

1. IDENTIFICATION

BENEFICIARY: Turkish Cypriot community

LEGAL BASIS: Instrument of financial support for encouraging the economic development of the Turkish Cypriot community (Council Regulation (EC) N° 389/2006 of 27.02.06)

PROGRAMME: Financial assistance programme to encourage the economic development of the Turkish Cypriot community - Part II
2006/18-488

CRIS NUMBER:

YEAR: 2006

COST: €197 550 000

IMPLEMENTATION: By the European Commission on a centralised basis under Article 53.1 (a) (1) of the Financial Regulation and by joint management with the United Nations under Art. 53 (1) c for project 2.2

DAC CODES: Projects

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- 2006/018-488.02.04:32130	
- 2006/018-488.02.05:53010	

CONTRACTING END DATE³: 15 November 2009

EXECUTION OF CONTRACTS END DATE⁴: 15 December, 2012; 15 December, 2014 for project 2.4

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BUDGET LINE : 22.02 11

³ In no case can the contracting period for projects implemented under this programme exceed three years after the date of the global commitment (Art. 166 (2) FR).

⁴ Budgetary commitments which have not given rise to payments during three years counted from the date of the legal commitment will be decommitted (Art. 77 (3) FR)

ANNEX

**FINANCING PROPOSAL ESTABLISHING A FINANCIAL ASSISTANCE PROGRAMME TO ENCOURAGE
THE ECONOMIC DEVELOPMENT OF THE TURKISH CYPRIOT COMMUNITY – PART II**

This financial proposal represents part II of the financial assistance programme to encourage the economic development of the Turkish Cypriot community. It complements activities funded under previous Commission Decisions and it provides resources required to achieve the other objectives laid down in Council Regulation N°389/2006.

Background

Following a proposal by the Commission on 7 July 2004⁵, Council Regulation 389/2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community has been adopted on 27 February 2006.

The proposed Part I of the financial assistance programme for the Turkish Cypriot community focused on main three priorities 1) the development and restructuring of infrastructure in the field of the environment and energy, 2) the promotion of social and economic development through upgrading of local infrastructure and promotion of private sector development, and 3) bringing the Turkish Cypriot community closer to the Union through the provision of information on the European Union (EU) political and legal order. The total funding to be mobilised under this financing proposal amounts to € 38.1 million.

Through Commission Decision C (2006) 2335/4 adopted on 26/06/2006, an initial amount of €4.5 million has been allocated for activities to assist the Turkish Cypriot community to introduce and implement the *acquis communautaire* and to be delivered under the TAIEX instrument.

Programme design and project selection

As in the case of Part I, the context for the preparation of this programme has been affected by the late approval of the legal basis and the impossibility to start in 2004 and in 2005 the preparatory activities initially foreseen. In addition, reliable statistical data are missing and many socio-economic studies are based on untested data and anecdotal information.

However, a certain number of preparatory studies have been undertaken under previous funding and in particular the 2003 Special Aid Package for the northern part of Cyprus. The aim of these studies was to provide an initial assessment of some key sectors and identify priority projects/investment to be undertaken. Some of these studies have been completed (or are at draft final report stage) and their findings justify some of the projects foreseen under this financing proposal. As a general remark all the studies so far completed point to the need for further project preparation to better define costs and design parameters.

This financing proposal builds therefore on projects already piloted in the past and the finding of feasibility studies, carried out in the field of water/wastewater, energy, rural development, telecommunications, road safety, etc. A report prepared by the World Bank (which was available in draft final form since June 2006) on "Sustainability and Sources of Economic Growth in the northern part of Cyprus" provides useful insights on the state of the economy of the Turkish Cypriot community" and on how to best steer financial assistance.

⁵ COM (2004) 465 final of 07.07.2004

Programming has been influenced by the fact that when Council Regulation n°389/2006 was approved in February 2006, only €139 million were allocated to this instrument under the 2006 General Budget. Following favourable political indications from Member States in May, an amending budget proposal aiming to reconstitute the original €259 million aid package has been presented to the budgetary authorities. For certain sectors, i.e. energy, upgrading of local and urban infrastructure as well as assistance under the TAIEX instrument, additional funding is deemed necessary. Initial allocations to these sectors had indeed been constrained by the reduced volume of funding available in March 2006.

Taken together, all planned interventions represent a balanced package of actions addressing the main needs of the Turkish Cypriot community as well as aiming to achieve all the objectives as laid down in Article 2 of Council Regulation n°389/2006.

All of the activities aim to support reunification *inter alia* by supporting the process of alignment with the *acquis* in certain investment heavy sectors such as the environment. This would enable to reduce costs of reunification and allow for the rapid lifting of the suspension of the *acquis* when a comprehensive settlement of the Cyprus problem is reached.

This financing proposal takes into account the difficulties related to the existing property situation in the northern part of Cyprus. Certain flexibility has been built in the financing proposal under all objectives concerning the funding of reserve projects in case some cannot go ahead because of the need to respect property rights.

Main components

The priorities of Phase II can be summarised as follows:

Objective 1: Developing and restructuring of infrastructure (€ 102,15 million, ca. 52% of the programme):

Under this priority objective, the programme aims to redress the serious gaps in infrastructure provisions existing in the northern part of Cyprus in key sectors such as environment, energy, road transport (and particularly road safety) and telecommunications. Following years of under investment and neglect, key infrastructure sectors are in dire need of rehabilitation and upgrading to meet the demands of the *acquis communautaire* and of a growing economy. The key priorities for this financing decision are projects in the environment sector, namely water and sanitation, and nature protection. Additional investments are foreseen in the field of energy to complement the activities already included in Part I of the programme. Projects in the field of telecommunications and road safety following the completion of preliminary studies funded under the 2003 Special Aid Package will also be supported. Besides infrastructure investment, technical assistance for capacity building and policy reforms will be deployed to ensure long-term sustainability in terms of enhanced service provision. This priority is likely to be the most affected by the property situation.

Objective 2: Promoting social and economic development (€60.7 million, ca. 30.7% of the programme):

This priority covers a broad range of activities aiming to enhance long term economic sustainability of the Turkish Cypriot community. Firstly, it aims to initiate a series of technical assistance measures and projects in the field of rural development and modernisation of the agricultural sector. These will include actions to assist local population in rural areas through a more diversified local economic base and improvement of health and socio-economic conditions and local services provision. Secondly, it will build on the work undertaken under pre-accession funds as well as Part I

for the restoration of cultural/urban heritage in the three main towns of Nicosia, Kyrenia, Famagusta as well as other minor urban centres. Emphasis will be placed on the upgrading of the urban fabric addressing economic, social, cultural revitalisation in a holistic manner. The project will also provide support for the infrastructure work needed for the opening of new crossing points. Thirdly, it will address the unfavourable conditions relating to the labour market in the Turkish community by supporting activities in the field of human resources development, particularly supporting reforms in the education sector as well as the strengthening of vocational training in order to supply the skills needed by local companies through a variety of schemes. Fourthly, it will lay the foundations for actions aiming to improve the competitiveness of the productive sector, diversify the local economy and increase job creation. In particular, funding will be provided on one hand for the setting up of a loan scheme for local companies meeting existing and unsatisfied credit demands including technical assistance to strengthen existing financial services and on the other to implement a series of actions to ensure sustainable economic development. The latter will range from support to SMEs, improvement of business services and environment, to increasing the take up of information and communication technologies (ICT) within the Turkish Cypriot community including capacity building/technical assistance.

Objective 3: Fostering reconciliation, confidence building measures, and support to civil society (€ 13 million, ca. 6.5% of the programme):

As regards reconciliation, the programme will firstly fund a series of activities (mainly grant schemes and capacity building) to strengthen the Turkish Cypriot community civic society and to increase reconciliation and confidence building measures. The success of reconciliation and confidence building measures depends heavily on the on-going political climate. Results have been mixed in the past. Any hope of a solution also depends on improving relations between the two communities throughout all sectors of the society. The project provides a flexible canvas for initiatives which have the potential to increase trust between the two communities in a sustainable manner. Secondly, the initial de-mining effort carried out in 2004-2006 (with EU funding under pilot project/preparatory action) will be continued with the aim to complete the clearing of the buffer zone and adjacent areas. Specific priority will continue to be given to the de-mining of future crossing points. Thirdly, funding will be provided for a project aimed to support joint work between the two communities in the field of history teaching in partnership with the Council of Europe building on preparatory work undertaken since 2004 with both communities.

Objective 4: Bringing the Turkish Cypriot community closer to the European Union (€ 8 million, ca. 3.5% of the programme):

This priority aims to lift isolation of the Turkish Cypriot community by facilitating contacts with the European Union. Firstly, it will fund a community scholarship schemes for undergraduate students and teachers. Secondly, a project will be supported which, through grant schemes, will enable a whole variety of people-to-people contacts between the Turkish Cypriot community and counterpart organisations in the European Union.

Objective 5: Preparing the Turkish Cypriot community to introduce and implement the *acquis communautaire* (€ 8.96 million, 4.5% of the programme):

This priority will provide the resources for assisting with the process of approximation with the *acquis communautaire* both in terms of preparation of legal texts as well as reinforcement of the capacity for the implementation of the *acquis* in view of the withdrawal of its suspension in accordance with Article 1 of Protocol N° 10 to the Act of Accession. The bulk of the activities under this priority objective would be carried out through the TAIEX instrument complementing work done under pre-accession funds as well as under the financing decision adopted in June 2006

under Council Regulation n° 389/2006. Besides support for the preparation of legal texts and to prepare for the implementation of the *acquis*, small scale equipment/investments required for harmonisation with the *acquis* will be funded. Given the importance of protecting the environment in the northern part of Cyprus, a distinct project looking at building capacity concerning environment stewardship will be funded. Under this project, activities including environment data collection, reporting, analysis, monitoring will also be supported.

Unallocated Technical Assistance and Programme Reserve Facility (4.74 million, 2.4%):

It is proposed to set up an Unallocated Technical Assistance and Programme Reserve Facility. This facility would be used to undertake technical assistance activities not specifically foreseen under individual projects but which would be needed to support overall programme implementation. The Programme Reserve component 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. This is particularly important considering that though this programme would last over 5 years, funding is available only in 2006 for programming purposes. The overall allocation for this project is indeed quite small at less than 2% of the overall 259 million euro package.

3. PAST EC ASSISTANCE AND LESSONS LEARNT

Past EC Assistance:

In the 2000-2003 period, a third of pre-accession assistance provided to Cyprus under Council Regulation n°555/2000 has been earmarked for bi-communal projects for a total of around € 14 million. The aim was for both communities to benefit from these bi-communal projects fostering reconciliation.

Following the recommendation of the Copenhagen European Council in December 2003, a Special Aid Package of € 12 million for the northern part of Cyprus was approved. The Turkish Cypriot community was the sole beneficiary of this assistance. The bulk of the assistance delivered to the Turkish Cypriot community via these programmes has been implemented through the United Nations Development Office (UNDP). Bi-communal projects under the 2003 National pre-accession programmes as well as the 2003 Special Aid Package are still on-going and will terminate in autumn 2006.

Assistance delivered to the Turkish Cypriot community so far has mainly been focused on 1) funding of urban renewal infrastructure work and in particular the Nicosia Master Plan; 2) business support; 3) support to civil society; 4) assistance with *acquis* harmonisation; 5) feasibility studies and 6) limited information activities.

A key lesson learnt as regards past financial assistance relates to the importance of the political context. A lot of activities require a conducive political context in terms of trust between the two communities as well as willingness of the Turkish Cypriot community leadership to undertake important but often difficult reforms. The success of this programme in achieving the overall objective of Council Regulation n°389/2006 depends primarily from the political will of both communities.

Lessons learnt:

Limited evaluation activities have been carried out as regards the assistance delivered in 2000-2003 to the Turkish Cypriot community. The interim evaluation of pre-accession assistance carried out in 2005 rates the relevance of the bi-communal projects as satisfactory with regard to stimulating co-operation between the two communities. Efficiency of implementation was less satisfactory in view of delays, some of them linked to the difficult and changing political context. However, effectiveness, impacts and sustainability were rated as satisfactory or highly satisfactory. In terms of sustainability, some concerns were expressed as regards activities under the Nicosia Master Plan in terms of resources available for the maintenance of restored monuments. This lesson will be taken into account in the detailed identification and design of infrastructure projects.

4. STRATEGY

Following the outcome of the simultaneous referenda in Cyprus, the Council stated on 26 April 2004:

“The Turkish Cypriot community has expressed their clear desire for a future within the European Union. The Council is determined to put an end to the isolation of the Turkish Cypriot community and to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community. The Council invited the Commission to bring forward comprehensive proposal to this end, with particular emphasis on the economic integration of the island and on improving contact between the two communities and with the EU. The Council recommended that the 259 million euro already earmarked for the northern part of Cyprus in the event of a settlement now be used for this purpose”.

Following a proposal by the Commission on 7 July 2004⁶, Council Regulation 389/2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community was adopted on 27/02/2006.

The regulation outlines that measures to be financed under it are of an exceptional and transitional nature and are intended, *inter alia*, to prepare and facilitate, as appropriate, the full application of the *acquis communautaire* in the areas following a solution to the Cyprus problem.

This specific financing proposal contributes to achieve all the objectives laid down under Art. 2 of Council Regulation (EC) n°389/2006, i.e.:

- 1) the promotion of social and economic development including restructuring, in particular concerning rural development, human resources development and regional development;
- 2) the development and restructuring of infrastructure, in particular in the areas of energy and transport, the environment, telecommunications and water supply;
- 3) reconciliation, confidence building measures, and support to civil society;
- 4) bringing the Turkish Cypriot community closer to the Union, through *inter alia* information on the European Union’s political and legal order, promotion of people to people contacts and Community scholarships;

⁶ COM (2004) 465 final of 07.07.2004

- 5) 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;
- 6) preparation for implementation of the *acquis communautaire* in view of the withdrawal of its suspension in accordance with Article 1 of Protocol No 10 to the Act of Accession.

5. CROSS-CUTTING THEME

Though the beneficiary is the Turkish Cypriot community, the cross-cutting theme of the assistance is the need for every project and activity to contribute to the future economic and social unification of the island *inter alia* by assisting the Turkish Cypriot community in complying with the *acquis communautaire*.

In accordance with recital n° 8 of Council Regulation n°389/2006 which reads "the development and restructuring of infrastructure, in particular in the areas of energy and transport, the environment, telecommunications and water supply, should take account of island-wide planning, where appropriate", in the administering of assistance under Regulation n°389/2006, the Commission will take utmost care to ensure that planning and physical implementation is conducive to future interconnection in all relevant sectors once reunification takes place. Due account will be taken of projects/studies available relating to the situation in the Republic of Cyprus when preparing technical specifications prior to tendering.

6. OBJECTIVES AND DESCRIPTION

The objectives tackled in this financing proposal are the following:

- Objective 1 Developing and restructuring of infrastructure
- Objective 2 Promoting social and economic development
- Objective 3 Fostering reconciliation, confidence building measures and support to civil society
- Objective 4 Bringing the Turkish Cypriot community closer to the European Union
- Objective 5 Preparing the Turkish Cypriot community to introduce and implement the *acquis communautaire*

Additionally, the programme will fund an Unallocated Technical Assistance and Programme Reserve Facility.

Objective 1: Developing and restructuring of infrastructure

Investment in infrastructure has been neglected in the Turkish Cypriot community for many years due to the lack of funding and knowledge of best practice and requirements of the *acquis communautaire*. Inadequate investments for physical infrastructure resulted in low capacity and low standards in terms of basic infrastructure such as water/sanitation, energy, etc. as well as low level

of service provisions to citizens. The main sectors to be covered in this financing decision are environment, energy, telecommunications and road safety.

Under the 2003 Special Aid Package for the northern part of Cyprus, needs assessment and pre-feasibility studies were undertaken in the fields of water/wastewater, solid waste, transport, energy, telecommunications and road safety. In addition, in the case of the water/wastewater sector, technical master plans are in the process of being undertaken in selected local communities. In the environment sector, considerable assistance has been deployed through the TAIEX instrument activities funded by the 2003 Special Package to strengthen capacity and policy planning. Projects under this objective build on the findings of these studies and work undertaken with the Turkish Cypriot community taking forward their recommendations.

One of the key outcomes of the needs assessments finalised in 2004-2005 points to the need of substantial technical assistance to improve the knowledge and the management of the sectors. In conjunction with investment projects, it is proposed to deploy considerable technical assistance for project preparation and improving of management of the targeted sectors. This is essential to ensure the long term sustainability of the physical infrastructure investments to be carried out. In some sectors, deep-rooted structural and policy reforms will be needed to guarantee sustainability and EU funding will be used to support these reforms. In some cases, infrastructure investments will be made conditional to the progressive introduction of reforms providing the Commission with the necessary assurances as regards long term sustainability as well as improved service delivery.

Sub-Objective 1 (a) – Protecting the environment

Project 2006/018-488.01.01 : Sector programme for upgrading the quality and management of water supply and sanitation services

As regards the water and wastewater sector, the current situation is on a knife-edge and far from compliant with the requirements of the EU *acquis* in the sector. This project will fund a series of activities having as objective the progressive alignment with the EU *acquis* in the field of water/wastewater. The needs assessment for this sector identified priority investments in the field of water and wastewater. The total estimated cost for these investments is well over €120 meuro. Detailed master plans are also in the process of being carried out in 5 cities in the northern part of Cyprus. A master plan for Greater Nicosia has already been undertaken funded by the European Investment Bank under the METAP facility. The aim of this project is to implement key priority investments in the sector (within the timeframe of this programme) with the aim of bringing it progressively in line with the standards set by the EC *acquis*. This project comprises three main activities as follows:

Activity 1 relates to **technical assistance** to support programme sustainability and implementation and includes the a) Setting up of a programme management unit (PMU) to support the Commission in the implementation of this sector programme in the field of water/wastewater as well as the sector programme in the field of solid waste); b) Project preparation (including tender preparation) of activities to be funded including preparation of reserve projects; c) Works engineering supervision; d) Restructuring, capacity building of water/wastewater organisations; e) Provision of additional capacity/facilities for sampling, analysis and reporting for water/wastewater compliance. The rationale for this component is to ensure the sustainability of the investments providing the technical assistance support the structural changes needed to meet requirements of the *acquis*.

Activity 2 focuses on the most urgent investments in the field of drinking water. The rationale for the selection and prioritisation of these investments is first that they will directly impact on the quality of drinking water supply to the main urban centres ensuring substantial compliance with the drinking water directive and second that, given the scarce water resource situation, they will directly impact/reduce demand and the costs of providing the services.

Item	Table a) Description: Urgent water supply investments
2a	Construction of a drinking water treatment plant and blending facility at Kumkoy to serve Morphou, Nicosia and Famagusta
2b	Replacement of asbestos cement water pipelines
2c	Urgent repairs to reservoirs, pumping stations, and small scale investments

Activity 3 is represented by an investment programme in the field of water/wastewater. The rationale behind selection and prioritisation is that the selected investment will provide first time sewerage and wastewater treatment in the main urban areas currently without such facilities. Morphou is ranked top because it directly contributes to contamination of the main aquifer used for drinking water for a large proportion of the population of the northern part of Cyprus.

Item	Table b) Description: Urgent wastewater investments
3a	Morphou wastewater treatment plant, main sewer collectors and storm drains
3b	Famagusta wastewater treatment plant, main sewer collectors and storm drains
3c	Nicosia (Haspolat/Mia Milia) regional facility for reception of tankered wastewater

The investments prioritised in tables have also been chosen because they can be completed within the implementation timeframe of this programme (of five/six years). Should the above components not being able to be realised (wholly or partially) because of property issues or problems to be encountered during the tender preparation phase, alternative investment will be carried out based on the priority lists contained in the master plans undertaken in the water and wastewater sector as well the METAP funded Master Plan for the Greater Nicosia Sewerage Area. These additional projects could include *inter alia*: a) Contribution to the construction of a new wastewater treatment plant at Haspolat/Mia Milia and associated collector sewers related to the treatment of the wastewater flow from the Turkish Cypriot community; b) a first stage investment in a new wastewater treatment facility for Kyrenia as the current one can only guarantee partial treatment until 2012; c) Partial or complete replacement of the 35km long Tirmen to Iskele transmission main; d) Further sewerage investments for Kyrenia and district; and e) Other priority investments to be identified in the final versions of the master plans. These reserve projects will be prepared in parallel with the chosen investments to ensure they are ready to be contracted within the timescales should problems arise.

Indicatively, the project will be implemented through five works contracts and five service contracts and one supply contract.

Project 2006/018-488.01.02 : Support to the Turkish Cypriot community as regards management and protection of potential "Natura 2000" sites in the northern part of Cyprus.

The aim of this project is to assist the Turkish Cypriot community to prepare for the effective implementation of the *acquis* in the field of nature protection. The northern part of Cyprus has unique habitats for rare flora and fauna and a number of scenic natural landscapes that are in need of protection and conservation if these elements are to be preserved for future generations. However, the Turkish Cypriot community currently lacks adequate systems for protecting these vulnerable natural resources. Urgent steps need to be taken relating to the definition of specially protected areas

in compliance with the requirements of the EU directives on nature protection. Development pressures with the lack of adequate planning procedures are putting at risk areas which would fall under the requirements of the said directives. Assistance is needed to urgently put in place a map of protected areas and provide support for the implementation of management plans as well as the related physical infrastructure required for management purposes.

The project will include three main components: a) preparation of management plans for seven specially protected areas likely to be designated as "Natura 2000" sites upon reunification; b) provision of the necessary infrastructure and equipment required for the management and protection of these specially protected areas and c) capacity building for the Turkish Cypriot community organisations which are responsible for nature protection.

Indicatively the project will be implemented by two service contracts and three works contracts.

Sub-Objective 1 (b) Improving the management of the energy sector

Project 2006/018-488.01.03 : Upgrading the management of the energy sector - Part II

The overall objective of this project is to prepare the Turkish Cypriot community for implementation of the *acquis communautaire*, and in particular Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC. A first project focusing on SCADA, reactive energy and metering has already been included in Part I of the programme. Under this project the following activities will be funded *inter alia* 1) Supply of electricity meters testing and calibration facilities: despite progressive introduction of remote controlled digital meters (also with EU support), many mechanical meters will still be in use for many years. Calibration and testing of mechanical meters will facilitate better demand side management and decrease commercial losses along the network. Testing and calibration facilities will be provided together with the relevant technical training; 2) Assistance with the preparation of guidelines on distributed generation network connection; 3) A feasibility study relating to the use of waste heat and power generation taking into account efficiency improvements, demand forecasts and demand side measures. The study will assess measures on how to increase the efficiency in terms of power output at the existing power plant in Teknecik as well as use of excess waste heat for desalination against small scale distributed desalination. Should the study indicate the need for additional power generation, resources from savings may be reallocated for this purpose; 4) Supply of energy and water optimization software to minimise fuel consumption (and pollution) accompanied by training; 5) Provision of energy metering at interconnection points between the electricity systems of the two communities. Installing such devices is prerequisite for envisaged interconnection of the two systems; 6) Synchronization Study: this study will be performed to determine detailed conditions for final synchronization and reconnection of the two power systems; 7) Pollution Control and Weather /Wind Monitoring Equipment: there is a need for continuous monitoring and control of air pollution near the Teknecik and Kalecik power facilities; 8) Construction of a demonstration pilot solar power facility; 9) Support to the improvement of customer care systems; 10) Improvement of demand side management through a) pilot projects in the field of energy efficiency and b) public awareness campaign to disseminate best practice and use of new building regulations, labeling, etc.; and 11) Technical Assistance/capacity building and support to project implementation.

Indicatively the project will be implemented through four supply contracts, a turnkey contract and eight service contracts. Certain service contracts may be regrouped.

Sub-Objective 1 (c) Improving traffic safety

Project 2006/018-488.01.04 : Traffic safety improvement programme

3,254 accidents were reported in 2004 in the northern part of Cyprus. The number of people dying of road accidents is well above the EU average. There were 24.6 deaths per 100,000 inhabitants in 2005, whilst the EU average is just about 11.7. Similarly the number of accidents is more than double the EU average. A number of shortcomings have been identified in the field of road safety including *inter alia* the fact that most roads have inadequate traffic signs and pavement markings and lack of safety features; there is no provision for speed restriction devices that would take account of the particular characteristics of the road (its type, classification, etc.); and educational campaigns on traffic safety are not properly carried out.

Under this project, funding will be provided to undertake a whole area of actions including *inter alia* 1) data collection and analysis, 2) education/public awareness campaigns; 3) capacity building; 4) infrastructure improvement at black spots within and outside localities along the existing road network as well signage improvements and 5) traffic improvement measures such as for instance traffic calming and 6) contract supervision.

Indicatively, the project will be implemented through six works contracts and one supply

Sub-Objective 1 (d) Upgrading the telecommunications network

Project 2006/018-488.01.05 : Development and restructuring of the telecommunications infrastructure

The telecommunications sector in the northern part of Cyprus is not up to the European standards. There is very little high speed internet access available in the Turkish Cypriot community and prices are considerably above the European average. Broad-band internet connection is expensive and difficult to get and other options are also costly – ISDN costs about €350 per month and leased line and frame relay can cost up to €500 per month. The only affordable option for most individuals and businesses is dial-up. There is at present a monopoly in fixed line telephony and duopoly as regards mobile communications. Wireless access is available but only in the big cities and at the expense of severely overcrowded frequencies. Lack of adequate telecommunications facilities is a major hurdle to economic development particular given the insular geography.

The aim of this project is to provide investment support to develop and upgrade the telecommunications network through the provision of the necessary equipment and works so that it can meet the demands of a modern and growing economy, with particular focus on those areas where due to market failure (also in consideration of the political context) investments have not been carried out and actions are urgently needed. Infrastructure investments will be accompanied by training, capacity building/assistance for the restructuring of the sector, project preparation (including concept testing) and project management activities. Infrastructure investments will be conditional on the introduction of steps aiming at the full liberalisation of the market in the northern part of Cyprus in order to maximise benefits for the end consumers.

Indicatively, the project will be implemented through one turnkey contract and two service contracts.

Objective 2: Promoting Social and Economic Development

Project 2006/018-488.02.01 : Rural Development Sector Programme

Agriculture has historically played a key role in the economy of the northern part of Cyprus in both economic and social terms and in some aspects still does. There are close links between agriculture and other issues addressed in this proposal, notably water, landscape and tourism. Development of the agricultural and rural economy is therefore a key objective in its own right, in addition to being an area in which there will be a substantial amount of *acquis* to apply after a settlement.

While the role of agriculture in GDP and as a major employer has diminished over time, exports of agricultural products remain by far the dominant export commodity. Nearly 60% of the area is agricultural land. In 2006, rural population was well over 50% of the total, agriculture employed about 9% of the workforce and generated 9 % of the total income of the area. Economic importance of the sector is also stressed by the fact that more than 70% of exports are agricultural products according to a recent study. The situation has been compounded by the isolation of the northern part of Cyprus in trade terms. The main products exported are citrus (mostly to Russia, Ukraine and Turkey) and cheese (to Turkey and Arab countries). There are roughly 12 000 farms, on average with less than 5 ha divided in several parcels. Over half of the farms cultivate crops only, and are dedicated to fruit and vegetable production in the irrigated areas. The remaining ones engage primarily in mixed crop and livestock farming and a fifth of these exclusively in livestock production (mainly dairy cattle but also sheep and goats). There is no specialized beef production. A large proportion of the farmers operates part-time and has other sources of income besides agriculture.

The social and economic picture of rural areas reflects a profound distortion of market mechanisms introduced by subsidies and price regulations reflected in part in an output structure which is not consistent with its sub-tropical climate. The structures set up by the Turkish Cypriot community play a key role in the agriculture sector, with marketing boards being responsible for buying cereals, potatoes, citrus and milk (among other products) at prices determined administratively. The administration also pays relatively substantial export subsidies to the main export products, particularly for cheese and citrus. This continued action has led to problems such as the low competitiveness of a high proportion of the farms, high budgetary costs or the mismanagement of water resources (leading to salination of aquifers).

Since public intervention for the rural sector was centred on market and price support, rural development planning including funding for community and economic development initiatives in rural villages was neglected. The level of revenues of these communities is not sufficient to meet their expenditure needs particularly when it comes to capital development projects. They heavily depend on financial transfers. Level of service provisions is not adequate within these villages.

Agriculture, land, and water resources in the northern part of Cyprus are linked. Careful management will be essential to ensure sustainability and growth of the agricultural sector, of natural resources, and of water use. The present share of 70% of irrigation water on the total water use is not sustainable. The encouragement of the use of new varieties and new crops more suited to Cyprus' natural conditions, the introduction of a coherent water pricing policy, the modernisation of the agricultural sector, the improvement of extension and training services, meeting EU standards, improving rural infrastructure, promoting rural tourism and creating alternative employment are priority issues in the context of support to rural development.

Under this project, a whole range of activities will be funded including 1) support to the development of a rural development plan; 2) setting up of a rural development grant scheme to fund a whole range of farm diversification and modernisation projects; 3) measures to improve water conservation and increase in irrigation efficiency, and modernisation of the fruit and vegetable sector; 4) measures for the improvement of livestock farming and achievement of good hygienic conditions; 5) setting up of a

community development fund with the aim to fund a wide range of local economic, social and environment development activities. This component aims at enhancing local infrastructure and improving quality of life and economic revitalisation in supported rural communities. Capacity building will also be deployed to strengthen the capacity of local communities to design and implement local development projects as well as to improve the sustainability of funded investments; 6) measures to support organic farming and 7) technical assistance to support programme implementation.

Indicatively, the project will be implemented through two grant schemes, six service contracts and two supply contracts.

Project 2006/018-488.02.02 : Upgrading of local and urban infrastructure – Part II

Cultural and historical urban heritage represents an important asset for the northern part of Cyprus. Under pre-accession assistance, activities have been carried out within the context of the Nicosia Master Plan since 2000. In 2004, the Famagusta revitalisation plan has also been started with work being carried out on the historical Venetian walls. The work undertaken under the Nicosia Master Plan was also important because of its bi-communal nature. Nicosia is the last divided city in the world. Through the Nicosia Master Plan, bi-communal teams of architects have been working towards a harmonious restoration of some of the finest architectural features of the city. A revitalized city centre is an important resource economically and socially drawing higher income service businesses and tourism.

This project builds and complements a similar project to be funded under Part I. The project aims to support balanced economic and social development by improving the infrastructure and by supporting the urban upgrading and revitalisation of Nicosia, Kyrenia, Famagusta and other smaller urban centres; by enhancing the range of local infrastructure services and the delivery of services to the community. The project will also strengthen the capacity of local communities to design and implement local development projects. Capacity building will be also provided to local communities to secure the sustainability of infrastructure investments. Activities to be funded under this project include *inter alia* a) infrastructure and urban upgrading including improvement of public facilities and built environment; b) development of community and economic buildings/facilities (youth centres, cultural centres, multipurpose centres, care centres, ICT facilities, sports facilities, business incubators, etc.); c) small scale local water/sanitation investments; d) infrastructure for the opening of new crossing points; e) funding for softer actions, bringing the communities together like for instance cultural events as well as promotional activities; f) capacity building/technical assistance activities.

This project will be implemented by joint management with UNDP in accordance with Article 53.1 (c) of the Financial Regulation.

Project 2006/018-488.02.03 : Human Resources Development Sector Programme

The Turkish Cypriot community has a large stock of human capital in terms of educated and/or skilled labour. It has invested heavily in education over the years. However the current system does not wholly respond to the needs of individuals or the labour market. Thanks to decades of investment in higher education, the northern part of Cyprus now enjoys a good position in terms of its basic capabilities in social sciences education. However it lags behind in basic technical education and in science and technology. A local training market should also be stimulated in order to support the adaptability and employability of the labour force within a lifelong learning perspective, and a platform should be created to promote a social dialogue between policy makers, education institutions and business leaders with the aim of human resources contributing to sustainable economic development.

The study on “Sustainability and Sources of Economic Growth in the northern part of Cyprus” makes the following recommendations as regards the education sector in the Turkish Cypriot community: 1) increase support to the ongoing education reform; 2) decentralise decision-making and financial management to districts and schools; 3) restructure secondary education including an overhaul of approach to vocational training; 4) prepare a long-term strategy for higher education; 5) improve the efficiency of the education system; 6) establish a policy for monitoring and evaluation of education.

This sector programme aims at strengthening and developing human resources development policy in the Turkish Cypriot community and at developing human resources in line with required skills requirements. It will do so through a variety of interventions including technical assistance to support adequate data collection and assessment (labour market), education reforms particularly in terms of strengthening vocational education and training, introduction of ICT technologies and skills in the field of education, programme implementation support, etc. Grant scheme will be set up to test actions funding *inter alia* training programmes, training of trainers, apprenticeship schemes, etc.

Indicatively, the project will be implemented through service and supply contracts and a grant scheme.

Project 2006/018-488.02.04 : Micro and small enterprise loan scheme

According to a market demand analysis of December 2005 conducted by USAID comprising a sample questionnaire of 250 private enterprises, about 40% of the sampled enterprises confirmed the need for credit. Loans are mostly required for working capital and trade finance but also for machinery and equipment, buildings, and accounts receivable. Loan requirements range from 50,000 USD to 100,000 USD but should be significantly lower for smaller or even micro businesses (including in the farm/agro-food sector and activity diversification in rural areas) Local banks are presently the single – and very limited – source of financing for micro and small enterprises in the Turkish Cypriot community. The supply of loans in general does not comply with the demand pattern. In particular, unmet demand exists for loans with maturities of 3 to 5 years.

The project comprises the provision of a refinance facility to selected local commercial banks complemented by a technical assistance components for partners banks.

This project will be implemented via a grant agreement with a development bank and a service contract.

Project 2006/018-488.02.05 : Sustainable economic development and ICT sector programme

The study on “Sustainability and Sources of Economic Growth in the northern part of Cyprus” highlights the importance of expanding the private sector in the Turkish Cypriot community. The public sector is too big, overstaffed and inefficient. Many areas of the private sector have downsized and become uncompetitive. The Turkish Cypriot private sector is unprepared to face the challenges posed by globalization. This situation needs to be corrected and private sector dynamism needs to be increased. The timing and conditions of reunification of the island may indeed be influenced by the income gap between the Turkish Cypriot and the Greek Cypriot communities. Progress in this area will require substantial improvement in conditions for entrepreneurship, investment, and innovation. For any kind of convergence to take place, the northern part of Cyprus will have to foster much higher rates of sustained private sector growth and less intervention from the public sector.

Information communication technology (ICT) is a crucial area for the northern part of Cyprus's future both as a new potential business activity and as a technology that is needed to raise the productivity of all sectors, particularly in high-potential service businesses. A "big-push" effort is needed in the IT area to improve infrastructure, adopt legislation, and increase use of IT and e-commerce in business and education. Today there are no concerted effort to get things going in this important area. Infrastructure for ICT development is also inadequate. Business use of ICT is low compared to the Republic of Cyprus and the new EU countries. Overall, this is affecting the level of competitiveness of the Turkish Cypriot small and medium sized companies (SMEs) and their capacity of creating workplaces, economic and social growth and advances in technology and management. Addressing this ICT weakness will be essential in closing the Turkish Cypriot community's productivity gap with its competitors.

The programme will aim to foster sustainable economic growth through technical assistance to support reforms including privatization of publicly owned enterprises. Grant schemes for SMEs (including start-ups) for productive investments including technology transfers, business advice and counselling for SMEs, setting up of business networking tools, capacity building for business support organizations, including setting up of business incubators, improvement of business/economic development infrastructure, pilot projects to improve competitiveness will be funded under the programme. The programme will also make an important contribution to plug the ICT gap in the business sector as well in those areas affecting quality of service delivery to citizens through a number of actions ranging from training (including promotion of schemes to widen ICT literacy), actions to support the development of an ICT enabling environment, introduction of ICT technologies, awareness raising campaign, supporting the adoption of ICT in the private sector, supporting the adoption of ICT as a production sector, etc.

Indicatively, the project will be implemented through grant schemes for SMEs, service contracts and works contracts.

Objective 3: Reconciliation, confidence building measures and support to civil

Project 2006/018-488.03.01 : Reconciliation, confidence building measures and support to civil society

It is important to support activities improving relations between the two communities to assist reunification. Though the success rate of reconciliation measures cannot be guaranteed as it highly depends on a volatile political context, it is clear that a solution to the Cyprus problem would be greatly facilitated by increased mutual trust between the communities.

The aim of the project is to improve relations between the two communities and to strengthen civil society in the Turkish Cypriot community. Activities to be supported include *inter alia* the following: a) Reconciliation and confidence building measures between the two communities. Preference should be given to actions having a long term horizon rather than one-off events. Any activity with the potential to bridge the gap between the two communities and supporting contacts between them will be considered. This may also include if appropriate some infrastructure investments. Considering the political context, a certain amount of flexibility is required; 2) Capacity building projects within the Turkish Cypriot community civil society accompanied by grants in various sectors (e.g. protection of the environment, promotion and protection of women's rights, enhancement of social inclusion of people with disabilities, strengthening consumer protection organisations and citizens advocacy groups; 3) Support to NGOs and international organisations promoting reconciliation projects including research leading to a better understanding

of issues affecting trust between the two communities; 4) a grant contribution to the Committee of Missing Persons campaign; 5) support to a project building on the Council of Europe "Academy of Political Studies".

Long-term sustainability will be an important criterion in the selection of actions in support of civil society. Ex-ante evaluations will be carried out to identify what has not worked in terms of both reconciliation and civil society support in the past and what measures should be developed. The project will also fund activities to ensure its effective promotion and implementation. Indicatively, the project will be implemented through grant schemes for NGOs and service contracts. Works contracts may be considered whether it is considered that they could contribute to reconciliation.

The project also includes two grants awarded without a call for proposal. The first grant contract will be signed with UNDP which will be the implementing body for the activities of the Committee of Missing Persons. The second grant contract will be signed with the Council of Europe for the implementation of the component relating to the Academy of Political Studies (For a justification of both direct awards, see section 9).

Project: 2006/018-488.03.02 : De-mining assistance programme

In the 2004-2006 period on *de-mining activities* in Cyprus, €5 million have been provided to start the process of clearing mines in Cyprus, in particular in the buffer zone between the areas under effective control of the Government of the Republic of Cyprus and the northern part of the island. With this project, the activities undertaken under the 2004-2006 pilot project and preparatory action will be continued with the aim to achieve the complete de-mining of the buffer zone. The priority of the project is to focus de-mining on the opening of new crossing points.

The project will be implemented through a grant awarded without a call for proposal. The grant contract will be signed with UNDP (For a justification of the direct award, see section 9).

Project 2006/018-488.03.03 : Support to the development of new trends in history teaching for reconciliation and stability in Cyprus

The Council of Europe has already created the basis for future co-operation since it launched its activities in Cyprus in 2004. They have included: four history teacher training seminars; a meeting of experts on the preparation of a pedagogical set of materials by Cypriot history educators from all communities; and a publication on "Multiperspectivity in teaching and learning history" in three languages (English, Greek and Turkish). The Council of Europe is the only European organisation which has managed to initiate a process leading to changes in school history teaching in Cyprus by providing a basis for students to better understand such values as open-mindedness, ability to achieve compromise and tolerance, which are fundamental in acquiring conflict-resolution skills. The main partner of the Council of Europe is the Association for Historical Dialogue and Research which is a unique organisation bringing together history educators from both communities

The specific objectives of the project are to support: history educators from all communities in the development and use of new methods for teaching history as well as to develop a new understanding of history teaching involving all communities, creating a basis for co-operation. History teachers and teachers trainers from both communities will be trained on the use of new methods when teaching history. History educators will be trained in history textbook techniques and complementary pedagogical material will be prepared in three languages (English, Greek and Turkish) and disseminated to be used in secondary and upper secondary schools across Cyprus.

The project will be implemented through a grant awarded without a call for proposal. The grant contract will be signed with the Council of Europe (For a justification of the direct award, see section 9).

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

Project 2006/018-488.04.01 : Community scholarship programme

The overall objective is to bring the Turkish Cypriot community closer to the European Union (EU) through Community scholarships enabling Turkish Cypriot students and teachers to spend up to one academic year in a university in one of the Member States. Due to the political context, Turkish Cypriot students and teachers are not in a position to take part to the vast majority of community educational programmes. The aim of this project is to increase the exposure of young people to European Union universities and colleges. The scholarship programme shall start from the academic year 2007-2008 onwards. It comprises 10-month scholarships for Turkish Cypriot students going abroad to study for one academic year at universities in EU Member States. Provisions will be included, if justified, for grants to support shorter-term exchanges.

The project will be implemented through a grant scheme with yearly calls of proposals for the academic years 2007/08, 2008/09 and 2009/10 supported by small scale technical assistance to assist project implementation.

Project 2006/018-488.04.02 : Promotion of people to people contacts

As in the case of the previous project, due to the political situation, Turkish Cypriot community have had no, or very limited, contacts with counterparts in the European Union in many sectors.

The overall objective is to bring the Turkish Cypriot community closer to the European Union (EU) through a scheme enabling broad sections of Turkish Cypriot community civil society to enter into contact and engage with their counterparts in the European Union in a variety of fields. This objective shall be achieved by setting up a people-to-people contacts grant scheme. This grant programme will target mainly young people and civil society, and will focus on cultural, sports exchanges to stimulate dialogue and understanding in these sectors. However, it will be open to evaluate other proposals contributing to enhance people-to-people contacts (e.g. women's initiatives, exchanges involving the local media, trade unions, etc.). Some funding will be allocated also for exchanges involving young people from both communities in Cyprus interacting with their EU peers.

Before the launch of the first call for proposal, evaluation activities will be carried out (including survey work) to identify those areas where the isolation and lack of awareness of the EU context is the greatest, where the greatest obstacles exist for interaction and where therefore the added value of EU support in terms of bringing the Turkish Cypriot closer to the European Union would be the highest.

The project will be implemented through a grant scheme with calls of proposals supported by small scale technical assistance to assist project implementation.

Objective 5: Preparing the Turkish Cypriot community to introduce and implement the *acquis communautaire*

Project 2006/018-488.05.01 : Technical Assistance to support the legal transposition as well as the implementation of the *acquis communautaire* through the TAIEX instrument – Part II

Building on assistance already provided through Commission Decision C (2006) 2335/4 adopted on 26/06/2006, this projects comprises of the following two components:

- (1) Component A includes the whole range of assistance in the preparation of legal texts and for the implementation of the *acquis communautaire* as well as support for the implementation of Council Regulation 866/2004⁷ and Commission Regulation 1480/2004⁸ available through the TAIEX instrument. Activities include seminars, workshops, expert and study visits; mobilisation of longer-term experts; provision of tools and information products for among others, translation and interpretation activities, as well as co-ordination and monitoring, in close co-operation with Member States and Commission services; maintenance of a local support point for ensuring more effective co-ordination of the actions carried out by the TAIEX instrument;
- (2) Component B includes the provision of equipment required for *acquis* implementation.

Component A will be implemented according to Article 54.2 (c) of the Financial Regulation (See section 9 for more detail). Component B will be implemented via supply contracts.

Project 2006/018-488.05.02 : Capacity building in the environment sector

Protection of the environment has been earmarked as a key priority given the characteristics of the northern part of Cyprus. The project will support a capacity building programme to provide relevant organisations at all levels in the Turkish Cypriot community with the resources, expertise and experience that they need in order both to implement the EU *acquis* and to address the specific environmental problems that they are facing. It comprises five activities: 1) support to the introduction of the changes being proposed with a view to set up the structures that are needed for the effective transposition, implementation and enforcement of EU legislation; 2) capacity building programme including relevant staff training on environmental management practices and procedures as well as specific training on aspects of approximation not covered by other activities/tasks as well as the provision of small scale equipment; 3) work on monitoring, information management and reporting comprising a) updating the air quality monitoring programme, b) upgrading of the analysis capability, c) collecting relevant environmental & natural resource data (air quality, water quality etc), d) storing & managing the data that has been collected, and e) Preparing reports on the environmental status; 4) assistance to strengthen permitting, monitoring, inspection and enforcement and 5) support in the development and implementation of a sustainable development strategy.

This project is likely to be implemented via service and supply contracts.

Unallocated Technical Assistance Programme Reserve Facility

⁷ Council Regulation (EC) N°886/2004 of 29 April 2004 on a regime under Article 2 of Protocol 10 to the Act of Accession

⁸ 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

Project 2006/018-488.06.01 : Unallocated Technical Assistance Programme Reserve Facility

The objective is to set up an Unallocated Technical Assistance and Programme Reserve Facility. This facility would be used 1) to undertake technical assistance activities not specifically foreseen under individual projects but which would be needed to support activities undertaken elsewhere in the programme in particular to ensure long term sustainability; and 2) to provide a programme reserve facility. This is particularly important considering that though this programme would last over 5 years, funding is available only in 2006 for programming purposes. Due to the delays encountered in the approval of the legal basis and delayed preparatory activities, certain needs may not have been identified yet. The Programme Reserve will be used to respond to requests for new activities which may become needed once implementation starts and which may also arise from changes in the political situation (as for instance investments in ports facilities, etc.).

The overall allocation for this project is indeed quite small at less than 2% of the overall 259 million euro package. Given its nature, the project can be procured through different procurement methods. Indicatively a third of this project will be used for unallocated technical assistance and 2/3 for the programme reserve. The use of the Programme Reserve funds will be approved by the Commission.

7. CO-ORDINATION WITH OTHER DONORS

EC assistance is not the only source of financial support to assist the economic development and the lifting of the isolation of the Turkish Cypriot community. The Turkish Cypriot community has been depending on regular financial transfers from Turkey both for funding running expenditure and capital investment projects.

The United States of America through the United States Agency for International Development (USAid) are the other major donor to the Turkish Cypriot community. Since many years, USAid has been providing support for bi-communal development projects implemented by the UNDP. In 2004 further to the outcome of the April referendum, \$31.5 million have been approved by Congress to support the economic development of the Turkish Cypriot community for support to a variety of sectors primarily focusing on private sector development.

Bilateral aid has also been deployed by a number of EU Member States focusing on harmonisation with the *acquis*, as well as reconciliation activities.

8. BUDGET TABLE⁹

This Financing Proposal will be financed through community funds of € 197.55 million allocated as follows among the different activities:

⁹ Individual financial allocations shown in the budget table are subject to fluctuations of up to +/- 15% over the lifetime of the financing proposal.

<i>Objectives and projects</i>	<i>Costs (€ million)</i>
Objective 1: Developing and restructuring of infrastructure (€ 102,15 million, around 52%)	
Sub-Objective 1 – Protecting the environment	
Project 2006/018-488.01.01 – Sector programme for upgrading the quality and management of water supply and sanitation services	71 400 000
Project 2006/018-488.01.02 – Support to the Turkish Cypriot community as regards management and protection of potential Natura 2000 sites in the northern part of Cyprus	5 000 000
Sub-Objective 2 – Improving management of the energy sector	
Project 2006/018-488.01.03. Development and restructuring of the energy infrastructure – Part II	8 750 000
Sub-Objective 3 - Improving traffic safety	
Project 2006/018-488.01.04 - Traffic safety improvement programme	3 000 000
Sub-Objective 4 – Telecommunications infrastructure	
Project 2006/018-488.01.05 - Development and restructuring of telecommunications infrastructure	14 000 000
Sub-Total	102 150 000
Objective 2: Promoting social and economic development (€ 60.7 million, around 30.7%)	
Project 2006/018-488.02.01 - Rural Development Sector Programme	29 700 000
Project 2006/018-488.02.02 - Upgrading of local and urban infrastructure – Part II	8 000 000
Project 2006/018-488.02.03 - Human Resources Development Sector Programme	8 000 000
Project 2006/018-488.02.04 - Micro and Small Enterprises Loan programme	9 000 000
Project 2006/018-488.02.05 - Sustainable economic development and ICT sector programme	6 000 000
Sub-total	60 700 000
Objective 3: Fostering reconciliation, confidence building measures and support to civil society (€13 million, around 6.5%)	
Project 2006/018-488.03.01 - Reconciliation, confidence building measures and support to civil society	7 000 000
Project 2006/018-488.03.02 - De-mining assistance programme	5 000 000
Project 2006/018-488.03.03 - Support to the development of new trends in history teaching for reconciliation and stability in Cyprus	1 000 000
Sub-total	13 000 000
Objective 4: Bringing the Turkish Cypriot community closer to the European Union (€7 million, around 4%)	
Project 2006/018-488.04.01 - Community scholarship programme	5 000 000
Project 2006/018-488.04.02 - Promotion of people-to-people contacts	3 000 000
Sub-total	8 000 000
Objective 5: Preparing the Turkish Cypriot community to introduce and implement the <i>acquis communautaire</i> € 8.96 million, around 4.5%)	
Project 2006/018-488.05.01 - Technical Assistance to support legal transposition as well as implementation of the <i>acquis</i> through the TAIEX instrument – Part II (<i>Component A – Assistance through TAIEX</i>); <i>Component B – small scale equipment facility</i>)	6 500 000
Project 2006/018-488.05.02 Capacity building in the environment sector	2 460 000
Sub-total	8 960 000
Objective 6: Unallocated Technical Assistance and Programme Reserve Facility (€ 4.74 million¹⁰, 2.4%)	
Project 2006/018-488.06.01 Unallocated Technical Assistance and Programme Reserve Facility	4 740 000
Sub-total	4 740 000
 Total	 197 550 000

¹⁰ This is equivalent to around 1.8% of the overall € 259 million aid programme.

a) Financial and project management

Implementation of this programme will follow Article 53(1)a of the Financial Regulation¹¹ (centralised management), with DG Enlargement of the European Commission acting as the Contracting Authority with the exceptions listed hereunder.

Procurement shall follow the provisions of Part 2, Title IV of the Financial Regulation and Chapter 3 of Part 2, Title III of its implementing rules¹² as well as the Commission Decision of 24 January 2006(C (2006)117) on "Rules and procedures for services, supplies and works contracts financed from the General Budget of the European Communities for the purposes of co-operation with third countries". The Contracting Authority shall also use the procedural guidelines and standard templates and models facilitating the application of the above rules provided for in the "Practical Guide to contract procedures for EC external actions (PRAG)" as published on EuropeAid website below at the date of the initiation of the procurement or grant award procedure: current website: http://europa.eu.int/comm/europeaid/tender/gestion/index_en.htm.

Joint Management

- (1) Implementation of Project 2006/018-488.02.02 "Upgrading of local and urban infrastructure – Part II" will be carried out according to Art. 53.1 (c) of the Financial Regulation jointly with the United Nations (UN) as other donor and its United Nations Development Programme (UNDP) as implementing body, in accordance with the Financial and Administrative Framework Agreement concluded between the European Union and the UN on 29 April 2003.

Indirect centralized management

- (2) Implementation of Component A of project 2006/018-488.05.01 "Technical Assistance to support legal transposition as well as implementation of the *acquis* through the TAIEX instrument – Part II" will follow the implementation procedure stated in Article 54.2(c) and 56 of the Financial Regulation. An Agreement¹³ is currently concluded with the national agency GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit) (in accordance with Articles 35, 38, 39, 40 and 41 of the Implementing rules to the Financial Regulation) until 20.12.2006 for the whole of the TAIEX programme. An addendum to this contract will be made to include the budget foreseen in this proposal. In this Agreement Article 2, point 3 indicates "The duration of the tasks will last 18 months from the start of the execution of tasks. The Agreement may be extended by another 18 months.

¹¹ Council Regulation (EC, Euratom) 1605/2002 of 25 June 2002; OJ L 248; 16.9.2002, p.1.

¹² Commission Regulation (EC, Euratom) 2342/2002 of 23 December 2002; OJ L537; 31.12.2002; p.1 as last amended by Commission Regulation (EC, Euratom) N° 1201/2005 of 20 July 2005; OJ L201; 07.08.2005; p.3.

¹³ Agreement no. [102-369,102-387,102-372, 102-373, 102-374] between the European Communities and GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit) on delegation of technical, administrative and payment tasks for the implementation of the TAIEX programme.

Grants awarded without a call for proposal

- (3) For the implementation of Project 2006/018-488.03.01 Reconciliation, confidence building measures and support to civil society, relating to support to the Committee of Missing Persons Campaign, a grant, without a call for proposal, will be awarded directly to the Committee of Missing Persons whose activities are carried out by United Nations Development Programme (UNDP), respecting the provisions of the Financial and Administrative Framework Agreement between the European Community and the United Nations (FAFA) of 29 April 2003. The Committee of Missing Persons is established under the auspices of the United Nations and with the participation of the International Committee of the Red Cross. It has a *de facto* monopoly both technically and politically for these activities. It is for this reason that a grant, without a call for proposals, will be awarded in accordance with Article 168.1(c) of the Implementing Rules (IR) of the Financial Regulation.
- (4) For the implementation of the Project 2006/018-488.03.01 Reconciliation, confidence building measures and support to civil society, relating to the participation to the Council of Europe Academy of Political Studies concept, a grant, without a call for proposal, will be awarded directly to the Council of Europe. The award is made in accordance with Article 168.1(c) of the Implementing Rules (IR) of the Financial Regulation, considering that the Council of Europe has a *de facto* monopoly for the implementation of this action.
- (5) For the implementation of Project 2006/018-488.03.02 "De-mining assistance programme" a grant, without call for proposal, will be awarded directly to the implementing body being the United Nations Development Programme (UNDP), respecting the provisions of the Financial and Administrative Framework Agreement between the European Community and the United Nations (FAFA) of 29 April 2003. The United Nations have control over the buffer zone to be de-mined and are considered by both communities as being politically neutral. The UN has a *de facto* monopoly for actions to be carried out within the above-mentioned buffer zone. It is for this reason that a grant, without a call for proposals, will be awarded in accordance with Article 168.1(c) of the Implementing Rules (IR) of the Financial Regulation.
- (6) For the implementation of Project 2006/018-488.03.03 "Support to the development of new trends in history teaching for reconciliation and stability in Cyprus", a grant, without call for proposal will be awarded to the Council of Europe. The Council of Europe is the only European organisation which has managed to initiate a process leading to changes in school history teaching in Cyprus by providing a basis for students to better understand such values as open-mindedness, ability to achieve compromise and tolerance, which are fundamental in acquiring conflict-resolution skills. The award is made in accordance with Article 168.1(c) of the Implementing Rules (IR) of the Financial Regulation, considering that the Council of Europe has a *de facto* monopoly for the implementation of this action.

b) Contracting and execution deadline

All contracts must be concluded by 15.11.2009. In no case can the contracting period exceed 3 years after the date of the global commitments. End of execution deadline is 15.12.2012. End of execution deadline is 15.12.2014 for project 2006/018-488.02.04.

Budgetary commitments which have not given rise to payments during three years counted from the date of the legal commitment will be de-committed (according to Art 77 of the Financial Regulation).

c) Nature conservation

If a project is likely to affect sites of environmental importance, an appropriate assessment in line with the relevant EU environment legislation should be undertaken.

10. MONITORING AND EVALUATION

The accounts and operations of all activities carried out under the programme may be checked at regular intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities of the Commission and the Court of Auditors. Also, the Commission may carry out any necessary audits and on-the-spot checks.

To facilitate this, the Commission will keep accounting, financial and operational documents concerning all activities financed under this Programme, and will make available to the competent bodies of the European Commission and the European Court of Auditors on request all relevant financial information.

The Commission will monitor the implementation of the Programme on the basis of reports from the selected contractors and independent assessments. The Commission services shall ensure that activities financed under Council Regulation 389/2006 will be subject to an interim and/or ex-post evaluation. Appropriate planning and regular reporting will take place throughout implementation, with regular reporting.

11. AUDIT AND ANTI-FRAUD MEASURES

In accordance with Article 8 (Protection of Community's financial interests) of Council Regulation n°389/2006, the Commission shall ensure that, when actions financed under this Regulation are implemented, the financial interests of the Community are protected against fraud, corruption and any other irregularities in accordance with Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities' financial interests¹⁴ and Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities¹⁵, and with Regulation (EC)

¹⁴ OJ L 312, 23.12.1995, p. 1.

¹⁵ OJ L 292, 15.11.1996, p. 2.

No 1073/1999 of the European Parliament and of the Council of 25 May 1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF) ¹⁶.

For the Community actions financed under this Regulation, the notion of irregularity referred to in Article 1(2) of Regulation (EC, Euratom) No 2988/95 shall mean any infringement of a provision of Community law or any breach of a contractual obligation resulting from an act or omission by an economic operator, which has, or would have, by an unjustified item of expenditure, the effect of prejudicing the general budget of the Communities or budgets managed by them.

Any agreements with the beneficiaries shall expressly provide for the Commission (including the European Anti-Fraud Office) and the Court of Auditors to have the power of audit, on the basis of documents and on the spot, over all contractors and subcontractors who have received Community funds. Those agreements shall also expressly authorise the Commission and the European Court of Audit to carry out on-the-spot checks and inspections in accordance with the procedural provisions of Regulation (EC, Euratom) No 2185/96¹⁴.

Considering the political situation, enhanced monitoring will be set in place to safeguard the Community's financial interest. Large amount of technical assistance for project monitoring has been foreseen. Payments to local beneficiaries in the case of grant schemes will be subject to regular and on-going monitoring. The controls and audits described above are applicable to all delegated entities, contractors and subcontractors who have received Community funds.

12. VISIBILITY/PUBLICITY

The Commission will be responsible for ensuring that the necessary measures are taken to ensure that for all activities financed from the programme, the visibility/publicity will follow the EU visibility guidelines for external actions (http://europa.eu.int/comm/europeaid/visibility/index_en.htm). In implementing this Programme, the Commission shall provide for the maximum visibility of EU actions.

13. SPECIAL CONDITIONS

- (1) In the implementation of actions financed under this Financing Proposal, the rights of natural and legal persons, including the rights to possessions and property must be respected. As property aspects are to be investigated in the preparation of tender documents, alternative investments fully meeting the objectives of the various projects may need to be carried out should intractable property aspects emerge. The Commission will provide information on the alternative investments undertaken because of the need to respect the rights to possessions and property in the report to be drawn up annually according to Art. 10 of Council Regulation 389/2006.
- (2) In the implementation of this financing proposal, account will be taken of island-wide planning where appropriate.

¹⁶ OJ L 136, 31.5.1999, p. 1.

¹⁴ Council Regulation (EC, EURATOM) 2185/96 of 11 November 1996, OJ L 292; 15.11.1996; p. 2-5

- (3) 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.
- (4) 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.