Auditors linked the lack of multi-annual programming to problems of programme sustainability.

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

2004/0145(CNS) - 18/05/2015 - Follow-up document

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 develoment, 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.