

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

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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 issues 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.