



Council of the
European Union

113322/EU XXV. GP
Eingelangt am 05/08/16

Brussels, 5 August 2016
(OR. en)

11647/16

ESE 2

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	4 August 2016
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2016) 495 final
Subject:	REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT Tenth Annual Report 2015 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

Delegations will find attached Commission document COM(2016) 495 final.

Encl.: COM(2016) 495 final



EUROPEAN
COMMISSION

Brussels, 4.8.2016
COM(2016) 495 final

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

**Tenth Annual Report 2015 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

Tenth Annual Report 2015 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 389/2006¹ (the "Aid Regulation") is the basis for the assistance to the Turkish Cypriot community (TCc) and requires annual reporting to the Council and the European Parliament. This report covers the year 2015.

2. 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 32,337,900². 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 Council Regulation No 1311/2013³ laying down the MFF allows for a revision in the case that a reunification is achieved during the MFF period.

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) or by the British Council.

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

¹ OJ L65, 7.3.2006, p.5.

² Commission Decision C(2014) 9366.

³ OJ L347, 2.12.2013, p.884.

To ensure successful and sustainable implementation in this environment, the TCc must fully engage in the preparation for the *acquis* roll-out following settlement. Cooperation between the Turkish Cypriot and Greek Cypriot communities remains necessary for achieving the ultimate goal of reunification.

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

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 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. 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.

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, Corina Crețu, Commissioner for Regional and Urban Policy and in charge of the aid programme, visited the island in October to reaffirm the Commission's support for reunification.

As regards the Commission's administration, the Task Force for the Turkish Cypriot community was transferred at the beginning of 2015 to the Directorate-General for Regional and Urban Policy. This transfer was made without any change in the mandate given to the Commission under the Aid Regulation.

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 in 2015 towards each of the objectives of the Aid Regulation were:

4.2.1. Objective 1: Developing and restructuring of infrastructure

Following the provisional acceptance of Next Generation Network *telecommunications* equipment in 2014, more technical assistance has been provided to complete the roll-out of services and deal with the remaining problem of the billing part of the installation so far not handed over.

Work on *traffic safety* was reactivated with technical assistance to stimulate reorganisation of responsibilities within the sector, assist with preparation for future *acquis* roll-out in licensing and vehicle inspection and drafting of technical specifications.

The bi-communal Nicosia *wastewater treatment* plant (WWTP) at Mia Milia/Haspolat has been producing clean effluent since 2012, but there are still related projects to undertake: a contract for design of the new trunk sewer serving the whole of Nicosia and connecting to the WWTP was signed in November; agreement has been reached on sharing of the treated WWTP effluent and feasibility work and design of the distribution system up to the buffer zone is underway; the same consultant will also study the agricultural use of sewage sludge from the WWTP and prepare technical specifications for sludge spreading equipment.

All remedial works were completed for the Morphou/Güzelyurt WWTP and the Performance Certificate has been issued. A tender was launched for construction of a reservoir and network for re-use of treated water from the plant, but this tender was not successful.

The Commission has launched a study to identify the necessary remedial works to the Famagusta sewage networks and its cost. Design work is also underway for the extension to the Koutsoventsis/Güngör landfill, including specifications for a unit for treating leachate running from the site. An order was also placed for waste transportation trucks. These efforts on solid waste management will be supplemented by further investments to be made under the 2015 programme, including closure of polluting dumpsites and construction of "transfer stations" for efficient transport of waste to the new landfill. Also in the solid waste field, a new medical sterilisation

facility was ordered to help prevent dangerous disposal of unsterilised waste. Solid waste management is also addressed in grant schemes supporting civil society and local communities (see below).

The UNDP, through indirect management, is completing the construction of information and management centres in four potential *Natura 2000* areas. These partially constructed buildings were the subject of a contract terminated in 2011.

Importantly, a major technical assistance programme started in 2015, targeting improved management capacity in both the water and waste sectors. Legal texts in these areas were already drafted under a previous TA project, which finished in 2012.

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

Following the business support technical assistance completed in 2013, a new TA contract was signed in November, as a second phase of the intervention, to build capacity in business support organisations, assess the feasibility of business incubation and clustering, facilitate dialogue on a Smart Specialisation Strategy that is needed for access to European Structural and Investment Funds, and analyse market trends. In addition, by December, all preparatory work for the conclusion of a Delegation Agreement with the European Bank for Reconstruction and Development (EBRD) was completed. This will enable SMEs to access EBRD credit funds and know-how for business development from 2016. Businesses are also supported directly through grants and 36 grant contracts under the *SME Development: Modernising Products and Services* grant scheme remained open at the end of the year.

In the *rural development* field work was underway to raise standards in the dairy sector. Technical assistance to strengthen the capacity of veterinary services to secure and monitor compliance with animal health standards and other sanitary requirements for control and prevention of animal diseases and future trade of animal products across the Green Line started in mid-2015 and will continue in 2016. This will continue to be a particularly challenging assignment. Substantial TA was provided in 2015 and significant investments made in plant and equipment for animal by-product management, disease eradication and for reforming the dairy sector. A metrology programme, assisting laboratories in measurement capability, will start in 2016 along with TA to assist in further strengthening agricultural extension services. The olive-growers associations of the two communities have proposed a trial, bi-communal programme for control of fruit fly pests and preliminary work has been included in the 2015 programme. Out of the 39 grant contracts awarded in 2013 under the 3rd *Rural Development Grant Scheme*, 22 were still running at the end of 2015.

In the *education sector*, 13 grants were awarded in 2015 under the EUR 1.5 million scheme for *Innovation and Change in Education VI*, covering objectives including enhanced teaching/learning capacity, joint projects with Greek Cypriot schools, entrepreneurship and lifelong learning. Six grant contracts out of ten from the previous scheme (2013) were still running at the end of 2015.

After completion of the *Vocational Education, Training and Labour Market* (VETLAM) project in 2012, a new TA contract was signed in 2015 for a follow-on project (VETLAM II) covering development and promotion of vocational education

and training systems, life-long learning, improving employability and enhancing linkages between education and the labour market. This will be complemented by a grant scheme for schools and lifelong learning organizations included in the 2015 programme.

Consultation meetings were held with local communities to prepare the ground for a EUR 4.85 million grant scheme to be launched early in 2016: *Community Development 4* that will focus on sharing public services to increase efficiency and quality. Priorities will include solid waste management, in complement to the extensive infrastructure investments foreseen in the 2014 and 2015 programmes. Nine grant contracts under earlier community development grant schemes were still running at the end of 2015.

Since 2008, a Project Management Unit (PMU) has been providing services to support the implementation of grant schemes, with a range of training activities for applicants and grant beneficiaries. The PMU activities are continued with a wider scope under a new service contract signed in 2015. This PMU provides valuable help to the Commission in terms of increased efficiency and assurance.

Following the conclusion in 2014 of an economic monitoring programme conducted by the World Bank under a Trust Fund funded by the 2006 programme, a second phase programmed in 2014 started in early 2015, building on the results of previous analytical work and providing additional in-depth analysis and technical assistance in relevant areas.

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. Out of the 2001 total missing, the CMP had exhumed 1017 sets of remains, out of which 618 were genetically identified. The rate of identification slowed in 2015 due to an audit of DNA testing procedures. The field work also became more difficult as new information sources became scarce. In total, 1033 sites have been excavated, but only 21% of those examined in 2015 yielded remains⁴. A significant breakthrough, however, was achieved in November with the granting of access over the period 2016-19 to 30 suspected burial sites in areas under Turkish military control. In 2015 the Commission signed two Delegation Agreements with UNDP to provide funding for the CMP, each for an amount of EUR 2.6 million and covering, respectively, activities in 2015 and 2016. This yearly amount represented 82% of total donations to the CMP in 2015. Overall, in the period 2006-2015 the EU contributed in excess of 70% of overall funding provided to the CMP by Cyprus and by international donors.

Cultural Heritage protection through the bi-communal Technical Committee on Cultural Heritage (TCCH) remained a key component of the reconciliation and confidence building part of the aid programme. The reopening of the Othello Tower in Famagusta in July, attended by the two community leaders, was an important and highly visible event. The ceremony for the completion of the old Saint George Church of the Maronites in Kormakitis/Koruçam in November also drew

⁴ CMP data from 30 December 2015

considerable participation. An important development at the end of November was granting access to the TCCH to the village of Agia Marina/Gurpinar, currently a military site, where another important Maronite church is located, for an assessment of the conservation and restoration works needed. The importance of the work conducted by the TCCH for peace and reconciliation in Cyprus was recognized by the European Parliament who awarded the *European Citizen 2015* prize to the Greek Cypriot and Turkish Cypriot heads of the TCCH in October. A Delegation Agreement for phase 4 of the Cultural Heritage protection programme was signed with UNDP in December. Looking forwards, particular attention will be given to conservation and caretaking by the beneficiary communities of restored sites.

In response to an initiative for new confidence building measures, the Commission acted swiftly to amend the Annex to the Green Line Regulation in order to add the two new crossing points at Deryneia and Lefka-Apliki and reallocate the necessary resources for their opening. Work will be undertaken by the UNDP in 2016.

Support to civil society continued in 2015 in two ways: a new TA contract was signed early in the year to provide capacity building for civil society organisations (CSOs) and to stimulate networking and joint actions with Greek Cypriot and other EU CSOs. Later in the year, eight new grants were awarded under the *Civil Society in Action V* programme. These complement the 10 grants already running under *Civil Society in Action IV*. The Civil Society Forum (CSF), a platform where CSOs can express their expectations and priorities, was launched in October and convenes every three months. The CSF acts as a catalyst for advocacy of CSOs and promotes active citizenship.

In December, the Turkish Cypriot Chamber of Commerce announced the awards under its bi-communal internship programme, supported by aid programme funding, covering 80% of project costs, which will provide internship opportunities to 24 Turkish Cypriot and Greek Cypriot university graduates in the other community.

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

The management of *scholarships to the EU* was outsourced to the British Council for the academic years 2014-16 and 125 grants were awarded under this scheme in 2015. This arrangement was extended for a further three years through a Delegation Agreement signed with the British Council in December, covering the academic years 2017-20. The Commission has ensured access to scholarships every year since 2007 and continuity of this scheme is considered vital. As part of the activities to manage the Scholarship programme, British Council is organising 'Study in Europe' days to provide information to students about study possibilities outside the UK. It is also developing an alumni network and will monitor medium-term impact, for example the return rate of students to Cyprus and success in finding employment.

A new *Infopoint* started operating in early 2015. This generated a high level of visibility for the EU, its policies and the EU-funded aid programme with 35 events during 2015. Many information products were distributed. There is also a Facebook page *abbilgi* and significant print media and TV coverage of *Infopoint* activities.

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 2015 around the same 16 main areas, or 'sectors', of the *acquis* as in previous years, in order to facilitate the reunification of Cyprus. In total, the number of events organised in 2015 was 307. TAIEX actions included expert missions, training courses, workshops and study visits. TCc stakeholders demonstrated a significantly heightened awareness of *acquis* requirements in the active TAIEX sectors. A seminar for high level TCc stakeholders on EU regional and urban policy was held in Brussels in November.

Support to trade across the Green Line (Regulation 866/2004) continued. The independent experts have been involved in 2015 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*

Commitments amounted to EUR 27.7 million in 2015 and included a significant volume of outsourced work and some important technical assistance contracts. The commitment rate has increased for the fourth successive year, showing acceleration in the programme.

4.3.2. *Payments*

Payments in 2015 were EUR 17.7 million. It is expected that the payment trend will be upwards as the commitment volume increases.

4.4. **Monitoring**

The Commission has direct responsibility for implementation of most projects (direct management). The level of supervision by Commission staff is high, with "spot-check" visits as well as site meetings and steering committees. A dedicated PMU monitors grants for community development, SMEs and rural enterprises, and as of 2015, also for Civil Society Organizations, schools and vocational education and training organisations, and supports grant beneficiaries in the application of rules for grant implementation.

The TAIEX monitoring was improved through the re-launch of the Project Steering Groups in autumn 2015, aiming at stock-taking, progress evaluation and planning for the future period. TAIEX logistics are monitored through the on-line TAIEX Management System.

4.5. Audit and controls

The European Court of Auditors carried out a 2015 follow-up of the 2012 TCc aid programme audit and has reported early in 2016. No follow-up action is required. A detailed external audit of internal control mechanisms was carried out in order to identify potential improvements in assurance following the 2015 transfer of the Task Force to the Directorate-General for Regional and Urban Policy. The auditors have reported in 2016 and necessary follow-up actions are ongoing. An ex-post audit of five invoice payments was made in October by the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) dating from the pre-2015 period when DG NEAR managed the Task Force. No quantifiable errors were found. A contract was also concluded for expenditure verification of 15 grants under the grants scheme *SME development III: modernising products and services*. This work is to be carried out in 2016 as implementation of the grant contracts finishes.

4.6. Evaluation

Following the general programme evaluation in 2013, programme indicators were reassessed. Data was collected for many sectors and a series of new indicators was proposed. It is clear, however, that much economic and social data is missing and that significant improvement in statistics will be necessary to accompany the future *acquis* roll-out. Following the 2014 assessment of CMP operations by the Equipo Argentino de Antropología Forense (EAAF), three more visits were made by EAAF in 2015, including for review of genetic testing procedures.

4.7. Information, Publicity and Visibility

There were 188 visibility and communication actions in 2015, a considerable increase over 2014 and to which the new *Infopoint* project, which is managed by the EUPSO office together with the Representation of the European Commission in Cyprus, contributed significantly (see also 4.2.4). Highlights in 2015 were: the rural tours in Komi Kebir/Büyükkonuk, Kiados/Serdarlı, Morphou/Güzelyurt and Lefka/Lefke and panel discussions on EU policy on rural development; Mobility Week celebrated for the first time in the TCc; and an awareness campaign on human anti-trafficking. Europe Day and Green Week were celebrated with a large-scale outdoor event and there was a major conference on cultural heritage bringing together experts island-wide.

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 its cooperation for verification of property rights, and also meets regularly with the Permanent Representation in Brussels. The Commission's Directorate-General for Health and Food Safety undertook a technical mission in January to address the outbreak of lumpy skin disease, which had island-wide repercussion.

5. CONCLUSIONS

The Commission remains committed to supporting the settlement process under the UN auspices, and shall make use of all possibilities under the programme to facilitate initiatives arising from the process, as it did during 2015 to secure funding for the opening of new crossing points. The establishment of the bi-communal *ad hoc* committee, through which the two communities have undertaken to study technical issues of *acquis* compliance, is a welcome development. It has been demonstrated that TAIEX support under the aid programme has had a positive impact on the work of the committee as TCc participants have demonstrated a significantly improved awareness of the *acquis* in those areas which have seen TAIEX activity.

The Commission 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. These are primarily those in the field of 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 programme is demonstrating acceleration, as shown by increasing commitment rate. Fast response to the needs of the beneficiary becomes ever more important as the settlement talks evolve.