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ANNEX III

The annex to Commission Implementing Decision C(2016) 6688 of 21 October 2016 is replaced in its entirety as follows:

Legal basis:

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 and amending Council Regulation (EC) No 2667/2000 on the European Agency for Reconstruction.

Work Programme for 2016:

Beneficiary	Turkish Cypriot community
CRIS/ABAC Commitment references	TCC/2016/039-503, SCR.DEC.039503.01
Total cost	EUR 33,408,392
Union Contribution	EUR 33,408,392
Budget line	13 07 01
Management Modes/ Entrusted Entities	Direct management by the European Commission Indirect management by entrusted entities: United Nations Development Programme European Bank for Reconstruction and Development
Final date for concluding procurement and grant contracts	3 years following the date of validation of the budgetary commitment
Final date for contract implementation	6 years following the date of validation of the budgetary commitment, with the following exception: 7 years following the date of validation of the budgetary commitment for contracts for Famagusta networks works and supervision , where the works concerning infrastructures justify a longer implementation period.
Final date for programme implementation (date by which this programme should be de-committed and closed)	10 years following the date of validation of the budgetary commitment.
Programming and Implementing Unit	SRSS.05 Cyprus Settlement Support

1.1. Introduction

This 2016 Annual Programme concerns the continuing implementation of the Aid Programme for the Turkish Cypriot community on the legal basis of Council Regulation (EC) No 389/2006, the "Aid Regulation", which establishes an instrument of financial support for encouraging the economic development of the Turkish Cypriot community (TCc). Between 2006 and the end of 2015, over EUR 400 million was programmed for operations under this Regulation.

On the basis of the objectives, as laid down in Article 2 of the "Aid Regulation", this work programme contains the actions to be financed and the budget breakdown for the year 2016 as follows:

- **for grants implemented under direct management (1.2): EUR 6,800,000**
- **for procurement implemented under direct management (1.3): EUR 23,208,392**
- **for actions implemented under indirect management modes (1.4): EUR 3,400,000**

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, improving contacts between the two communities and with the EU, and preparation for the lifting of the suspension of the *acquis* following a settlement of the Cyprus problem. The objectives, as laid down in Article 2, are:

1. *The development and restructuring of infrastructure, in particular in the areas of energy and transport, the environment, telecommunications and water supply;*
2. *The promotion of social and economic development including restructuring, in particular concerning rural development, human resources development and regional development;*
3. *Reconciliation, confidence-building measures, and support to civil society;*
4. *Bringing the Turkish Cypriot community closer to the European Union through inter alia information on the EU political and legal order, promotion of people to people contacts and Community scholarships;*
5. *The 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; and*
6. *Preparations for the implementation of *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 political process under the auspices of the UN for the settlement of the Cyprus problem was effectively re-launched during the summer of 2015. The Commission has stepped up its efforts in support of this process and in preparation for a settlement – both through supporting the UN-led bi-communal settlement process and by supporting the Turkish Cypriot community through the Aid Programme.

The Aid Programme is intended only as an instrument of exceptional and transitional nature and the Commission continues to hope for a breakthrough that will lead to a comprehensive settlement. In this event, assistance of a different form will be required.

Council Regulation No 1311/2013, laying down the Multi-Annual Framework 2014-20, allows for its own revision¹ and Article 11 of Council Regulation (EC) No 389/2006² allows for any necessary adaptations in this context.

The Commission has been pursuing the six objectives of the Aid Regulation since 2006, but subject to a comprehensive settlement, reunification may have a more immediate and far-reaching impact on some sections of the Turkish Cypriot community than on others. The exact needs generated by settlement remain unknown as they depend on the division of competences between the presumed federal and constituent state levels in a future United Cyprus. It is therefore not possible, at this point in time, to fully anticipate such needs in the planning of the Aid Programme. Some changes may be foreseen within the remit of the current programming – notably through a dedicated support facility - but it is likely that most needs would have to be addressed through future amendments or interventions in the event of a settlement.

The programme choices for 2016 take into account input received from Turkish Cypriot stakeholders and from relevant evaluations and needs' assessments conducted prior to the programming exercise. The views of the authorities of the Republic of Cyprus were also taken into consideration.

Apart from the EU-financed Aid Programme under Council Regulation 389/2006, support from other international donors such as USAID and the United Kingdom is being wound down.

Objective 1: development and restructuring of infrastructure

The wide ranging mandate of the Aid Regulation has necessitated long-term engagement in some fields and long lead times for some projects, for example wastewater treatment or landfill construction, and there will be a continuing need for such investment for many years to come.

Development and restructuring of infrastructure has been well supported under the Aid Regulation with around 38% of total Aid Programme resources allocated to this area from 2006 up to the end of 2015.

Currently, a number of infrastructure projects are in the process of being implemented on the ground (a new trunk sewer for Nicosia and Kioneli/Gönyeli, a second cell for the central landfill at Kutsoventis/Güngör, a central collection, treatment and disposal system for animal by-products).

¹ Council Regulation No 1311/2013 Art. 22: "In the event of the reunification of Cyprus between 2014 and 2020, the MFF shall be revised to take account of the comprehensive settlement of the Cyprus problem and the additional financial needs resulting from the reunification."

² Article 11: "**Event of a settlement.** In the event of a comprehensive settlement of the Cyprus problem, the Council shall, on the basis of a proposal from the Commission, decide unanimously on the necessary adaptations to this Regulation.

In addition, a number of complementary activities related to restructuring and infrastructure have also already been financed (for example: design studies – including those for potential future investments such as the reuse for agriculture of treated wastewater and sludge produced by the waste water treatment plant at MiaMilia/Haspolat - services for supervision of the works, supplies of equipment - such as trucks for bringing waste to the landfill and for collecting animal-by products (ABPs) - incineration equipment for disposal of ABPs, equipment for treatment of hazardous medical waste, laboratory equipment for animal and plant health analyses).

The key priority under the 2016 programme in the area of development and restructuring of infrastructure will be to successfully address the emerged issue of necessary repairs and the related dispute with the contractor for the Famagusta sewerage network. Full funding of this project will be secured for health, environmental and citizen welfare reasons. The defective network is causing distress to the community. Because of leakages in the system there is exfiltration of sewage that causes pollution of the aquifer and infiltration of saline groundwater. By repairing the defective networks, these issues are expected to be resolved. One overall allocation will be made available under the 2016 Aid Programme to complete this project (EUR 16.6 million).

Objective 2: promotion of social and economic development

Promotion of social and economic development received almost 27% of total Aid Programme resources from 2006 up to the end of 2015.

Given the expected rapid application of the *acquis* following the settlement, the private sector – and in particular the SMEs – are likely to face a particular challenge of adjustment to competition and market requirements.

Against this background, funds will be provided to promoting private sector and economic development (EUR 9.4 million) by involving expert assistance, including from the International Financial Institutions (IFIs), and by providing direct assistance to TCc economic actors with the help of grants.

Objective 3: reconciliation, confidence-building measures, and support to civil society

Support for confidence-building measures has been a successful and well-received element of the Aid Programme. The Commission has shown particular readiness to continue promoting these measures, including through reallocating resources under the 2013, 2014 and 2015 Financing Decisions in particular for supporting the opening of new Green Line crossing points.

For the continuation of its activities until the end of 2018, the Committee of Missing Persons (CMP) will receive an amount of EUR 2.6 million under the 2016 programme. In addition to this, EUR 5.2 million under the 2013 programme and EUR 2.6 million under the 2014 programme have already been made available to the CMP as part of the re-programming exercise adopted in 2016. In this way funding for the CMP is secured from existing sources until the end of 2018. The Commission will ensure that there no funding gaps.

The support to the bi-communal Technical Committee on Cultural Heritage (TCCH) (island-wide restoration of monuments, mosques and churches) has been frontloaded by a total amount of EUR 4.6 million under the 2013 programme and EUR 1.8 million under the 2014 programme as part of the re-programming exercise adopted in 2016.

The above support has produced highly visible output and allowed for the restoration of buildings that are being readapted and used by the communities. The delivery method of this support, through indirect management by the UNDP, is well-tested and has proved efficient. The tasks entrusted to UNDP are all implementation activities including: procurement, payments, project management, monitoring and ensuring visibility.

Given the need to further strengthen the capacity of the Civil Society Organisations (CSOs) in the northern part of Cyprus, the 2016 programme will further support civil society projects with grants amounting to EUR 1 million.

Objective 4: Bringing the Turkish Cypriot community closer to the European Union

A successful vehicle in reaching the objective of bringing the Turkish Cypriot community closer to the Union has been the Infopoint project which carries out a range of communication and visibility functions, amongst others providing information about EU policies and actions in support of the TCc. Maintaining the Infopoint activity remains vital in enhancing the visibility of the EU in the northern part of Cyprus. To ensure the continuation of Infopoint, an allocation of EUR 1.5 million for two years is provided under the 2016 programme. The implementation of the scholarship programme (opportunities given to students and professionals to study abroad) has been outsourced to the British Council. Earlier allocations from the Aid Programme provide coverage up to the academic year 2018-19. For this reason, no further allocation is required under the 2016 programme.

*Objectives 5/6: preparation of legal texts aligned with the *acquis communautaire*/preparations for the implementation of *acquis communautaire**

The Aid Regulation specifically foresees assistance for preparing the implementation of the EU *acquis* and for preparing legal texts aligned with the EU *acquis* to be immediately applicable upon the entry into force of a comprehensive settlement of the Cyprus problem. In addition, the Commission is required to provide continued support for the implementation of Council Regulation 866/2004³ (the Green Line Regulation) and Commission Regulation 1480/2004⁴, thereby supporting the economic integration of the island.

The main instrument used by the Commission for preparing the implementation of the EU *acquis* is the Technical Assistance and Information Exchange instrument (TAIEX).

³ Council Regulation (EC) N°866/2004 of 29 April 2004 on a regime under Article 2 of Protocol 10 to the Act of Accession

⁴ Commission Regulation N°1480/2004 of 10 August 2004 laying down specific rules concerning goods arriving from the areas not under the effective control of the Government of Cyprus in the areas in which the Government exercises effective control

This instrument enables experts to be sent from EU Member States to the TCc to explain the *acquis*, awareness seminars to be held, draft legal texts to be prepared (in order to be applicable after settlement) and technical assistance to be provided. The resources allocated to TAIEX in the previous years are sufficient to cover the needs in the future. Therefore, there is no need for an additional allocation under the 2016 programme.

Support Facility

The 2016 programme includes also a Support Facility (EUR 2.3 million) from which resources can be mobilised to take advantage of new emerging opportunities and to facilitate new initiatives from the settlement process, which the EU undertakes to support. Support interventions may be necessary at short notice in any of the objectives covered by the Aid Programme and the availability of resources for this purpose is essential to support the settlement process. In view of the ongoing process and the potential for political agreement, the Commission must be ready to deploy resources as opportunities arise, which are supported by both communities. These initiatives cannot be clearly identified at the programming stage. Finally, the Support Facility may finance supporting studies, such as in the area of energy efficiency and/or education strategy.

1.2. Grants

The objectives of the Aid Regulation which are implemented through calls for proposals or direct grants in the Aid Programme 2016 are the following:

- *The promotion of social and economic development including restructuring, in particular concerning rural development, human resources development and regional development (Objective 2 of the Aid Regulation); and*
- *Reconciliation, confidence-building measures, and support to civil society (Objective 3 of the Aid Regulation)*

1.2.1. Support for SMEs (Objective 2 of the Aid Regulation)

Priorities of the year [1], objectives pursued [2] and expected results [3]

[1] Support for SMEs

[2] Improving the competitiveness of and innovation in SMEs

[3] a) Enhanced SME competitiveness and readiness for EU trade through adherence to EU standards and preparation for "CE" marking

b) Increased labour productivity and employment in the private sector through financing the modernisation of and innovation in enterprises.

Description of the activities to be funded

The Aid Regulation gives prominence to economic development of the TCc. The *2015-2016 Competitiveness Report on the Turkish Cypriot Economy* by the TC Chamber of Commerce, following a WEF (World Economic Forum) protocol, indicates that TC economy ranks low in terms of competitiveness. This points to a challenge for businesses, in particular for the SMEs, which make up 99% of the TC businesses, in being able to maximise the benefits from the future access to the EU Single Market.

Since its inception in 2006 and up to the end of 2015, the Aid Programme has supported the business environment in general and TC businesses in particular through technical assistance and grants to an amount of around EUR 15 million.

In addition to this, in February 2016, the Commission – under the Aid Programme - signed a four-year agreement with the European Bank for Reconstruction and Development (EBRD) (EUR 1.65 million) to provide assistance for the rollout of a comprehensive SME Competitiveness Facility. This Facility will combine advice to local consultants and financial intermediates with access to finance by the EBRD, which has earmarked EUR 25 million for this purpose.

In June 2016, the TCc adopted an SME strategy, which mirrors the SME strategy adopted in the Republic of Cyprus. The strategy aims at "turning the SMEs into the driving force of economic growth" in the TCc, notably by favouring innovation, enhancing productivity and the production of high-quality goods and services, improving the qualifications of the labour force and ensuring an industrial transformation with a maximum level of safety of environment and occupations.

Support under the 2016 Aid Programme

Against this background, and in line with the TCc SME strategy, the 2016 Aid Programme will support the development of a more performing business environment in the TCc by:

- a) enhancing the competitiveness of the TCc SMEs by modernising their production process through, for example, the introduction of Total Quality Management (TQM) schemes, as well enhancing the quality of their goods and services with a view to complying with EU standards and with the criteria for obtaining CE markings;
- b) developing the technical, innovative and administrative skills of the SMEs, through encouraging their use of Information Technology, encouraging their recruitment of skilled labour, supporting the development of R&D departments and supporting their use of innovative machinery and means of production.

One grant scheme is planned for the above mentioned objectives, towards established enterprises and start-ups.

Essential eligibility, selection and award criteria

Eligibility criteria: Applicants shall fall under the EU “Small and Medium Enterprise” definition and shall be established in the northern part of Cyprus. Entities may be natural or legal persons.

Selection criteria: Financial and operational capacity of the applicant (sufficient capable staff and sound financial records).

Award criteria: Relevance, effectiveness and feasibility, sustainability and cost-effectiveness of the action.

Implementation

The actions will be implemented directly by the Commission.

Indicative timetable and indicative amount of the call for proposals

Reference	Date	Amount
SME competitiveness and start-ups	2Q2017	EUR 5,000,000

Maximum possible rate of co-financing of the eligible costs

85%

1.2.2. PFM review and capacity building (Objective 2 of the Aid Regulation)

Priorities of the year [1], objectives pursued [2] and expected results [3]

- [1] Public financial management review and capacity building
- [2] Improved effectiveness, control and efficiency of the public financial management (PFM) and related systems and bringing them in line with EU standards
- [3] Enhanced monitoring and improved fiscal financial governance

Description of the activities to be funded

The Cyprus settlement will require significant fiscal reforms by the TCc. There is much capacity and institutional building necessary to be done. It is important to intensify such support as the political process evolves.

A grant will be concluded with the International Monetary Fund with the aim of improving the effectiveness, control and efficiency of public financial management (PFM) and related systems and bringing them into line with EU requirements.

Essential eligibility, selection and award criteria

<p><u>Direct award</u></p> <p>The Financial Regulation foresees direct engagement of international organisations with specific characteristics that require a particular type of body on account of its technical competence, its high degree of specialisation or its administrative power, on condition that the actions concerned do not fall within the scope of a call for proposals. The mechanism proposed for implementing this is the use of a pillar assessed (PA) direct grant.</p> <ul style="list-style-type: none"> - <u>Name of the beneficiary:</u> The International Monetary Fund (IMF) - <u>Justification for the use of an exception to calls for proposals:</u> In line with the Rules of Application, Article 190(1) (f), a direct award grant is foreseen, because the work requires a sensitive interaction with the beneficiary and collection and analysis of data of a sensitive nature. A body of respected international standing is therefore needed for the grant implementation. Besides this, the work is very technical in nature. The IMF has recognised and relevant experience in the field of public financial management and a high level of specialisation and technical competence. In parallel, IMF is working on similar issues with the Republic of Cyprus. - <u>The essential selection criteria:</u> Financial and operational capacity of the applicant (sufficient capable staff). - <u>The award criteria:</u> Relevance, effectiveness and feasibility, sustainability and cost-effectiveness of the action.
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Implementation

Grant awarded without a call for proposals
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Indicative timetable and indicative amount of the grant(s) awarded without a call for proposals

Reference	Date	Amount
PFM review and capacity building	2Q2018	EUR 800,000

Maximum possible rate of co-financing of the eligible costs

<p>100%</p> <p>Full financing of the action is essential for the action to be carried out with maximum EU visibility and is justified in view of the engagement of the IMF on a parallel, but complementary programme in support of the Republic of Cyprus.</p>

1.2.3. Support for civil society (Objective 3 of the Aid Regulation)

Priorities of the year [1], objectives pursued [2] and expected results [3]

[1] Support for civil society, reconciliation and active citizenship

[2] Strengthen civil society in the Turkish Cypriot community and their actions in order to develop a culture of dialogue, participation in community life and promotion of values of tolerance, peace, and active citizenship

[3] Strengthened Civil Society Organisations (CSOs) networks in the TCc; enhanced engagement of CSOs and citizens in policy dialogue in the TCc; enhanced cooperation between CSOs from across Cyprus through bi-communal joint actions and links

Description of the activities to be funded

The Treaty on the European Union (Article 2) states that *the Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.* An empowered civil society can play an important role in ensuring these principles are upheld in practice. It is also in itself a crucial component of any democracy. By articulating citizens' concerns, civil society organizations (CSOs) are active in the public arena and engage in initiatives that foster pluralism and further participatory democracy.

The extent of social and political engagement in the northern part of Cyprus remains limited and the effectiveness of advocacy is also low. In particular, the CSOs themselves have few resources and the impact of CSO activities lacks sustainability. Through the Aid Programme, the Commission has consistently tried to maintain contact with individual citizens and civil society groups in the northern part of Cyprus in order to consolidate and enhance the platforms that exist as well as to stimulate the adoption of EU values of dignity and democracy. It is particularly important to maintain this link at a time when the two communities have re-engaged in settlement talks and the civil society needs to be heard.

There are currently 18 CSO projects (many of them in bi-communal partnership) and more than 40 CSOs across Cyprus supported by the funds under 2014 and 2015 Aid Programmes.

Given that USAID, the other main donor to civil society's capacity building, closed its programme at the end of 2015, continued access to EU funding for Civil Society is even more vital to ensure that active citizens and CSOs are pursuing their actions.

Against this background, the 2016 Aid Programme will continue to support the development of a culture of dialogue, the participation in community life and the promotion of values of tolerance, peace, and active citizenship. In particular, the 2016 Aid Programme will finance actions under a new, seventh grant scheme to stimulate bi-

communal activities and promote more active citizenship and volunteering, through:

- Promoting the benefits of bi-communal work – including through research, evaluation and outreach;
- Supporting the development of good practice and strengthening of civil society initiatives, particularly those engaged in, or that have the potential to become engaged in, bi-communal or peace building activity;
- Widening the base of those involved in civil society and in particular bi-communal work through supporting projects that are reaching out to underrepresented sections of the community;
- Connecting CSOs and students and promoting internship programmes between CSOs and TCc educational establishments to increase volunteerism.

Essential eligibility, selection and award criteria

Eligibility criteria: Applicants shall be established in the northern part of Cyprus. Entities may be natural or legal persons

Selection criteria: Financial and operational capacity of the applicant (sufficient capable staff and sound financial records).

Award criteria: Relevance, effectiveness and feasibility, sustainability and cost-effectiveness of the action.

Implementation

The actions will be implemented directly by the Commission.

Indicative timetable and indicative amount of the call for proposals

Reference	Date	Amount
Support to Civil Society	2Q2017	EUR 1,000,000

Maximum possible rate of co-financing of the eligible costs

95%

1.3. Procurement

The objectives of the Aid Regulation which are implemented through procurement procedures in the Aid Programme 2016 are the following:

- *The promotion of social and economic development including restructuring, in particular concerning rural development, human resources development and regional development (Objective 2 of the Aid Regulation)*
- *Bringing the Turkish Cypriot community closer to the Union through inter alia information on the EU political and legal order, promotion of people to people contacts and Community scholarships (Objective 4 of the Aid Regulation)*

In addition, under the Aid Regulation, assistance may also be used to cover in particular the costs for supporting activities.

1.3.1. Repairs and dispute settlement for the Famagusta sewerage network (Objective 1 of the Aid Regulation)

Subject matter of the contracts envisaged

The water sector remains a critically important one, considering water scarcity on the island, deterioration of aquifer quality and the stipulations of the *acquis* requiring wastewater collection, treatment and discharge systems for population concentrations. Continued support to the water sector was one of the recommendations of the European Court of Auditors in 2012 and a sector assessment and technical workshops prioritised potential investments. The EU has funded much work in this area, with sewerage network replacement in main centres and three new wastewater treatment plants (WWTP) serving around 300,000 "population equivalents" i.e. including commercial customers. The new, bicommunal Mia Milia/Haspolat outside Nicosia, handed over in 2013, was 70% funded by the Nicosia Sewerage Board and 30% funded under the Aid Regulation. The design phase for the return and re-use of treated water in the government-controlled areas was launched in 2014.

Work in Famagusta, with an initial allocation under the 2006 programme, included both a new WWTP and a 47 km sewer network with seven pumping stations. The network has been laid, but serious defects have been found. The contract was terminated by the Commission in December 2013. The dispute resolution has not been solved. While the WWTP is accepting wastewater in the meantime, it had suffered from corrosion problems due to ingress of saline water into the network. These corrosion problems were remedied, but the on-going ingress of saline groundwater remains a significant risk to the overall functioning of the network.

The sewerage network has to be repaired for health, environmental and citizen's welfare reasons. The defective network is causing distress to the community. Because of the defects, the long term structural integrity of the networks is unsure. The leakages in the system cause exfiltration of sewage which results in pollution of the aquifer and infiltration of saline groundwater that may create new corrosion in the WWTP. This increases the operation and maintenance costs, both at the Pumping Stations and the WWTP. By repairing the defective networks, these issues will be resolved. Completing the project shall also bring WWTP to a status of efficient and sustainable operation. An allocation is therefore required to cover remedial works and supervision needs.

The physical work to be undertaken includes design review, works and supervision. The activities will be: (i) laying a parallel sewer and removing the existing defective sewer

over a length of ca. 31.5 km; (ii) making point repairs where replacement of whole sewer sections is not necessary; and (iii) repair the pumping stations, After the repair, careful backfilling, compaction, closure and asphaltting will be carried out.

Type of contract and type of procurement

Works contract and Service contract

Indicative amount per contract

- Works contract: EUR 14,500,000

- Service contract: EUR 2,100,000

Indicative number of contracts envisaged

Indicative timeframe for launching the procurement procedure

- 1 works contract (repairs)

4Q2017

- 1 service contract (supervision)

4Q2017

Implementation

The actions will be implemented directly by the Commission.

1.3.2. Technical assistance for promotion of social and economic development (Objective 2 of the Aid Regulation)

Subject matter of the contracts envisaged

Technical assistance for:

- a. Support for the private sector: further development of the private sector, inter alia through assistance for the adoption of efficient, effective and quality processes and products, compliance with EU production and products standards, achievement of CE marking as well as identification of future business opportunities, in particular following settlement
- b. Support for the Programme Management Unit (PMU): provision of support to the Commission and to TC potential and actual grant beneficiaries for the implementation of grant schemes and related grant contracts.

a. Support for the private sector

The current technical assistance contract to support the development of the private sector started in November 2015. It is providing advice and strategic support to stakeholders in the TCc at various levels, including to business support organisations such as chambers and investment promotion agencies. By strengthening the capacities of such key stakeholders to support private sector development in the TCc, the technical assistance aims overall to promote private sector growth and move the economy away from its reliance on the public sector, to support private job creation, and ultimately to contribute to increasing income convergence with the government-controlled areas.

In 2016, it is foreseen that this technical assistance will be continued in order to help identify future business opportunities, identify areas for future grant interventions and strengthen even further the capacity of the representatives of the private sector, such as chambers.

Through the 2016 Aid Programme, the technical assistance will provide fact-finding and needs-assessments studies on relevant subjects for private sector development. For instance, the technical assistance will focus on providing recommendations and guidance to the TCc for (i) implementing and better exploiting synergies with the government-controlled areas, (ii) introducing quality schemes such as Total Quality Management (TQM) and (iii) improving quality of services and goods with a view to complying with EU standards and with the criteria for obtaining CE markings.

This technical assistance is complementary to the grants provided to SMEs as defined in point 1.2.1.

b. Support for the Programme Management Unit (PMU)

Since 2008, a PMU contracted by the Commission under a service contract funded by the Aid Programme has been providing services to the Commission as well as to potential and actual grant beneficiaries in the TCc for the implementation of Aid-Programme-funded grant schemes. The PMU activities are varied and cover the full project cycle. These activities include the provision of:

- a) support to the Commission for: i) informing the TCs about open calls for proposals, related objectives, aims, and selection procedure; ii) assessing grant applications and preparing contract documents;

iii) monitoring the implementation by TC grant beneficiaries of the grant-funded actions;
b) support to grant applicants and grant beneficiaries with a range of training activities;
c) assistance to grant beneficiaries in the implementation of the EU-funded grant actions, *inter alia*, in relation to i) sub-granting/secondary procurement of services, supplies or works and ii) reporting to the Commission.

PMU processes have been gradually refined and, *inter alia*, help give assurance to the Commission that the applicable procedural rules are followed by grant beneficiaries. In view of the significant additional volume of work that will arise from the grant programmes foreseen under the 2016 Aid Programme, continuation of the PMU work is of crucial importance.

Type of contract and type of procurement

Service contracts

Indicative amount per contract

EUR 1,300,000 – TA for further private sector development

EUR 1,500,000 – PMU technical assistance

Indicative number of contracts envisaged

Indicative timeframe for launching the procurement procedure

- 2 service contracts

- 3Q2017

Implementation

The actions will be implemented directly by the Commission.

1.3.3. *Infopoint project: providing information about EU policies (Objective 4 of the Aid Regulation)*

Subject matter of the contract envisaged

Objective 4 requires *Bringing the Turkish Cypriot community closer to the Union*. A successful vehicle in this respect has been the *Infopoint* project, which carries out a range of communication and visibility functions, providing information about EU policies and about actions in support of the TCc, promoting European culture, giving information about funding opportunities and maintaining a website and social media presence. This has considerably enhanced the visibility of the EU in the northern part of Cyprus. Since many of the EU projects in support of the TCc are not otherwise easily visible to individuals, maintaining the *Infopoint* activity remains vital. To ensure the continuation of *Infopoint*, which is run through a service contract, an allocation in the 2016 programme is required.

Type of contract and type of procurement

Service contract

Indicative amount per contract

EUR 1,500,000 (for a two-year period)

Indicative number of contracts envisaged

Indicative timeframe for launching the procurement procedure

- 1 service contract

- 1Q2017

Implementation

The actions will be implemented directly by the Commission.

1.3.4. Support Facility

Subject matter of the contracts envisaged

Under the Aid Regulation: *assistance may also be used to cover in particular the costs for supporting activities such as preliminary and comparative studies, training, activities linked to preparing, appraising, managing, implementing, monitoring, controlling and evaluation of assistance, activities linked to information and visibility purposes and costs for supporting staff, renting of premises and supply of equipment.*

In view of the on-going settlement process, the Support Facility can play an important function by providing additional resources for upcoming unforeseeable needs and activities that may facilitate the settlement process.

Various services of the Commission have been providing technical input to the bi-communal *ad hoc* Committee on EU preparation since 2015 (discussing future *acquis* compliance). More extensive technical assistance activities may be expected. The range of topics on which the two communities will engage is very wide and will eventually encompass the whole of the *acquis*. Support interventions may be necessary at short notice and availability of resources will be essential.

Finally, the Support Facility will provide resources for visibility actions, evaluations, and audits as well as monitoring and other supporting studies, such as in the area of energy efficiency and/or education strategy. Furthermore, it will provide resources for the logistic support to the EU Programme Support Office (EUPSO) in the northern part of Nicosia, which houses the Commission staff implementing the Aid Programme in the field.

Type of contract and type of procurement

Works, supply, service contracts

Indicative amount per contract

Overall amount EUR 2,308,392

Indicative number of contracts envisaged

Indicative timeframe for launching the procurement procedure

Not known yet given the nature of the Support Facility

Implementation

The actions will be implemented directly by the Commission.

1.4. Actions implemented through indirect management

The objectives of the Aid Regulation, which are implemented through indirect management in the Aid Programme 2016, are the following:

- *The promotion of social and economic development including restructuring, in particular concerning rural development, human resources development and regional development (Objective 2 of the Aid Regulation)*
- *Reconciliation, confidence-building measures, and support to civil society (Objective 3 of the Aid Regulation)*

1.4.1. Technical assistance for promotion of social and economic development – EBRD credit facility (Objective 2 of the Aid Regulation)

Amount

EUR 800,000 (to expand current advisory services over the four years of the agreement)

Implementing entity

EBRD, according to Article 58(1)(c) of the Financial Regulation.

The EBRD has a reputation and track record as a leader in developing small businesses and in laying foundations for sustainable growth. The model for EBRD intervention with credit facilities (the "Small Business Support Programme") is well developed and has a proven track record. Since 1993, it has facilitated advisory services to nearly 14,000 companies in 35 countries. This has been supported by more than 20 bilateral and institutional donors, primarily the European Union and the EBRD, who have provided over EUR 230 million of funding.

With this support, the EBRD has helped beneficiaries improve their decision making, expand into new markets, introduce different product lines, achieve quality certification, reduce their energy use and redefine their approach to human resources. Based on performance measured one year after project completion, on average, 77% of beneficiaries had increased their turnover by an average of 23%, 57% had created new jobs, and 17% had secured external financing to continue their expansion. The same Programme has been running through share-holders funds in the governmental-controlled areas.

The Commission has signed a Financial and Administrative Framework Agreement (FAFA) with the EBRD for use of the (PAGODA) Delegation Agreement form of contract.

Overall objective and purpose of the action

In 2015, the EBRD proposed that the Commission should allocate EUR 1.65 million over four years to implement a two-tiered comprehensive SME Competitiveness Facility in the Turkish Cypriot community. This action, which is currently being implemented, involves combining EBRD-funded SME credit lines (EUR 25 million over four years), supported by a technical cooperation programme with financial intermediaries (Window 1), with the provision of business advisory services directly to SMEs through consultancy assignments (Window 2). In line with the EBRD's strategic priorities, the funded action links the two fundamental elements needed for small business development: access to finance and business advice.

The additional EUR 0.8 million will be used under Window 2 in order to offer business advice from local and/or international consultants to additional TC SMEs, for a value of up to EUR 20,000 per consultancy, including advising, training and coaching on topics such as CE marking.

Expected results:

Improve SME performance by providing business advice from local and/or international consultants and building a sustainable market of advisory services.

1.4.2. Support to the Committee of Missing Persons (CMP) (Objective 3 of the Aid Regulation)

Amount

EUR 2,600,000

Implementing entity

UNDP (United Nations Development Programme) according to Article 58(1) (c) of the Financial Regulation.

The UNDP, as a UN agency, has a unique, trusted, neutral role and is a facilitator of the settlement process. The Technical Committees, through which the Confidence-Building projects are steered, were set up under the auspices of the UN. The projects (Committee of Missing Persons as well as Cultural Heritage Protection) involve dealing with delicate sensitivities of both communities.

The UNDP has considerable expertise on both the CMP and cultural heritage protection in Cyprus. Up to and including 2015, allocations were made for 8 Contribution Agreements (CAs) with UNDP for the CMP and 3 CAs with UNDP for support to the preservation of cultural heritage. The UNDP has a good track record in the implementation of these CAs and has built up a high level of efficiency, considering the particular circumstances of the implementation. Contributions to the CMP have yielded the greatest achievement over the three years 2013-15, with 140 identifications by end of December 2013; 152 additional identifications by November 2014, and the opening up of all military areas to excavations by the end of 2015, successes never achieved in 7 years of project's implementation.

The Commission has signed a Financial and Administrative Framework Agreement (FAFA) with the UN for use of the (PAGODA) Delegation Agreement form of contract.

Overall objective and purpose of the action

The EU supports the CMP in establishing the fate of those persons declared missing by both communities as a consequence of the tragic events of 1963-64 and 1974. The Committee has no mandate to establish the cause of death or attribute responsibility. Bi-communal scientific teams participate in all stages of the process e.g. in undertaking awareness sessions on the CMP in high schools in both communities. The CMP is an important and high-profile bi-communal activity. The three CMP Members presented the work to the UN Secretary General in May 2015 and, in December 2015, the two community leaders visited the CMP anthropology laboratory and made an appeal calling on all Cypriots to provide information to the CMP on possible burial sites. As time advances, new information becomes scarcer, although a significant breakthrough was achieved in 2015 with the granting of access over the period 2016-19 to 30 suspected burial sites under Turkish military control.

The EU will continue to support the CMP and the 2016 Aid Programme includes an allocation for the CMP that is in line with previous years. This allocation, together with an additional amount of EUR 2,600,000 that is being made available through re-allocation under the 2013 Aid Programme, is to cover a nominal 2-year period of implementation.

The tasks entrusted to UNDP will all be implementation activities including: procurement, payments, project management, monitoring and ensuring visibility.

Expected results:

- 1) build trust by bringing the two communities to work together;
- 2) reduce number of missing persons;
- 3) increase awareness

This translates into the following activities: a) Support to the bi-communal teams; b) Investigations, Excavations, Exhumations, DNA Analysis, Return of remains c) Events, training, awareness raising

60% of the budget allocated to the CMP goes to the core of its bi-communalism: it finances part of the salaries of young Greek and Turkish Cypriots working as archaeologists, anthropologists, investigators, geologists, and geneticists, contracted by the respective communities. The related costs are partially covered by EU funds, partially by the funds of two communities. 15% of the project costs goes to the actual identification process (matching the DNA found in the bones with that of relatives); another 15% to the excavations. Remaining funds cover the daily laboratory costs.

1.5. *Indicative budget table by Objective*

Aid Regulation Objective	Procurement	Call for Proposals / Direct Grant Award	Indirect Management with IOs/MS Body	Totals	
	EUR	EUR	EUR	EUR	%
Objective 1: Development and restructuring of infrastructure <i>Famagusta sewerage network</i>	16,600,000			16,600,000	50
Objective 2: Social and economic development <i>Support to SMEs</i> <i>Technical assistance</i> <i>PFM review</i>	2,800,000	5,000,000 800,000	800,000	9,400,000	28
Objective 3: Reconciliation and confidence building <i>Support to CMP</i> <i>Support to CSOs</i>		1,000,000	2,600,000	3,600,000	11
Objective 4: Bringing TCs closer to the Union <i>Infopoint</i>	1,500,000			1,500,000	4
Support facility	2,308,392			2,308,392	7
TOTAL	23,208,392	6,800,000	3,400,000	33,408,392	100

1.6. Assumptions and accompanying actions

There are several specific issues that must be resolved and agreed by relevant Turkish Cypriot community stakeholders before the 2016 programme can be fully implemented:

Objective 1: Development and restructuring of infrastructure

- all potential property-related issues must be identified, including site access issues, planning consents and methods of working;
- house connections to the sewerage network must be carried out in Famagusta.

Objective 2: Promotion of social and economic development

- the actions leading to the implementation of the TCc dairy-sector action plan will require committed and continuous involvement of the beneficiaries. The many necessary technical improvements will be incorporated into the dairy-sector action plan;
- the implementation of the *Rural Development Programme* requires fulfilment of responsibilities by all involved actors;
- it is assumed that Green Line trade of dairy products will eventually be possible;
- it is assumed that grant applications of sufficient quality will be generated by businesses and agricultural operators.

Objective 3: Reconciliation and confidence building measures

- it is assumed that the bi-communal Technical Committee on Cultural Heritage will continue to meet regularly and to provide clear guidance on preferred priorities agreed by the two communities;
- the TCc shall ensure that monuments renovated in the northern part of Cyprus are subsequently maintained and accessible to the public and returned to use where possible.

It is, furthermore, assumed that the political settlement process will continue to evolve, allowing the Aid Programme to contribute to the ultimate goal of reunification of the island.

1.7. Implementation modalities and general rules for procurement and grant award procedures

DIRECT MANAGEMENT:

Part of this programme shall be implemented by direct management by the Commission in accordance with article 58(1)(a) of the Financial Regulation and the corresponding provisions of its Rules of Application.

Procurement shall follow the provisions of Part Two, Title IV Chapter 3 of the Financial Regulation No 966/2012 and Part Two, Title II, Chapter 3 of its Rules of Application.

Grant award procedures shall follow the provisions of Part One Title VI and Part Two Title IV Chapter 4 of the Financial Regulation No 966/2012 and Part One Title VI and Part Two Title II Chapter 4 of its Rules of Application.

The International Federation of Consulting Engineers (FIDIC) conditions of contract shall be used for works contracts implemented through direct management.

The Commission may also use services and supplies under its Framework Contracts concluded following Part One of the Financial Regulation.

INDIRECT MANAGEMENT:

Part of this programme shall be implemented by indirect management with entrusted entities other than the beneficiary in accordance with Article 58(1)(c) of the Financial Regulation and the corresponding provisions of its Rules of Application.

The general rules for procurement and grant award procedures shall be defined in the relevant delegation agreements between the Commission and the entrusted entity implementing such action.

The change of management mode from indirect management to direct management, whether partially or entirely is not considered a substantial change provided that all essential elements of the actions have been specified in the initial text of the financing decision.

MONITORING

The Commission may undertake any actions it deems necessary to monitor the programmes concerned.

EVALUATION

Programmes financed under Council Regulation 389/2006 shall be subject to ex ante evaluations, as well as interim and/or, ex post evaluations. The results of evaluations shall be taken into account in the programming and implementation cycle. The Commission may also carry out strategic evaluations.

1.8. Special conditions

In the implementation of actions financed under this Financing Proposal, the rights of natural and legal persons, including the rights to possessions and property shall be respected in line with Art 7 of Council Regulation 389/2006.

Nothing in this financing proposal is intended to imply recognition of any public authority in the areas, other than the Government of the Republic of Cyprus.

As regards participation in the award of procurement or grant contracts, the term “all natural and legal persons of Member States of the European Union in Article 9 paragraph 1 of Council Regulation 389/2006” includes all genuinely existing domestic legal persons residing or established in the areas. This will be specified in the calls for tenders and proposals.