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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Eighteenth Annual Report for 2023 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 2023, EUR 688 million was programmed for operations under the Aid Regulation. The amount committed in October 2023 for the 2023 annual action programme was EUR 31.7 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 (the "non-government cotrolled areas") 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

[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 12.09.2023 on adopting an Action Programme for the Turkish Cypriot community for the year 2023 (C(2023) 5848).

[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).

part of the Commission's responsibility. 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 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 non-government controlled areas 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 2023 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 and rural 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 (PDO) and laying down the conditions for movement of this product over the Green Line. To this end, dedicated financial assistance and technical experts supported farmers, food business operators and local bodies in charge of controls throughout the food production chain. The Commission also continued to convene the 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,

such as environment, health and food safety, and acquired a firmer understanding of the challenges.

At the end of the year, 138 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 2023 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 2023, three infrastructure projects were completed, namely the construction of the Kormakitis Centre for Cooperation, the extension of the Morphou wastewater treatment plant, and the rehabilitation of the Kouklia wetlands. An additional 15 projects were active, including the development of a pre-feasibility study for setting up a bi-communal solar power plant.

Remedial works and construction activities on the Famagusta sewerage network, which began in July 2021, ended in 2023. A total of 45 km of the sewage network was replaced, many defects encountered in the initial project were resolved, and the quality and functionality of the system was improved.

Structural problems with the operation of the landfill in the Turkish Cypriot community continued in 2023. Since it was handed over in 2022, the beneficiary has not improved the operation and management of the facility, and has continued to implement poor waste disposal practices. This has inevitably led to a significant deterioration of the situation and 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, making the future governance of the waste sector in the community unclear. The Commission remains committed to supporting the beneficiary to rectify the situation, provided that appropriate strategic decisions on its management are made.

In line with the EU-funded integrated solid waste management plan, grants helping eight local communities to improve their waste management infrastructure were completed in 2023.

Local technical capacity to monitor the quality of the environment continued to be strengthened through dedicated capacity-building activities, such as the development of a local emissions inventory of air pollutants. The information provided by the EU-funded air quality monitoring network is now being used to assess pollution levels and develop specific actions to reduce them.

In the telecommunications sector, new broadcasting infrastructure was completed in 2023 thanks to an EU-funded project. Under the project, the Turkish Cypriot community removed all analogue television broadcasts from the 700 MHz frequency

bandwidth. This in turn enabled the unhindered allocation of the 700 MHz frequency band to 5G mobile services, contributing to an increased digitalisation in the Turkish Cypriot community.

4.2.2. Objective 2: Promoting social and economic development

Through the Aid Programme, the Commission continued to steer and promote economic integration and development by providing assistance packages to small and medium-sized businesses in the Turkish Cypriot community, with the aim of increasing competitiveness and innovation. As of the end of 2023, nearly 100 businesses had completed the implementation of multiannual grants worth EUR 4.6 million, resulting in the creation of more than 200 new jobs, the introduction of EU quality standards, and support to digital transformation. The EU 'Into Business' programme reached more than 1 150 entrepreneurs, culminating in the creation of 36 new businesses. The EU Incubator Hive was launched, enabling start-ups to receive tailored support.

In the area of economic convergence, cooperation with the World Bank on macroeconomic monitoring, statistics, facilitation of trade and improving the business environment through a simplification of procedures continued. The first comprehensive Household Budget Survey, which focused on monitoring poverty, was completed in 2023 and the findings were widely discussed. Work on adressing regulatory requirements and overcoming obstacles related to the opening of bank accounts for Turkish Cypriots in banks in the government-controlled areas and enabling payments for Green Line trade progressed.

Progress was made also in the area of product safety. A technical assistance project on market surveillance, launched in March 2022, continued in 2023 with the aim to introduce new, and to improve existing, practices in metrology, standardisation, accreditation, and conformity assessment. Working closely with the private sector, the project contributes to improving the business environment in the Turkish Cypriot community and to ensuring that locally produced goods comply with EU standards.

The Commission continued its long-standing support to the Turkish Cypriot community to help it meet EU standards in food safety and animal health and in the prevention, detection and elimination of animal diseases. Farm advisory services were provided to farmers and farmer organisations, which resulted in the creation of a pool of over 100 local technical advisers and a vibrant network of stakeholders eager to broaden their knowledge and enhance practices. Over 2022-2023, 109 farmers completed one or more agricultural vocational education and training courses, resulting in the issuing of a total of 247 training certificates. In addition, grants worth EUR 3.5 million were dispersed to a total of 53 farmers, cooperatives and food business operators in 2023, increasing their efficiency and productivity.

Key food safety and crisis preparedness activities, which have implications for Green Line trade and the Halloumi/Hellim PDO scheme, continued to be implemented. As a result, in March 2023, the first Halloumi/Hellim produced in the Turkish Cypriot community was certified as PDO compliant. By the end of 2023, three Halloumi/Hellim cheese producers and 15 farms in the Turkish Cypriot community had been certified and attested respectively under the PDO scheme. The Commission's informal Working Group on Halloumi/Hellim held four meetings on the implementation of the PDO scheme in 2023.

A large-scale testing and sampling of animals for priority diseases, including brucellosis, tuberculosis, and foot and mouth disease continued in 2023. For this exercise, the Commission provided laboratory tests, veterinary consumables and services. As a result of the Aid Programme's comprehensive range of measures, the prevalence of brucellosis continued to decline, falling to 0.3% by the end of 2023. Tuberculosis and foot and mouth disease have already been eradicated.

EU-funded assistance also contributed to further progress in engaging private veterinarians to implement food safety and veterinary controls.

The Commission continued its support in the area of education, focusing on vocational education and training, lifelong learning and professional development of teachers. By 2023, curriculum packages for 20 occupations had been developed and 330 teachers trained on the new curricula. In total, 103 trainings were organised and nearly 200 modules developed to enhance the skills and knowledge of all teaching staff in the Turkish Cypriot community.

The technical assistance project with Statistics Denmark continued to improve business delivery and the management of data sources. The project was 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, with a view to facilitate 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 2023, of the total of 2 002 missing persons, it had exhumed 1 186 sets of remains. Of these, 1 044 were identified genetically and returned to their families.

In 2023, a new EUR 2.6 million contribution agreement was signed to provide funding for the Committee's operations in 2024. Overall, in 2006-2023, the EU has contributed EUR 38.5 million to support the activities of the Committee on Missing Persons, accounting for 80% of its total funding for this period.

Protecting cultural heritage remained a key component of the reconciliation and confidence-building measures supported under the Aid Programme, in close cooperation with the bi-communal Technical Committee on Cultural Heritage. Overall, in 2006-2023, the cultural heritage programme has received EU funding of approximately EUR 27.5 million. This has enabled 142 cultural heritage sites across the island to be conserved, structurally supported, physically protected or restored.

In 2023, a new EU contribution of EUR 2 million was granted for the support facility for the bi-communal Technical Committees. This support is implemented by the UNDP. Since 2019, the support facility has funded around 20 projects of the Technical Committees, from feasibility and research studies to workshops and exhibitions.

The successful implementation of a pilot bi-communal scholarship scheme by United World Colleges, enabled 46 students from both communities to participate in the International Baccalaureate Diploma programme in different countries between 2020 and 2023. Other actions by United World Colleges include cross-community youth

engagement activities and short courses aimed at empowering young people to bring about positive change in their societies.

Support for civil society continued in 2023. The Civic Space project, which provides 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.

The Cypriot Civil Society in Action VIII call for proposals of 2022 resulted in 17 grants for a total financial allocation of EUR 2.5 million. Focusing on bi-communal research actions, bi-communal confidence-building actions, and strengthening civil society in the Turkish Cypriot community, the projects entered their full implementation phase in 2023, enabling civil society to organise key advocacy activities and stimulate civic activity.

The Human Rights Platform association continued to successfully implement its EU-funded direct grant receiving additional funding in 2023. The main activities focused on anti-trafficking, refugees' rights, LGBTIQ+ rights, relevant stakeholder participation, proper 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

Since 2022, the Commission has been partnering with the Goethe-Institut to implement the EU Scholarship Programme. In the academic year 2023/2024, 129 scholarships were offered to Turkish Cypriot students to attend universities in EU countries, and as of the end of 2023, two Turkish Cypriots benefiting from an EU scholarship have been admitted to the College of Europe.

Since 2007, more than 2 150 scholarships have been awarded to students, covering more than 100 universities and 23 EU countries. These scholarships support students during their first year of undergraduate studies, graduate students in their master's or doctoral programmes, and researchers and professionals in further developing their language and professional skills across EU countries. The Commission, together with the Goethe-Institut, also launched Alumni Connect Digital, an online platform to connect scholarship alumni.

The EU Infopoint is managed by the EU Programme Support Office together with the Commission Representation in Cyprus. In 2023, through its activities both online and offline, it achieved a high level of visibility for the EU. The EU Infopoint carried out more than 500 communication and visibility activities in 2023, covering EU-related themes such as disability rights, freedom of expression, Green Line trade and the European Green Deal. A total of 30 events were organised with over 20 000 participants, reflecting a policy shift towards a greater focus on visibility and communication events for a higher number of beneficiaries. During this period, the Commission produced 20 publications, 75 infographics and 15 audio-visual products.

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 for achieving the Aid Programme's objectives. In 2023, the instrument provided continuous support across 12 thematic areas of the *acquis* through a combination of online and on-site events. Approximately 150 TAIEX events were organised, in line with the previous year's numbers. 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) increased signficantly in 2023. Commission-mandated independent experts carried out regular inspections of fresh fruit and vegetables, potatoes, honey and fish. In addition to the six types of processed foods of non-animal origin which were admitted for Green Line trade for the first time in 2022, packaging materials that come into contact with food and two new processed food products of non-animal origin were also admitted for trade, namely table olives and various fruit juices. TAIEX experts ensured EU-level standards and quality through relevant compliance checks of the facilities in the non-government contorolled areas.

To further facilitate Green Line trade, the Commission launched in November 2023 the 'EU One Stop Shop', which provides knowledge, support and networking opportunities to businesses and traders interested or engaged in Green Line trade.

4.3. Financial execution (contracts and payments)

4.3.1. Contracting

The Commission signed legal commitments amounting to EUR 36.9 million in 2023.

4.3.2. Payments

Payments in 2023 totalled EUR 37.3 million (EUR 40.6 million in 2022).

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, GiZ 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

An independent evaluation of the Aid Programme covering the period 2013-2018 was published in 2022. The results of the evaluation were satisfactory. The evaluation concluded that the programme remains relevant and that its impact has been generally positive. It confirmed the EU added value and credited the programme with keeping the reunification perspective alive. It also underlined the general coherence and efficiency of the programme. At the same time, the evaluation highlighted that the Aid Programme, on its own, cannot achieve the reunification of Cyprus, for which the two Cypriot communities remain responsible.

4.7. Information, publicity and visibility

Overall, 505 visibility and communication actions were organised in 2023 to showcase the EU's work. The Commission also published a booklet on private sector development.

4.8. Consultations with the Government of the Republic of Cyprus

Regular meetings were held with representatives of the Government of the Republic of Cyprus. 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 Ministry of Foreign Affairs and Permanent Representation of the Republic of Cyprus to the 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 2023, assistance continued to focus on areas that present particular problems for future compliance with the *acquis*, while also ensuring that emerging needs are addressed in an efficient manner.

Emphasis on relevance, maturity, ownership and sustainability of projects has yielded positive results and will continue to guide future programming discussions. Also, efforts will continue on making a greater and long-term impact in priority areas through strategic actions.

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