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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Sixteenth Annual Report 2021 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 (TCc) and requires annual reporting to the Council and the European Parliament.

2. PROGRAMMING OF THE ASSISTANCE

Between 2006 and the end of 2021, EUR 623 million were programmed for operations under the Aid Regulation. The amount committed in December 2021 for the 2021 annual action programme was EUR 30.7 million[2]. The Multiannual Financial Framework (MFF) 2021-2027 has provided a multi-annual 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* communautaire 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, and both the Aid Regulation and Council Regulation No 2020/2093[3] laying down the MFF have allowed for a revision in 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 shall not imply recognition of any public 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 TCc. Management and mitigation of the inherent risk is part of the Commission's

[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).

responsibility and measures adopted include intensive 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 TCc must be fully engaged in the preparation for the implementation of the *acquis* in view of the withdrawal of its suspension in accordance with Protocol 10, following 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 Info-point, 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 TCc, 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 shall, on the basis of a proposal from the Commission, decide unanimously on the necessary adaptations to this Regulation.

Operations in 2021 included the continuation of a number of established and successful projects, such as EU scholarships and confidence-building measures in support of the Technical Committee on Cultural Heritage and the Committee on Missing Persons. A dedicated facility continued to fund the bi-communal Technical Committees' initiatives.

Grant support remains an essential element 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.

In April 2021, the Commission adopted two legal acts: Regulation (EU) 2021/591 entering Halloumi/Hellim in the register of protected designations of origin and protected geographical indications (PDO) and Decision (EU) 2021/586 allowing Halloumi/Hellim to be traded across the Green Line once Turkish Cypriot producers have aligned their production standards with EU animal health and food safety standards. Since 1 October 2021, only Halloumi/Hellim produced in Cyprus according to the traditional recipe can be placed on the EU market using that name. A series of support measures was subsequently launched to help implement the Halloumi/ Hellim PDO package in the TCc.

There are still considerable gaps in beneficiaries' capacity to effectively implement the *acquis*, following a comprehensive settlement. However, the TCc 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, the contract for which the Commission terminated in December 2013. The dispute with the former contractor was brought to arbitration and the proceedings are still ongoing.

In parallel, a contract for the related remedial works was concluded and the works have commenced.

The COVID-19 pandemic has hampered the Aid Programme's implementation. The Commission continued to ensure that the programme delivered despite the circumstances, putting mitigating measures in place to ensure that projects could go ahead unhindered. An emergency package helped provide the most urgent medical supplies, economic support for micro-business and SMEs, and expert advice to the TCc.

At the end of the year, 191 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 TCc, 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 2021 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' (LIF) through ongoing contribution agreements signed with the Commission, on behalf of the Union, for EUR 23.4 million. The facility provides support for preparing and implementing relevant local infrastructure investments. In addition to 13 significant LIF-supported projects, 2021 also saw the completion of an optimised third call for proposals for local communities, resulting in 4 additional projects to the LIF pipeline. In 2021, construction work started on the Kormakitis Centre for Cooperation, while the design-and-build contract was signed for the extension of the Morphou wastewater treatment plant.

In the water sector, construction of the new Nicosia trunk sewer (NNTS) was completed in November 2021. 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 project completed in 2013. The project will reduce groundwater contamination and protect shared water resources for the whole island.

Remedial works on the Famagusta sewage networks began in July 2021, when conditions were right for effective implementation of the contract.

The two amended works contracts – for a landfill extension and a landfill degassing plant, now representing an investment of over EUR 4.5 million in solid waste management – progressed well despite the COVID-19 pandemic. The amendments allowed the possibility of producing up to 0.8MW electrical power from renewable energy sources (collection, treatment and combustion of landfill gas). The electrical energy produced would power sustainable treatment of landfill wastewaters (leachate) at the newly commissioned treatment facility.

Unfortunately, the beneficiary has not managed to use the landfill facility as originally intended, including the leachate treatment plant. Although commissioned in 2021, the leachate treatment plant was subsequently shut down and kept unused for more than 10 months. This has inevitably led to a significant deterioration of the investment. The

Commission is working unceasingly to rectify this situation and get the operation of the facility back on track.

The capacity building service contract introduced circular economy principles in waste management practices to local communities. Work began on setting up the first not-for-profit producer responsibility organisation for recycling packaging waste. This process is now nearing completion. As part of this initiative, the use of wastewater sludge from the Nicosia wastewater treatment plant was successfully trialled and put into practice by local farmers.

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 and the establishment of an air and fuel quality reference laboratory. The air quality monitoring network, in full operation throughout 2021, now provides measurements for more pollutants in an increased number of locations.

4.2.2. Objective 2: Promoting social and economic development

The Aid Programme continued to cover the most urgent needs identified by the health sector to fight the COVID-19 pandemic and provided an economic emergency package worth EUR 11 million to mitigate its socio-economic impact.

The project 'Innovative Entrepreneurship and Dialogue', implemented with Northern Ireland Cooperation Overseas (NI-CO), was the main vehicle for helping to combat the adverse economic effects of the pandemic. A total of EUR 7.2 million has been allocated to the 'Safeguarding and Creating Employment' grant scheme that will see 86 successful micro- and small businesses receive funding up to a maximum value of EUR 60 000.

In the field of rural development, a technical assistance project on farm advisory services (FAS) was extended and will end in January 2024. It aims to assist Turkish Cypriot farmers with implementation of the FAS strategy, which includes the provision of advice, training and capacity building to local advisers.

With a view to support the implementation of the Halloumi/Hellim PDO package, a key intervention on food safety and crisis prepardness worth EUR 3.1 million was contracted in 2021. The technical assistance project aims to accelerate the implementation of EU-aligned food hygiene and food safety standards in the TCc, and to improve preparedness for possible animal diseases crises.

Furtheremore, a technical assistance project to strengthen capacities of veterinary specialists to prevent, control and eradicate animal diseases completed a second large-scale sampling and testing of animals for priority diseases (brucellosis and tuberculosis). The Commission provided laboratory tests, veterinary consumables, and services for the sampling and testing of animals. More than 6 100 herds and more than 427 000 animals (cattle, sheep and goats) were sampled to detect infected animals and remove them from farms. As a result, brucellosis prevalence in the TCc is in decline.

EU support also contributed to further progress in engaging private veterinarians to implement the sampling and testing of animals. Laboratory equipment worth nearly EUR 500 000 was also delivered to help increase the scope and reliability of testing in food and health laboratories.

In the education sector, a technical assistance project on improving teaching and learning helped to carry out a situation analysis of continuous professional development and an information and communications technology usage analysis in the TCc. The Commission continues to pursue its long-term goal of aligning education for Turkish Cypriot children with best international practice.

The project, worth EUR 1.1 million, to equip primary schools with science laboratories has been completed. The furniture and equipment were delivered and installed in 48 primary schools. A mobile laboratory (a specially equipped bus) was also delivered to the beneficiary. A series of practical trainings were arranged for primary school teachers who will be conducting lessons in the laboratories. In parallel, an accompanying measure was launched for guidance on effective use and sustainability of the laboratories. Preparations continued to provide laboratories to secondary schools.

Although slightly interrupted by the COVID-19 pandemic, the project on curriculum development for vocational education and training continued in the selected vocational education areas with the goal of enhancing the employability of youth. The beneficiaries repeatedly communicated their satisfaction with the project activities and asked for it to be extended for 2 more years.

The economic monitoring programme conducted by the World Bank continued to provide in-depth analysis, technical assistance and proposals for improvement. The programme focused on macroeconomic analysis and sustainable development, the business environment and the trade-related effects of reunification, employability and skills with a special focus on women's economic empowerment, and in-depth analysis of specific aspects of agricultural production.

In the field of statistics, two contracts were signed in 2021 to provide IT infrastructure and technical assistance, with the aim of improving business delivery and management of administrative data sources. These projects are complemented by targeted assistance provided through the Commission's technical assistance and information exchange (TAIEX) instrument and the World Bank. The projects form part of a wider EU strategy to improve the production of statistics in the TCc.

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

The Committee on Missing Persons (CMP), supported by the Aid Programme through a contribution agreement with the UNDP, continued its field and laboratory work. By the end of 2021, out of the 2 002 total missing persons, the CMP had exhumed 1 184 sets of remains. Of these, 1 023 were identified genetically and returned to their families. The pandemic and extremely hot weather significantly slowed down the excavation works in 2021, leading the CMP members to continue implementing their contingency excavation strategy in case of unforeseen events.

In December 2021, a new EUR 2.6 million contribution agreement was signed to provide funding for CMP operations in 2022. Overall, in 2006-2021, the EU contributed over EUR 30 million, amounting to 75% of all funding for the CMP in this period.

Cultural heritage protection through the bi-communal Technical Committee on Cultural Heritage (TCCH) remained a key component of the reconciliation and confidence-building measures supported under the Aid Programme, with 18 projects completed in 2021. Overall, the cultural heritage programme has received

approximately EUR 22 million of EU funds. This enabled more than 107 cultural heritage sites across the island to be conserved, structurally supported, physically protected or restored.

The facility for supporting the bi-communal Technical Committees continued to bring the two communities together and solve everyday challenges of Cypriots. Despite the pandemic, a number of targeted activities were implemented by the Committees on Culture, Environment, Education and Health.

After the successful implementation of a pilot bi-communal scholarship scheme by United World Colleges (UWC), a new agreement enabled 10 Turkish Cypriot and 10 Greek Cypriot students to commence the international baccalaureate diploma programme in various countries in 2021. The actions implemented by UWC 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 2021. Civic Space, providing technical assistance for civil society organisations (CSOs), continued to help build CSOs' capacities, promote an enabling environment for the development of civil society and stimulate networking and joint actions with Greek Cypriot and other EU CSOs. Civic Space's active citizenship component, also known as 'Grow Civic', has been reviewed and will support the rights-based actions of CSOs and activists.

A total of 11 new grants, mostly for smaller, grassroots CSOs, was awarded under the 'Cypriot civil society in action VII'. The bulk of projects from the previous call and the anti-trafficking call were successfully completed in 2021. The remaining ones are in their final phase of implementation. The grantees who applied with bi-communal partners continued collaborating with their Greek Cypriot counterparts.

In October 2021, the Human Rights Platform association started implementing its EU-funded direct grant. The platform will monitor and report on anti-trafficking, refugees' rights, LGBTI+ rights, relevant stakeholder participation, detention conditions and freedom from torture. It will also support victims and reinforce the capacities of civil society on rights-based issues in general.

As part of the local community grant scheme, a shelter to accommodate victims of domestic violence was built in Nicosia. The project also helped with awareness raising and the streamlining of support procedures in the TCc.

4.2.4. Objective 4: Bringing the TCc closer to the EU

Management of the 'EU scholarships programme' has been delegated to the British Council since the 2014-2015 academic year. The budget available under the last call allowed funding for 136 scholarships for the 2021-2022 academic year. 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.

Since 2007, approximately 2 000 grant schemes have been awarded to enable study in over 100 EU places of learning involving more than 100 universities, covering 23 EU destination countries and training in over 20 different professions. As of 2022, the British Council will be replaced by the Goethe Institut as the implementing partner. An agreement was finalised with the College of Europe for scholarships for up to three Turkish Cypriots, provided they meet the admission criteria.

The EU Info-point, managed by the EU Programme Support Office together with the

Commission Representation in Cyprus, achieved a high level of visibility for the EU during 2021 through its activities both online and offline. It covered more than 20 EU-related themes, including gender equality, gender based violence, LGBTI+ rights, rights for people with disabilities, disinformation, and health and safety at work. The European Green Deal was promoted through webinars on sustainable energy, energy efficiency, fire prevention, zero pollution, waste management and packaging waste.

The EU Info-point organised 32 events, including a large-scale online Europe Day campaign and 79 recurring events, including a series of online concerts, introduction to new European languages, and art workshops. The events attracted over 15 000 participants. A large-scale 'healthy lifestyle for all' information campaign was initiated and implemented. Finally, 12 newsletters and 9 infographics/publications were produced, 471 information products were distributed, and 289 news articles and 11 TV spots appeared in local media.

Traffic on the 'Abbilgi' Facebook page confirms the popularity of the activities, with over 2 000 new followers in 2021, bringing the total number of followers since its inception to 22 812.

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

The Commission's technical assistance and information exchange (TAIEX) instrument is used to implement objectives 5 and 6 of the Aid Regulation and thus helps prepare the TCc for implementation of the *acquis* in view of the withdrawal of its suspension upon the entry into force of a comprehensive settlement of the Cyprus problem.

Assistance continued in 2021 in 12 main areas, or 'sectors', of the *acquis*. TAIEX support successfully adjusted to the online setting, with increased interest in nearly all sectors. In total, 147 TAIEX events were organised in 2021, a very sharp increase compared to 49 events in 2020. In addition to regular TAIEX activities, efforts were undertaken to develop a database of all legal texts drafted with TAIEX support and to improve the quality of translation and interpretation in the TCc.

TAIEX health experts provided continuous assistance as part of the COVID-19 response. Support focused on detection and mitigation measures, primarily public health measures, an effective testing strategy and vaccination plans. The experts also helped to enhance laboratory capacity and to set up a pharmacovigilance notification network in the TCc.

TAIEX support for trade across the Green Line (Regulation 866/2004) continued. Commission-mandated independent experts resumed regular inspections of potatoes, honey and fresh fish in 2021.

4.3. Financial execution (contracts and payments)

4.3.1. Contracting

The Commission signed legal commitments amounting to EUR 30 million in 2021. This means that the contracting backlog has been eliminated, taking account of human and financial constraints, gaps in readiness for the future *acquis* roll-out and the sustainability of projects.

4.3.2. Payments

Payments in 2021 totalled EUR 38 million (EUR 41 million in 2020).

4.4. Monitoring

The Commission is directly responsible for implementating 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 committees meetings. The technical assistance provided by the Grant Support Team (GST) continued to support the Commission in monitoring the implementation of grant contracts, while also assisting grant beneficiaries in applying EU rules on implementating 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 British Council, 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 continued to review the selected actions and delivered the planned trainings on the improved internal monitoring capacity of relevant stakeholders. The ROM experts' recommendations on relevance, efficiency, effectiveness and sustainability are being incorporated into the reviewed actions and beyond.

The mid-term evaluation of the Aid Programme was completed in 2021. Its purpose was to provide an overall independent assessment and to gather evidence on progress made towards achieving the Aid Regulation objectives for 2013-2018. The final report concluded that the Aid Programme can be considered as highly relevant and, given the peculiar circumstances of the TCc context, a relatively successful initiative, with substantial EU added value.

4.7. Information, Publicity and Visibility

Overall, 394 visibility and communication actions were implemented in 2021, mainly online due to the COVID-19 restrictions. Preparations advanced for the booklets on EU support in response to COVID-19 and on private sector development.

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.

5. CONCLUSIONS

The Commission continues to deliver assistance under the Aid Regulation to facilitate the reunification of Cyprus by encouraging the economic development of the TCc, through the work it does in line with the Aid Regulation's six objectives. During 2021, 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, including under the Aid Programme, to support settlement negotiations under UN auspices as needed.