

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

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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.