



**Final Outcome Evaluation of  
"Assistance to Turkish Cypriot Small and Medium Enterprises"**

**Final Evaluation Report**

## Executive Summary

This is the final outcome evaluation report for the project "Assistance to Turkish Cypriot Small and Medium Enterprises".

The project has been highly successful and has achieved more than could reasonably have been expected, particularly noting the political situation around its inception. All output targets have easily been met and the project has had a real impact on the Turkish Cypriot business community.

Specifically, we note that the project has created much better awareness of the role of standards and *acquis communautaire*, and demonstrated that there is a commercial case for adopting them even when they are not compulsory. Training and awareness has created new opportunities, in particular the creation of a new association for organic farming, which was unknown as a sector before the project started. The project beneficiaries have been well selected in order to maximise demonstration and multiplier effects and through this to sustain some of the results.

The project has acted as a precedent, showing that it is possible for international donors to operate in the northern part of Cyprus despite problems of non-recognition of the TC authorities by the UN and EC. It forms a good basis for further work which would logically be at a meso- or macro- level, rather than the level of individual enterprises as has been the case to date. Further work needs to be done, probably funded by donors, in order to sustain the results of the project.

The project demonstrates effective cooperation between UNDP and the EC and probably could not have been implemented in any other way. It can be seen as a model for similar initiatives by UNDP in post-crisis countries or countries which will at some point accede to the EU.

Nonetheless, the operation of the programme underlines the validity of the normal approach of both organisations: to have a long term framework for development agreed with the government before performing specific actions. Further work in support of the private sector will be more effective if such a framework can be agreed.

Finally, it should be noted that the key factor in the development of the private sector is the continue political and economic isolation of the northern part of Cyprus. Removal of the trade restrictions faced by the TC community towards the EU would have a radical effect on the situation by increasing competition and giving a clearer incentive to those enterprises and individuals who want to be part of the EU market. It is to be hoped that some advance can be made in this direction as part of a renewed search for a political solution to the division of the island.

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## Glossary

EC	European Commission
EU	European Union
FAFA	Financial and Administrative Framework Agreement (between UN bodies and EC)
GC	Greek Cypriot
ICT	Information and Communications Technology
MDG	Millennium Development Goals
MSME	Micro Small and Medium sized Enterprise
OECD	Organisation for Economic Cooperation and Development
ORYAT	Organik Yaşam ve Tarım Derneği (Organic Life and Farming Association)
PFF	Partnership for the Future
PSD	Private Sector Development
SECOND	Sustainable Economic Development (project)
SME	Small and Medium sized Enterprise
TAIEX	Technical Assistance Information Exchange (office)
TC	Turkish Cypriot
ToR	Terms of Reference
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme

## 1. Introduction

This is the final outcome evaluation report for the project "Assistance to Turkish Cypriot Small and Medium Enterprises".

As an outcome evaluation, the primary focus is on whether outcomes were met and what impact the programme has had, rather than operational factors and detailed analysis of outputs (which is in any case contained in the final report of the project). We therefore concentrate on evidence that the project has made a difference to the private sector in the northern part of Cyprus and seek to distil some lessons from it for future projects.

This report is divided into the following sections:

1. The **background** to the project, examining the political and economic context and the reasons for the choice of design and expected outcomes
2. The **methodology** for the evaluation, explaining the framework used for evaluation and the way in which the situation was assessed. The framework is presented as annex B.
3. **Analysis** of the situation, specifically against the questions posed in the brief
4. General **conclusions** regarding the success of the project, the current situation, and the need for further support
5. **Recommendations** regard further action in the northern part of Cyprus, and regarding lessons learned which are relevant to other UNDP work

For ease of reading, the following are included as annexes

1. Terms of reference for the evaluation
2. Framework for evaluation
3. Review of the private sector in the northern part of Cyprus
4. Bibliography

The views expressed in this report are the sole responsibility of the evaluator and are not necessarily those of UNDP

## 2. Background

### 2.1 Political and Economic Context

The political situation has a major bearing on the economic situation. In particular the following factors affect the economic context in which business operates:

- ⤴ The long-lasting division of the island and low level of cooperation between the two communities.
- ⤴ The lack of international recognition of the public authorities in the northern part of Cyprus, in particular by the UN and EU, and consequent dependence on Turkey.
- ⤴ The accession of Cyprus to the EU (as the territory of the whole island) but immediate suspension of the *acquis* in the northern part of the island, leaving a slightly ambiguous state of affairs, particularly noting that this to some degree allows EU laws to have an effect<sup>1</sup>
- ⤴ The isolation caused by the trade restrictions faced by the TC community towards the EU, preventing trade, apart from with Turkey and to some degree across the Green Line. This is both used as an excuse for not searching for opportunities and also decreases competition on the local market.
- ⤴ After the failed referendum in 2004, the lack of a road-map to reunification of Cyprus.

This isolation, the subsidy coming from Turkey, and the internal political situation create a number of consequences related to the business sector, particularly:

- A dominance of the public sector.
- A small domestic market which, coupled with the trade restrictions faced by the TC community towards the EU, means a predominance of micro-enterprises.
- A lack of competition on the local market based on standards, and therefore a degree of ignorance of wider international standards related to business and their development
- A lack of incentive to upgrade standards and equipment (for example in comparison with states where there is a comprehensive roadmap and possible timetable for accession to the EU and necessary implementation of the *acquis*).

A brief review of the economic situation is attached as Annex C

### 2.2 European Union funding and overall objectives

The funding for the project comes from the EU and represents (in a small part) implementation of regulation 389/2006, which acknowledges the TC community's desire for a future within the European Union and creates a financial instrument with the objective "... to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community with particular emphasis on the economic integration of the island, on improving contacts between the two communities and with the EU, and on preparation for the *acquis communautaire*." (article 1(1)).

Difficulties of implementation in a tense political situation meant that it was performed through UNDP using FAFA. UNDP was in a better position than the EC to implement actions since it had an office in the northern part of Cyprus, but it had similar issues related to the fact that the

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<sup>1</sup> Noting the precedent caused by a case brought by a GC property owner against UK citizens who had built on his land in the northern part of Cyprus

northern part of Cyprus is not recognized as a state by the UN and therefore the programme could not be organised using official contacts with the local authorities.

In this environment the exact focus of activities was difficult to define. Objectives are framed very widely, both by the EU and UNDP documents but concentrate on adoption of the *acquis* and on activities related to ICT and new technology. For UNDP this is related to the MDG targets adapted for the TC community, specifically

- 8a Develop global partnership introducing good governance in accordance with the EU *Acquis Communautaire*.
- 8g In co-operation with the private sector, make available the benefits of new technologies, especially information and communications so as to achieve EU averages by 2015.

The development objective is stated as

- To support the economic and social development of the northern part of Cyprus, thereby facilitating the integration of the Turkish Cypriot private sector into the EU.

This is elaborated into four immediate objectives

- To assist Turkish Cypriot MSMEs on a pilot basis in achieving and implementing Quality, Environmental, and Social Standards
- To assist selected TC MSMEs in setting up facilities for the development of e-commerce platforms in tune with the objectives of the Lisbon agenda
- To enhance the capacity of TC agro-based SMEs to comply with the *acquis*, with particular reference to the phyto-sanitary and food-hygiene standards
- To strengthen the Turkish Cypriot private sector through targeted capacity-building programmes enhancing the awareness on the *Acquis communautaire* related issues and business-oriented topics relevant for their integration into the EU

It should be noted that these objectives are formulated in a way which only gives direction: there are no specific targets other than for outputs.

## 2.3 Project Approach

In view of the situation and the initial difficulties in defining actions which could be taken legitimately and without challenge (specifically from the Greek Cypriot authorities regarding implicit recognition of public authorities in the northern part of Cyprus), the project documents are relatively clear at the output level but have very broad objectives and less detail at the outcome level. In this sense, the project can be conceived as a **pilot** and **demonstration** project and the outcomes and effects should be seen in this context.

The choice of activities has clearly been constrained by the situation. In particular, the problem of recognition of the public authorities created a situation where there was no possibility of official cooperation or written long-term agreements. This prevented normal strategies of intervention which would work from a macro level (creation of a country strategy and derivation of a PSD strategy from this which would identify key areas for cooperation) or in many cases at a meso-level (assistance to publicly supported business advisory services, for example). The majority of

interventions were therefore at an **individual or firm level** and the focus was determined by external factors rather than local consultation and strategy<sup>2</sup>.

Noting that this was **one of the first internationally-funded grant schemes** and seeking to avoid problems of direct contracts in the northern part of Cyprus, a decision was made to perform procurement for grant recipients rather than expecting them to operate the procurement procedure and then funding them<sup>3</sup>. Again, this decision can be seen as being forced by external factors, though in the event it may in any case have been prudent approach.

Finally, we note that the statistical base for planning the intervention and measuring impact is not in place. Although some conclusions about the development of the sector can be derived from reports including the World Bank report<sup>4</sup> and some official statistics (for example those included in the recent PSD strategy developed by the SECOND project) the reliability of statistics on numbers of enterprises are questionable and only general trends can be noted<sup>5</sup>. As a result the project can be seen as to some degree performing **action research** to demonstrate the real needs and desires of the TC business community.

### 3. Evaluation Methodology

In view of the nature of the project and the context in which it has had to operate, it is not possible to make a completely quantified assessment of outcomes based on achievements against quantitative targets (and through this to analyse the assumptions made in the project design and to derive conclusions on their accuracy or otherwise). As noted, the framework inherent in the various project documents gives direction and constraints but little in the way of outcome targets, but in addition to this, the key outcomes are qualitative (changing perception of the *acquis* and trade opportunities in the business community), demonstrative (showing how future projects can be organised and giving some idea of their outcome) or related to implementation (assisting UNDP and other donors to assist the TC community in the future).

Our approach was therefore the following

- ✧ Creation of a framework for evaluation of outcomes, based on hypotheses about what the project could achieve within its external constraints. Details of the framework are shown in Annex B.
- ✧ Gathering data through discussions with the project office, semi-structured interviews with stakeholders and beneficiaries, and analysis of project documents and other sources of data. Since this is on outcome evaluation, there has been no cross-checking of data: interviews have rather sought to give a qualitative perspective on quantitative project data.
- ✧ Analysis of the outcomes based on the framework and the six specific evaluation questions posed in the ToR (see Annex A). In addition we analyse the outcomes from the point of view of additionality (what would have happened if the project had not been there?), sustainability (are the outcomes of the project sustainable?) and progression (do the outcomes of the project form the basis for further actions?). This is shown in section 4

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2 For example a more neutral economic analysis and agreement with the TC authorities would probably have resulted in more targeted actions related to the tourism sector and perhaps less emphasis on ICT and the Lisbon agenda.

3 As is the case with directly managed EU grant schemes

4 Sustainability and Sources of Economic Growth in the northern part of Cyprus, 2006

5 See Annex C for a general review



- ⤴ From this analysis we derive conclusions, seeking to consider the strengths and weaknesses of the project and looking at the specific situation in the northern part of Cyprus. This is shown in section 5.
- ⤴ Finally we group together lessons learnt and recommendations at a more general level, which are presented in section 6.

## 4. Analysis

### 4.1 Were stated outputs and outcomes achieved?

### 4.2 What progress towards the outcomes has been made?

1. All stated **outputs** were achieved and, indeed, exceeded.

Objective	Output Target	Achievement
IO1	At least 20 MSMEs supported by the project (in achieving and implementing Quality, Environmental, and Social Standards)	89 MSMEs supported by grant schemes
IO2	At least 20 MSMEs supported in developing e-commerce based platforms	25 MSMEs supported by grant scheme 6 training activities with 141 participants
IO3	EU phyto-sanitary standards implemented by the farmers and agro-oriented SMEs	34 training activities with 877 attendees establishment of organic farming association
IO4	At least 16 capacity building/awareness events organised	24 events with 542 attendees

A detailed breakdown of the outputs is presented in the project final report and is not repeated here.

The degree to which the outputs were exceeded represents the difficulty of setting targets when the project was developed, and the need for flexibility in project approach, rather than the ease of performing the activities. With regard to outputs as a basis for the outcomes we can conclude from the achievement of the outputs that:

- ⤴ The general direction of activities was appropriate: none of the areas proved impossible to implement
- ⤴ There is a real demand from the private sector for the type of support being given

2. Regarding the outcomes, we analyse progress using the framework developed in Annex B

#### *Awareness*

The project has has a widespread impact in awareness of the acquis and more general international standards. Specifically we note the following:

- ⤴ The events which have been organised have reached a significant proportion of the target enterprises. Exact figures for enterprises are unclear but there are estimated to be around 8000 registered enterprises in 2006<sup>6</sup>. In addition we should note that more than 90% of enterprise employ less than 10 people and for many micro- and lifestyle- businesses the application of standards is not of critical importance. Against this, the attendance at seminars (more than 1500 in total, although obviously this includes people who went to several events and more than one participants from an individual company) and the additional number of enterprises which must have been contacted to gain this number of attendees, suggests that a critical mass of companies, perhaps a majority of those which have a direct interest, have been made aware of the opportunities and threats inherent in adopting standards. This is underlined by visit to a number of beneficiaries who stated that they were unaware of standards in the EU before the project activities (and workers) came to them.
- ⤴ Examination of grants given in support of adopting the acquis and standards, and discussion with grant beneficiaries shows that the project has made a good commercial case for adopting standards even if this needed subsidy in order to make the investment decision. Beneficiaries visited could make a clear articulate narrative of why the change in standards made commercial sense and the opportunities that it created. The grant schemes show substantial interest with almost 7 times more applicants than projects finally completed. This indicates a healthy level of competition, ensuring that the best projects were selected.
- ⤴ The training events themselves have created a critical mass in some sectors. A specific example is the creation of ORYAT, an association to support organic farming. This has come directly from the fact that a sufficient number of farmers have chosen to proceed down the organic route.

### *Demonstration Effects*

The beneficiaries appear well chosen in order to have a multiplying effect through demonstration. Examples include:

- ⤴ Support to standards in a supermarket, which has used this as marketing to show the standards of its products. Not only does this mean that it is a good demonstration (because it is trying to sell based on quality produced by standards) but also it encourages it to insist on similar standards from its own suppliers. This includes, for example, promoting organic products from local sources, also supported by the project
- ⤴ Support to an accounting firm which has clearly used its own experience to encourage others to improve standards.
- ⤴ Support to individual organic farmers, who have become evangelists for organic produce, also pointing out to others in their local areas the premium attached to organic produce.

In this respect beneficiaries appear to have been well targeted and chosen appropriately for a project attempting to spread awareness.

It can be noted that the project has also acted to demonstrate and educate how typical grant schemes operate: all reports suggest that the quality of applications has consistently increased as the grant schemes progressed. For example in the first grant scheme supporting the development of woman and young entrepreneurship, 6 of the chosen companies withdrew and 2 failed to

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6 World Bank report

complete owing to property issues: for the second grant scheme, all grants awarded resulted in completed projects.

### *Risk Mitigation*

General discussion shows that the situation in the northern part of Cyprus is different from that of pre-accession countries in Eastern Europe. In the latter, even when a date for accession was not set, there was a clear roadmap towards accession and any business with a long term perspective would seek to put compliance with EU standards and *acquis communautaire* as part of its longer term business plan for survival, due to the need for compliance with expected legislation and regulations, and because of expected competition from other EU states. The situation is less clear in the northern part of Cyprus, with no clear long term roadmap for adoption of the *acquis* and a market which is to some degree isolated from international competition<sup>7</sup>. Accordingly, even where businesses are aware of standards there is a tendency to put off investment decisions. In addition, some decisions to invest require faith in the future and the process of transition (i.e. that the standard will be worth the investment after the time and resources taken to implement it fully). It is clear that this has been a consideration for a number of grant recipients and therefore the existence of the grant (and other support) has caused actions to be taken that would otherwise have been put off to a more stable time. Examples of this include:

- ⤴ Work with organic farmers, where there is a three year transition period for certification during which time the farmer gains nothing from the commitment to being organic
- ⤴ The eco-village at Büyükkonuk which has become very widely known and successful but may well not have come to fruition without the support of the project
- ⤴ A patisserie where discussion suggests that the owner would not have put in the investment, even though he now sees the benefit.

This would suggest that targeted subsidy (through grants) as a way of mitigating the risk can be a useful approach to developing businesses using standards in the current uncertain environment.

### *Establishment of a Precedent*

The fact that the project has shown a way of successfully supporting TC businesses using EU funds is an important factor in itself, since it opens the door to future projects and allows a degree of planning without the threat of legal challenges and political interference. In this respect, the fact that the project met its output targets is a measure of success and has produced the outcome that its activities have been (to some degree) duplicated in further planning by the EC for its projects (managed directly rather than through UNDP). The project has demonstrated the size of solvent demand (in particular for the grant schemes) which can be used in planning future interventions and progression.

It might be hoped that the existence of the project would create a lobby from TC businesses, sectoral and representative organisations for further action, both by donors and by the TC authorities. Such a lobby would help with planning and to some small degree address the problem of lack of formal cooperation with the TC authorities. Progress here has been disappointing, even though a large proportion of the events were organised in cooperation with sectoral organisations, and suggests that meso-level capacity building is required.

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<sup>7</sup> Competition from Turkey which is slowly adopting the *acquis* could be a significant factor but does not seem to be critical to most TC businesses at present

## *Leverage*

In view of the pilot nature of the project, the degree of co-financing for grant schemes was used as a criteria for selection, rather than specifying a minimum. The result of this approach is a steadily increasing level of funds from the SMEs themselves, reaching averages of 45% and 55% of the total project cost for the last two grant schemes implemented. This shows that SMEs are capable of co-financing projects at a level typical of grant schemes within the EU and that the project levered as much finance from this approach as was possible. It is interesting to note that the level of co-financing from this approach has probably been higher than more typical schemes where a minimum is specified.<sup>8</sup>

Owing to the political situation, cooperation with TC authorities and leverage of TC public resources has been of little consequence.

## *Strategy Development*

The project has produced a basis for strategy development in some of its activities, notably through sectoral actions and research. This includes:

- ⤴ Production of an ICT strategy, based on research amongst individual and companies
- ⤴ Creation of the organic farming association which is now in a position to identify gaps and lobby for change

Nonetheless, the need for any strategy to be based on what the TC authorities will do and the difficulties of doing this without in some way recognising them has left strategy development in a difficult situation. It can be noted that the current EU-funded project (starting 2010) has commenced its operation by developing a private sector development strategy, in cooperation with the TC authorities, and it can be hoped that this will form the basis of more coherent development.

It seems that the project has helped to form the basis for more coherent strategy development at both national and sectoral levels, but that further support will be needed in developing such strategies, including involvement of the TC authorities and possible capacity-building on their side.

### **4.3 What factors have contributed to achieving/not achieving the outcomes**

### **4.4 To what extent have UNDP outputs and assistance contributed to the outcomes?**

The project has been shaped by a number of external factors relating to the political and economic situation which we do not repeat here. Rather, we should consider that in a pilot project with relatively wide and unquantified objectives, operational factors have a considerable importance. Examining the outcomes of the project relative to the outputs and more qualitative information derived from stakeholders, beneficiaries and project staff, our view is as follows.

#### **1. Factors which have aided smooth implementation and impact**

- ⤴ The quality of both local and international project staff has been high, showing a high degree of creativity in dealing with problems of implementation. Local staff have had a good network of local contacts and took the trouble to build trust and engagement. The

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<sup>8</sup> For example, the latest EU directly managed grant scheme specified a minimum of 35% co-financing - and 17 out of 22 beneficiaries provided only the minimum

quality of staff is always important, but particularly so for this type of pilot project, where temporary failure may be excused but is also likely to have long lasting effects.

- ⤴ The degree of flexibility represented by UNDP rather than EC implementation. Even if it had been possible to implement it in a more conventional manner, it seems unlikely that the EC would have been able to act in such a flexible way, for example picking up the opportunity of an organic farming association, and acting to find ways round challenges from the GC community. This can be illustrated by the fact that the SECOND project, funded by the EC, was funded from the same 2006 budget as the UNDP project, but started 4 years later<sup>9</sup>.
- ⤴ The fact that a route was chosen where procurement of equipment was done by UNDP staff, rather than expecting beneficiaries to do this and then receive the money. This has been a useful introduction for beneficiaries to the way that such grant schemes operate as well as a way of giving additional support and engagement (through the process of finding suppliers and quotes etc). Whilst it is unlikely that this overhead can continue to be carried in future schemes funded by donors in the northern part of Cyprus, it can be hoped that the introduction in this way will assist in getting better prepared beneficiaries.<sup>10</sup>
- ⤴ The integration of the project office with other activities (PFF is not only related to private sector development) has undoubtedly assisted in cross-fertilisation of ideas, dealing with GC challenges, and possibly in implementation capacity. Private sector development is not an isolated activity, and understanding thinking and progress in other areas helps this.
- ⤴ Despite the formal lack of recognition, the general cooperation of the TC authorities has been important, most specifically in the sense that they have avoided creating obstacles to implementation.

## 2. Conversely, factors which have made implementation more difficult include:

- ⤴ Obstruction by the GC authorities, particularly in the early stages of the project. Whilst the continuing non-recognition of the TC authorities is a legitimate concern for the GC authorities (and self-evidently recognised by UNDP and its staff), this can be approached in different ways and the approach chosen of challenging all actions on legal minutiae proved a distraction to implementation, has wasted staff time, and has probably inhibited work in some areas where compromise was possible (strategy development, tourism-related actions, work at the meso-level). The current situation is an improvement, with GC objections being framed more constructively, to the benefit of all sides.
- ⤴ The lack of a clear PSD strategy by the TC authorities and a high turnover of staff **within the TC authorities** at a high level has caused a lack of coherence in actions. This has not greatly affected the project in a direct way, since it has been conceived as a pilot and not based on macro-level strategies. However, any further actions will be more effective if based on a clear consistent and long term strategy, and if such a strategy was in place then actions taken by the project could better fit into it. For example, the concentration of organic farming is based on a commercial opportunity: the degree to which TC authorities will support this through regulations and laws is still unknown as is the question of whether they see this as a key development axis for the private sector. Lack of strategy has a final consequence which is that it decreases the certainty of the environment for local private sector investment. Again, a clear long term strategy would assist in encouraging local companies to invest in their own future.

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9 This is not a criticism of EC procedures but illustrates that UNDP was in a better position to implement the project in the context that existed at the time.

10 It can be noted that the EC's grant schemes have had real problems with lack of understanding of procurement rules by beneficiaries

- ⤴ The continuing trade restrictions faced by the TC community towards the EU are a problem for a number of reasons: the increased costs of transportation that this causes, the lack of international competition on the local market, and the fact that it can be used as an excuse by those companies which wish to stay inward-looking. Again, a road map would have dramatic effect on the situation, by creating certainty in the mind of the private sector. It can be noted that the EC appears to have taken the view that removal of the trade restrictions should complement actions for economic development (comparing regulation 389/2006 with the proposal for direct trade COM (2004) 466 which is still on the table and around which there is still legal dispute). Finding a way of improving the situation whilst acknowledging GC concerns could have a dramatic effect on the situation as well as creating a clearer demand for services related to the acquis and a more competitive local market.
- ⤴ The road map for adoption of the acquis could also be made more clear, again giving a timetable for action for businesses. Although some work has been done by the EU Coordinating office of the TC government (the Programme for Adoption of the Acquis 2009-2011), this does not include all areas and does not always acknowledge the consequences for the private sector community (adoption of the acquis requires both passing laws and establishing effective institutions, but there is also a need to consider the effect on the private sector in terms of the order of adoption of regulations, the support required and, for example, the use of derogation and the enforcement regime).

#### **4.5 Has the UNDP partnership strategy been appropriate and effective?**

There are two separate issues here: partnership with the TC authority; and partnership with the EC.

Regarding partnership with the TC authority, it is clear that closer relations would have benefited the effective implementation of the project and, indeed, would have assisted in having a framework which would allow individual actions to contribute to an overall strategic focus. The political situation mitigated against this which has been exacerbated by the lack of clarity in strategy by the TC authority, and the fact that this could not be made an adequate precondition. It is difficult to see what more UNDP could have done, but the result of the project shows why in situations where there is a choice, a clear framework for partnership based on a coherent strategy is of benefit (the normal approach of agreeing a UN Development Assistance Framework with the local government).

Partnership with the EC (under FAFA) has been both appropriate and highly effective. It seems unlikely that the project could have been implemented in any other way. The additional flexibility provided by UNDP allowed actions to take place which demonstrate both the need and viability of PSD support, and these have been followed up by the EC in its subsequent programmes.

#### **4.6 What factors contributed to effectiveness or ineffectiveness?**

Inevitably the trade barriers, the non-recognition of TC authorities, and the lack of a road-map for adoption of the acquis/full accession have mitigated against the effectiveness of the project. Removal of any or all of these could have a dramatic effect on the business sector in terms of understanding of the need for development and demand for support, targeted sectoral approaches by the government, and incentives to use the support provided. These are already noted above.

In addition the following can be highlighted:

- The dominance of the public sector, caused perhaps partly through isolation and dependency on Turkish subsidy. This appears to subdue business dynamism and in general terms inhibit innovation. Public sector monopolies (e.g. in fixed line Telecom) are seen as inhibitory in a number of surveys, while possibilities of using public sector procurement as an instrument of economic development are absent.
- The lack of multiannual planning, both by the TC authorities and by the EC means that it is difficult to progress (see below). In addition this piece-meal approach means that it is unlikely that the funds under 389/2006 will be spent as effectively as the corresponding funds for the GC community, programmed through the normal 7 year Structural Funds cycle.

#### 4.7 What would have happened if the project was not there?

Before considering the degree to which the project outcomes form the basis for progression by the TC authority, we should consider what would have happened if the project had not been there. The project design was sufficiently constrained that we do not consider alternative approaches which were not realistic at the time.

It does not seem realistic to suppose that the funds would have been implemented by any other mechanism, so if the project had not existed the following initiatives would almost certainly not be there

Organic farming/ORİYAT	This was unknown - only the amount of training and support has allowed both a critical mass of interest and the ability to take the financial risk of transition
Strategic approach to ICT	Little evidence that this was seen as a priority or opportunity in general terms (rather than by individual businesses)
Awareness of acquis/certification and its benefits	Beneficiary visits suggest that awareness both of acquis and commercial benefits of compliance was low (or non-existent) before the project started.

As noted above, the fact that the project was successfully implemented at all creates additional space for other donors and projects. Undoubtedly other projects would take longer in conception and implementation if the project had not been there to demonstrate the way forward.

#### 4.8 Are the project outcomes sustainable?

As a pilot project, this was not meant to be one which solved all problems so that there would be no need for further donor intervention (nor would this be at all realistic). However we should consider what would happen if there was no further action and, through this, to consider what are the key obstacles to developing sustainability. Our view from discussions with stakeholders is

- ✧ The project has made a genuine difference to the level of awareness in the business community, and this will be sustained for some time, particularly if there are clear demonstrations of success by key firms and if the environment is one which gives an incentive for the adoption of standards (for example through easier trade or by greater regulation on the lines of the acquis by the TC authorities).
- ✧ The individual beneficiaries seem generally to have well-defined projects in viable businesses and are likely to continue without further support.

- ⤴ On the other hand there is yet to be a critical mass of “enlightened” firms which cause a demand for services and through this develop a private sector business support and consultancy network. For example, the consultants used by UNDP for quality and organic farming support are not making a living from doing this on a private basis now that the project is over.
- ⤴ In addition, the fact that the project has acted primarily at a micro-level means that the ability of institutional structures to support further development may be limited. ORYAT has clearly developed a life of its own beyond the project, but as yet has not reached critical mass and will need further capacity building if it is to be maximally effective in development.
- ⤴ Finally, sustainability inevitably depends on a consistent and long-lasting framework – in other words strategic direction from public authorities – and this is still lacking.

#### **4.9 Did the project form a basis for progression in private sector development?**

As a pilot project it is important that the outcome in terms of future projects is not a repeat of the same actions, but progression from them - and the effectiveness of the project is therefore partly dependent on the realism of progression.

In a more conventional environment, the following would be logical progressions from the results of the project

- A more strategic approach, defining clear sectors in association with the government on the basis of a multiannual strategy. A PSD strategy has been produced in cooperation with the TC authorities but this is relatively weak and will require further development.
- A more strategic approach to implementation of the acquis and other requirements for accession. It should be noted that although there is relatively little acquis directly connected to SMEs and private sector development (although some issues such as consistency in statistics would make a real difference to strategy-making), there is a real need to develop structures to coordinate and deliver support to business. This relates specifically to regional policy and the Structural Funds. Support from TAIEX goes some way towards this, but needs to be in a more strategic framework and to include activities related to planning and institution building as well as laws and regulations. Evidence, for example from OECD's SME Policy Index, shows that for full policy implementation there is a need for commitment of real resources by the government to support SMEs and to ensure that laws are effective. An example from the project would be the need to follow up on standards by the creation of advice and information sources so that potential businesses can understand which consultants are genuinely qualified and potential clients can check on the validity of certificates of companies.
- The need to look at issues which affect larger movements of private capital and investment. This includes: attracting foreign direct investment (politically sensitive due to property issues), consideration of doing business indicators relative to other countries (some work done, but requires more concerted action), and possible privatisation of some public services. All these actions would create a more competitive local market and would through this stimulate the private sector.
- Work at the meso-level both in supporting business support institutions to deliver services and in enabling business representative institutions to have a dialogue with government. Both areas appear in their infancy.



The project has laid the ground for all of these by making a wider part of the business community aware of the issues and the urgent need for development. However, this awareness and interest will disperse unless it is answered by corresponding support from government and donors.

## 5. Conclusions

The different components of the project have been implemented as an integrated whole and it therefore it seems inappropriate to comment on them separately: all have more than met their output targets and all appear to have had real impact on the private sector in the northern part of Cyprus.

In summary, we can see the following position of the project:

<p><i>Strengths</i></p> <p>A real impact on the private sector in terms of awareness</p> <p>A demonstration of demand and mechanisms by which donors could support the sector</p> <p>A good example of flexible working and collaboration between UNDP and EC</p>	<p><i>Weaknesses</i></p> <p>Lack of focus and strategy from the side of the TC authorities</p> <p>Lack of work at the macro and meso levels, leading to a degree of fragmentation</p> <p>Unclear follow through with future donor funding</p>
<p><i>Opportunities</i></p> <p>Stimulation of private sector competitiveness through trade (including better work across the green line, and possible future lifting of the trade restrictions faced by the TC community towards the EU)</p> <p>Sectoral focus (for example tourism)</p>	<p><i>Threats</i></p> <p>Changes in political situation, conflict between the GC and TC authorities</p> <p>Inability of the northern part of Cyprus to withstand a fast process of accession and adoption of the acquis</p> <p>Results of the project will dissipate due to lack of follow-up, uncertainty, and apathy</p>

More general conclusions are:

- ⤴ The project has achieved more than could reasonably be expected, not just fulfilling its output targets but realistically having a real and sustained impact on the business sector
- ⤴ Nonetheless, there is a need to build on this, which will be difficult. To avoid the dissipation of the expectations and interest that have been generated, there is a need for action at a strategic level which requires more work in cooperation with the TC authorities. A PSD strategy has been produced under the SECOND project but this is only the first step and more policy work will be required.

- ⤴ This pilot project has demonstrated needs and demand: there is a need to advance into other areas and ways of working to demonstrate further needs and demands for support to the private sector.
- ⤴ The continued isolation of the TC community will delay private sector development. Although openings to trade in Turkey (as an accession country implementing the acquis) and across the green line will have an impact, trade liberalisation and a clearer roadmap to full adoption of the acquis would have a greater impact than existing donor programmes on their own.

## **6. Lessons Learnt and Recommendations**

### **6.1 For UNDP**

This is a good example of the way in which UNDP can work in cooperation with the EC (using FAFA), demonstrating that UNDP's greater flexibilities in some areas and its ability to work in difficult situations can be effective. The achievement of significant results in an environment where the local government is not recognised by the UN and there were continual challenges from the GC community is a tribute to the skills and tenacity of the UNDP staff and local team involved in the project.

At the same time, the success of this pilot project demonstrates clearly the validity of UNDP's normal approach of agreeing a UNDAF before starting work: the end of the pilot phase leaves a situation where future actions and commitments unclear and there is a need for greater strategic coordination on both the side of the TC authorities and the significant donors.

### **6.2 For the northern part of Cyprus**

The project demonstrates both a need and a demand for development of the private sector, specifically in the direction of standards, adoption of the acquis, and external trade. The project has stimulated at least some part of the sector to become more outward looking and to avoid using the political situation as an excuse for inaction.

This needs to be built on with a clearer strategic direction by the authorities and donor interventions which are at the meso- and macro- levels. It should be possible to do this without the implicit recognition of the TC government and it would be helpful to have a framework for this cooperation which avoids continual challenges from the GC authorities, which have proved a distraction to progress and have gained little for anyone.

In the same way, it is clear that ending trade isolation would have a greater effect on the economy of the northern part of Cyprus than additional similar donor projects. It seems likely that trade liberalisation would create an impetus for the reform of regulations and strategy through greater competition on the local market and an ability for the population to be more outward-looking.

If there is to be hope of reunification and resolution of the political stalemate, it will inevitably mean the adoption of the acquis in the northern part of Cyprus. Although substantial progress has been made, this will require a much clearer long term strategy than has been evident to date. In particular, the adoption of the acquis and ensuring that the northern part of the island is able to withstand the pressures of a competitive EU market will require action in strengthening institutions and supporting the economy in addition to basic adoption of laws and regulations.

## Annex A – Terms of Reference



### UNITED NATIONS DEVELOPMENT PROGRAMME Annex I - Terms of Reference

#### I. Position Information

Job code title: International Consultant for the final evaluation of " Assistance to Turkish Cypriot small and medium enterprises" outcome

Type of Contract: Individual Contract

Duty Station: Nicosia, CYPRUS

#### II. Organizational Context

##### Background:

UNDP has been responsible for the implementation of the EU funded Programme Partnership for the Future since 2001. UNDP-PFF aims at contributing to the peace-building process in Cyprus through different levels of intervention including urban infrastructure rehabilitation, community development, cultural heritage and private sector development initiatives.

Since May 2004, UNDP Partnership for the Future (PFF) in Cyprus has been responsible for the implementation of the EU funded project "Private sector development in the northern part of Cyprus".

The private sector development (PSD) project is the main initiative under Outcome 1 in the Cyprus evaluation plan: Assistance to Turkish-Cypriot small and medium enterprises in increasing their competitiveness by generating awareness on the related EU legislation and policies.

##### PSD Focus:

Assisting selected Turkish-Cypriot SMEs in setting up facilities for the development of e-commerce platforms in line with the objectives of the Lisbon agenda.

- Enhancing the capacity of the TC agro-based SMEs and farmers to comply with EU food hygiene and phyto-sanitary standards.
- Assisting Turkish-Cypriot MSMEs, on a pilot basis, in achieving and implementing quality, environmental and social standards.
- Strengthening the Turkish-Cypriot private sector through targeted capacity-building programmes enhancing the awareness on the Acquis related issues and business oriented topics relevant for their integration into the EU market.

A number of activities were implemented to achieve the objectives through three folded strategy including:

- Training sessions, capacity building activities and informative seminars
- Private business advisory services
- Grant schemes

All the activities focused around a broad number of subjects such as: environmental standards, occupational health and safety, information and communication technology, food hygiene, food labeling and packaging, acquis communautaire, organic farming, CE marking and ISO certifications, corporate social responsibility, etc.

### III. Description of Responsibilities / Key Results Expected

Objective and scope of the work:

The evaluation will assess all phases of the PSD project and measure the impact of the project in relation to the outcome. Specifically, the evaluation intends to achieve the following specific objectives:

- To assess the extent to which the project goal (outcome) and objectives (outputs) have been met;
- To determine the relevance and effectiveness of each component, in particular considering the systems and capacities that were developed and the effective use of project resources;
- To evaluate the impact and sustainability of the programme and its components;
- To determine best practice of and lessons learned in the project implementation;
- To determine the factors that have influenced performance and success of the programme as well as factors that have constrained the programme from achieving its intended outcome;
- To evaluate if the project was key to the achievement and / or has contributed to the overall change for a more positive environment. Point out the strengths, weaknesses, opportunities, threats of the project's implementation process

Evaluation questions addressed:

- Were stated outcomes or outputs achieved?
- What progress toward the outcomes has been made?
- What factors have contributed to achieving or not achieving intended outcomes?
- To what extents have UNDP outputs and assistance contributed to outcomes?
- Has the UNDP partnership strategy been appropriate and effective?
- What factors contributed to effectiveness or ineffectiveness?

Outputs and tentative dates:

- Output 1 - Evaluation inception report – 14 October 2011
- Output 2- Draft evaluation report containing the results of the outcome evaluation – 28 October 2011
- Output 3 - Final evaluation report incorporating eventual comments/clarifications required by UNDP-PFF – by 8 November 2011

The evaluation will be conducted within a period of total estimated of 20 working days, incorporating field and desk work, and allowing sufficient time for feedback and review, according to the timeframe below:

- Preparation – (Desk review of relevant document not considered as deliverable) - (estimated 2 working days) – from place of recruitment of consultant
- In-country evaluation mission and presentation of preliminary findings – Short Inception Report (estimated 5 days – October 10-14, 2011) – in Cyprus
- Draft evaluation report containing the results of the outcome evaluation (estimated 10 working days) - from place of recruitment of consultant
- Final assessment report incorporating eventual comments/clarifications required by UNDP

(estimated 3 working days) - from place of recruitment of consultant

#### Institutional Arrangement:

UNDP – PFF will work closely with the consultants to facilitate the process including:

- Providing relevant documents related to the project activities for the literature review;
- Identifying stakeholders and sources of information;
- Assisting in organizing meetings with stakeholders;
- Assisting in arranging field visits (transport and formal invitations when required);
- Identifying key issues that may emerge during the consultancy period and assisting to resolve these wherever possible.
- The consultant shall work independently and with his/her personal equipments (IT and Communication) and office arrangements. Interpretation and translation will only be facilitated through the support of the national consultant/assistant. Only transportation to project sites will be provided under UNDP rules.

In addition to analysis of existing materials, the evaluator will meet with a wide range of stakeholders including (non-exhaustive list):

- EC representatives
- Local authorities
- Beneficiaries
- Business Support Institutions
- UNDP-PFF partners
- UNDP – PFF
- Beneficiaries (in Nicosia and outside)

#### Monitoring and Progress Controls:

The Consultant will work under the supervision of the UNDP-PFF Programme Manager. The evaluation work should start on 3 October 2011 and 14 October in Cyprus. Initial findings and a draft report should be presented by 28<sup>th</sup> October 2011. The final evaluation report must be submitted to the UNDP- PFF Office by November 8<sup>th</sup> 2011.

The evaluation should cover the period ranging from the beginning of the project (November 2006) to its end (May 2011).

The evaluation will be the result of an analysis of project documents, literature reviews, project reports and individual interviews.

It is expected that the consultant will work approximately 20 days. The final evaluation report (revised with comments) must be submitted to the UNDP before November 8<sup>th</sup> 2011.

#### Payment Milestones:

UNDP will contract the consultant according to the Organization's IC rules and regulations. Payment will be made as a lump sum after formal approval of expedited deliverables (in 3 installments: 30% after completion

of output 1; 30% after completion of output 2 and 40% after completion of output 3) and shall cover all expenditures (incl. consultancy fees, international travel, cost of living, etc). DSA are not applicable.

#### IV. Competencies

- ▢ Ability to lead formulation and evaluation of development programs and projects;
- ▢ Strong analytical skills
- ▢ Strong communication and experience in drafting evaluation reports
- ▢ Good understanding of the Cyprus context or experience in working in a similar environment
- ▢ Ability to lead formulation and evaluation of development programs and projects.

#### V. Qualifications

##### Education:

- ▢ Advanced university degree in Public management, business administration, project management or any other relevant field of expertise

##### Experience:

- ▢ Minimum 7 years of experience in conducting independent evaluations at outcome and output levels.
- ▢ Proven experience in conducting evaluations in the Private Sector.
- ▢ Solid knowledge of the UN system, procedures, and operational activities for development.

##### Language:

- ▢ Fluency in spoken and written English.
- ▢ Knowledge of Turkish is an asset.

#### VII. Signatures- Post Description Certification

Incumbent (if applicable)

Name

Signature

Date

Supervisor

Name / Title

Signature

Date

## **Annex B – Framework for Evaluation**

Accepting the constraints on the project, we can consider the following hypotheses related to the way in which the outputs will lead to outcomes which contribute to the overall objectives.

### **A. Awareness**

A1 Isolation has left businesses unaware of developing standards and methods which are not used in the local market. Developing awareness will allow them to develop targets and to recognise opportunities formed through external trade.

A2 Businesses have no specific incentive to comply with *acquis communautaire* since it is suspended for the foreseeable future in the northern part of Cyprus. They therefore need to be aware of the commercial benefits that early adoption can provide both on the local market (efficiency, quality, reputation) and externally (compliance, competition).

A3 Widespread training creates a critical mass of people who are aware and through this creates its own demand, together with raising standards on the local market.

### **B. Demonstration**

B1 Bringing selected businesses to a European level in terms of standards will have a demonstration effect on other local businesses or ones in the same sector or for businesses they trade with (e.g. insisting on standards for their own suppliers)

### **C. Risk Mitigation**

C1 Although the commercial advantage of applying standards and developing can be seen, there is also a risk involved (to the enterprise) and this needs to be mitigated through both technical assistance and finance in order that it becomes a realistic investment decision. This can also be recast in the form that, because the future direction of the business environment is unclear, businesses are inclined to delay investments related to future competitiveness which could nonetheless be beneficial now.

### **D. Establishment of a precedent**

D1 Demonstration that support for business can have an positive effect forms a precedent for other donors or projects, noting specifically the funds allocated by the EU under regulation 389/2006.

D2 Demonstration of demand for this type of service from the TC business community creates a lobby for future actions by both donors and the TC authorities.

### **E. Leverage**

E1 The intervention by the project will cause an additional intervention by either the businesses using their own resources (co-financing) or by local public authorities using their own resources, or by other donors.

### **F. Strategy development**

F1 Operations at the micro-level give both better information and an incentive for relevant sectoral groups to develop more coherent strategies for development whether or not this is with local public authorities. Such strategies can create more effective and efficient ways of supporting the private sector in the future.

F2 Capacity building with sectoral and representative organisations will create sustainable mechanisms of support for the private sector

## **Annex C – Review of the Private Sector in the northern part of Cyprus**

Full statistics are largely unavailable or questionable: what is presented here refers mainly to information presented in greater detail in the World Bank report “Sustainability and Sources of Economic Growth in the northern part of Cyprus” (funded through PFF in 2006) and the Private Sector Development Strategy 2011-2015 (produced by the SECOND project in 2010).

The number of SMEs is not clear (since inactive and dissolved ones are not removed from the register) but is around 8000 of which 95% have less than 10 employees.

The economy is dominated by the services sector (more than 75% of GDP), in particular trade and tourism (14.2% in 2008), transport and communications (12.1%) and business and personal services (10.3%). The public sector constitutes a relatively high proportion of GDP at 21.7%.

The economy has shown consistent if sporadic growth over the last decade. It should be noted, however, that this is fuelled by continued subsidy from Turkey and a highly negative foreign trade balance.

Turkey is the overwhelmingly important trade partner, constituting almost 70% of imports and 50% of exports. These percentages are if anything rising. Exports the Green Line has stagnated with the value of exports in 2010 being less than that in 2009 or 2008<sup>11</sup>. While specific reasons have been suggested (notably problems with the potato harvest) and there are clearly still political problems regarding the acceptability of TC goods in GC areas, nonetheless, this appears to be an opportunity which has not been fully exploited.

Within the service sector, tourism and higher education are the leading sectors. Tourism is recognised by the TC authorities as a priority for development, although it is hampered by the lack of direct flights and questions regarding property ownership. The majority of arrivals and departures are from Turkey, though significant numbers of visitors come from EU countries, notably the UK.

Whilst telecommunications and ICT is seen as a priority for the future (particularly noting the lack of relevance of trade barriers), not all relevant laws are yet in place and the infrastructure is generally seen as expensive and of low quality.

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<sup>11</sup> Figures from the Turkish Cypriot Chamber of Commerce. Ignoring anomalous figures for July and August 2011 the trend continues for the current year.



## Annex D – Bibliography

Sustainability and Sources of Economic Growth in the northern part of Cyprus prepared by the World Bank, June 2006 (commissioned under PFF and published in two volumes)

Private Sector Development Strategy 2011-2015 (prepared by the SECOND project)

Millennium Development Goals: A review for the Turkish Cypriot Community (PFF 2009)

Programme for Adoption of the Acquis 2009-2011

Project documents including

- ⤴ The initial project document
- ⤴ Publicity material
- ⤴ Turkish Cypriot Private Sector Development: 8 years of success, review document
- ⤴ Video produced by the project
- ⤴ Final report for the project

Project fiches for private sector development funded by the EC in the northern part of Cyprus (including the project)

EC regulation 389/2006 (on creation of an instrument to support economic development) and proposed regulation COM (2004) 466 (on trade liberalisation). Also reports on implementation of 389/2006 (latest, for 2010, being COM (2011) 283)