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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Seventeenth Annual Report for 2022 on the implementation of the Union assistance under Council Regulation (EC) No 389/2006 of 27 February 2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community

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1. INTRODUCTION

Council Regulation (EC) No 389/2006[1] (the Aid Regulation) is the basis for the provision of assistance to the Turkish Cypriot community and requires annual reporting to the European Parliament and the Council.

2. PROGRAMMING OF THE ASSISTANCE

Between 2006 and the end of 2022, EUR 656 million was programmed for operations under the Aid Regulation. The amount committed in October 2022 for the 2022 annual action programme was EUR 33.4 million[2]. The multiannual financial framework 2021-2027 has provided a multiannual perspective to the programme with a provision for stable, annual funding. The assistance programme is, however, of an exceptional and transitional nature, aiming to prepare and facilitate, as appropriate, the full application of the *acquis* in the areas of the Republic of Cyprus in which the Government of the Republic of Cyprus does not exercise effective control following a solution to the Cyprus problem. Both the Aid Regulation and Council Regulation No 2020/2093[3] laying down the multiannual financial framework have provided for a revision in the case of reunification.

3. IMPLEMENTATION MECHANISMS

The programme is implemented in the areas of the Republic of Cyprus in which the Government of the Republic of Cyprus does not exercise effective control and where the application of the *acquis* is temporarily suspended pursuant to Protocol 10 of the Treaty of Accession. Assistance is implemented in direct and indirect management.

The Commission operates in a unique political, legal and diplomatic context. The granting of such assistance does not imply recognition of any authority in the areas other than the Government of the Republic of Cyprus. Ad hoc arrangements are needed to implement the programme while respecting the principles of sound financial management. In EU-funded aid programmes, in normal circumstances, agreements with a beneficiary government would establish the legal framework for the development of the assistance. No such agreements can be made for the assistance to the Turkish Cypriot community. Management and mitigation of the inherent risk is part of the Commission's responsibility. Measures adopted include intensive

[1] Council Regulation (EC) No 389/2006 of 27 February 2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community and amending Council Regulation (EC) No 2667/2000 on the European Agency for Reconstruction (OJ L65, 7.3.2006, p. 5).

[2] Commission Implementing Decision of 13.12.2021 on adopting an Action Programme for the Turkish Cypriot community for the year 2021 (C(2021) 8905).

[3] Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027 (OJ L433I, 22.12.2020, p. 11).

monitoring of contracts and provision of support to beneficiaries, revised payment conditions, and a careful approach to the use of bank guarantees. The assistance includes a significant amount of grant support, requiring resource-intensive management.

To ensure impact, the Turkish Cypriot community must be fully engaged in preparing the implementation of the *acquis* in view of the withdrawal of the suspension of its application in accordance with Protocol 10, upon the entry into force of a comprehensive settlement.

The programme team operates through the EU Programme Support Office in the areas not under the effective control in Nicosia. The Commission Representation in Cyprus also hosts meetings, seminars and press conferences and communicates with the Cypriot public throughout the island, including on the Aid Programme. In addition, the EU Infopoint, funded under the Aid Programme, carries out a range of communication and visibility actions, providing information about EU policies, priorities and actions in support of the Turkish Cypriot community, and promoting European culture.

4. IMPLEMENTATION DURING THE REPORTING PERIOD

4.1. General overview

The Commission continues to implement the Aid Regulation with the overall aim of supporting reunification. In the event of a comprehensive settlement of the Cyprus problem, the Council will, on the basis of a proposal from the Commission, decide unanimously on the necessary adaptations to this Regulation.

Operations in 2022 included the continuation of a number of established and successful projects, such as EU scholarships and confidence-building measures in support of both the Technical Committee on Cultural Heritage and the Committee on Missing Persons. A dedicated facility continued to fund initiatives under the bi-communal Technical Committees.

Grant support remains an essential feature of the programme. Greater assistance was provided to key economic sectors preparing for a settlement through projects geared towards the private sector, rural areas and human resource development. Efforts continued to tangibly improve the state of play in animal diseases eradication and food safety.

The Commission continued its efforts to assist the Turkish Cypriot community to comply with the standards set by the package of two measures adopted by the Commission in 2021, registering 'Χαλλούμι' (Halloumi)/'Hellim' as a protected designation of origin and laying down the conditions for movement of this product over the Green Line. A substantial effort was made to assist food business operators to prepare for the first protected designation of origin inspections. The Commission also launched an informal working group on Halloumi/Hellim bringing together stakeholders from both Cypriot communities.

There are still considerable gaps in beneficiaries' capacity to effectively implement the *acquis* upon the entry into force of a comprehensive settlement. However, the Turkish Cypriot community continued to make good progress in a number of areas and acquired a firmer understanding of the challenges.

One ongoing issue has been the construction of the Famagusta sewage network, for which the Commission terminated the contract in December 2013. The dispute with

the former contractor was referred to arbitration in 2017. In July 2022, the arbitral tribunal rendered its final decision, which was then challenged by the contractor before the Belgian courts. In parallel, the related remedial works continued steadily.

The Commission continued to ensure that the Aid Programme delivered despite the aftermath of the COVID-19 pandemic and the challenging socio-economic situation in the Turkish Cypriot community. The programme continued implementing the COVID-19 emergency package, which covered the most urgent medical supplies, economic support for businesses, and expert advice to the Turkish Cypriot community.

At the end of the year, 159 contracts were running under the Aid Programme.

4.2. Progress by objectives

The overall objective of the Aid Programme is to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community, with particular emphasis on the economic integration of the island, on improving contacts between the two communities and with the EU, and on preparation for the *acquis*.

The activities undertaken in 2022 are described below, for each objective of the Aid Regulation.

4.2.1. Objective 1: Developing and restructuring of infrastructure

The United Nations Development Programme (UNDP) continued to implement the Local Infrastructure Facility through ongoing contribution agreements signed with the Commission for a total of EUR 33.2 million. The facility provides support for preparing and implementing relevant local infrastructure investments.

In 2022, 14 priority projects were active under the Local Infrastructure Facility. Significant progress was achieved in the construction of the Kormakitis Centre for Cooperation and the extension of the Morphou wastewater treatment plant. The rehabilitation works of Kouklia Reservoir also started. A series of steps were undertaken to prepare the ground for launching a pre-feasibility study for the bi-communal solar power plant.

In the water sector, construction of the new Nicosia trunk sewer was completed in November 2021 and the defects notification period of the project ended in December 2022. The project involved the construction of 13 km of sewers to convey wastewaters from the Nicosia area to the bi-communal Nicosia wastewater treatment plant, itself an EU-funded action completed in 2013. The project will reduce groundwater contamination and protect shared water resources for the whole island.

Remedial works on the Famagusta sewerage network began in July 2021 and the works physically started in January 2022. The objective of the project is to remedy a high number of defects of the initial project and improve the quality and functionality of the system. Significant progress was achieved through 2022, with roughly 70% of the planned pipeline installed. The project completion is expected towards the end of 2023.

The defects notification period of amended works contracts for a landfill extension and a landfill degassing plant ended in January 2022, with the facility fully handed over to the Turkish Cypriot community.

Unfortunately, the beneficiary has not improved operations and management of the landfill facility, and has continued with poor waste disposal practices while making no use of the leachate treatment plant. This has inevitably led to a significant depreciation of the investment. Without the involvement of the Commission, the beneficiary

launched two tenders to contract out landfill operations. However, they were both cancelled, meaning the governance of the waste sector and its future remains unclear. The Commission has incessantly dedicated its efforts to support the beneficiary to rectify the situation.

In line with the EU-funded integrated solid waste management plan, grants helping eight local communities to improve their waste management infrastructure are in the final phase of implementation.

Local technical capacity to monitor the quality of the environment was strengthened through renovation of the air quality monitoring network, the establishment of an air and fuel quality reference laboratory, and the provision of capacity-building activities. The air quality monitoring network, in full operation throughout 2022, now provides measurements for more pollutants in an increased number of locations.

In the telecom sector, the provision of new broadcasting infrastructure continued and is expected to be completed by the end of 2023. This EU-funded project is necessary to vacate all analogue television broadcasts from the 700 MHz frequency bandwidth by the Turkish Cypriot community. Ultimately, it will enable the unhindered allocation of the 700 MHz frequency band to 5G mobile services, and contribute to an increased digitalisation in the Turkish Cypriot community.

4.2.2. Objective 2: Promoting social and economic development

The Aid Programme continued to combat the adverse economic effects of the COVID-19 pandemic and to support the business environment in the Turkish Cypriot community.

The project Innovative Entrepreneurship and Dialogue, implemented with Northern Ireland Cooperation Overseas (NI-CO), was the main vehicle for support to the private sector, including in view of COVID-19 recovery. In 2022, the grant scheme Safeguarding and Creating Employment supported 100 successful SMEs with funding of up to EUR 60 000 each. This came in addition to 770 micro-businesses, which were supported in 2021 with EUR 1 500 each.

Significant progress was made in the area of product safety. A technical assistance project on market surveillance was launched in March 2022 with the aim to introduce new, and to improve existing, practices in metrology, standardisation, accreditation, and conformity assessment. The project contributes to improving the business environment in the Turkish Cypriot community and to ensure that locally produced goods comply with EU standards.

In the field of rural development, 189 farmers were provided with vocational education training on farm management and related topics. Complementing the investment in training, 55 rural development grants aiming to upgrade the sector proceeded to the final stage of implementation. A pilot research and demonstration programme was launched to overcome the gap between science, needs and practice in four identified pilot themes, including the Halloumi/Hellim protected designation of origin scheme.

Implementation continued of the food safety and crisis preparedness technical assistance project, which has implications for Green Line trade and implementation of the Halloumi/Hellim package. Support was made available to 28 food business operators to develop and implement action plans to reach EU standards. The certification process of farms began and, by the end of 2022, 11 farms had been certified and an additional 26 farms had been assessed.

A third large-scale testing and sampling of animals for priority diseases, namely brucellosis and tuberculosis, was completed. For this, the Commission provided laboratory tests, veterinary consumables and services. As a result, by the end of 2022, the trend of a decrease in the prevalence rate of brucellosis continued and reached around 2% of herd prevalence.

EU support also contributed to further progress in engaging private veterinarians to implement controls.

In the education sector, support was maintained in areas strongly linked to increasing capacities in the labour market, including through science education, vocational education and training (VET), and lifelong learning. The first phase of the multi-year vocational education curriculum development project came to an end with tangible results. Among other achievements, it helped to develop 20 curriculum packages for revised VET curricula and a new testing and evaluation mechanism for VET education. The project was extended for another 2 years.

In terms of science education, 34 secondary schools and 12 VET schools received science lab equipment for a total of 77 laboratories and 1 VET resource centre, boosting science learning opportunities for young people. In previous years, 48 primary schools received science lab equipment. The professional development of teachers and school leaders was enhanced through the creation of a pool of trainers. A total of 1 468 primary and secondary teachers, head teachers and school leaders were trained in topics such as student-centred learning and teaching, science lab use, and interactive approaches in language learning. Analytical work is underway to pave the way for future support for lifelong learning, special needs education and qualifications.

A new agreement was signed with the World Bank, focusing on continued provision of support to macroeconomic monitoring, facilitation of trade procedures and trade across the Green Line, improvement of the Turkish Cypriot business environment, and providing technical support in key areas of statistics.

In the field of statistics, a technical assistance project with Statistics Denmark started in September 2022 aiming to improve business delivery and management of data sources. Before this, IT equipment and specialised software was supplied to improve statistical outputs in line with EU standards. The projects were complemented by targeted support provided through the Commission's technical assistance and information exchange (TAIEX) instrument and the World Bank. All these actions form a comprehensive EU strategy aimed at improving the provision of statistics in the Turkish Cypriot community, which is essential to facilitate preparations for reunification.

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

The Committee on Missing Persons, supported by the Aid Programme through a contribution agreement with the UNDP, continued its field and laboratory work. By the end of 2022, of the 2 002 total missing persons, it had exhumed 1 196 sets of remains. Of these, 1 029 were identified genetically and returned to their families.

In December 2022, a new EUR 2.6 million contribution agreement was signed to provide funding for the Committee's operations in 2023. Overall, in 2006-2022, the EU has contributed EUR 35.8 million to support its activities, amounting to 75% of all of its funding in this period.

Cultural heritage protection through the bi-communal Technical Committee on Cultural Heritage remained a key component of the reconciliation and confidence-building measures supported under the Aid Programme, with 16 projects completed in 2022. Overall, the cultural heritage programme has received EU funding of approximately EUR 24 million. This enabled more than 120 cultural heritage sites across the island to be conserved, structurally supported, physically protected or restored.

In December 2022, a new EUR 1 million contribution was signed to continue the EU-funded support facility to the Technical Committees. This support is implemented by the UNDP. Since 2019, the support facility has funded more than 10 projects of the Technical Committees, from feasibility and research studies to workshops and exhibitions.

After the successful implementation of a pilot bi-communal scholarship scheme by United World Colleges, and continuing the good experience from previous years, 12 students from both communities were selected in 2022 to undertake the International Baccalaureate Diploma programme in different countries. The actions implemented by United World Colleges also include cross-community youth engagement activities and short courses aimed at empowering the youth to bring about positive change in their societies.

Support for civil society continued in 2022. The project Civic Space, providing technical assistance for civil society organisations, continued to help them build their capacities, promote an enabling environment for the development of civil society, and stimulate networking and joint actions with Greek Cypriot and other EU civil society organisations. Given the positive feedback of its work, the Civic Space has been extended for another 2 years.

The new call for proposals Cypriot Civil Society in Action VIII was successfully launched in March 2022 for a total financial allocation of EUR 2.5 million. The call focused on supporting actions in three areas: bi-communal research actions; bi-communal confidence-building actions; and strengthening civil society in the Turkish Cypriot community. The award process was under way at the end of 2022. The 12 projects awarded under the previous edition of the call entered their full implementation phase, enabling civil society to undertake key advocacy activities and stimulate civic activity.

The Human Rights Platform association continued to successfully implement its EU-funded direct grant. The main activities focused on anti-trafficking, refugees' rights, LGBTIQ+ rights, relevant stakeholder participation, detention conditions and freedom from torture. The platform was involved in bringing the first human trafficking case before the 'courts' of the Turkish Cypriot community, which ended in a conviction. It also provided support to victims of human rights violations and bolstered the capacities of civil society on rights-based issues in general.

4.2.4. Objective 4: Bringing the Turkish Cypriot community closer to the Union

In 2022, the Goethe-Institut replaced the British Council as the implementing partner for the EU Scholarship Programme. In April 2022, a contribution agreement was concluded with the Goethe-Institut for an amount of EUR 5 million. During the year, 159 scholarship awards were offered to Turkish Cypriot students to attend universities in EU countries, and the first Turkish Cypriot benefiting from an EU scholarship was admitted to the College of Europe.

Since 2007, over 2 000 scholarships have been awarded to students, covering more than 100 universities and 23 EU countries. These scholarships support students during the first year of undergraduate studies, graduate students in their masters or doctoral programmes, and researchers and professionals in further developing their language and professional skills across EU countries.

The EU Infopoint is managed by the EU Programme Support Office together with the Commission Representation in Cyprus. In 2022, through its activities both online and offline, it achieved a high level of visibility for the EU. The EU Infopoint covered more than 20 EU-related themes, including gender equality, gender-based violence, LGBTIQ+ rights, rights for people with disabilities, disinformation, and health and safety at work.

The EU Infopoint organised 35 events, attracting over 16 000 participants. The events showed a slight increase in attendance compared with previous years. In addition, 14 publications, 69 infographics and 12 audiovisual products were developed, focusing on EU priorities in Cyprus. Traffic on the EU Infopoint's social media continued to increase. The EU Infopoint's Facebook page received around 1 000 new followers in 2022.

4.2.5. Objectives 5-6: Preparing the Turkish Cypriot community to introduce and implement the acquis

The TAIEX instrument is used to implement objectives 5 and 6 of the Aid Regulation. It helps prepare the Turkish Cypriot community for implementing the *acquis* in view of the withdrawal of the suspension of its application upon the entry into force of a comprehensive settlement.

The TAIEX facility remains an important tool contributing to the Aid Programme's objectives. In 2022, the instrument provided continuous support across 12 thematic areas of the *acquis* through a combination of online and on-site events. It also provided regular assistance by health experts in the context of the COVID-19 pandemic. In total, 151 TAIEX events were organised, keeping the number similarly high in comparison with the previous year. In addition, a database of all legal texts drafted with TAIEX support was developed, and efforts to improve the quality of translation and interpretation in the Turkish Cypriot community continued.

TAIEX support for trade across the Green Line (Council Regulation (EC) No 866/2004) continued. Commission-mandated independent experts carried out regular inspections of fresh fruits and vegetables, potatoes, honey and fish. In addition, in 2022, six types of processed food of non-animal origin crossed the Green Line for the first time. These include olive oil, tahini, halva, carob syrup, jams and fruit juice. TAIEX experts were the main driving force ensuring EU-level standards and quality through relevant compliance checks of the facilities.

The Commission also worked on removing obstacles to Green Line trade by ensuring smooth implementation of the inspection regimes newly put in place, which now require phytosanitary certificates for all fruits and vegetables.

4.3. Financial execution (contracts and payments)

4.3.1. Contracting

The Commission signed legal commitments amounting to EUR 27.2 million in 2022.

4.3.2. Payments

Payments in 2022 totalled EUR 40.6 million (EUR 38 million in 2021).

4.4. Monitoring

The Commission is directly responsible for implementing most projects (direct management). The level of monitoring by Commission staff is very high, with constant contacts with contractors, spot-check visits, site meetings and steering committee meetings. The technical assistance provided by the Grant Support Team continued to support the Commission in monitoring the implementation of grant contracts, while also assisting grant beneficiaries in applying EU rules on implementing grant contracts, including secondary procurement rules.

The Commission also implements a number of contracts through indirect management. The implementing bodies, such as the UNDP, the World Bank, the Goethe-Institut and NI-CO, report to the Commission in line with the respective framework agreements. The Commission is closely involved in the day-to-day monitoring of these actions.

4.5. Audit and controls

The recommendations of the last audit conducted by the Internal Audit Service in 2017, related to internal control arrangements in the area of public procurement, have been fully implemented.

4.6. Evaluation

The results-oriented monitoring (ROM) project was completed in 2022. It reviewed the selected actions and delivered the planned trainings on the improved internal monitoring capacity of relevant stakeholders. ROM experts made recommendations on relevance, efficiency, effectiveness and sustainability; these have been incorporated into the reviewed actions and beyond.

The Commission published a staff working document[4] on the results of the evaluation of the Aid Programme in 2022. This evaluation provided an independent assessment and evidence of the progress made towards achieving the Aid Regulation objectives in the period 2013-2018. The evaluation concluded that the Aid Programme can be considered as highly relevant and, given the peculiar circumstances of the Turkish Cypriot community context, a relatively successful initiative, with substantial EU added value.

4.7. Information, publicity and visibility

Overall, 584 visibility and communication actions were organised in 2022 to showcase the EU's work. The Commission published the booklet on EU support in response to COVID-19; preparations for the booklet on private sector development advanced.

4.8. Consultations with the Government of the Republic of Cyprus

Meetings were held with representatives of the Government of the Republic of Cyprus, both in person and online. The Commission continues to rely on the Government's cooperation for the verification of property rights and the facilitation of the work of the bi-communal technical committees. The Commission meets regularly with the Permanent Representation.

[4] COMMISSION STAFF WORKING DOCUMENT EVALUATION Evaluation of the Aid Programme for the Turkish Cypriot community (2013-2018) - Publications Office of the EU (europa.eu).

5. CONCLUSIONS

Through the work it does in line with the Aid Regulation objectives, the Commission continues to deliver assistance under the Aid Regulation to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community. During 2022, assistance continued to focus on areas that present particular problems for future compliance with the *acquis*.

The track record of past assistance and the maturity of projects will be continuously reflected in future programming rounds. Efforts will continue to focus on making a greater impact in priority areas through fewer but larger actions.

The Commission stands ready to deploy resources as needed, including under the Aid Programme, to support settlement negotiations under UN auspices.