



**REPUBLIC OF CYPRUS**  
**Planning Bureau**

**EEA GRANTS (2004-2009)**  
**EEA and Norwegian Financial Mechanisms**

**CYPRUS**

**ANNUAL REPORT 2007**

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## **A. EXECUTIVE SUMMARY**

The present Annual Report is the second of its kind in respect of the funds made available to the Republic of Cyprus by the donor states through the EEA and Norwegian Financial Mechanisms (FM) for the period 2004-2009. As was the case with the first Annual Report, given that all issues covered are common to both FM, there will be a single Annual Report for 2007, with 10 October 2007 as the cut-off date. It has been agreed by all parties concerned that the Annual Meeting for 2007 be held in Cyprus on 12 November 2007.

Despite there being no approved Projects as yet, the implementation of the EEA Grants to the Republic of Cyprus recorded further progress in 2007 with regard to both the Individual Projects and the NGO Fund specific forms of assistance.

The assessment and appraisal of Proposals for Individual Projects was carried out by independent evaluators through the selection of an international audit firm during the period under review and the Proposals with the highest score were forwarded to the Commissioner for State Aid Control for verification of their compliance with state aid legislation prior to their submission to a Steering Committee.

The Steering Committee is expected to submit its recommendation to the NFP which shall decide on the Proposals to be forwarded to the FMO and the donor states for approval. The Steering Committee meeting is expected to be held on 9 November 2007.

The Framework Document for the NGO Fund drafted by the NFP was discussed at a meeting in Nicosia on 20 March 2007 with the FMO and the donor states and was agreed upon through an exchange of letters.

In addition, the NFP, the FMO and the donor states have reached a preliminary agreement on the Terms of Reference for the selection of the NGO Fund Intermediary through an open tender procedure.

However, following further legal advice during the drafting of the tender dossier for the NGO Fund Intermediary, the NFP considers that certain additional amendments to the NGO Fund Framework Document concerning the selection procedure for the NGO Fund Intermediary are necessary so that the document becomes fully compatible with national and EU procurement legislation.

The Scholarship Programme has been withdrawn by mutual consent following a suggestion from Norway and it has been agreed that the initial allocation shall be added to the budget for the Individual Projects.

The donor states are expected to approve, before the forthcoming Annual Meeting, the final text of the Addenda to the MoUs incorporating the amendments agreed upon at the last Annual Meeting as well as the additional amendments proposed by the FMO and the donor states and endorsed by the NFP.

## **B. REVIEW OF THE IMPLEMENTATION STATUS**

### **B1. Individual Projects**

The Call for Proposals for Individual Projects was published on 25 August 2006 and expired on 15 January 2007. A total of 33 Proposals were submitted for all 7 priority sectors and the total amount of grants applied for at the expiry date was €18.373.356 (*Annex 1*), thus oversubscribing the initially available budget of €2.508.255 by 7,3 times. 13 of the Proposals (40%) submitted are in the priority sector of Conservation of the European Cultural Heritage, followed by 6 Proposals (18%) for the Development of Human Resources, 4 Proposals (12%) for each of the Protection of the Environment, the Promotion of Sustainable Development and Health and Childcare. Each of the priority sectors of Implementation of the Schengen Acquis and of Regional Policy received one Proposal (3%).

The NFP carried out the administrative compliance check which resulted in the rejection of one Proposal (No.1) given that the required "Documents for Applicant Eligibility/Suitability Check" had not been

submitted despite the numerous, albeit unsuccessful, efforts by the NFP to establish contact with the Applicant.

Following a tender procedure launched by the NFP, the audit firm Deloitte and Touche Ltd, was selected for the carrying out of the eligibility check, assessment and detailed appraisal of the 32 Proposals (for Terms of Reference see *Annex 2*) on the basis of Evaluation/Selection Criteria previously agreed upon by the FMO and the donor states and published on the special webpage of the NFP. All but 2 Proposals (Nos. 8 and 25) passed the eligibility check. These 2 proposals were found not to comply with Point 6 of the pertinent Call for Proposals which required the co-financing to be in the form of cash and not in-kind and therefore did not satisfy Evaluation Criterion 6 of Part A2 regarding cost eligibility. In addition, one of the 2 Proposals (No.25) could not be considered as satisfying the conditions set out in Point 2.2 of the "Detailed eligibility provisions – expenditures". Consequently, the evaluation of the 2 Proposals could not proceed further and the detailed appraisal was carried out by the independent evaluators for the remaining 30 Proposals which resulted in a scoreboard by decreasing order of ranking (*Annex 3*).

During the evaluation process and in accordance with the Evaluation Criteria, certain applicants were requested to provide additional clarifications about their Proposals. The clarifications received resulted in a rather narrow downward adjustment of the estimated detailed budget for 4 Proposals (*Annex 4*) with the total amount of grant applied for reduced from €18.373.356 to €18.236.634.

In addition, the NFP has found that the proposed activities of the Proposal (No. 30) ranked 8<sup>th</sup> in the Evaluators' Scoreboard, are almost identical with the past, present and future work and commitments of the Statistical Service of Cyprus towards Eurostat in the area of public health (European Health Interview Survey – EHIS) and will therefore suggest to the Steering Committee its exclusion from the list of proposals to be recommended for funding.

Furthermore, at the request of the NFP, the Game Fund Service proposed certain adjustments of the activities proposed in the Proposal (No. 24)

ranked 10<sup>th</sup> in the Evaluators' Scoreboard so that its activities become more specific and complementary to the Government activities, while the Department of Forests has expressed its support for the Project.

Due to the nature and size of the proposals submitted, no Environmental Impact Assessment is required in respect of any of the Proposals which are to be forwarded to the Steering Committee.

The 10 highest-ranked Proposals on the Scoreboard, corresponding to a total amount of grant requested of €5.732.378, i.e more than twice the available budget, were subsequently sent to the Commissioner for State Aid Control for the screening of their compliance with the pertinent legislation. Two of these Proposals (Nos. 19 and 33), ranked 1<sup>st</sup> and 4<sup>th</sup> in the Scoreboard, were found by the Commissioner to be incompatible with the environmental acquis and state aid legislation which, on the basis of the principle "the polluter pays", do not permit the state to finance from national or community funds such expenses as those pertaining to the management of electric and electronic waste which, according to EU legislation, must be borne by the businesses concerned. The Application of a third Proposal (No.10), ranked 2<sup>nd</sup> in the Evaluators' Scoreboard, had to be adjusted in line with the advice of the Commissioner so that it becomes compliant with state aid rules.

The remaining 7 Proposals were found by the Commissioner to be outside the scope of state aid legislation.

In the meantime, the NFP started its consultation with the Applicants of the 8 highest-ranked eligible Proposals (*Annex 5*) for the adjustment, where necessary, of parts of the Applications taking *inter alia* into consideration the comments of the Evaluators as well as the scheduled deadline of 30 April 2011 for the eligibility of expenditures.

Upon finalisation of the consultation process described above the Proposals shall be submitted before the Steering Committee which shall make its recommendation to the NFP about the Proposals to be sent to the FMO and the donor states for final selection.

As soon as the Steering Committee submits its recommendation to the NFP, the latter shall decide and forward to the FMO for approval by the donor states, the list of Projects proposed for funding from the FM, together with a reserve list of Proposals and Part B of the respective Application Forms.

The initially envisaged budget for Individual Projects, net of FMO management costs and costs for appraisal, monitoring and ex-post evaluation, amounted to €2.508.255. In view of the agreement between Norway and the NFP that the amount of €300.000 initially allocated to the Scholarship Programme be added to the budget for Individual Projects, the available budget for Individual Projects has become €2.808.255. In addition, there is the prospect of a further increase resulting from possible savings from the costs of 3% of the total available funds initially foreseen by the FMO for appraisal, monitoring and ex-post evaluation.

## **B2. Steering Committee**

The Steering Committee is made up of one representative from each of the following seven line Ministries, chaired by the NFP:

- Ministry of Interior
- Ministry of Labour and Social Insurance
- Ministry of Agriculture, Natural resources and Environment
- Ministry of Health
- Ministry of Education and Culture
- Ministry of Justice and Public Order
- Ministry of Communications and Works

The NFP has decided to invite one representative from the FMO and one from the donor states to participate to the Steering Committee meeting(s) with an observer, non-voting status. According to the relevant Internal Regulation (*Annex 6*) proposed by the NFP, the Steering Committee shall be responsible *inter alia* for recommending to the NFP the Proposals for Individual Projects which are to be forwarded to the Financial Mechanism Office (FMO) for appraisal by drawing up:

- (a) a priority list of projects whose total funding applied for does not exceed the amount of grant made available for individual projects under the two FMs and
- (b) a reserve list of projects.

The Steering Committee meeting is expected to be held on 9 November 2007.

### **B3. NGO Fund**

#### **(a) NGO Fund Framework Document**

The FMO, the donor states and the NFP have agreed, through the process of an exchange of letters completed in September 2007, on the text of the NGO Fund Framework Document which the former had requested at the previous Annual Meeting and the latter had subsequently proposed.

The draft Framework Document had been the subject of discussion at a meeting between the contracting parties held in Cyprus on 20 March 2007, during which the donor states had requested *inter alia* that (a) 20% of the NGO Fund be spent on bi-communal projects and (b) the indicative allocation to "Health and Childcare" and "Empowerment of Young People in the Civil Society" be maximum 70% and minimum 30% respectively of the total available budget for the NGO Fund, whilst maintaining a certain degree of flexibility.

The current text of the Framework Document encompasses both the above requests. In particular, it is stated therein that the aim of the NGO Fund will be that a minimum 20% of the funding is made available for bi-communal projects that would benefit both communities within the prescribed priority sectors, with a view to encouraging bi-communal contacts. Furthermore, it is stated that, in the event that the proposals evaluated with the minimum acceptable score set by the NGO Fund Intermediary do not cover the 30% allocation in one of the priority sectors, the issue will be discussed and decided upon between the donor states and the Republic of Cyprus, and the flexibility will exist to reallocate between the priority sectors.



However, the NFP considers that a further revision of the Framework Document is required that would take into consideration certain additional remarks subsequently made by the Law Office and the Public Procurement Directorate of the Treasury of the Republic during the drafting of the tender dossier for the selection of the NGO Fund Intermediary. These additional amendments (*Annex 7*) concern the eligibility provisions of the NGO Fund Intermediary and, in the opinion of the NFP, would render the Framework Document, Sections 4.3 and 6.1 in particular, more in line with national and EU procurement legislation.

#### **(b) NGO Fund Intermediary**

The Terms of Reference for the selection of the NGO Fund Intermediary were drafted by the NFP and provisionally agreed upon by the contracting parties. The NFP is in the process of drafting the pertinent tender dossier in accordance with national and EU procurement legislation, which it would be prepared to forward to the FMO and the donor states.

The Procurement Notice for the selection of the NGO Fund Intermediary shall be published in the OJEC and the Official Gazette of the Republic and shall be placed on the webpage of the FMO and the NFP.

The pertinent grant and implementation agreements which will follow the selection of the NGO Fund Intermediary shall be placed too on the webpage of the NFP upon signature.

#### **B4. Scholarship Programme**

The NFP had identified the training needs of the public sector, mostly on education, health and social welfare issues, for funding from the Scholarship Programme to which the amount of €300.000 had initially been committed from the EEA Grants. However, given the concern about the anticipated administrative burden and cost for the implementation of the Programme and the capacity of the Norwegian health and education sectors to provide sufficient personnel to the proposed courses and training, Norway suggested in a letter of the Royal Ministry of Foreign Affairs dated 29.6.2007, the reallocation of the

said funds to the budget of either the Individual Projects or the NGO Fund. In its letter dated 11.7.2007 the NFP informed Norway of its preference to reallocate the amount earmarked for the Scholarship Programme to the budget of the Individual Projects and subsequently requested from the FMO to advise about the modalities for the amendment of Annex C to the MoUs.

In view of the above, the NFP intends to raise at the Annual Meeting with the FMO and the donor states the issue concerning the pertinent amendment of Annex C to the MoUs and the reallocation of its budget to the funds committed for the Individual Projects

## **B5. Information and Communication**

The NFP updates regularly its special webpage on EEA Grants providing information to stakeholders regarding the implementation of the FM.

An Announcement was distributed to the mass media and placed on the webpage in December 2006 reminding potential applicants about the deadline of the Call for the submission of proposals for the Individual Projects.

The Minutes of the first Annual Meeting and Monitoring Committee meetings were placed on the special webpage in January 2007.

Details of the number of Proposals for Individual Projects received by priority sector and the total amount of grants applied for were also distributed to the media and placed on the special webpage in January 2007.

Floor stands with material published by the FMO and the NFP about the EEA Grants were placed at the entrance of the NFP premises in January 2007.

The signing of a contract with an independent audit firm for the carrying out of the assessment and appraisal of the proposals for Individual Projects was announced on the special webpage in June 2007.

A new announcement on the NGO Fund shall be distributed to the mass media and be placed on the web once the final text of the Framework Document is agreed upon by all contracting parties. The final Framework Document itself shall also be placed on the special webpage.

In addition, the main and reserve lists of Proposals for Individual Projects to be recommended by the NFP for funding from the EEA Grants shall be announced on the webpage of the NFP upon submission of same to the FMO and the donor states.

The name of the competent independent authority and the procedure that members of the public, wishing to complain or report irregularities regarding the implementation of the financial mechanisms, must follow, is also expected to be announced on the special webpage of the NFP.

A Workshop for the successful applicants for Individual Projects on project implementation, monitoring and publicity activities is expected to be held early next year.

#### **B6. Cross-cutting issues: Good Governance**

With regard to good governance and anti-corruption policy as expressed in the relevant guidelines developed by the donor states and the FMO, the NFP has already promoted and intends to promote further the measures already outlined in the last Annual Report, to be complemented by additional ones, as required.

One such measure is the identification by the NFP of an appropriate independent authority within or, if necessary, outside the existing structures, to assume responsibility for establishing an effective complaints procedure. In line with the requirements of the good governance and anti-corruption policy and guide, the purpose of this procedure will be to ensure that members of the public wishing to complain or report irregularities regarding the implementation of the FM have a simple means of doing so, that their complaint is handled with an open mind and in confidentiality, and that incidents of mismanagement and corruption are uncovered and corrected.

As soon as the independent authority is designated and the complaints procedure is established, the FMO will be advised in detail and the information will be placed on the special webpage of the NFP.

Furthermore, the NFP has followed strictly the national and EC procurement rules for the submission of proposals for Individual Projects, the selection of an independent audit firm to carry out the assessment and appraisal of the proposals.

The proposals for Individual Projects were screened for compliance with environmental legislation in consultation with the Environment Service, the Department of Forests and the Game Fund Service, as relevant. The highest-ranked proposals were also screened against state aid legislation by the Commissioner for State Aid Control.

The NFP shall continue to adhere strictly to the national and EC procurement rules, the next step being in respect of the selection of the NGO Fund Intermediary the pertinent Procurement Notice of which shall be published in the OJEC as well as the Official Gazette of the Republic and placed on the special webpage of the NFP.

Following the selection of the NGO Fund Intermediary and the signing of the relevant grant and Implementation Agreements, these agreements shall be placed on the special webpage of the NFP.

However, the initial intention of the NFP to appoint an independent review committee to deal with possible complaints against the recommendations of the Steering Committee in respect of the selection of the Proposals for Individual Projects for funding from the EEA Grants, was reconsidered and finally not taken up mainly due to the time constraint. The NFP is also of the opinion that the recommendation of the Steering Committee, being based on the appraisal of the Proposals by an independent international audit firm which was selected following a tender procedure, as well as the screening of the Proposals by the independent Office of the Commissioner for State Aid Control, ensured the necessary transparency and fair treatment of the Proposals in the project selection process.

In addition, the key information available to stakeholders through the special webpage of the NFP regarding the implementation of the FM, is updated on a regular basis.

## **B7. Work Plan 2008**

According to the NFP, the most important stages until the end of 2008 with regard to the implementation of the FM are expected to be as follows:

### **Individual Projects**

- Recommendation by the Steering Committee to the NFP on the selection of Individual Projects: November 2007
- Submission by NFP of main and reserve list to FMO and donor states: November 2007
- Preparation of the Implementation Agreements between the NFP and the promoters: January 2008
- Final selection of Individual Projects: February 2008
- Identification by the NFP of the independent authority which shall assume responsibility for establishing an effective complaints procedure: February 2008
- Workshop for the successful applicants for Individual Projects on Project implementation, monitoring and publicity activities: March 2008
- Signing of relevant agreements between the NFP and the FMO and between the NFP and the successful promoters: March 2008
- Recruitment through a tender procedure of the independent audit firm that will verify payment claims and submit its report to the Paying Authority: March 2008
- Start of Project implementation: April 2008 (depending on the time required by the FMO for the appraisal of the Proposals).

### **NGO Fund**

- Publication of the Procurement Notice for the selection of the NGO Fund Intermediary: December 2007
- Provisional selection of the NGO Fund Intermediary by the NFP and submission of its recommendation to the FMO: February 2008
- Final approval of the NGO Fund Intermediary by the FMO and the donor states: March 2008

- Submission of Block Grant Application by the NGO Fund Intermediary to the FMO through the NFP: April 2008
- Final approval by the FMO and the donor states of the Block Grant Application of the NGO Fund Intermediary: May 2008
- Preparation of the Implementation Agreements between the NFP and the NGO Fund Intermediary: May 2008
- Signing of relevant Agreements between the NFP and the FMO and between the NFP and the NGO Fund Intermediary: June 2008
- Call for Proposals by the NGO Fund Intermediary: September 2008

### **Amendment of Documents**

- MoUs (main text and Annexes): November 2007
- NGO Fund Framework Document: Approval by the FMO and donor states of the revised Framework Document: November 2007

## **C. ISSUES AND RECOMMENDATIONS**

### **C1. Amendments of the MoUs**

At the last Annual Meeting, the contracting parties have agreed to the amendment of the MoUs with Cyprus in respect of the following:

Annex A: The revision of certain tasks of the NFP referred to under "National Focal Point" in Part A as well as of the duties and responsibilities of the Paying Authority and the NFP mentioned in the "disbursement arrangements" of Part A.

Annex B: The fact that "Academic research in the priority areas will not be prioritised".

Annex C: The deletion of the "Technical Assistance Fund" as a grant scheme available to Cyprus.

During the consultations between the NFP and the FMO/donor states for the amendment of Annex A to the MoUs, the former agreed to certain additional amendments proposed by the latter in connection with Articles 4 and 5 of the main text of the MoUs.

Furthermore, it has been provisionally agreed to transfer the funds initially earmarked for the Scholarship Programme to the budget of the Individual Projects, hence the need to delete any reference to the Scholarship Programme in Annex C of the MoUs.

Finally, the contracting parties shall have to sign the Addenda to the MoUs incorporating the amendments agreed upon at the last Annual Meeting and the additional amendments proposed by the FMO and the donor states and endorsed by the NFP, which the donor states are expected to approve before the forthcoming Annual Meeting (*Annex 9*).

In view of the above, the NFP would propose the following:

- (a) signing by the contracting parties of the Addenda to the MoUs the earliest possible
- (b) endorsement by the contracting parties at the Annual Meeting of the additional amendment in respect of Annex C to the MoUs
- (c) to have an updated version of the main text of the MoUs and Annexes A, B and C incorporating all agreed amendments.

## **C2. Other amendments**

The NFP considers that a revision of Sections 4.3 and 6.1 of the NGO Fund Framework Document (*Annex 7*), on which a preliminary agreement had been reached by the contracting parties, is necessary so that the document becomes fully compliant with national and EU procurement legislation.

## **C3. Other issues**

The NFP shall bring before the Steering Committee all relevant information and issues that would enable its Members to submit their recommendation to the NFP as to the Projects proposed for funding from the FM.

The Steering Committee meeting is expected to be held on 9 November 2007 for its recommendation to the NFP about the Proposals to be sent to the FMO and the donor states for selection, in which case the Annual Meeting to be held on 12 November shall be advised accordingly.

#### C4. Recommendations for the future reporting period

	<b>Recommendation</b>	<b>Action</b>	<b>Timing</b>
<b>Individual Projects</b>	<b>Expedite all necessary arrangements for the earliest possible commencement of the Individual Projects, as follows:</b>		
	Submission of proposals to FMO	NFP	November 2007
	Formal approval of the reallocation of funds from Scholarship Programme to Individual Projects (MoUs – Annex C)	FMO Donors	November 2007
	Preparation of Implementation Agreements	NFP	January 2008
	Examination and final selection of proposals within 3 months	FMO Donors	February 2008
	Signing of Grant/Implementation Agreements	NFP FMO Donors Promoters	March 2008
	Selection of authority to deal with possible mismanagement issues	NFP	February 2008
	Recruitment of independent audit firm to verify payment claims	NFP	March 2008
	<b>NGO Fund</b>	<b>Expedite all necessary arrangements for the launching of the open call for proposals, as follows:</b>	
Approval of amendment of Framework Document proposed by NFP		FMO Donors	November 2007
Provisional selection of Intermediary through an open tender procedure		NFP	February 2008
Final approval of Intermediary		FMO Donors	March 2008
Submission of Block Grant Application to FMO via NFP		Intermediary	April 2008
Signing of Agreements		NFP FMO Donors Intermediary	June 2008
Call for proposals		Intermediary	September 2008
		<b>Recommendation</b>	<b>Action</b>
<b>General</b>	Approval at the earliest of MoU amendments	FMO Donors	November 2007
	Signing at the earliest of MoU amendments	NFP FMO Donors	November 2007



#### **D. Abbreviations**

<b>EEA</b>	European Economic Area
<b>EU</b>	European Union
<b>FM</b>	Financial Mechanisms
<b>FMC</b>	Financial Mechanism Committee
<b>FMO</b>	Financial Mechanism Office
<b>IAS</b>	Internal Audit Service
<b>MoUs</b>	Memoranda of Understanding (EFTA-Cyprus, Norway/Cyprus)
<b>NGO</b>	Non Governmental Organisations
<b>NFP</b>	National Focal Point
<b>OJEC</b>	Official Journal of the European Communities
<b>PB</b>	Planning Bureau