

**USAID/Cyprus**  
**Operational Plan**

**FY 2006**

June 13, 2006

## **Please Note:**

The attached RESULTS INFORMATION is from the FY 2006 Operational Plan and was assembled and analyzed by the country or USAID operating unit identified on the cover page.

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**Program Performance Summary FY 2005:** Program Narrative (FY 2006): The current situation in Cyprus is the consequence of a long history of conflict and tensions that erupted in inter-communal violence in the 1960's. Armed fighting took place in 1974, and as a result the island's two major communities were physically separated by a fortified and UN-patrolled dividing line. Since 1974, Cyprus has remained a divided island with an estimated 800,000 Greek Cypriots living south of the so-called "Green Line" in about 63 percent of the land area and about 200,000 Turkish Cypriots living in the north and occupying the remaining area. Perhaps half of the population in the north now consists of immigrants from Turkey. About 30,000 Turkish troops are stationed in the north and Britain maintains bases covering 3% of the island's territory. UN brokered attempts to reunify the island on the basis of a negotiated settlement have failed. The 2004 UN-brokered Annan Plan referendum was accepted 65% to 35% by the Turkish Cypriots but was rejected 76% to 24% by the Greek Cypriots. As a result, the Secretary General has suspended his Good Offices Mission and little of consequence has happened since. Further division is reflected in income disparity - Greek Cypriot GDP per capita is over \$20,000, nearly three times that of Turkish Cypriots. Much of this income is generated by the 2.5 million tourists who visit mostly the south of Cyprus annually.

Since 1974, Cyprus has been divided de facto into the Republic of Cyprus-controlled two-thirds of the island and the Turkish Cypriot-administered one-third. The Government of the Republic of Cyprus has continued as the internationally recognized authority; in practice, its authority extends only to the government-controlled areas. Following the 1974 hostilities, the Turkish Cypriots set up their own institutions and, in 1983, declared an independent "Turkish Republic of Northern Cyprus" ("TRNC"), which only Turkey recognizes. In 2003, several Green Line checkpoints were opened. This has led to some increased trade, events and contacts, but the island remains divided. In spite of this division, the Republic of Cyprus became a member of the European Union in May 2005, though the Turkish Cypriots are not yet included and the *aquis communautaire* (the body of EU laws and regulations) is suspended in the Turkish Cypriot area pending a durable settlement.

The long-standing, unresolved conflict in Cyprus represents a major foreign policy concern for the U.S., whose regional interest is to secure strategic geopolitical stability in the Eastern Mediterranean. The U.S. Congress has consistently provided earmarked funds for Cyprus averaging \$13-15 million per year. U.S. objectives for Cyprus include reunification of the island, reduction of tensions, and promotion of peace and cooperation between the two communities. USAID's approach supports these objectives by focusing on increasing and strengthening cooperation and mutual tolerance between Greek Cypriots and Turkish Cypriots and supporting initiatives that encourage a comprehensive settlement.

The USAID program in FY 2005 was marked by the end of the successful UNDP-implemented Bicomunal Development Program (BDP) and the start of a new, higher level of effort with the Action for Cooperation and Trust (ACT) and the new Cyprus Partnership for Economic Growth (CyPEG).

From 1998 to 2005, the BDP represented the entire USAID effort in Cyprus. When it began, there were few contacts between Greek Cypriots and Turkish Cypriots, and those that occurred were strongly discouraged by the authorities on both sides and by peer pressure. Its main role was to help foster positive and cooperative relations between the Greek Cypriots and Turkish Cypriots by helping them to design and implement projects of common interest. The program was rooted in the "contact theory", i.e., that positive collaborative experiences should, over time, erode feelings of distrust between people if they occur within positive experiential contexts. Early BDP inter-group contacts were very tentative, especially because political pressure and peer pressure discouraged them. The BDP arranged contacts in neutral locations bringing the sides together in events, meetings, and conferences abroad. Themes were non-controversial, such as the Nicosia sewer system (which serves both sides of the city), support to the Nicosia Master Plan, confronting animal diseases, and environmental and health topics that were difficult to oppose. During this time, the BDP also worked with Cypriots to protect their shared environment and restore buildings of important cultural significance for both communities. Over time, project development progressed from communities undertaking entirely separate projects, to doing mirror projects but using only the same methodology, to projects with considerable collaboration, and then to outright joint projects. Perhaps the best joint project example is the Madison Dairy Advisory Group, an umbrella organization of dairy and agricultural experts whose efforts across Cyprus have led to increased production and quality of

Cyprus dairy products. There are similar examples of working and collaborating together among professionals, educators, municipal planners, and NGOs.

Between 1998-2005, the BDP worked with over 300 different Cypriot organizations and supported some 220 projects. The staff of the program is drawn from both communities and their belief in its principles is testament to their commitment to the values of peace and reconciliation on the island. Towards the end of the BDP, contacts that were once considered "daring" became commonplace and negative pressures tending to prevent that contact were lessened. As there are few other donors in Cyprus, it is fair to say that USAID through the BDP has financed and supported virtually all of these efforts and thus has made a significant contribution to bridging the gap between the two communities.

In FY 2005, the USAID program entered a new phase. To ease the economic isolation of the Turkish Cypriots and to continue to seek a durable peace settlement, U.S. assistance to Cyprus was increased. Due to the increased size and complexity of the USAID program, USAID established the Office of the USAID Representative in December 2004. The new USAID program activities consist of ACT and CyPEG.

ACT is a successor to the BDP and will also be implemented by UNDP. Under ACT, the approach will be to encourage even more sophisticated, sustained, and complex contact between Turkish Cypriot and Greek Cypriot individuals and groups in order to build even greater intercommunity understanding and interdependence. ACT will apply the lessons learned from BDP, which include expanding the bicomunal approach to one of multicultural understanding and tolerance; to make grant making objectives and criteria more clearly defined; to base new programs on sectoral assessments; to define goals and strategies in closer collaboration with partners; and to incorporate best practices and results-based management.

The results are too early to judge, but CyPEG has gotten off to a quick start with study tours to the U.S. for Turkish Cypriot entrepreneurs, bankers, and educational experts; technical assistance to increase trade across the Green Line; advisory services to Turkish Cypriot banks, producers, and tourism interests; and technical assistance to organize the first Turkish Cypriot delegation to the Cyprus International Fair since 1974. Efforts are underway to improve Turkish Cypriot business practices and strengthen the financial system and small and medium enterprises (SMEs); to promote more efficient use by businesses and households of water and energy; and to upgrade basic services and infrastructure to EU standards and increase capacity to conserve and manage natural and cultural resources for economic growth. The prognosis for success is very good.

Major challenges for Cyprus remain in the persistent and continued division of the island. The disparity of income between the north and south is real and impacts negatively on possible political solutions. The presence of military forces from Greece and especially Turkey make reconciliation more difficult. Membership in the European Union offers hope, but promised funds for Turkish Cypriots have not been forthcoming and the full benefits of membership do not extend to Turkish Cypriots pending reunification.

The Cyprus USAID program consists of a single objective but is an integrated program with only two activities, ACT and CyPEG, both aimed at the same Strategic Objective: Conditions to foster a durable settlement are strengthened. ACT directly aims to build on the successes of BDP, which has built up several bicomunal models of trust, and to strengthen the culture of mutual understanding. The CyPEG, while focusing on the Turkish Cypriot community, also directly supports the SO but with an entirely different approach - to increase the parity of economic opportunity. Thus these two efforts are mutually supportive of the same goal.

Women and girls have been involved at all stages and to a great extent in the planning and implementation of BDP activities. Many NGOs supported by BDP and ACT are woman-led and/or focus on women's issues.

**FY 2006 Program****SO: 233-0410 Conditions to foster a durable settlement are strengthened****Mitigate Conflict and Support Peace**

Mitigate Conflict and Support Peace (\$11,400,000 ESF, \$6,996,100 ESF carryover, \$5,585,199 ESF prior year recoveries). The successful Bicommunal Development Program (BDP), which began in March 1998 and ended in FY 2005, was followed immediately by the new Action for Cooperation and Trust (ACT). ACT will support a wide range of bicommunal and partnership activities in the broad areas of education, civil society and sustainable development. All activities will promote tolerance and mutual understanding, encourage civic engagement on issues of island-wide interest, such as HIV/AIDS, and assist Cypriots to design and implement island-wide initiatives to solve common problems. Activities will include organizational networking, cultural heritage conservation, natural resource protection and preservation, youth and education projects, and strengthening of civil society. USAID will undertake this program through a cooperative agreement with UNDP.

In addition, USAID will continue the Cyprus Partnership for Economic Growth (CyPEG) which began in FY 2004. CyPEG is aimed at contributing to beneficial economic and commercial interaction between the Turkish Cypriot and Greek Cypriot communities and enabling the Turkish Cypriot economy to bear the costs of the future settlement. USAID will continue to support activities that strengthen the Turkish Cypriot economy by improving enterprise competitiveness at the firm and sector levels, facilitating access to capital, improving the environment in which banks and businesses operate, further professionalizing and upgrading the small and medium enterprise (SME) sector, enhancing vocational training, improving cultural heritage and natural resource management, and improving resource efficiency. Principal contractors: Bearing Point, International Resources Group, and CORE International (all primes).

**FY 2007 Program****SO: 233-0410 Conditions to foster a durable settlement are strengthened****Mitigate Conflict and Support Peace**

Mitigate Conflict and Support Peace (\$10,800,000). ACT will continue its efforts to foster partnerships and interaction between the Turkish Cypriot and Greek Cypriot communities, through joint projects and initiatives. In the event a durable peace settlement is achieved, the program will shift its efforts towards direct support of that settlement. UNDP will continue as the prime cooperator with USAID.

CyPEG will expand its reach into the Turkish Cypriot economy through greater emphasis on modernizing the banking system, efforts to stimulate the growth of SMEs, improved resource efficiency, enhanced vocational training, and improved cultural heritage and resources conservation and management. Principal contractors: Bearing Point, International Resources Group, CORE International, and others to be determined.

## **Results Framework**

### **233-0410 Conditions to foster a durable settlement are strengthened**

#### **Program Title: Cyprus Reconciliation**

**4.1.1:** Strengthened culture of mutual understanding

**4.1.2:** Increased parity of economic opportunity

**Discussion:** The first ever Strategy Statement for Cyprus was completed about the time of this Annual Report submission. In the Strategy, Strategic Objective 4.1 was renamed from "Special Initiatives" to "Conditions to foster a durable settlement are strengthened." In addition, the following Intermediate Results were introduced in the strategy: IR 4.1.1, Strengthened culture of mutual understanding and IR 4.1.2, Increased parity of economic opportunity.