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

**Fourteenth Annual Report 2019 on the implementation of Community 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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Fourteenth Annual Report 2019 on the implementation of Community 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

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 2019, EUR 555 million was programmed for operations under the Aid Regulation. The amount committed in October 2019 for the 2019 annual action programme was EUR 35.4 million². The Multiannual Financial Framework (MFF) 2014-2020 provides 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, allow 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 primarily through direct management by the European Commission, but some projects are indirectly managed.

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 development 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

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 16 September 2019 on adopting an Action Programme for the Turkish Cypriot community for the year 2019 (C(2019) 6531).

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, 2.12.2013, p.884).

careful approach to the use of bank guarantees. The assistance includes a significant amount of grant support, requiring resource-intensive management.

To ensure successful and sustainable implementation in this environment, the TCc must fully engage 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 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 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 2019 included the continuation of a number of established and successful projects, such as EU scholarships and confidence building measures in support to the Committee on Missing Persons (CMP) and to the Technical Committee on Cultural Heritage (TCCH). To help their work, a new facility has been put in place to fund the bi-communal Technical Committees initiatives. In addition, to improve the everyday lives of Cypriots, the Aid Programme facilitated the "roaming" agreement for mobile phone subscribers all across the island.

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 has made 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.

Grant support remains an essential element of the programme and a dedicated technical assistance helps the Commission in supporting the operational management, implementation, and monitoring of grant schemes. For the scholarship programme, the Commission continued to make recourse to outsourcing to ensure grants reach the beneficiaries in a timely and efficient manner.

One continuing issue 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.

At the end of the year, 156 contracts were overall 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 2019 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 a contribution agreement signed in December 2018. The initial allocation of EUR 17.7 million was topped-up by additional EUR 5.7 million through the 2019 programme. The facility is designed to provide support for identifying, screening, developing, procuring, and physically implementing relevant local infrastructure investments. With six significant ongoing projects well progressed, 2019 also saw the first LIF call for proposals for the local communities.

The EU bi-communal project for the rehabilitation of the Pedieos/Kanlıdere River, aiming to bring Cypriot communities together through recreational activities, progressed to detailed design stage; it is planned to be concluded by mid-2020.

Under direct management, in the water sector, the works for the construction of the new Nicosia Trunk Sewer (NNTS) commenced in July 2019 for a period of 33 months. NNTS is the construction of 13 km of sewers to convey wastewaters from the Nicosia area to the bi-communal Mia Milia/Haspolat wastewater treatment plant (WWTP), an EU-funded project completed in 2013.

The works for the construction of the irrigation system reusing the Morphou/Güzelyurt WWTP treated wastewater commenced in February 2019 for a period of 29 months.

The final detailed design and associated tender dossier of the distribution system for the “use of treated wastewaters from the bi-communal Mia Milia/Haspolat WWTP” in Nicosia were completed.

The works contract and the related supervision service contract for the remedial/repair works of the Famagusta sewage networks were signed in March 2019. The works have not started yet (March 2020). While the project covers only “repair”/“remedial” works and is not a new project, the chamber of engineers and architects requested additional information/clarifications on the design, well beyond its usual practice, and the procedure for issuing of a “design visa” is still ongoing. The property clearance is also still continuing.

Amendments to the two existing works contracts: “Extension to the Koutsoventis/Güngör landfill” and “Landfill Degassing Plant” increased the support to solid waste management to EUR 4 million. Renewable energy will be produced ensuring sustainable treatment of landfill wastewaters (leachate). The project should be completed in mid-2020. The capacity building service contract introduced circular economy principles in waste management practices in local communities.

The beneficiary adopted the legal text on packaging waste prepared with the assistance of EU experts. The Aid Programme supports the development and establishment of the producer responsibility organisations (PRO's). Additionally, the EU-developed solid waste management database, initially completed in 2017, was

further expanded to incorporate packaging waste tracking and management of operational licencing for PRO's. This is currently in final stages of testing.

In line with the EU-funded integrated solid waste management plan, grants are supporting eight local communities to improve their waste management infrastructure. These projects include the construction of waste transfer stations, supply of waste collection vehicles, and improvement of management practices.

A shelter to accommodate victims of domestic violence is being built in Nicosia through the same grant scheme.

The local technical capacity to monitor environment quality will be improved through the renovation of the air quality monitoring network and the supply of water and fuel quality testing equipment.

Technical assistance for the implementation of an energy efficiency programme in schools commenced in June 2019. It will provide an assessment of the energy efficiency situation in 10 pilot schools.

4.2.2. *Objective 2: Promoting social and economic development*

The project “Innovative Entrepreneurship and Dialogue”, with an overall budget of EUR 3 million and implemented through a contribution agreement by Northern Ireland Cooperation Overseas (NI-CO), kicked-off with success. It aims at developing a more conducive entrepreneurship ecosystem through initiatives such as Startups4Peace, Into Business, Nicosia Innovation Hub, Microfinance Programme Implementation Support Unit, Cyprus Dialogue Forum, and Enterprise in Education.

A call for proposals “Competitive Enterprises, Clusters and Business Support Organisations” with a budget of EUR 5 million was finalised in the third quarter of 2019. In total, 27 individual grant contracts were signed, most of which in the sectors of food processing, manufacturing, and health.

A Prior Information Notice was published in December 2019 for the implementation of a EUR 1 million market surveillance capacity development project.

In the field of rural development, a technical assistance contract on Farm Advisory Services (FAS) provided support on identifying stakeholders active in agriculture and rural development. It supports the FAS Strategy and delivers consultancy/FAS services to applicants of the “Investments in Agriculture” (Rural Development IV) grant scheme. The experts prepared a vocational education curriculum for piloting adult learning earmarked for farmers.

The evaluation of the call for proposals (Rural Development IV) with a budget of EUR 5 million was finalised. Grant agreements should be signed by mid-2020.

In 2019, EU technical assistance contributed further to strengthening capacities of veterinary specialists to prevent, control and eradicate animal diseases. It completed a second sampling and testing of animals for priority diseases (such as 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). Brucellosis prevalence in the northern part of Cyprus is in decline. In addition, a number of serological surveys implemented by this technical assistance in 2019 demonstrated absence of economically important animal diseases such as foot and mouth disease, “*peste des petites ruminants*”, and sheep and goat pox.

EU-funded projects recorded further progress in engaging private veterinarians to implement sampling and testing of animals and other public tasks, such as *ante* and *post mortem* inspection of animals.

The assessment of structural and operational conditions in slaughterhouses (SLHs), carried out in 2019, identified that almost 80% of these facilities do not meet the standards required for food producing establishments. Some SLHs have to be closed. For a limited number where it can be improved, additional support could be provided under the 2020 programme.

The disease eradication programme has been strengthened by the construction of an animal waste disposal system. Construction works started in late 2018 and will be finished by mid-2020. The Commission supports the preparation of an animal waste management plan to ensure a cost-effective operation of the facilities.

In the education sector, under the EUR 1.5 million grant scheme for “Innovation and Change in Education VII”, the projects in implementation focus on enhancing social inclusion and mobility of children with special needs in schools, improving English and Greek e-learning, and introducing extra-curricular activities to improve life skills of primary school students.

Preparations have started for designing a project on curriculum development for vocational education and training. This project will use the revised occupational standards for vocational skills developed during the VETLAM II project to upgrade the curricula. It will commence in early 2020.

A framework contract was signed to give further support to the education sector in line with the priorities of EU Strategic Framework – Education and Training 2020. The project with a value of EUR 5 million aimed to facilitate the modernisation of schools with science laboratories in the pre-primary, primary, secondary, and vocational education and training schools in the TCc is planned to be implemented during 2020.

The second phase of the economic monitoring programme conducted by the World Bank provided additional in-depth analysis and technical assistance in important areas. The programme focused on fiscal analysis, financially sustainable public administration bodies; economic, trade-related effects of reunification; private-sector development and social inclusion; as well as macroeconomic monitoring. An additional envelope of EUR 3 million was contracted in 2019 for the continuation of the engagement of the World Bank to build on the analytical and advisory work done so far and to continue providing advice and targeted support to the TCc until October 2022.

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 2019, out of the 2 002 total missing persons, the CMP had exhumed 1 217 sets of remains; 969 of them were genetically identified and returned to their families.

In December 2019, the contribution agreement with UNDP was extended to provide funding for the operations of the CMP for the year 2020 for an amount of EUR 2.6 million. Overall, in the period 2006-2020, the EU has contributed with a total of

EUR 28 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. Overall, the Cultural Heritage programme has received almost EUR 20 million of EU funds, which are being used to improve the protection of 87 cultural heritage sites across the island. These include 66 completed work projects, 9 completed design projects, and 12 ongoing projects.

Steps are being taken to develop the skills of care-takers in order to ensure adequate maintenance and caretaking of restored sites by the beneficiary communities. In addition, in order to have more youth interested and committed to the Cypriot cultural heritage, the Committee selected a number of young Greek and Turkish Cypriots who are leading efforts to promote and preserve the rich and diverse cultural heritage in Cyprus as “Cultural Heritage Youth Ambassadors”.

A new facility to support the bi-communal technical committees was established and funded with EUR 1 million with the objective of bringing the two communities together, creating confidence, and solving every-day challenges of Cypriots. In 2019, it implemented activities for the Technical Committee on Humanitarian Matters, Crime and Criminal Matters, Environment, Education, Health, and it supported the exchange of artefacts between the two communities, facilitated by the Technical Committee on Education.

This year a new pilot bi-communal scholarship programme was launched to select young Greek and Turkish Cypriots who will jointly attend the United World College (UWC) in Mostar, Bosnia and Herzegovina for the two International Baccalaureate (IB) years 2019-2021. Six scholarships will be provided to high-potential young people to take part in UWC’s transformational IB Diploma programme.

Support for civil society continued in 2019. 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. Among others, bi-communal exchange visits and meetings were organised across the divide with CSOs working on environment and climate change and on the effect of mining waste on the environment and health. Since 2015, through its “Grow Civic” mechanism, Civic Space has supported 73 active citizenship initiatives (25 of which in 2019) on peace and reconciliation, youth, education, health, art, human rights or environment. A full month of CSO actions under the name of “Open Door Festival” took place for the fourth time in September-October 2019.

Four grants were awarded in 2019 under the “Together against trafficking in human beings” call for proposals. They have started their actions to encourage an effective and coordinated response to all forms of trafficking in human beings, prevent trafficking in human beings, and improve victims' access to their rights. This includes proposals to change the penal code to treat trafficking in human beings as a crime.

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 call

allowed funding for 161 scholarships for the 2019-2020 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 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 the call was the introduction of a limitation to the grantees going to the UK to 40%. Despite this significant change, the number of applications remained at the same level as the previous year.

The EU Infopoint, which is managed by the EUPSO office together with the Representation of the European Commission in Cyprus, started functioning in early 2015 and was financed through a total budget of EUR 3 million for a 60-month period during 2015 to 2019. The new service contract with a budget of EUR 1.9 million was signed in December 2019 to secure business continuity in information provision services for a further period of 36 months.

The EU Infopoint in 2019 generated a high level of visibility for the EU, its policies and the Aid Programme. It covered more than 20 EU-related themes, including environment related school visits to EU-funded waste water treatment plants, European Researchers' Fairs with the participation of teachers and students as exhibitors from schools with EU-funded laboratories, health and safety trainings for vocational school students, traffic safety campaigns, European music days, and Europe Day celebrations for the general public. It has also covered topics like fundamental rights, human rights, LGBTI rights, and gender equality.

In total, 6 164 information products and 14 newsletters were distributed during 2019. In addition, 495 news articles and 84 TV spots appeared on local media. Traffic on the Facebook page "Abbilgi" further confirms the popularity of the activities (more than 4 000 new *likes* in 2019, bringing the total number of *likes* since its opening to 18 038).

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 2019 in 17 main areas, or "sectors", of the *acquis*. In total, the number of events organised in 2019 was 141. TAIEX actions included *inter alia* expert missions, workshops, and study visits. TCc stakeholders demonstrated a significantly heightened awareness of *acquis* requirements in the majority of the active TAIEX sectors.

Support for trade across the Green Line (Regulation 866/2004) continued. The independent experts were involved in 2019 in carrying out the regular phytosanitary inspections of potatoes and citrus products, taking honey samples for analysis, and producing an updated list of vessels whose catch can be traded across the Green Line.

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

4.3.1. Contracting

The Commission signed legal commitments in 2019 amounting to EUR 49.5 million, which means that the substantial amount of accumulated funds that remained uncommitted under the Aid Programme has been further brought under control.

4.3.2. Payments

Payments in 2019 were EUR 35 million (EUR 26.3 million in 2018).

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 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 EBRD, the British Council, and NI-CO are pillar assessed and 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 have been fully implemented.

4.6. Evaluation

The Results Oriented Monitoring (ROM) contract, concluded in November 2018, kicked-off as planned. The ROM team reviewed 12 actions in terms of their relevance, efficiency, effectiveness and sustainability. The recommendations received from the ROM experts are now being integrated under the reviewed actions and beyond.

In December 2019, a contract for the evaluation of the Aid Programme was concluded. The purpose of the evaluation 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 results of the evaluation should be released in early 2021.

4.7. Information, Publicity and Visibility

Overall, 343 visibility and communication actions took place in 2019. In addition to the Success Stories booklet in English, Turkish and Greek, the preparation for 3 booklets on boosting skills for employment, green line regulation and environment infrastructure were initiated in 2019.

4.8. Consultations with the Government of the Republic of Cyprus

Meetings were held with representatives of the Government of the Republic of Cyprus, in particular when senior Commission officials visited the island. The Commission continues to rely on the Government's cooperation for verification of property rights, and also meets regularly with the Permanent Representation in Brussels.

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 2019, assistance continued to focus on areas that present particular problems with future *acquis* compliance.

In view of the capacity constraints, limited human and financial resources and gaps in readiness for the future *acquis* roll-out, the sustainability of projects must be carefully considered. 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.