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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**Fifteenth Annual Report 2020 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 389/2006¹ (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 2020, EUR 592 million were programmed for operations under the Aid Regulation. The amount committed in July 2020 (Part I) and September 2020 (Part II) for the 2020 annual action programme was EUR 36.6 million² in total. The Multiannual Financial Framework (MFF) 2014-2020 has provided a multi-annual perspective to the programme with a provision for stable, annual funding. The assistance programme is, however, temporary in nature, aiming to facilitate the reunification of Cyprus, and both the Aid Regulation and Council Regulation No 1311/2013³ 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. *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 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

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 18 June 2020 on adopting an Action Programme for the Turkish Cypriot community for the year 2020 (Part I) (C(2020) 4008) and Commission Implementing Decision of 25 August 2020 on adopting an Action Programme for the Turkish Cypriot community for the year 2020 (Part II) (C(2020) 5698).

³ Council Regulation (EU, Euratom) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020 (OJ L347, 20.12.2013, p.884).

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 *acquis* roll-out following settlement.

The Programme Team operates through the EU Programme Support Office (EUPSO) in the northern part of Nicosia. The Representation of the Commission 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. The Commission stands ready to adapt the programme as a result of any agreements reached in the settlement talks.

Operations in 2020 included the continuation of a number of established and successful projects, such as EU scholarships and confidence building measures in support to the Technical Committee on Cultural Heritage (TCCH) and the Committee on Missing Persons (CMP). A dedicated facility continued to fund the bi-communal Technical Committees initiatives.

Grant support remains an essential element of the programme. Assistance provided to key economic sectors preparing for a settlement was reinforced through projects supporting private sector and rural areas as well as human resources development. Efforts towards tangible improvements in the area of animal diseases eradication and food safety continued.

Considerable gaps in the capacity of the beneficiaries to effectively implement the *acquis*, following a comprehensive settlement, still exist and the approval of many legal texts remains pending. However, the TCc continued to make good progress in a number of areas and acquired a firmer understanding of the challenges linked with the implementation of legal texts aligned with EU standards.

One issue still ongoing has been the construction of the Famagusta sewage network, the contract for which was terminated in December 2013 by the Commission. 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 but the works have not yet started.

The implementation of the Aid Programme was challenged by the outbreak of the Covid-19 pandemic. The Commission made sure that the programme delivers despite the circumstances and put in place mitigating measures to secure the continuation of projects. Importantly, an emergency package was quickly mobilised to provide the most urgent medical supplies, economic support to micro business and SMEs, and expert advice to the TCc.

At the end of the year, 194 contracts were running under the 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 2020 with respect to each of the objectives of the Aid Regulation were:

4.2.1. Objective 1: Developing and restructuring of infrastructure

UNDP continued implementing the “Local Infrastructure Facility” (LIF) through ongoing contribution agreements with the Commission signed for EUR 23.4 million. The facility provides support for preparing and implementing relevant local infrastructure investments. In addition to twelve significant projects advanced under the LIF, 2020 also saw the completion of an optimised second call for proposals for the local communities resulting in a potential five additional projects to the LIF pipeline.

The EU bi-communal project for the rehabilitation of the Pedieos River, aiming to bring Cypriot communities together through recreational activities, progressed to detailed design stage.

In the water sector, the works for the construction of the new Nicosia Trunk Sewer (NNTS) continued. NNTS is the construction of 13 km of sewers to convey wastewaters from the Nicosia area to the bi-communal Nicosia wastewater treatment plant (WWTP), an EU-funded project completed in 2013. Despite the 3-month suspension of the works due to the Covid-19 restrictions, the project progressed with around 80% of the pipeline installed and pumping stations under construction.

The works for the construction of the irrigation system reusing the Morphou WWTP treated wastewater were completed in March 2020. Also, the detailed design and associated tender dossier were finalised for the reuse of treated wastewater and sludge generated from the new Nicosia WWTP.

The works contract and the related supervision service contract for the remedial/repair works of the Famagusta sewage networks were signed in March 2019 but the works have not started yet. The Chamber of Engineers and Architects granted “design visa” in early 2021.

The two amended works contracts on landfill extension and 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 will allow the production of up to 0.8MW electrical power from renewable energy sources (collection, treatment and combustion of landfill gas). The produced electrical energy ensures the sustainable treatment of landfill wastewaters (leachate) by the newly commissioned treatment facility, which otherwise would have represented an untenable operational cost for the final beneficiary.

The capacity building service contract introduced circular economy principles in waste management practices in local communities. Building on the momentum generated by the beneficiary adopting the EU promoted legal text on packaging waste, the setting up of the first “not for profit” producer responsibility organisation (PRO) for packaging waste recycling is nearing completion.

In line with the EU-funded integrated solid waste management plan, grants supporting eight local communities to improve their waste management

infrastructure are in the final phase of implementation. A shelter to accommodate victims of domestic violence was built in Nicosia through the same grant scheme.

The local technical capacity to monitor environment quality is being improved through the renovation of the air quality monitoring network and the establishment of an air and fuel quality reference laboratory.

Technical assistance for the implementation of an energy efficiency programme in schools was finalised in late 2020. The intervention analysed improvement measures for the energy efficiency of 10 pilot schools, such as replacement of windows, repairs of building envelopes, and the upgrade of lighting, heating and cooling systems. These improvements were also analysed in terms of their cost-effectiveness taking into consideration local economic factors. The findings of the study will be used to assess the appropriateness of future interventions.

4.2.2. Objective 2: Promoting social and economic development

The Aid Programme mobilised funds to cover the most urgent needs identified by the health sector to fight the Covid-19 pandemic. The package included personal protective equipment, laboratory devices, testing kits and ventilators. Also, an economic emergency package worth EUR 11 million was mobilised to help address the socio-economic impact of the pandemic.

The project “Innovative Entrepreneurship and Dialogue”, implemented with the Northern Ireland Cooperation Overseas (NI-CO), was significantly expanded. The total financial commitment is now EUR 16.6 million and a new component, “Safeguarding and Creating Employment”, was added to help combatting the adverse economic effects of the Covid-19 pandemic. Emergency support of EUR 3 million was distributed to micro and small businesses shuttered during the lockdown to help them restock supplies and cover other ad-hoc costs necessary to restart operations.

In the field of rural development, the technical assistance contract on Farm Advisory Services (FAS) was extended. The project supports the FAS Strategy and delivers consultancy services to the grantees of the “Investments in Agriculture” (Rural Development IV) call for proposals. The call was completed in 2020 and the Commission concluded 55 grant agreements for EUR 4.3 million with the aim to strengthen the agriculture value chain.

Early in 2020, 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, tuberculosis). More than 300 000 animals (cattle, sheep and goats) had been sampled and 383 000 tests performed to detect infected animals and remove them from farms. As a result, brucellosis prevalence in the Turkish Cypriot community is in decline.

Also, the Commission procured laboratory tests and veterinary consumables and initiated procurement of services such as sampling and testing of animals. This support amounts to nearly EUR 1 million and aims to further contribute to detection and elimination of priority animal diseases. In addition, laboratory equipment of nearly EUR 500 000 was procured to help increase scope and reliability of testing in food and health laboratories.

EU support contributed to further progress in engaging private veterinarians to implement sampling and testing of animals and other public health tasks. The

beneficiary adopted the EU promoted legal text allowing private veterinarians to carry out the above tasks.

The disease eradication programme has been strengthened by the construction of an animal waste disposal system. Construction works were finished in early 2020. The Commission has also supported the preparation of an animal waste management plan to ensure a cost-effective operation of the facilities.

Procurement of an EU funded technical assistance worth EUR 3.2 million to help speed up the effective implementation of EU aligned standards all along the chain of production of food of animal origin was initiated in 2020.

In the education sector, the evaluation of the call for tenders for “Improving teaching and learning through a continuous professional development mechanism” was completed and the contract awarded. The Commission’s long-term goal to align the education of Turkish Cypriot children in line with best international practice is continuing unhindered.

While interrupted by the Covid-19 pandemic, the project on curriculum development for vocational education and training is underway, using the revised occupational standards for vocational skills developed during the VETLAM II project to upgrade the curricula.

The project to install science laboratories in the primary schools for a value of EUR 1.1 million is now in the initial implementation stage after some delays, with labs due to be installed in 48 schools. A travelling lab, in the form of a specially equipped bus, has also been procured.

The economic monitoring programme conducted by the World Bank continued to provide additional in-depth analysis and technical assistance. The programme focused on fiscal analysis and financially sustainable administration bodies; economic and trade-related effects of reunification; private-sector development and social inclusion; and macroeconomic monitoring.

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 UNDP, continued its field and laboratory work. By the end of 2020, out of the 2 002 total missing persons, the CMP had exhumed 1 188 sets of remains; 994 of them were genetically identified and returned to their families. The pandemic and extremely hot weather significantly slowed down the works of excavation in 2020, leading the CMP members to develop a new excavation strategy in case of unforeseen events.

In December 2020, the contribution agreement was extended to provide funding for the operations of the CMP in 2021 for an amount of EUR 2.6 million. Overall, in the period 2006-2020, the EU has contributed with over EUR 30 million, which amounts to 75% of the overall funding provided to 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 actions supported under the Aid Programme, with 18 projects completed in 2020. Overall, the Cultural Heritage programme has received almost EUR 20 million of EU funds, which are being used to improve the protection of

cultural heritage sites across the island. These sum up to a total of 79 completed work projects and 17 ongoing projects.

The facility to support the bi-communal Technical Committees continued bringing the two communities together and solving every-day challenges of Cypriots. In 2020, it funded a unique confidence building measure facilitating the return of paintings and audio-visual archives between the two communities. The exhibition of a selection of paintings and audio-visual materials was a high-level political event attended by both communities' leaders. Despite the pandemic and the closing of the crossings, a number of targeted activities was implemented by the Committees on Culture, Environment, Education and Health.

Following the pilot phase, a new agreement was signed with the United World College (UWC) in 2020 to provide 20 additional bi-annual scholarships for the International Baccalaureate (IB) diploma. The UWC will also implement youth engagement activities and short courses in Cyprus. The aim is to create a community of young Cypriots engaged and skilled to undertake positive change in their societies.

The Aid Programme also funded the PRIO Cyprus Centre to further their work on the “peace dividend” to be achieved with a comprehensive settlement of the Cyprus problem. The new study highlighted the sizable benefits of a solution for business, addressing the concerns of Cypriots about the economic impact of a settlement. The study was published in 3 languages (Greek, Turkish and English) and presented to the general public and the international community.

Support for civil society continued in 2020. Civic Space, the technical assistance for civil society organisations (CSOs), continued to 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. Through its “Grow Civic” mechanism, Civic Space has supported 92 active citizenship initiatives (22 of which in 2020) on peace and reconciliation, youth, education, health, art, human rights or environment. A new 30-month contract for Civic Space came into effect in late 2020.

The “Cypriot civil society in action VII” call for proposals was underway in 2020. For the first time, funds have been set aside for smaller/grassroots CSOs in an effort to expand the outreach of the call. Grants awarded under the previous call and those of the anti-trafficking call are all in their implementation phase and the grantees continue collaborating with their Greek Cypriot counterparts.

Early in the year, the EU funded initiatives promoted and secured the inclusion of trafficking in human beings and hate speech as specific criminal offences in the local legal text.

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

The management of “EU scholarships programme” has been delegated to the British Council since the academic year 2014-2015. The budget available under the last call allowed funding for 138 scholarships for the 2020-2021 academic year, out of which 127 grantees accepted the award. 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 member states.

The scholarships programme has ensured access to scholarships to nearly 1 700 Turkish Cypriot students and professionals since 2007. The major challenge of this

call was the outbreak of the pandemic at the moment of application and selection, which was mitigated by special arrangements made by the British Council.

The EU Info-point, managed by the EUPSO office together with the Representation of the European Commission in Cyprus, achieved a high level of visibility for the EU during 2020 by adapting its activities to online platforms. It covered more than 15 EU-related themes, including European Green Deal Campaign with a wide-scale information campaign on energy efficiency. The EU Info-point has also covered topics such as LGBTBI rights, gender based violence, disability rights and trafficking in human beings.

The EU Info-point organised 17 events, mainly online, including a large scale Europe Day campaign and 54 recurring events, including series of “Stay at Home” music concerts during the lockdown period. The events attracted over 15 000 participants. A large scale Covid-19 information campaign was also implemented. Finally, 9 newsletters and 35 online infographics were distributed and 157 news articles and 3 TV spots appeared on local media.

Traffic on the Facebook page “Abbilgi” confirms the popularity of activities, with over 2 000 new followers in 2020, bringing the total number of followers since its opening to 20 249.

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 2020 in 17 main areas, or “sectors”, of the *acquis*. In total, the number of events organised in 2020 was 49. Since March 2020, all TAIEX activities were organised online. A new framework for TAIEX assistance was developed for the period 2020-2022, with 54 Member State experts selected through the process.

Regular assistance was provided by TAIEX health experts since the start of the Covid-19 pandemic. Support aimed to advise on immediate measures to combat the disease and help establish a more strategic crisis management response mechanism. The experts also helped develop a vaccination deployment plan and a registry, which prepared the ground for delivery of EU approved vaccines to the TCc.

TAIEX support for trade across the Green Line continued. Amongst others, TAIEX experts carried out the regular phytosanitary inspections of potatoes in early 2020. However, after the outbreak of the pandemic, the Commission was no longer able to send the experts to Cyprus to carry out the regular inspections of certain products provided for in Regulation 866/2004.

4.3. **Financial execution (contracts and payments)**

4.3.1. *Contracting*

The Commission signed legal commitments in 2020 amounting to EUR 42.6 million, which, taking into account human and financial constraints, gaps in readiness for the

future acquis roll-out and the sustainability of projects, means that the contracting backlog has been eliminated.

4.3.2. *Payments*

Payments in 2020 were EUR 41 million (EUR 35 million in 2019).

4.4. *Monitoring*

The Commission has direct responsibility for implementation of most projects (direct management). The level of monitoring by Commission staff is very high, with constant contacts with contractors, “spot-check” visits as well as site meetings and steering committees meetings. The technical assistance provided by the Grant Support Team (GST) continued to support the Commission with monitoring the implementation of grant contracts, while also assisting grant beneficiaries in the application of EU rules for grant contract implementation, including for secondary procurement.

In addition, the Commission implements a number of contracts under indirect management mode. The implementing entities such as the UNDP, the British Council, and NI-CO report to the Commission in accordance 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 IAS 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 reviewing the selected actions and delivered the first envisaged training on improved internal monitoring capacity of relevant stakeholders. The recommendations received from the ROM experts related to relevance, efficiency, effectiveness and sustainability are being integrated under the reviewed actions and beyond.

The mid-term evaluation of the Aid Programme continued in 2020. The purpose is to provide an overall independent assessment and to gather evidence on progress made towards the objectives set in the Aid Regulation during the 2013-2018 period. The draft final report was delivered in December 2020 and its draft conclusions are positive.

4.7. *Information, Publicity and Visibility*

Overall, 429 visibility and communication actions took place in 2020, mainly online due to the Covid-19 restrictions. Three booklets on education to boost skills, Green Line Regulation and environment in English, Turkish and Greek were published and preparation for two other booklets started.

4.8. *Consultations with the Government of the Republic of Cyprus*

Meetings were held with representatives of the Government of the Republic of Cyprus, including during the Covid-19 crisis. The Commission continues to rely on the Government's cooperation for verification of property rights and 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 work under its six objectives. During 2020, assistance continued to focus on areas that present particular problems with future *acquis* compliance.

The track record of past assistance and the maturity of projects will be continuously reflected in future programming exercises. Efforts will keep focusing on bringing more 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.