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

**Twelfth Annual Report 2017 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

## Twelfth Annual Report 2017 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 provision of assistance to the Turkish Cypriot community (TCc) and requires annual reporting to the Council and the European Parliament. This report covers the year 2017.

### 2. PROGRAMMING OF THE ASSISTANCE

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<sup>2</sup>. 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, aiming to facilitate the reunification of Cyprus, and both the Aid Regulation and Council Regulation No 1311/213<sup>3</sup> laying down the MFF, allow for a revision in case of reunification.

### 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), the European Bank for Reconstruction and Development (EBRD) or 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. Management and mitigation of the inherent risk is part of the Commission's responsibility and measures adopted include intensive monitoring of contracts and provision of 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 preparation for the *acquis* roll-out following settlement.

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

<sup>2</sup> Commission Decision C(2016) 6688.

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

The Programme Team operates through the EU Programme Support Office (EUPSO) in the northern part of Nicosia. The Representation of the Commission in Cyprus also hosts meetings, seminars and press conferences and communicates with the Cypriot public throughout the island, including on the Aid Programme. In addition, the EU Infopoint, funded under the Aid Programme, carries out a range of communication and visibility actions, providing information about EU policies, priorities and actions in support of the TCc, and promoting European culture.

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

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

The Commission continues to implement the Aid Regulation with the overall aim of supporting reunification. The Commission stands ready to adapt the programme as a result of any agreements reached in the settlement talks.

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 (CMP) and to the Technical Committee on Cultural Heritage (TCCH).

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. However, the TCc has a firmer understanding of the challenges linked with the implementation of legal texts aligned with EU standards.

Grant support remains an essential element of the programme. For the scholarship programme, the Commission continued to make recourse to outsourcing, to help ensure that grants reach the beneficiaries in a timely and efficient manner.

In addition, since 2008, a Project Management Unit (PMU) set up through a technical assistance service contract has been providing services to support the implementation of grant schemes. This PMU continues to offer valuable help to the Commission in terms of increased efficiency and assurance in the operational management, implementation, and monitoring of grant schemes.

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 amical 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.

##### **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 undertaken in 2017 with respect to each of the objectives of the Aid Regulation were:

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

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. Launch of the Works tender is foreseen in early 2018. The feasibility study and conceptual design of the distribution system for the treated sewage effluent of the bi-communal WWTP have been well advanced and are under final approval. The final detailed design and associated tender dossier for this important bi-communal project are expected within 2018.

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.

Assistance in the solid waste sector continued through different actions. Two contracts – *Extension to the Koutsoventsis/Güngör landfill* and *Landfill Degassing Plant* – were signed in December 2017. The Works are due to be finalised by December 2018. 2017 also saw the completion of the design and implementation of a Solid Waste Management Database having as its basis the European Solid Waste Catalogue. This is currently being trialled by the responsible environmental bodies, it however already being hailed as a success.

After several delays, the installation of a new sterilisation facility for treatment of hazardous medical waste has been put back on track and due to be finalised by mid-2018. This project was further bolstered through a technical capacity project involving the design and implementation of a sustainable Medical Waste Management System.

The tender for setting up a collection, transport and central-treatment system for animal by-products that are most dangerous for human and animal health was launched for the second time, but no valid offers were received. Following an optimisation of the tender dossier, the project will be re-tendered in early 2018.

Finally, solid waste management was also addressed in grant schemes supporting civil society and local communities. These involve the setting up of solid waste transfer stations and green waste management according to a coherent EU developed Integrated Solid Waste Management Plan.

Also, projects to enhance the monitoring systems for air and water quality have been approved in 2017 and technical specifications have been drafted. Tendering is expected in mid-2018.

A contract for *Technical Assistance for the Implementation of a Traffic Safety Programme* was finalised. A roadmap for implementation of driving license issue, vehicle registration and vehicle technical inspection has been prepared and requires further assistance and support from the beneficiary in order to implement the roadmap and improve traffic safety.

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

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. It provides technical assistance to local bodies to prepare for the application of the acquis in areas linked with the development of the private sector. The support takes the form of analytical studies and preparation of strategies, including for example the finalisation of the Small and Medium Enterprises Strategy and Action Plan. It also assists Micro and Small-Sized Enterprises (MSMEs) to prepare for the acquis by supporting Business Support Organisations that reinforce their organisational and service provision capacity.

A guidance note on the viability of an innovation strategy in line with Horizon 2020 and the concept of SMART growth was developed by an external expert under a single contract in early 2017.

In addition, the Delegation Agreement with the EBRD to grant Turkish Cypriot companies access to credit funds and to provide capacity building support to local business consultants was extended with an additional EUR 0.8 million. Businesses are also supported directly through grants. All the remaining grants directly awarded to businesses under the *SME Development: Modernising Products and Services* grant scheme were finalised in 2017. Overall, 36 projects have been successfully implemented under this scheme.

In the field of rural development, technical assistance was provided to develop farm advisory services, including the training of local advisors. Out of the 39 projects awarded in 2013 under the 3<sup>rd</sup> Rural Development grant scheme, a further 6 were successfully completed in 2017.

In 2017, the technical assistance project to support preparation and implementation of animal diseases (AD) eradication (initiated in mid-2015) continued to build the capacities of the veterinary services to plan and implement AD surveillance and eradication programmes and to strengthen the system for animal identification and registration. The assistance also helped continuous improvement of the performance and the quality of outputs of the veterinary laboratory. In 2016/2017, the first ever large scale testing of animals to establish the status of priority AD (such as brucellosis and tuberculosis) was implemented in the northern part of Cyprus. The purpose and long term benefits of the elimination of important diseases in food producing animals have been widely communicated to the local farmers. This improved farmers' awareness and ensured their support to the elimination of important AD in the area.

Under a project to develop metrology capacity in the TCc, training was provided on analytical techniques relating to the EU requirements for food safety standards.

TCc capacities to implement animal health and food safety programmes were further strengthened through the award of four supply contracts, totalling EUR 0.5 million, to provide equipment and consumables for veterinary and food safety laboratories.

Five grant contracts totalling EUR 3 million were awarded under the 4th call for proposals for Community Development. Four projects focus on improving the efficiency and quality of local community services such as waste management and environmental protection. One project aims at establishing a centre for assistance to victims of domestic violence.

In the education sector, the implementation of 15 grants that were awarded in 2016 under the EUR 1.5 million grant scheme for *Innovation and Change in Education VI* continued in 2017. Out of the 15 projects, 9 are being implemented by schools and 6 by lifelong-learning organisations. The projects mainly focus on enhancing teaching/learning capacities in the schools with introducing extra-curricular and soft skills programmes as well as establishing science labs and a green-house for organic farming. On the other hand, the life-long learning projects focus on improving professional capacities of architects and engineers and introduce entrepreneurship and life-long training courses to improve the employability of youth.

A new EUR 1.5 million grant scheme for *Innovation and Change in Education VII* launched in the first half of 2016 covers the same objectives as the previous call for proposals. The evaluation of project proposals is ongoing.

The second technical assistance project for Vocational Education, Training and Labour Market (*VETLAM II*), launched in November 2015 continued its activities. During 2017, the technical assistance mainly focused on a review and update of the qualifications framework, development of vocational schools strategy, development of active labour market measures for 3 selected disadvantaged groups (youth, women and people with disabilities) and capacity building for employment services. The assessment procedures for work-based learning and apprenticeship programmes as well as a local pool of assessors were also developed. The project is planned to end in November 2018.

Building on the results of previous analytical work, the second phase of the economic monitoring programme conducted by the World Bank provided additional in-depth analysis and technical assistance in important areas. The programme focused on fiscal analysis, financially sustainable public administration bodies, economic, trade-related effects of reunification, private-sector development and social inclusion, and macroeconomic monitoring. In line with the political priorities in the framework of the Aid Programme, an additional envelope of EUR 4.8 million was contracted in 2017 for the continuation of the engagement of the World Bank to build on the analytical and advisory work done so far and to continue providing advice and targeted support to the TCc until December 2020.

#### 4.2.3. *Objective 3: Fostering reconciliation, confidence building measures, 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 2017, out of the 2002 total missing persons, the CMP had exhumed 1194 sets of remains, out of which 831 were genetically identified and returned to their families.

In December 2017, the Delegation Agreement with UNDP was extended to provide funding for the operations of the CMP for the year 2018, for an amount of EUR 2.6 million. Overall, 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 CMP.

With the passing of time, it is increasingly difficult to obtain precise information to determine the location of the burial sites. This is a key challenge to be addressed now by renewed efforts in researching civil and military archives, as well as with a stronger use of IT tools in order to facilitate the investigation, excavation and exhumation phases.

To this end, a billboard campaign was put up in both communities in December 2017 in order to encourage them to come forward with any information they may have. The CMP members also directly conducted research on UN archives in New York in May 2017.

*Cultural Heritage protection* through the bi-communal Technical Committee on Cultural Heritage (TCCH) remained a key component of the reconciliation and confidence building actions supported under the Aid Programme. Between 2011 and 2017, the Cultural Heritage programme has received EUR 14.7 million of EU funds which are being used to improve the protection of 71 cultural heritage sites across the island. These include 5 large scale projects, 30 medium size projects, 26 small scale projects and 10 projects in design phase. During 2017, the main achievements were the completion of the conservation works for the Monastery of Agios Panteleimonas in May as well as for the Martinengo Bastion and for a section of the walls of Famagusta in September. Also in 2017, works were finalised for the conservation of Agia Marina/Gurpinar, a Maronite church located within a military site. Steps are being taken to ensure adequate maintenance and caretaking of restored sites by the beneficiary communities.

In response to an initiative of the two Cypriot leaders for new confidence building measures, the Commission acted swiftly in 2015 to reallocate the necessary resources for the opening of the new crossing points at Deryneia and Lefka-Apliki. A Delegation Agreement with UNDP was signed in early 2016 for works north of the Green Line, which were finalised in 2017. At the request of the Republic of Cyprus, in 2017 the Commission and the UNDP signed an addendum to the Delegation Agreement for the works of the sections within the Buffer Zone. These works are expected to be completed in 2018.

Support for civil society continued in 2017. Technical assistance (Civic Space) providing capacity building for Civil Society Organisations (CSOs) and stimulating networking and joint actions with Greek Cypriot and other EU CSOs continued in 2017. Efforts concentrated initially on creating an enabling environment for the development of Civil Society and encouraging active citizenship initiatives through the "Grow Civic" mechanism. In addition, 18 contracts awarded under the *Civil Society in Action IV and V* grant schemes were running in 2017. They funded a variety of actions in the fields of environment, human rights, art and sport that encourage citizens' engagement and cross-community exchanges. The 6th call for proposals of the *Civil Society in Action* grant scheme has been launched in mid-2017 providing new opportunities for CSOs to reinforce their capacity, actions and cooperation, and make a change for the benefit of all.

The Civil Society Forum (CSF), a platform where CSOs can express their expectations and priorities, was convened every three months. It acted as a catalyst for advocacy and promoted active citizenship. A full month of CSO actions under the name of "Open Door Festival" took place for the second time during the whole month of October, to inform the public of past and present activities and promote volunteerism among people of all ages. During the Festival, more than 60 associations, foundations, platforms, initiatives and activists opened their doors and took the road through the northern part of Cyprus to meet the public and network with other CSOs.

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

The management of *scholarships to the EU* was delegated to the British Council for the academic years 2014-16. This arrangement was extended for a further three years through a Delegation Agreement signed with the British Council in December 2016, covering the academic years 2017-20. The EUR 1.92 million available under the 2017 call allowed funding 152 scholarships for the 2017/2018 academic year. These scholarships support students during the first year of undergraduate studies, graduate students in their masters or doctoral programmes, and researchers and professionals in further developing their language and professional skills across EU Member States through language courses or internship programmes. The Scholarship Programme has ensured access to scholarships to more than 1000 Turkish Cypriot students and professionals since 2007. Continuity of this scheme is considered vital and increased efforts will be put on targeting the needs and gaps within the TCc. As part of the activities to manage the Scholarship Programme, the British Council organises every year the "Study in Europe" day to provide information to students about study possibilities in the EU. An online alumni network is being developed in the last years in order to enhance the contacts and professional relations between the Scholarship alumni. The British Council is continuously monitoring medium-term impact, for example the return rate of students to Cyprus and success in finding employment.

The high demand for information on the EU in the TCc continued in 2017. The EU Infopoint, which is managed together with the Representation of the European Commission in Cyprus, started functioning in early 2015 with a total budget of EUR 1,545,000 for a 30-month period; 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. Until now, the EU Infopoint held various panels/events on various topics, including environment (water, energy, waste management including recycling, biodiversity, beach cleaning, and Green Week), organic agriculture, health & safety at work, food safety, animal welfare, and animal health. It has also covered topics such as human rights, rights of people with disabilities, children's rights, gender equality, LGBTQ rights, and consumers' rights.

In 2017, the EU Infopoint organised 49 events (of which 28 in Nicosia) including Europe Day, European Week against Racism, European Youth Week & International Youth Day, European Night of Researchers, EU Anti-Trafficking Day, Mobility Week and Traffic Safety, European Week of Sport, and European SMEs Week. These events attracted over 4,849 participants, showing increased interest from the community (4,382 participants at 2016 events and 2,383 participants at 2015 events).

During 2017, 2,255 information products and 10 newsletters were distributed (in total since the opening of the Infopoint, 13,684 and 30 respectively). 343 news articles and 33 TV spots appeared on the local media during 2017 (1,266 and 115, respectively, since inception of the project). Traffic on the Facebook page "Abbilgi" also confirmed the popularity of the activities (4,052 new 'likes' in 2017, bringing the total number of likes since its opening to 12,523). The EU Infopoint supported also the promotion of all Calls for Proposals and other Aid Programme-funded projects and events via Facebook posts/reminders, front-shop poster displays, hosting of events and project launches at its public space. It established strategic partnerships with other EU-funded projects and technical assistance projects such as Civil Society development (Civic Space), Private Sector Development, Animal Disease Eradication, Waste Management, as well as with relevant departments and Civil Society Organisations in the TCc.

#### 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 is used to implement objectives 5 and 6 of the Aid Regulation and thus helps prepare the TCc for implementation of the *acquis* in view of the withdrawal of its suspension upon the entry into force of a comprehensive settlement of the Cyprus problem.

Assistance continued in 2017 and new experts were selected in 17 main areas, or "sectors", of the *acquis*. In total, the number of events organised in 2017 was 118. TAIEX actions included *inter alia* expert missions, workshops and study visits. TCc stakeholders demonstrated a significantly heightened awareness of *acquis* requirements in the active TAIEX sectors.

Support for trade across the Green Line (Regulation 866/2004) continued. The independent experts were involved in 2017 in carrying out the regular phytosanitary inspections of potatoes and citrus products, taking honey samples for analysis and producing 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*

The Commission signed legal commitments in 2017 amounting to EUR 23.2 million. The total volume increased compared to the previous year (EUR 15.5 million in 2016).

#### 4.3.2. *Payments*

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

### **4.4. Monitoring**

The Commission has direct responsibility for implementation of most projects (direct management). The level of monitoring by Commission staff is very high, with constant contacts with contractors, "spot-check" visits as well as site meetings and steering committees meetings. The PMU continued to support the Commission with the monitoring implementation of grant contracts/projects awarded to local communities for their development, to SMEs and rural enterprises, to Civil Society Organisations, to schools and vocational education and training organisations, while also supporting grant beneficiaries in the application of EU rules for grant contract implementation, including for secondary procurement.

In addition, the Commission implements a number of contracts under indirect management mode. The implementing entities such as the UNDP, the EBRD, and the British Council are pillar assessed and report to the Commission in accordance with the respective Framework Agreements. The Commission is closely involved in the day-to-day monitoring of these actions.

For TAIEX, a new planning period was launched, which will include regular Project Steering Group meetings to take stock, evaluate progress and continue planning. TAIEX logistics are monitored through the on-line TAIEX Management System.

#### **4.5. Audit and controls**

In 2017, the Internal Audit Service (IAS) carried out an audit on the financial management of the Structural Reform Support Service (SRSS), including the financial management of the Aid Programme. The objective of the audit encompassed, amongst others, the adequacy of the design and the effective implementation of the internal control system for financial management (legality and regularity and efficiency of the financial workflow). The IAS identified some weaknesses in the internal control environment put in place in the procurement procedures, which are being addressed through implementation of an action plan in response to IAS recommendations.

#### **4.6. Evaluation**

Significant improvement in statistics within the TCc will be necessary to accompany the future *acquis* roll-out.

An ex-post evaluation of SME grant schemes was conducted by the PMU and informed the design of the new call for proposals that will be launched in 2018. A similar ex-post evaluation of rural development grant schemes was initiated and the results are expected in 2018.

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

Overall, there were 120 visibility and communication actions in 2017, a large number of them organised in cooperation with the Representation of the European Commission in Cyprus. Some of the highlights in 2017 were: presentations on "The Juncker Commission: Two Years on Working for a Better Europe that Protects, Empowers and Defends" in various cities, Open Door Festival, sharing information on the work of the CSOs in 4 cities (Nicosia, Famagusta, Galateia, Lefka), and the European Science and Fun Day, in which more than 500 high-school students participated. Europe Day was celebrated with 2 large-scale outdoor events in Nicosia and Famagusta with more than 700 participants.

Many public events on the EU Scholarships for the TCc ensured extensive outreach. Completion ceremonies of various Cultural Heritage projects, including Martinengo Bastion and the Walls and Archangelos Michael Church, were held. The Entrepreneurship Ecosystem/Marketplace event brought together many participants to learn more about EU support in the TCc. EU support in the area of Traffic Safety was also communicated during various events with school children, families and the general public.

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

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 the Government's cooperation for verification of property rights, and also meets regularly with the Permanent Representation in Brussels.

### **5. CONCLUSIONS**

The Commission continues to deliver assistance under the Aid Regulation to facilitate the reunification of Cyprus by encouraging the economic development of the TCc, through work under its six objectives. 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. Efforts will focus 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.