



AUDIT  
OFFICE



REPUBLIC  
OF CYPRUS

## **FUNDING SCHEME TO SMALL AND MEDIUM-SIZED ENTERPRISES Executive Summary**



**AUDIT OFFICE OF THE REPUBLIC OF CYPRUS  
SPECIAL REPORT no. ΤΠΟ/01/2021**

**31 MARCH 2021**

# **FUNDING SCHEME TO SMALL AND MEDIUM-SIZED ENTERPRISES**

## **Executive Summary**

### **AUDITED ENTITIES**

**Department of Town Planning and Housing**

**Cyprus Tourism Organisation**

## Executive Summary

In July 2019, a complaint was submitted to our Office, regarding the funding granted to eight companies, through Plan 1 of Programming Period (PP) 2004–2006 (Funding Scheme to Small and Medium-sized Enterprises for the promotion of alternative economic activities in the field of Agrotourism) and Plan 2 of PP 2007-2013 (Funding Scheme to Small and Medium-sized Enterprises for the promotion of Rural Agrotourism), whose Intermediate Body was the Department of Town Planning and Housing (TPH) and to one company, which received funding through Plan 3 (Incentives scheme for investments of sustainable enrichment and upgrading tourism product), whose Intermediate Body was Cyprus Tourism Organisation. All three Projects were part of the Operational Programme " Competitiveness and Sustainable Development ", co-financed by the Republic of Cyprus and the European Regional Development Fund (ERDF) of the European Union and the National Authority was Directorate General for European Programmes, Coordination and Development.

According to the complaint, these companies are part of the same tourist accommodation undertaking and have a common manager, company A, and a common "real recipient" Mr. X, who, through the creation of companies owned by relatives and associates, secured funding through the above Schemes, in violation of their provisions, which were based on EU Regulations (no. 69/2001 on PP 2004-2006 and no. 1998/2006 on PP 2007-2013) for the application of Articles 87 and 88 of the treaty to de minimis aid, which set (and still set) a limit on the amount of de minimis aid granted per "enterprise", as laid down in the Introduction to this Report.

The funding received by the nine companies are presented in Annex 1.

Reasonable questions were raised during the audit, as to whether all of the above companies should be considered as separate undertakings, rather than as one undertaking, which would have the effect of not accepting more than one application per Scheme, nor granting a funding aid which would cumulatively exceed the limits set by Schemes 1 and 2 and which covered a period of three financial years, in accordance with the Regulation on de minimis aid.

In addition to the above, if all the companies associated with Mr. X were considered as one enterprise, it may not meet the criteria to be classified as a small-sized enterprise.

The most important findings of the audit, which are analyzed in Part 4 of this report, are summarized below:

- ◆ Mr. X is the owner of the properties, which were granted to the companies (final beneficiaries of the projects) with a symbolic rent, in order to restore them and convert them into agrotourism accommodation units.
- ◆ The representatives of the companies, who signed the applications for funding through the Schemes, were all individuals who had family or professional ties with Mr. X.

- ◆ All the buildings of the above companies are advertised as accommodation of company A, have a common reception area, and reservations are made through company A. In addition, several employees are common among the companies.
- ◆ Three out of the nine companies that received funding were not in operation, registered in Cyprus and small and medium-sized enterprises (SMEs), at the time the application was filed, in violation of the terms of the Schemes on qualifying beneficiaries.

Due to the seriousness of the findings, which may lead to unduly paid amounts and taking into account our obligations under Articles 325(2) and 325(3) of the Treaty on the European Union, as well as Article 8 of Regulation 883/2013/EU, we have informed the European Anti-Fraud Office (OLAF), in order to make its own assessment and recommendation, as to whether there are grounds for further investigation. OLAF informed us that, after examining the information presented thereto, it considered that there were grounds for an investigation and that a case file has been opened, the investigations for which are in progress.

We emphasize that the references in this Report and the notification of the matter to OLAF do not in any way mean or should be construed as a charge against any person for committing criminal or other offenses.