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COUNTRY AND INTERCOUNTRY PROGRAMMES AND PROJECTS

THIRD COUNTRY PROGRAMME FOR CYPRUS\*

<u>Programme period</u>	<u>Actual resources programmed</u>	<u>\$</u>
January 1987-December 1991	IPF for 1987-1991	2 750 000
	Balance from third cycle	354 000
	Other resources programmed	<u>1 182 150</u>
	Total	4 286 150

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\* Detailed listings of projects and other related data prepared as part of the country programming exercise are available on request. These listings include (a) ongoing projects; (b) proposed projects; (c) distribution of resources by objective; (d) planned activities of operational funds and programmes under the authority of the Administrator; (e) distribution of new country programme by sector.

## I. DEVELOPMENT TRENDS, STRATEGIES AND PRIORITIES

### A. Current economic trends

1. The growth of the Cyprus economy during the decade 1975-1985 has been satisfactory by international standards. Real gross domestic product (GDP) has experienced annual average growth of more than 5 per cent over the period, led by a rapid increase in manufacturing exports and tourism. As a result unemployment fell to less than 2 per cent by 1979, although it has since been increasing and now stands at 3.4 per cent. Inflation in Cyprus is largely imported and has followed the international patterns. These developments are reflected in the significantly changed structure of the economy. Agriculture's contribution to GDP has dropped from 16.9 per cent to 7.8 per cent, the share of manufacturing has risen to 16.7 per cent from 15.4 per cent and that of services even more, with corresponding shares increasing from 55.9 per cent to 61.7 per cent.

2. Much of the credit for the growth of the economy must go to the quality of domestic entrepreneurship, which has ably exploited increased external demand and has been supported by a series of reactivation programmes as reflected in the Emergency Economic Action Plans. The latter encouraged the financing of investments in construction, manufacturing, tourism, irrigation and transport infrastructure. At the same time international economic circumstances had a considerable positive impact. The sharp rise in the incomes of the oil-producing Middle Eastern countries created a strong market for Cypriot manufactures. There have also been transfers to Cyprus from other countries of property investment, trade and offshore services. Spreading affluence in Europe and the Arab States, coupled with relatively low wages and prices in Cyprus, also stimulated the pace and growth in tourism.

3. However, the growth pattern of the last decade can no longer be sustained. Some of the underlying structural weaknesses of the economy have surfaced and call for fundamental changes. The labour-intensive, low-technology methods of production, encouraged after the 1974 events with a view to absorbing the surge in mass unemployment, coupled with relatively high wage rises, have caused problems in the export effort so vital to growth because of the small domestic market. Furthermore, the heightened international competition now faced from Asian countries, in conjunction with the recession in Cyprus's major export markets caused by the fall in oil prices, makes the need for technological upgrading even more urgent. In addition, the suboptimal allocation of the economy's resources, due to the relatively high degree of protection, reduces the efficiency of the economy with negative effects on the balance of payments. Although this will change gradually during the transitional period to full Customs Union with the European Economic Community (EEC), Cyprus has been experiencing decelerating rates of growth, rising unemployment, falling exports and increased foreign indebtedness.

## B. National development strategies

4. The Fifth Emergency Economic Action Plan for 1987-1991, which coincides with the new country programme of UNDP, follows an export-oriented strategy of growth involving both geographic and product diversification. The recently established Exports Council and other promotional ventures of the Government are designed to provide the necessary marketing support to the whole export thrust. Exports will be aimed as much at industrialized countries as to the traditional Middle Eastern markets; at the same time every effort will be made to promote the export of consultancy, financial and other services to make use of the country's abundant and highly educated manpower. The island's convenient geographic location will also be used to the greatest possible advantage. In agriculture, the emphasis will be on intensive cultivation of early varieties for export under expanded irrigation schemes. The future growth of earnings from tourism is expected to originate less from an increase in numbers than from improved product quality, attracting higher-income visitors throughout the year and utilizing the island's historic heritage and its natural environment.

5. At the same time, the policies of the Plan emphasize improved short-term economic management through better control of the money supply, the curtailing of government and private consumption, and the careful channelling of investments into the most productive sectors.

6. The major socio-economic objectives of the Fifth Emergency Economic Action Plan may be listed as follows:

(a) the attainment of the highest possible rate of economic growth, within the limits imposed by existing constraints to improve the standard of living of the people;

(b) the maintenance of full-employment conditions, the complete utilization of the labour force and the securing of more remunerative employment for all;

(c) the achievement of internal and external stability, especially with respect to the general price level and the balance of payments;

(d) the restructuring of the economy towards sectors with comparative advantages, as well as the modernization of Cypriot enterprises, technologically and managerially, with a view to improving their productivity and enabling them to respond successfully to intensified international competition. This is of increasing importance because of the future EEC-Cyprus Customs Union;

(e) the achievement of a more equitable distribution of national income by income group and by region;

(f) the implementation of an appropriate social policy which would ensure that everyone, especially the displaced population, shares in the national income and secures a minimum standard of living;

(g) the conservation of the natural environment and the preservation and maintenance of the historical and cultural heritage.

7. The 1987-1991 Plan has one major guiding theme: to embark on the adjustments required in order both to withstand and to take advantage of the impact of full Customs Union with EEC. The most important area for adjustment is the industrial sector and, in particular, manufacturing. The challenge is a complex one. Support will be provided by the State to the private sector, to assist it in achieving improvements in technology and the organization of work and management, as well as to embark on more aggressive market research with a view to identifying and exploiting new markets. Encouragement will also be given to new advanced technology ventures, as well as to joint ventures of foreign and domestic capital. The Government appreciates the need for structural improvements and will do everything possible to encourage and assist the private sector in this new challenge for increased competitiveness.

8. An important point recognized by the forthcoming Plan is the need to introduce environmental planning and management into the planning process at the central, sectoral and project levels. The environmental resources of Cyprus - its natural resources - have come under increasing pressure from the rapid pace of development in all sectors and their proper management can no longer be entrusted purely to market forces. The decision to establish new public systems and infrastructure for environmental planning and management has already been taken, and the Plan period will be used to bring it into effective operation.

9. Another major issue is the recognition that the public sector has to streamline and improve its own effectiveness and productivity - measuring and monitoring performance, employing new organizational and information technologies, improving its resource allocation and expenditure process. Absorbing as it does an increasing share of GDP, the public sector has to raise its managerial efficiency.

#### C. Technical co-operation priorities

10. The preparation of this country programme was carried out by the Planning Bureau, which is the Government's planning and co-ordinating authority with respect to all development activities, programmes and projects, as well as technical co-operation programmes. There has been close co-operation with the UNDP office in Nicosia in the elaboration of the content and character of the programme.

11. An overall assessment of Cyprus's technical co-operation needs and priorities has been undertaken as an integral part of the Government's own planning exercise, for which, in the majority of cases, it is integrated with capital investment projects and programmes. The priority areas identified in the country programme thus reflect the developmental needs and priorities of the country in general and they are in line with the objectives of the new Emergency Economic Action Plan, 1987-1991.

12. Taking into consideration the major socio-economic objectives noted in paragraph 6 above, the UNDP country programme will concentrate its limited resources on activities in the following three clusters:

- (a) improving industrial competitiveness;
- (b) long-term resource management/reallocation;
- (c) improving public sector efficiency.

13. As for the needs arising from other objectives, the Government will utilize the UNDP mechanism for the identification of alternative sources of funding. The field office will pay greater attention to mobilizing United Nations system infrastructure facilities, bilateral funding, technical co-operation among developing countries and economic co-operation among developing countries (TCDC/ECDC), private sector funding and non-governmental organizations (NGOs).

14. Technical co-operation from external sources, both bilateral and multilateral, has helped accelerate the economic and social development of Cyprus. The country deeply appreciates this valuable contribution and hopes that the co-operation required for implementing the new development plan will be forthcoming. For its part, the Government of Cyprus will continue to do its utmost to secure technical assistance from external sources in a co-ordinated manner and to utilize the assistance effectively. In this connection it should be stressed that technical assistance, though small in financial terms, creates a significant multiplier effect in the development process, as it provides for selective inputs which would otherwise be difficult to obtain.

#### D. Aid co-ordination arrangements

15. Other criteria were also taken into account in the formulation of the third country programme, such as the possibility of building on existing situations, strengthening linkages with UNDP-financed subregional, regional and global projects, relationships with pre-investment or investment activities, and the possibilities of TCDC. Within the strategic framework established by UNDP every effort will be made during the forthcoming five-year period to co-ordinate systematically and concretely the activities of all the other external sources of technical co-operation.

16. The third country programme covering the areas described above does not intend to undervalue the priority attached to the country's other co-operation needs. Through close collaboration between the Co-ordinator of the United Nations system in Cyprus and the United Nations agencies, the Government intends to achieve greater co-ordination and maximum mutual support among the various sources of assistance, including multilateral and bilateral sources.

## II. THE COUNTRY PROGRAMME

### A. Assessment of current country programme

17. In the review of the second country programme an analysis was made of the results of the projects on the basis of project progress reports, direct knowledge of the projects and by a joint assessment carried out by the UNDP local office in collaboration with the Planning Bureau.

18. In general it can be stated that most of the projects examined were successful in attaining their immediate objectives. In most cases this was due mainly to the

ability of the Government to utilize optimally the technical co-operation provided. As capable counterparts had been placed at the disposal of the projects and as a reasonable degree of continuity had been ensured after international support was withdrawn, the projects examined were found to have achieved relatively significant impact, given their size and duration.

19. Over the third cycle period, a total of 33 projects were in operation. Of these, 10 ended their activities before the country programme started in 1983. The second country programme consisted therefore of a total of 23 projects, of which only 8 had more than \$US 100,000 each in UNDP resources. The remaining 15 consisted of short-term consultancies and fellowships in areas such as performance audits, planning of training for management, energy conservation, oil exploration, etc. Of the 8 projects with budgets larger than \$US 100,000, only 5 (representing 50 per cent of the programme resources) ended their activities during the programme period. One of these projects, the Nicosia Master Plan, represents one of the most successful experiments in community co-operation in Cyprus. Drawing together technical teams of both communities, the project was able to draw up physical and land use plans for the whole of Nicosia, along with a set of policies for urban conservation, transport planning, disaster prevention (earthquake-related) and landscaping. A set of investment proposals has also been prepared. The final assessment of the project can only be made once the outcome of these investment proposals is clear. In another project, UNDP assisted in the direct supervision of a large water development project. The role played by the project management was a crucial one and difficult to execute by a local expert. A tentative assessment of this project and similar projects of UNDP in other parts of the world indicates that their effectiveness and impact is enhanced when executive responsibilities are carefully planned in relation to those of others, and when training and transfer of know-how to counterparts is incorporated. One other project had the objective of designing and establishing a country-wide network and data bank for collecting data on water availability and use, testing water quality and sedimentation, and otherwise setting up the data prerequisites for efficient water management. Of all the projects examined, this is the one which suffered most from the resource cuts made in the country programme. While the project retained its original scope, its resources and duration were halved, obviously affecting the final results. In spite of these limitations, the project was successful in establishing the basis for a computerized data bank, as well as in defining the approach to the much-needed planning network.

20. Three of the projects in the category of \$US 100,000 or more experienced delays in starting operations and, as a result, will be implemented mostly within the next country programme. One of these has been used as an instrument for the transition to the next programme, its activities having been reformulated in order to provide a preparatory identification phase for assistance to the sector.

21. In general, the rate of implementation could have been improved on several occasions by better project design at the outset. On at least two occasions, delays resulted from unforeseen postponements in policy decisions regarding the institutional framework of the sector which these projects were to support. Given the commitment of the Government to proceed with work in these areas, however, the small inputs provided during the decision-making phase by UNDP, the International

Trade Centre (ITC) and the United Nations Environment Programme (UNEP) have in the end proved useful to the Government, namely in catalyzing decisions of an institutional nature in the areas of environmental control and export promotion.

22. Given the diversity of projects in the programme, it is unfortunate that, even in those cases where linkages in objectives could have been exploited, the opportunities were not fully explored.

23. The increase in the cost of external inputs and the growing demand for technical co-operation prompted a search for an application of new methods of project implementation, such as

(a) Cost sharing: in addition to the increase in cost sharing, use was made of the technical co-operation components included in the external credits or loans granted to the Government;

(b) The use of short-term consultants in order to meet ad hoc needs in response to urgent demands for external technical assistance; this procedure injected a greater degree of flexibility into the programme;

(c) Study-tours for training purposes by individuals or groups; they were encouraged and frequently made possible through assistance from the Commonwealth Fund for Technical Co-operation (CFTC).

24. The programme was constantly reviewed and adjusted to achieve maximum efficiency, so that those projects which could not be implemented in time, or those in which the objectives and results were not in keeping with the Government's policies were revised so as to free funds for the necessary reprogramming of resources.

25. Finally, it should be stated that because of this flexibility, adjustment and reprogramming, the quality of the programme as a whole was not affected. On the contrary, it must be stressed that the design of the projects and the support provided by the national counterpart organizations, in both financial and staff terms, were decisive factors which ensured to a great extent the attainment of the immediate objectives.

#### B. New programme proposal

26. In preparing the country programme for the fourth cycle the following criteria were taken into consideration:

(a) A few priorities have been chosen on a very selective basis, in order to heighten the impact of the modest resources available;

(b) Preference has been given to projects and activities which, by their nature, reinforce each other and/or are complementary in their attempt to achieve and reinforce linkages among projects and programmes;

(c) The possibility of utilizing UNDP inputs as a tool in mobilizing additional resources (i.e. from international financial institutions, bilateral resources, other United Nations programmes in Cyprus, etc.) has been emphasized. Cost-sharing arrangements will also be considered favourably in attaining the same objective;

(d) As far as possible, the projects identified are those which would benefit the population of the island as a whole, and therefore could be included as bi-communal activities in the programme.

27. According to the Governing Council at its session of June 1985, Cyprus will be allocated the same IPF as that of the third cycle, i.e. \$US 2,750,000. In addition to these resources, an estimated \$US 354,000 from the ongoing cycle and \$US 1,182,150 from other sources will also be available for programming purposes. The source of the \$US 1,182,150 is composed of \$US 100,000 from the International Atomic Energy Agency (IAEA), \$US 482,150 from government cost sharing and \$US 600,000 from third party cost sharing to be sought from various donor countries. The total resources available from the UNDP for the five-year period would thus amount to \$US 4,286,150 and are intended for implementing projects in the following areas:

First objective - improvement of industrial competitiveness

28. The industrial sector, in particular, manufacturing, has played a key role in the remarkable success of the Cyprus economy during the past decade. Various factors indicate, however, that the continuing success of this sector will depend on the changes that the country is able to carry out in order to meet the new challenges and opportunities presented in the immediate and near future.

29. Having based its remarkable growth on a labour-intensive, low technology and export-led model, industry in Cyprus now faces changed circumstances which will no longer allow a continuation of past practices. Sharply reduced effective protection of domestic industry as a result of the Customs Union with EEC, the loss of Arab markets, the prospects of greater protectionism in the United States of America and other world markets, the emphasis on product quality and diversity, slow productivity growth and rising wage inflation, linked with increasing labour shortages - all these have altered the nature of competition for Cypriot manufacturing and threaten many enterprises with extinction. Structural adjustment for the manufacturing sector has become the major preoccupation of the Government and of private sector representatives. A large portion of the UNDP country programme resources will be utilized for this purpose.

30. There is already recognition that support to manufacturing must be provided simultaneously on many fronts: increasing labour productivity and training for new and better skills, promoting exports, acquiring new technology, raising industrial investment in new areas and encouraging foreign collaboration. Three of the ongoing projects bear witness to the current demand for action in these areas: Industrial Rationalization (UNDP contribution \$US 187,000); Industrial Productivity Improvement (\$US 129,000); and Training Industrial Manpower (\$US 211,150). However, in order to provide a coherent response to the many, but related technical



co-operation needs of Cypriot manufacturing, it is believed that an integrated and phased strategy of programming is required. For the overall effort, an additional amount of \$US 910,000 from UNDP resources has been set aside.

31. Through a set of investigations of the long-term viability and future needs of the five or six most important branches of Cypriot industry, undertaken through the ongoing project of Industrial Rationalization, it is expected that a series of required support measures will be identified for each of the selected branches. Where there are common problems, shared institutional arrangements would be sought. The studies should also provide the elements of a targeted industrial development strategy, together with the identification of further technical co-operation requirements over the next five years.

32. The new projects formulated through this exercise are expected to cover the following components:

(a) Productivity improvement: All aspects of productivity gains will be considered, in contrast to the present limited focus on labour productivity;

(b) Training for new and better skills: The sectoral studies are likely to identify the need to provide new and improved forms of training to bring about the necessary changes in process and product technology, production and management systems throughout manufacturing;

(c) Technology development: A future project is expected to assist the Government in the identification of technological constraints, in developing mechanisms for researching and selecting the technologies most appropriate to industry's requirements, and in formulating policies and institutional support for future technological development;

(d) Export promotion: A new project will assist the Government in the implementation of a complete programme of export support, including the establishment of adequate institutional infrastructure for assisting exporters, both in meeting the challenges of Customs Union with EEC and embarking on a general export thrust;

(e) Identification and promotion of new investment opportunities: Building on the favourable geographical location of Cyprus and on its pool of highly-qualified manpower, technical support may be given to better identification and selection of new investment opportunities, as well as to the improvement of institutional arrangements for investment promotion.

#### Second objective - long-term resource management

33. Much of the exceptional growth that has taken place in the Cyprus economy over the last decade has been due to the dynamism and initiative of private sector entrepreneurs. These developments have been ad hoc and steps must now be taken to examine their impact on the environment and the utilization of non-renewable resources. The issue of acute competition for the same scarce resources of land, water, unspoiled scenery, etc., can only be resolved in a planned manner.

34. These considerations have led to the identification of a series of technical co-operation activities for UNDP that aim at drawing up long-term planning frameworks for the future, as far as possible on an island-wide basis. Two of the ongoing projects: Animal Health (UNDP contribution \$US 50,000) and Thalassaemia Control (\$US 70,000) already provide services in this area, the first in ensuring a minimum standard of capability for the control of animal infertility diseases throughout Cyprus and the second in containing the major hereditary disease affecting the population. Both types of activity are to be continued as new proposals under the country programme, but with a widening of their objectives and scope. A broader range of animal infertility diseases will be covered through new and experimental techniques, making use of \$US 100,000 worth of equipment and specialized training facilities from the International Atomic Energy Agency. The health area will also encompass rural health care through a strengthening of preventive measures and primary health care systems (\$US 140,000).

35. An additional \$US 1,420,000 of total programme resources (of which a substantial proportion is to be met from third-party sources) is expected to be devoted to a series of sectoral master plans and training activities.

(a) Nicosia master plan - implementation phase: Through investment this project seeks to realize the plans and development schemes drawn up through the joint efforts of the two communities over the past six years. The principal purpose is to promote revitalization of the historic Walled City, and the small UNDP input is intended to provide technical support for the utilization of investment funds being sought (some already committed) from international sources and to share in meeting the costs of construction and renovation. (A total of \$US 730,000 from third party and UNDP contributions);

(b) Transport sector master plan: In the process of drawing up a detailed five-year programme of transport sector investment requirements for which a World Bank sector loan is expected, as well as an indicative plan to the year 2000, the project seeks to provide the Government with an integrated planning capability for the entire transport sector. Project costs will be shared with part of the proceeds from an approved World Bank loan. (UNDP and cost-sharing contribution \$US 400,000);

(c) Environmental profile: The project is aimed at identifying the most critical issues of environmental management, leading to the formulation of policies, planning measures, and a programme of action. (UNDP contribution \$US 120,000);

(d) Tourism master plan: The project will formulate a plan to the year 2000, charting the course for future tourism growth and the nature of tourism infrastructure and ensuring stronger intersectoral linkages in order to optimize the impact on the domestic economy, society and the environment. (UNDP contribution \$US 80,000);

(e) Vocational training: The project intends to develop functional skills for those who can benefit little from the formal education system, including the handicapped. (UNDP contribution \$US 150,000).

Third objective - improvement of public sector efficiency

36. Large budget deficits have been a common and unavoidable feature of the Cyprus economy as it has sought, inter alia, to reach its level of full capacity. Having reached this level, however, the Government is now concerned with the task of improving public revenue and streamlining public expenditure. Actions in both of these areas will require a more effective and efficient public sector.

37. It is proposed that UNDP technical co-operation concentrate specifically in the following three areas:

(a) Introduction of new technologies for better management: The project is aimed at improving information flows within the public sector through the introduction of more effective information systems and automation. The instrument would be the formulation of an informatics master plan. (UNDP contribution \$US 150,000);

(b) Improved tools for better management: The focus of activities will be two specific areas: introducing performance management audit as routine practice within the Government; and assisting the Government in strengthening the basis for economic management through the improvement of short-term economic indicators and other statistical support. (UNDP contribution \$US 200,000);

(c) Training: It is proposed that this training cover the fields of project and sectoral management for all public sector administration, emphasizing sectors that benefit from the largest share of public investment and in which the demands for management skills are increasingly important, e.g. water development. (UNDP contribution \$US 200,000).

C. Unprogrammed reserve

38. In order to ensure that the country programme retains a measure of flexibility to respond to the dynamics of development, particularly unforeseen needs, it is proposed that an amount of \$US 290,000 be set aside as a reserve. This reserve may be utilized as the need arises, for activities and projects which may be identified during the 1987-1991 period within the scope of this country programme or in areas related to human resources development in general. These may include fields such as the improvement of vocational skills and the strengthening of skills in health and education, etc.

Annex

## FINANCIAL SUMMARY

## I. ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

<u>A. UNDP-administered sources</u>	<u>\$</u>	<u>\$</u>
Third cycle IPF balance	354 000	
Fourth cycle IPF	2 750 000	
Subtotal IPF		3 104 000
Special Measures Fund for Least Developed Countries		
Special programme resources		
Government cost sharing	482 150	
Third-party cost sharing	600 000	
Operational funds under the authority of the Administrator		
UNDP special trust funds		
Subtotal, UNDP non-IPF funds		1 082 150
 <u>B. Other sources</u>		
Funds from other United Nations agencies or organizations firmly committed as a result of the country programme exercise (IAEA)	100 000	
Parallel financing from non-United Nations sources		
Subtotal, other sources		<u>100 000</u>
 TOTAL ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING		<u><u>4 286 150</u></u>

## II. USE OF RESOURCES

Ongoing projects	667 150	
New project proposals	3 329 000	
Programmed reserve		
Subtotal, programmed resources		3 996 150
Unprogrammed reserve		290 000
 TOTAL USE OF RESOURCES		<u><u>4 286 150</u></u>

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