REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN AN AMOUNT EQUIVALENT TO US$16.0 MILLION

TO THE

REPUBLIC OF CYPRUS

FOR A

KHRYSOCHOU IRRIGATION PROJECT

April 21, 1983
CURRENCY EQUIVALENTS\textsuperscript{1/}

<table>
<thead>
<tr>
<th>Currency Unit</th>
<th>=</th>
<th>Cypriot Pound (C£)</th>
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<tbody>
<tr>
<td>C£ 1.00</td>
<td>=</td>
<td>US$2.10</td>
</tr>
<tr>
<td>US$1.00</td>
<td>=</td>
<td>C£ 0.48</td>
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ABBREVIATIONS

<table>
<thead>
<tr>
<th>ARI</th>
<th>- Agricultural Research Institute</th>
</tr>
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<tr>
<td>CGB</td>
<td>- Cooperative Central Bank</td>
</tr>
<tr>
<td>DA</td>
<td>- Department of Agriculture</td>
</tr>
<tr>
<td>LC</td>
<td>- Loan Commissioners</td>
</tr>
<tr>
<td>MANR</td>
<td>- Ministry of Agriculture and Natural Resources</td>
</tr>
<tr>
<td>Mn\textsuperscript{3}</td>
<td>- Million Cubic Meters</td>
</tr>
<tr>
<td>PAC</td>
<td>- Project Advisory Committee</td>
</tr>
<tr>
<td>PPCC</td>
<td>- Project Policy Coordinating Committee</td>
</tr>
<tr>
<td>WDD</td>
<td>- Water Development Department</td>
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</tbody>
</table>

Government of Cyprus Fiscal Year

January 1 - December 31

\textsuperscript{1/} As of November 1982
REPUBLIC OF CYPRUS

KHrysokhou Irrigation Project

Loan and Project Summary

Borrower: Republic of Cyprus
Amount: US$16.0 million
Terms: Fifteen years, including three years grace, at the standard variable interest rate.

Project Description: The project would transform an area in one of the least developed regions of Cyprus comprising about 2,000 hectares predominantly dependent on rainfall for agriculture into a permanently irrigated area producing high-quality, high-value horticultural crops mostly for export. The project would also help to resolve the area's underemployment problem by creating stable and remunerative employment opportunities for several hundred farm families. The project components include: (a) a dam and appurtenant structures; (b) a water conveyance system consisting of about 16.6 km. of pipeline, and a diversion structure at the Khrysokhou River; (c) an irrigation system comprising a network of underground pipes, valves, hydrants and meters; (d) on-farm systems including pipelines, land smoothing, and vegetable and orchard planting for which credit will be provided by the Government; (e) groundwater development to supplement surface water during dry years; and (f) provisions for project management and administration, buildings and transport facilities. The project would directly benefit about 640 families in the project area by generating additional on-farm and off-farm part-time employment, thereby increasing farm incomes. The absence of improvement in existing export marketing systems and procedures and delay in deriving a long-term fruit and vegetable export strategy could be risks. However, these are being addressed under the Fruit and Vegetable Export Project (Loan 1988-CY) which is well underway and additional measures included in the project will further minimize the risks.
Estimated Project Cost:

<table>
<thead>
<tr>
<th>Component</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evretou Dam</td>
<td>6.8</td>
<td>9.8</td>
<td>16.6</td>
</tr>
<tr>
<td>Water Conveyance System</td>
<td>1.8</td>
<td>2.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Irrigation Network</td>
<td>1.6</td>
<td>3.2</td>
<td>4.8</td>
</tr>
<tr>
<td>Groundwater Development</td>
<td>0.2</td>
<td>0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>On-farm Works</td>
<td>3.0</td>
<td>3.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Project Management and Administration</td>
<td>2.1</td>
<td>1.1</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Subtotal                                | 15.5  | 20.9    | 36.4   |

Physical Contingencies                  | 1.3   | 1.9     | 3.2    |

Price Contingencies                     | 2.8   | 3.8     | 6.6    |

Total 1/                                 | 19.6  | 26.6    | 46.2   |

Financing Plan:

<table>
<thead>
<tr>
<th>Source</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>-</td>
<td>16.0</td>
<td>16.0</td>
</tr>
<tr>
<td>Government</td>
<td>16.5</td>
<td>10.6</td>
<td>27.1</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>3.1</td>
<td>-</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Total                                    | 19.6  | 26.6    | 46.2  |

1/ Exclusive of taxes and duties from which public projects are exempt.
Estimated Disbursements:

<table>
<thead>
<tr>
<th>Bank FY</th>
<th>FY84</th>
<th>FY85</th>
<th>FY86</th>
<th>FY87</th>
<th>FY88</th>
<th>FY89</th>
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<tr>
<td>Annual</td>
<td>3.0</td>
<td>5.0</td>
<td>5.0</td>
<td>1.5</td>
<td>1.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Cumulative</td>
<td>3.0</td>
<td>8.0</td>
<td>13.0</td>
<td>14.5</td>
<td>15.5</td>
<td>16.0</td>
</tr>
</tbody>
</table>

Economic Rate of Return: 14 percent


Map: No. IBRD 16930 - Khrysokhou Irrigation Project
1. I submit the following report and recommendation on a proposed loan to the Republic of Cyprus for the equivalent of US$16.0 million to help finance a portion of the foreign exchange costs of an irrigation project in the Khrysokhoun area. The loan would be repaid over fifteen years including three years of grace, at the standard variable interest rate. The balance of the foreign exchange costs would be covered by the Government of Cyprus.

PART I - THE ECONOMY

2. The last economic report on Cyprus (No. 4069-CY) was circulated to the Executive Directors in January 1983. The report's findings are reflected in this Part. Although Bank economic missions to Cyprus have visited all economically important areas in that country and had discussions with the Government as well as the Turkish Cypriot authorities, it has not been possible to assess fully the economic situation and prospects of the whole island, given the extremely limited economic data base for northern Cyprus, which is under Turkish Cypriot control. Hence the analysis provided in this and other Parts of this Report relates only to the Government-controlled part in southern Cyprus. The Basic Country Data is provided in Annex 1.

General Background

3. The Cyprus economy grew at over 7 percent per annum between 1960 and 1973, despite tension between the Greek Cypriot and Turkish Cypriot communities. The major contributing factors were a competent public administration, dynamic entrepreneurs, a high rate of investment especially in the private sector, a rapid increase in agricultural exports contributing to strong overall balance of payments, and flexible fiscal and monetary policies that helped to stimulate growth while maintaining domestic price stability.

4. The 1974 events brought a sudden, although temporary, end to this long period of economic growth. Since then, the country has de facto been divided into two parts by a cease-fire line, with decreasing movement of people and goods between them. The southern part under the Government's control accounts for 64 percent of the area of the island and over 77 percent of total population. In the northern part under Turkish Cypriots' control, 23 percent of the total population live on 36 percent of the land area. About one-third of the total population was displaced by the 1974 events, with nearly 180,000 Greek Cypriots moving south, and approximately 45,000 Turkish Cypriots moving north. Most of the displaced population has now been resettled. UN-sponsored intercommunal talks to find a possible political solution have been held intermittently since 1978, but prospects for agreeing on a permanent solution remain uncertain.
Recent Developments and Short-term Outlook

5. With the displacement of population and severance of sectoral linkages in mid-1974, the economy was severely depressed; the unemployment rate jumped to nearly 25 percent of the labor force, and exports and imports fell by about 55 percent in the second half of 1974. The drop in export earnings reflected the loss from the non-exploitation of about one-half of Cyprus' cultivated land area (which produced over 50 percent of its agricultural exports) and the non-utilization of about two-thirds of the island's tourist facilities.

6. Government policy to reactivate the economy in the area under its control proved highly successful. The economy recovered rapidly, with GDP (in real terms) growing annually by an average of 11.7 percent between 1975 and 1981. Since 1979, the growth rate has slowed down and was about 2.1 percent in 1981, as the economy reached full capacity and world recession adversely affected some export markets. In parallel, unemployment decreased from over 16 percent in 1975 to about 2 percent in 1980 and 3 percent in 1982. Despite rapid growth, the rate of inflation remained modest. Consumer prices rose 7.5 percent in 1978 and 13 percent in 1980, but slowed to 9 percent in 1982.

7. The Government followed an expansionary fiscal policy to reactivate the economy after 1974. This policy continued, however, even after near-full employment was reached in 1978. Overall budgetary deficits, averaging about 7.3 percent of GDP during 1979-82, have been financed mainly by grants and external borrowing, and by some borrowing from the Central Bank. The Government believes that it may be able to slow down expenditures, despite the need to continue some refugee assistance and to complete ongoing investment projects. However, its attempts to reduce subsidies for grain and vine products are meeting strong resistance in Parliament. Similarly, its proposal to permit an increase in interest rates above the 9 percent ceiling has not yet been accepted by Parliament. In the circumstances, the Government has attempted to increase revenues by changing the tax system and adopting other fiscal measures to suit the changed economic conditions; this has already significantly improved the revenue-GDP ratio, from about 20 percent in 1979 to over 23 percent in 1982.

8. In an effort to restrain domestic price increases, the Central Bank initially took limited measures to restrict new loans to importers and distributors and reduce loans by hire-purchase finance companies. But since late 1979, more comprehensive measures have been taken to reduce bank liquidity and restrain credit expansion. The effectiveness of monetary policy, however, remains hampered by the ceiling set on interest rates.

9. The changes in the tax system and fiscal measures and the restraints put on credit expansion have had a deflationary impact on the economy. Consumer and investment demands have softened, resulting in a continuous decline in the inflation rate since 1981. This was accompanied by a small rise in unemployment, from 2 percent in 1980 to about 3 percent in 1982, as already mentioned.
10. Stimulated by expanding local demand for consumer and investment goods, imports increased rapidly until early 1980. The increases in the current account balance of payments deficit, however, were adequately covered by the rapidly rising external capital inflows. During 1981-82, as overall growth decelerated, import growth slowed down while exports, especially of services, continued to grow at a relatively higher rate, resulting in an improvement in the balance of payments. Foreign exchange reserves increased, to five months of imports at the end of 1982. Recent trends show growth of exports as well as of revenue from tourism can be expected to continue. As a result, the short-term outlook for balance of payments is expected to remain healthy.

11. The recent favorable developments, however, have been accompanied by two trends that could have serious adverse effects in the longer-term: the continued negative public savings and declining private investment in manufacturing since 1979. As discussed in para. 7, the negative public savings have been the result of the post-1974 expansionary programs to reactivate the economy; but the budget remained expansionary even after the economy reached a high level of employment. The decline in manufacturing investment resulted from several factors, including rapidly rising labor costs, inadequate institutions to promote investment in new products requiring modern technologies and organization, and relatively lower profitability in manufacturing compared to that in tourism and real estate. Recently, however, labor cost increases have moderated, and a declining trend is projected.

Medium-Term Prospects

12. The Government has launched the Fourth Emergency Economic Action Plan (1982-1986) for the area under its control. The Plan calls for a GDP growth rate of about 4.0 percent per year, based on a continuing shift in development strategy toward medium-scale, higher technology, relatively more capital-intensive investments; consolidation of small factories into larger units, to realize economies of scale; and export and tourism as the major engines of growth. In addition, increased emphasis is put on the promotion of international services, e.g. off-shore banking, consultancy and professional services, to cater to Middle Eastern and North African countries.

13. The Fourth Plan strategy of promoting investment in and export of higher quality products and services is appropriate. The Plan's target of a 4 percent GDP growth is within the country's potential and the investment program is sound. Achievement of the target, however, depends on adequate policies to generate some public savings and to reverse the declining trend in private manufacturing investment.

14. Considerable efforts have been made to increase government revenues, which have risen significantly. To maintain this momentum, government actions are needed to (i) close tax loopholes, (ii) strengthen tax administration and auditing procedure, (iii) raise penalties for tax evasion, and (iv) introduce a system of value-added taxation. These ought to be complemented by a slow-down in the growth of current expenditures, including civil servants' salaries and subsidies for grain production and imported animal feed. The projected declining trend in wage increases is a favorable factor for private manufacturing investment. To promote such investment Cyprus needs also to:
systematically gather and disseminate technological information; establish contacts with foreign firms and promote joint ventures; explore the availability of licenses, technical know-how agreements and marketing arrangements; arrange projects for finance and implementation; provide extension services; and take measures to slow down construction of new hotels, except for the very top class.

15. Cyprus will continue to need an increasing inflow of foreign capital to help finance the necessary restructuring of its economy. Access to long-term concessionary bilateral and multilateral support is expected to become increasingly limited. Consequently, despite some continuing Greek, German, UK and Council of Europe assistance, most future public external borrowing to cover the projected current account deficits will have to come from commercial sources, either in the form of export or suppliers' credit, or as commercial bank loans. Considering the continuing political uncertainties, Cyprus' recent experience in mobilizing external resources has been encouraging. It successfully raised Eurodollar borrowings in late 1977 of $30 million, followed by loans of $40 million in July 1978, $10 million in November 1978, $48 million in July 1980, $85 million in September 1981 and $70 million in July 1982. The country has also begun to attract significant export and suppliers' credits. These forms of external borrowing are indicative of the probable future trend.

16. The Bank's efforts to date have been directed towards encouraging Cyprus not only to diversify its sources of official aid, but also to use Bank projects as catalysts to attract other external support, including cofinancing with commercial banks. Commercial bank cofinancing was arranged in 1980 in connection with the Third Cyprus Development Bank Project (Loan 1744-CY); substantial suppliers' credit and a Euro-currency loan for the Power Transmission and Distribution Project (Loan 1873-CY) in 1980; a loan from the Kuwait Fund for the Third Highway Project (Loan 2128-CY) in 1982; and a loan from the European Investment Bank for the Vasilikos-Pendaskinos Project (Loan 1658-CY) in 1982.

17. Cyprus' external debt has so far remained low, because of the past policy of financing development from internal resources and the availability of substantial levels of foreign grant aid from Greece and the United Nations High Commissioner for Refugees (UNHCR), mainly for refugee assistance (ranging from $36 to $59 million per year since 1974). Total long-term public debt outstanding and disbursed was $497.3 million as of December 31, 1981. Public debt service was about 7.6 percent of goods and non-factor services in 1981. However, given the increasing reliance on commercial financing, debt service is projected to increase to about 12 percent of exports of goods and non-factor services by 1985. The Bank's share of debt outstanding and disbursed declined from 51 percent in 1975 to about 12 percent at the end of 1981, while its share in debt service declined from 47 percent in 1975 to about 15 percent in 1981. Thus the Bank's exposure, once quite high, has now declined to a more normal level and is expected to continue to decline further. Given this background and the Government's record of economic management, the country continues to be creditworthy for Bank lending.
PART II - BANK GROUP OPERATIONS IN CYPRUS

18. Bank lending to Cyprus began in 1963. As of March 31, 1983, nineteen loans totalling $162.2 million (net of cancellations) were made; of this, about $123.4 million was held by the Bank. The main areas of concentration have been infrastructure (power, sewerage, highways and ports), industry through the Cyprus Development Bank, agriculture and water resource development. Details of Bank loans to Cyprus as of March 31, 1983 are given in Annex II.

19. The events of 1974 had a substantial impact on some of the ongoing Bank-financed projects, as well as on planned operations. In particular, the execution of the following projects was affected: (i) the sewerage project in Famagusta, which lay entirely in the area controlled by the Turkish Cypriots; and (ii) the construction of the Nicosia-Morphou highway, the alignment of which coincided with the cease-fire line. Even though the Famagusta Sewerage Project was 90 percent complete when construction was interrupted, it could not be commissioned in the absence of a political settlement, and the undisbursed balance of the loan was cancelled. In the case of the Nicosia-Morphou highway, construction of which was suspended, and remains so, after only one month of work, the unutilized balance of about $3.6 million was transferred to the Second Highway Project. The Nicosia Sewerage Project, which straddled the Greek Cypriot and Turkish Cypriot areas of Nicosia, was also incomplete. However, as a result of the initiative of the UNDP and the Bank, Greek Cypriot and Turkish Cypriot cooperation on this matter was engendered and a formal agreement to complete the project reached in September 1978; thereafter, based on those arrangements, and continuing cooperation displayed by both sides in their implementation, the project has been completed in 1980 and is now benefiting both communities. As regards planned operations, a number of projects under study, or contemplated, before 1974, which were intended to benefit directly both communities, could not be pursued because of the de facto division of the island. The Bank, together with UNDP, will continue to explore areas where cooperation appears possible, although substantial progress may have to await a political settlement.

20. Disbursement performance with regard to Bank operations in Cyprus is generally satisfactory and compares favorably with experience elsewhere. The only loans on which disbursements had been significantly slower than anticipated relate to the Second Highway Project (Loan 1344-CY) and the Vasilikos-Pendaskinos Water Resources Development Project (Loan 1658-CY). This is primarily related to difficulties faced by the contractor in the former case, and to delays in the appointment of consultants in the latter case. The problems related to the Second Highway Maintenance Project have been resolved and implementation is proceeding satisfactorily. In the case of the Vasilikos-Pendaskinos Project, dam construction work will start shortly and project implementation is expected to proceed smoothly thereafter.

21. The Bank continues to support activities leading to higher productivity and exports and providing essential infrastructure justifiable in the context of the whole island. Within this overall context, Bank lending
has made a substantial contribution towards assisting Cyprus to recover from the 1974 events, especially in acting as a catalyst to mobilize external sources of long-term financing. The Government recognizes that given the relatively high per capita income in Cyprus, bank lending has continued so far because of the special circumstances prevailing in the country, and can be expected to taper off gradually in the medium-term. In the circumstances, projects being developed during this period include those representing innovation for the country, such as a renewable energy production/energy conservation project and a project for integrating and transferring scarce water resources between different basins in the country. Meanwhile, discussions with the Government on Cyprus' graduation from bank lending have been initiated, and a graduation paper is being prepared.

22. IFC's first investment in Cyprus was in a cement company in 1972. The company has since become a leader in the country's successful export drive. IFC has also invested in an asbestos cement pipe plant, a tourist hotel, and in the Cyprus Investment and Securities Corporation, and is currently exploring opportunities for further investment in the island. As of March 31, 1983, gross commitments totalled $6.0 million, of which $4.9 million are still held by IFC. Details of IFC investments in Cyprus are given in Annex II.

PART III - AGRICULTURAL SECTOR AND WATER DEVELOPMENT

Agriculture in the Economy

23. Agriculture continues to be an important sector of the economy. In 1981, it contributed 11 percent of GDP, provided 25 percent of total employment, and directly and indirectly accounted for about 25 percent of commodity exports. Its relative importance has, however, declined since 1975 reflecting the growing importance of the tourist industry and the manufacturing sector. This is attributable in large part to the events of 1974 as a consequence of which thousands of farm families were displaced and about 80 percent of the citrus plantations, 65 percent of dryland cereal growing areas, 45 percent of olive and 30 percent of carob trees fell outside Government control.

24. Agriculture, nevertheless, continued to play a major role in the economy and the Government's agricultural policies under its first three Emergency Economic Action Plans, consisting primarily of completion of on-going agriculture projects and expansion of land under irrigation, have met with great success. Within an overall framework of actions to maximize production, of improving income levels and of balancing regional growth, the sector objectives of the Fourth Emergency Economic Action Plan (FEEAP), 1982-86, are: (i) to expand irrigation; (ii) to modernize the sector; (iii) to improve the marketing system; and (iv) to reduce price intervention and subsidies.

25. To meet these objectives, the FEEAP has included steps: to address the major constraint of Cypriot agriculture, namely, availability of irrigation water supplies; to continue efforts in halting the extreme
fragmentation of land successfully being carried out through the Government's land consolidation program; and to further the Government's strategy of promoting agricultural exports in view of the constraints imposed by a small domestic market and the country's comparative advantage in the export of early-season, high-value, horticultural products to markets in Europe and the Middle East. At the same time, the Plan recognizes the need to control the growth of agricultural price controls and subsidies which at a level corresponding to 28 percent of agricultural GDP by 1981 are presenting a heavy burden on the nation's budgetary resources and distorting the real value of agricultural imports (such as food grains and livestock feed) and of irrigation water.

26. Bank's Role. The Bank has directed its lending to agriculture, primarily to the development of water resources, the sector's most limiting physical factor. It has promoted employment and assisted improvement in labor productivity. A more equal distribution of economic growth among sectors has also been an objective. Bank operations have served as a catalyst to attract development financing from other sources.

27. The Paphos Irrigation Project, started in 1974 and completed in 1982, provides essential irrigation infrastructure mainly for export production and assists in financing on-farm investments. The ongoing Pitsilia Integrated Rural Development Project, started in early 1977, emphasizes productive and social infrastructure investments directed towards the poorest parts of Government-controlled Cyprus. The Vasilikos-Pendaskinos Project, started in 1979, will develop water resources for irrigation and reduce the shortages of potable water in the cities of Nicosia, Limassol and Larnaca. The latest agriculture project undertaken so far, the Fruit and Vegetable Export Project of 1981, complements previous Bank investments in the sector by initiating a set of institutional and organizational changes in the fruit and vegetable export trade, improving the utilization of scarce water resources, creating further employment opportunities and improving productivity. The Bank is likewise assisting in the preparation of the Southern Conveyor Project, a project designed to transfer surplus water from the southwest to the southeast areas which suffer from irrigation water shortages, part of which is threatened by sea water intrusion in its aquifers, as well as to remove the critical shortages in urban water supplies.

Water Resources and Irrigation Development

28. Water resources in Cyprus derive primarily from rainfall which occurs mostly between November and March and averages about 4,500 Mm$^3$ per annum. Surface evaporation accounts for about 3,500 Mm$^3$ per annum and of the remaining usable water supply, an estimated 400 Mm$^3$ enters the groundwater and 600 Mm$^3$ runs off as surface water. Most groundwater resources have already been developed and many aquifers overpumped. As prospects of further development of minor aquifers is limited and there is little scope for artificial recharge, surface water is assuming increasing importance as the predominant source of water for development. The total storage capacity of reservoirs in Cyprus, mostly for irrigation, including the recently completed Asprokremmos Dam near Paphos, is 116 Mm$^3$. The Vasilikos-Pendaskinos Project, which is presently under implementation, would add about 32 Mm$^3$ of storage capacity. The proposed Khrysokhou Irrigation Project would provide
23 Mrd of storage capacity at the Evretou Dam to serve 2,000 hectares of irrigation area. Because of the high unit cost of investment in irrigation, the FEEAP allocates nearly two-thirds of the total sector investment budget of about $315 million to water development programs. The development of water resources in a coordinated and integrated manner has been of primary importance to the Government which, with UNDP assistance, has been carrying out detailed water resources studies since the early 1960s.

29. Horticultural Exports. In recent years, export prices of most horticultural commodities, citrus, grapes and potatoes, rose only moderately in current terms and stagnated in real value; only unit export values of vegetables registered a substantial increase (20 percent) in real terms. Significant increases in future sector export earnings will mainly depend on Cyprus' ability to shift exports to high-value vegetables and exotic fruits (e.g., avocados and kiwis) and to increase exportable volumes of traditional items such as potatoes, citrus fruit and table grapes. Such changes require continued investment in water development projects, on-farm irrigation systems and commensurate attention to applied research and extension coupled with effective export marketing mechanisms. The proposed project provides further assistance to the Government in those directions and complements efforts already underway in previous Bank-assisted projects in the sector.

Institutional Framework

30. The institutions serving the sector are efficient, experienced and responsive to the demands placed on them and, having had ample experience with Bank-assisted projects, are fully competent to implement the proposed project. The Ministry of Agriculture and Natural Resources (MANR) is the main public institution dealing with agriculture in Cyprus. The MANR has six well-staffed functional departments, namely, Agriculture, Water Development, Geological Survey, Meteorology, the Land Consolidation Authority, and the Agricultural Research Institute. The Water Development Department (WDD) of the MANR is the principal department responsible for planning, design and execution of government water projects although the overall responsibility for determining water policy rests with the Council of Ministers. The Ministry of Interior has legal control over national water resources and also administers water laws. At the district level the overall responsibility for management of water projects, whether for irrigation or domestic supply, lies with a District Officer who reports to the Ministry of Interior. Each government irrigation project is administered and managed by a Water Commission composed of the District Officer, a representative of the WDD and members elected from the project beneficiaries.

31. The Agricultural Research Institute (ARI) is the main agency for agricultural research. The ARI has several experimental stations distributed in the country according to major agricultural zones. Two of these stations are located at Akhelia in the Paphos district in the southwest part of the country and about 40 km. from the project area. Research programs undertaken at ARI and the Akhelia research stations include introduction of new fruit crops with commercial potential such as passion fruit, kiwi, mango and guava. Experimentation with energy and water saving techniques constitutes an integral part of the country's research program, particularly with production of off-season vegetables under controlled environmental conditions.
32. The MANR has an extensive nationwide agriculture extension network under the overall responsibility of the Department of Agriculture (DA). In addition, the MANR provides farmer training at various district training centers. Courses include crop production, plant protection and irrigation, application of energy and water saving techniques, as well as farm mechanization, use and maintenance of farm machinery.

33. Agricultural Credit. Cyprus has a comprehensive system for channelling financial resources into agriculture. Institutional credit for agriculture is mainly provided by the Government through the Loan Commissioners (LC) and the cooperative credit system, the latter mostly consisting of village-based Cooperative Credit Societies (CCS) and the Cooperative Central Bank (CCB). The LC provides medium- and long-term credit and is a Government body composed of the Minister of Finance (Chairman) and five members including the Director General of the MANR and two farmers' representatives. The CCS provide mainly short-term credit requirements and are voluntary associations with at least 12 members for the primary purpose of providing financial assistance to their members. The CCB is basically an apex financing bank for its shareholders which are marketing, supply and credit cooperatives. Its capitalization excludes government funding and CCB's lending comes mostly from deposits, as well as LC funds for specific Government-sponsored programs.

The Project Area

34. The Khrysokhou project area is located in the northwestern part of Cyprus around the town of Polis. The irrigation service boundaries encompass 2,000 hectares net area in the Khrysokhou River valley and the coastal plain which is bordered by the Khrysokhou Bay on the north. The Evretou Dam, to be constructed on the Stavros tis Psokas River, is located about 2 km. upstream from its confluence with the Khrysokhou River, which is about 5 km. inland from the estuary. The project area has a typical Mediterranean climate with hot, dry summers and mild winters. The climatic conditions are particularly favorable for growing early varieties of vegetables, lemons, table grapes and deciduous fruits. The irrigation service area is located on the coastal plain and along the river valley rising gently from the sea to altitudes of up to 100 meters. Soil surveys and land suitability classification studies were carried out by the DA on the project area. Major soil types are either alluvial or colluvial, and the classification suitability for irrigation is based on a local system that is generally in line with that of the United States Bureau of Reclamation. According to this classification, about 95 percent of the soils in the project area is considered suitable for irrigation. Except where terraces have to be made on the steep slopes on a small section of the area, only a little leveling or smoothing of farm lands would be required for the proposed sprinkler and drip irrigation applications. The soils in general are favorable for the production of almost all fruits and vegetables.

35. Agricultural land within the 2,000 hectares project area is almost entirely privately owned. The average plot size is about 0.7 hectares with 50 percent of the farmers having four or more plots. About 230 hectares are
presently under irrigation from wells and boreholes and planted to citrus, vegetables, deciduous fruits, table grapes and bananas. The remaining area is rainfed and planted mainly to cereals. Power is available to all villages and domestic water supply is piped to all major villages. Telegraph, telephone and postal services are likewise available at the town of Polis situated in the middle of the project area.

36. The area benefits from the proximity of a number of agriculture supporting services. Both the DA and the WDD have suboffices in the town of Polis. The project area is part of the Paphos agricultural extension district and presently has one agricultural extension office. Farmer training is easily accessible at the Paphos Training Center, and a branch office of the Cooperative Central Bank is also located in that city.

PART IV - THE PROJECT

Project History

37. Preparation of the project was initiated in April 1979 with UNDP's financial assistance and executed jointly by the Food and Agriculture Organization (FAO) and the Water Development Department (WDD). The Bank expressed special interest in the project since its inception. The project feasibility study was prepared in 1981 with FAO/CP assistance. Consultants engaged by the Government to undertake engineering designs and preparation of tender documents based on final design completed their work in November 1982. The project was then appraised in November-December 1982 and negotiations were held in Washington from April 4 - 8, 1983 with a Government Delegation led by Dr. Andreas Papasolomontos, Director General of the Ministry of Agriculture and Natural Resources (MANR). A report entitled "Staff Appraisal Report, Khrysokhou Irrigation Project" (No. 4351-CY), dated April 18, 1983 is being distributed separately to the Executive Directors. The main features of the loan and the project are mentioned in the Loan and Project Summary and in Annex III. A map of the project area is attached.

Project Objectives

38. The proposed project is in line with the Government's agricultural development policy objectives of optimizing the use of available water resources, intensifying agricultural production, and increasing agricultural exports and foreign exchange earnings. Located in the northwestern part of the island, the project would transform an area of about 2,000 hectares predominantly dependent on rainfall for agriculture into a permanently irrigated area producing high-quality, high-value horticultural crops for export and domestic consumption. The project area is located in one of the least developed regions of the island where employment opportunities are limited. The project would help resolve the area's underemployment problem by creating stable and remunerative employment opportunities, thereby also increasing beneficiaries' incomes.
Project Description

39. The project is designed to store surface water, supplement this with groundwater to meet shortages during dry years, and divert and deliver the available supplies of water for irrigation on demand. Irrigation water demand has been estimated to be 5,120 m$^3$ per hectare on an average annual oasis. To meet this demand, the project will integrate the main sources of water supply from the Evretou Reservoir with an average annual yield of 13.0 Mm$^3$, a diversion from the Upper Khrysokhou River of up to 2.5 Mm$^3$ per year, and thirteen tubewells (including five existing ones) with an average yield of 2 Mm$^3$. The project would comprise the following components:

A. Irrigation

(i) Evretou Dam: The dam will generate an average annual flow volume of 13.0 Mm$^3$ and have a live storage capacity of 23 Mm$^3$. The designs of the dam and the appurtenant structures have been reviewed by a panel of experts who have found the geological conditions at the dam site safe and the materials for construction to be accessible and in adequate supply. The final designs and tender documents for the dam have already been prepared by consultants.

(ii) Conveyor System: The water conveyance system consists of about 16.6 km. of pipeline. All pipelines will be underground and will deliver water to three storage ponds and two break pressure tanks for distribution to the irrigation area. In addition, a diversion structure would be provided to divert up to 2.5 Mm$^3$ annually from the Upper Khrysokhou River through a 7.5 km. pipeline to the main conveyor for supplementing irrigation supplies from the Evretou Reservoir. The final designs and tender documents for the conveyor system have already been prepared by the Government.

(iii) Irrigation Distribution System: This comprises a network of underground pipes and includes necessary valves, hydrants and meters. Adequate provision has also been made in the project for construction of farm roads.

(iv) On-Farm Systems: These include pipelines for water conveyance within the farm, installation of mini sprinklers and drip irrigation, land smoothing and vegetable and orchard planting. Credit will be provided to the farmers by the Government through the Loan Commissioners (LC) for this project component (Loan Agreement, Section 3.05 (a)). Standard designs for on-farm irrigation works have been prepared by the Government. Detailed designs for each farm will be prepared under the guidance of the Deputy Project Manager for Agriculture.

(v) Groundwater Development: In addition to the existing five tubewells in the Khrysokhou aquifer, eight more will be installed under the project for a total annual yield of about 2 Mm$^3$ to meet shortages of surface water for irrigation during dry years.
B. Management and Administration

(i) Staffing: The project management staff would consist of a Project Manager, a Deputy Project Manager for Engineering, and a Deputy Manager for Agriculture. In addition, appropriate and adequate support staff available from the Ministry of Agriculture and Natural Resources (MANR) would be appointed to the project as required.

(ii) Monitoring and Evaluation Unit: A Monitoring and Evaluation Unit for all irrigation projects is being established and attached to MANR's headquarters. Funds for such a unit have been included in the Government's 1983 budget, and the unit would consist of an Engineer, Agriculturist and Agricultural Economist. This unit will also be responsible for monitoring and evaluation of the Khrysokhou Irrigation Project.

(iii) Buildings and Equipment: An existing Government building would be refurbished for use as the project office and the contractors' field office would be retained even after completion of the dam for use by operation and maintenance staff. The project would also include provision of vehicles for use by the project staff.

Project Costs and Financing

40. The total project cost exclusive of taxes and duties from which goods and services destined for public projects are exempt is estimated at $46.2 million in April 1983 prices. Physical contingencies are estimated at $3.2 million and price contingencies at $6.6 million. Of the total cost, $26.6 million, or about 58 percent, is in foreign exchange. Unit costs were based on detailed cost analyses and on similar works recently tendered in Cyprus. Price contingencies for both local and foreign components were computed by applying annual rates of 7.5 percent for 1984 and 6.0 percent each for 1985, 1986 and 1987. A factor of 10-15 percent was used to calculate physical contingencies for various civil works components depending upon the level of design. Consultants services for the construction supervision of Evretou Dam will total 84 man-months at a cost of about $8,000 per man-month inclusive of salaries, fees, overhead, international travel and subsistence.

41. The proposed Bank loan of $16.0 million equivalent will finance 60 percent of foreign exchange costs or 35 percent of the total costs of the project. The Government of Cyprus will contribute $27.1 million equivalent or 59 percent of the total project costs including the remaining 40 percent foreign exchange costs. The project beneficiaries will contribute the remaining (6 percent) balance of the project costs amounting to about $3.1 million.

Project Implementation

42. The project is expected to be implemented over a five-year period starting in August 1983 and ending July 1988. Construction of the Evretou
Dam, which is the major project component, is expected to be completed by the end of 1986. However, the dam would be completed by September 1985 to a level which would permit the runoff during the rainy season (September 1985 - March 1986) to be impounded in the reservoir and used for irrigation in 1986. In order to meet that objective, the Government has initiated prequalification of contractors for the construction of the dam on which work is scheduled to start in January 1984. The final phase of project implementation would comprise completion of on-farm works installations and construction of groundwater schemes.

43. The project will be implemented primarily by WDD and will be under the direct supervision of a Project Manager (who will report directly to the Director of WDD) assisted by two deputies, one responsible for technical matters and civil works and the other for agricultural aspects of the project. Appointment of all three is a condition of loan effectiveness (Loan Agreement, Section 5.01). In addition, it was agreed during negotiations that competent staff in adequate number will be employed to assist the Project Manager and his deputies to implement the project (Loan Agreement, Section 3.04). Groundwater development will be carried out by WDD with the assistance of the Geological Survey Department. A system of coordinating and advisory committees, similar to that which is functioning effectively under previous Bank-assisted irrigation projects, will be established for the project by September 30, 1983 (Loan Agreement, Section 3.07). This includes: (a) a high-level Project Policy and Coordination Committee (PPAC) chaired by the Minister of Agriculture with membership including the Directors General of the MANR, Ministry of Interior, Ministry of Commerce and Industry and representatives of the Planning Bureau and the Commission of Cooperatives; (b) a Water Commission at the district level composed of the District Officer, a representative of WDD and members elected from the project beneficiaries which will have overall responsibility for management and administration of the project; and (c) a Project Advisory Committee (PAC) chaired by the Paphos District Officer and including the Project Manager, WDD and Department of Agriculture (DA) District Officers, and two farmers' representatives which will advise the Project Manager on local affairs and be the focal point for beneficiaries to address their views on matters such as operation and maintenance of completed works, water charges and cost recovery.

44. The WDD has been responsible for the planning and design of the project and would continue to be responsible for completion of designs, preparation of tender documents, and construction management and supervision during implementation stage. An engineering section comprising a design unit and a construction unit will be established within the project.

45. The British consulting firm of Sir William Halcrow and Partners in association with the Cypriot firm of A. Parastitis has been appointed to supervise construction of Evretou Dam. Terms and conditions of their appointment were reviewed during negotiations and found acceptable. The consultants will assist and advise the Government on bid evaluations and contracts' awards actions and be responsible to the Project Manager for construction supervision of all components of the dam. The administration of contracts will be done by the Project Manager. The supervision of construction will be done by the construction unit of the project. The Panel
of Experts, which was designated by the Government to review the plans and
designs and provide guidance during the construction of the dams for the
Vasilikos-Pendaskinos Project (Loan 1658-CY), was also assigned to review the
designs of the Evretou Dam during preparation and on finalization. It was
confirmed during negotiations that the Government has appointed the same panel
for supervision of the Evretou Dam construction (Loan Agreement, Section 3.03).

46. Credit. The Government will provide medium-term credit through the
Loan Commissioners to the farmers for purchase of irrigation equipment, land
smoothing and establishment of orchards. As some of the farmers have adequate
means of their own, as ascertained by a recent survey, it has been assumed
that not more than 75 percent of these investments will be financed through
medium-term loans, the balance being met through equity financing. The total
credit requirements of the project are estimated at $5.5 million and will be
supplied entirely from the Government's own resources. It has been assumed
that medium-term lending to project participants will follow existing
practices; i.e., loans for the above-mentioned purposes will be for eight
years at 7 percent interest, with one-year grace for the principal. All loans
will be secured by real estate mortgages. During negotiations, assurances
were obtained from the Government that it would make available from its own
resources for medium-term on-lending to project participants such sums as
needed to assure their full development of production (Loan Agreement, Section
3.05).

47. Research and Extension. Applied agricultural research programs in
the project area will be implemented under the responsibility of the
Agricultural Research Institute (ARI) and its stations in Paphos. Close
cooperation between the ARI and the project's extension staff would be
maintained, and feedback from farmers on production problems would be
monitored by project management. The present extension staff of one officer
and two agricultural assistants will be augmented by an additional officer,
one specialist in plant protection and four agricultural assistants. The new
staff would be selected from highly qualified personnel and would be in post
no later than January 1, 1986, i.e. three months before the expected
availability of irrigation water from the project (Loan Agreement, Section
3.06).

48. Operation and Maintenance. The project works including the dam,
diversion and conveyance structures, groundwater schemes and the irrigation
distribution systems would be operated and maintained by the Government
through the WDD. Operation and maintenance of on-farm irrigation
installations will be carried out by the farmers under the guidance of the DA
of the MANR. An operation and maintenance section for the project will be
created within the WDD which will be responsible for operation and maintenance
of all project works. This section will be headed by a qualified senior
engineer and will have an adequate number of engineers, technicians, and
supporting staff and equipment to perform the job. During negotiations,
assurances were obtained that by December 31, 1986 (the fourth year of project
implementation) the Government will have prepared detailed operation and
maintenance manuals for all project works and sent those for the Bank's
review and would have established the operation and maintenance section vested with necessary executive, administrative and legal powers to perform its functions (Loan Agreement, Section 4.03b).

Marketing

49. Approximately 75 percent of expected overall incremental project output is expected to be exported primarily to EEC markets and also to Eastern European and Middle Eastern countries. A considerable number of fruit and vegetable market studies have been made including some under the Fruit and Vegetable Export Project (Loan 1988-CY), the findings of which were taken into account in formulating the proposed project. On the basis of these, the main emphasis is likely to be on export of early season vegetables and high-value fruits such as avocados and table grapes. At full development, the project's estimated incremental export volume will be about 20,000 tons of fruits and 10,000 tons of vegetables. Measured against present or projected imports into the European and Middle Eastern markets, these quantities are very small. Aside from this, exports are aimed mainly to satisfy early season demand in these markets. Because of these factors, no market absorption problems are expected to arise from the project.

Procurement and Disbursement

50. The contracts for the construction of the Evretou Dam and appurtenant works, the conveyance system (including diversion structure), and the groundwater schemes would be awarded through international competitive bidding (ICB). Materials for construction of the irrigation network would be procured through ICB. Vehicles and office equipment would be procured through limited international tendering (LIT). Procurement through either ICB or LIT would be carried out in accordance with the Bank's Procurement Guidelines. Consultants were selected in accordance with Bank Guidelines on Selection of Consultants (para. 45). Contracts for the construction of the irrigation network and refurbishing of the existing Government building for the project office would be awarded by local competitive bidding (LCB) procedures which have been found satisfactory to the Bank. On-farm works would be financed by the Government through provision of credit to the farmers. Materials for this component would also be procured through LCB.

51. The proposed Bank loan would be disbursed over a six-year period against: (i) 85 percent of foreign expenditures for the Evretou Dam; (ii) 50 percent of foreign expenditures for the Upper Khrysokhou diversion structure; (iii) 75 percent of foreign expenditures for the conveyance system; (iv) 100 percent of foreign expenditures on materials and 100 percent of local expenditures (ex-factory cost) for the irrigation network; (v) 40 percent of foreign expenditures for the groundwater development schemes; (vi) 100 percent of foreign expenditures on purchase of vehicles and office equipment; and (vii) 30 percent of total expenditures for the Project Manager and consultant services.

Accounting and Auditing

52. Project accounts will be kept by the WDD and other agencies involved in project implementation. Such accounts will be audited annually by the
office of the Auditor-General of Cyprus whose accounting and auditing procedures were proven to be effective under other Bank-financed projects. Audit reports will be submitted to the Bank not later than six months after the closing date of the Cypriot fiscal year.

Water Charges and Cost Recovery

53. In most irrigation areas of Cyprus, water charges are presently C£ 0.020-0.025 ($0.04-0.05), after having been increased in 1982 by as much as 100 percent. As for the proposed project, in view of the expected development over time of cash earnings in the various farm types, and especially in the smallest one which is relevant to 37 percent of the beneficiaries, it is recommended to limit water charges in the initial three years of operation of the irrigation system constructed under the project starting in 1986 to a level slightly above the average cost of operation and maintenance presently estimated at C£ 0.025/m³ ($0.05/m³). Thereafter, these would be increased gradually to recover the full operation and maintenance cost as well as a significant portion of the capital cost by the fifth year of operation of the system, and be maintained at this level of C£ 0.135/m³ ($0.28/m³) in real terms. As all farms will be equipped with water meters, this will be technically feasible. It is estimated that over 40 years about 53 percent of the capital cost would be recovered. The overall water cost recovery, including capital as well as operation and maintenance costs, would be about 60 percent. Assurances were obtained during negotiations that (i) the Government would undertake the appropriate studies to determine the proposed water charges for the 1986 season and communicate these for the Bank's comments no later than December 31, 1985; and (ii) upon the availability of irrigation water an irrigation water charge will be collected from project beneficiaries and be reviewed annually during the month of March as decreed by the Council of Ministers (Decree No. 232/82 of February 25, 1982) so as to recover the full operation and maintenance costs and at least 50 percent of the capital cost for the purpose of irrigation in the project areas (Loan Agreement, Section 4.05).

54. Farmers are expected to require medium-term credit of about $5.5 million (corresponding to about 12 percent of total project cost) for the purpose of financing 75 percent of the cost of establishing the on-farm irrigation works, smoothing their fields, and establishing orchards. Studies indicate that farmers in all categories should be able to repay these loans fully, including interest charges of 7 percent p.a., over a period of eight years.

Benefits

55. The project would develop the presently underutilized water resources in a rather isolated and relatively underdeveloped part of the country, alleviate present underemployment in the project area, increase participants' incomes, and augment Cyprus' horticultural exports. It would generate substantial increases in agricultural production by expanding from 230 hectares to 2,000 hectares the area brought under irrigation and modern agriculture, and allow for a shift towards high-value crops for export. Due to the country's experience in exporting to Europe and the Middle East as well as its strategy of targeting early season demand, no difficulty is expected in
marketing the incremental production. The large, though slowly developing, exportable surpluses will give rise to a substantial increase in the activities of fruit and vegetable packing industries and in industrial branches that supply the packing materials for these industries.

56. Employment opportunities in the proposed project are presently limited, and many farmers seek employment elsewhere to augment their present farm incomes. Approximately 640 families or 3,500 persons are expected to benefit directly from the project and will be fully employed therein. The project is also expected to generate, at full development, additional on-farm part-time employment corresponding to about 50,000 man-days/year and a similar volume of part-time employment in packaging and associated activities. Net average farm incomes at full development (year 2000) are expected to increase from three to about ten times their present levels depending on farm size. For instance in farms of 1.3 to 5.3 hectares, which represents the farm size range owned by about 50 percent of farmers in the project area, net average farm incomes are expected to be about six times their present levels (from $2,800 to $18,000 per annum).

57. The economic rate of return is estimated at about 14 percent. Sensitivity analysis indicates that benefits can decrease by about 20 percent or investment costs increase by about 25 percent before the rate of return decreases to 10 percent.

Risks

58. The project has been well prepared and the availability of detailed designs makes it possible to proceed early with project execution. There are no unusual technical risks associated with the project, and those which are normally associated with the project benefits, costs and development period have been evaluated in the sensitivity analysis. The risk associated with the project would be the absence of improvement in existing export marketing systems and procedures and in devising a long-term fruit and vegetable export strategy. These needs are being addressed by the Fruit and Vegetable Export Project (Loan 1988-CY) through: (i) the reorganization and consolidation of the fruit and vegetable trade in the form of a fruit and vegetable exporters' association that would effectively represent the industry vis-a-vis government and outside agencies; (ii) establishment of a Horticultural Export Development Advisory and Coordinating Committee (HEDACC), representing producers, exporters and government, that will be the delivery base for the new marketing concepts; and (iii) formulation and implementation of an export promotion strategy. This project is well underway and after some initial delays is now proceeding satisfactorily. Nevertheless, close supervision will be maintained to ensure the success of that project and minimize the main risk to the proposed project. In addition, assurances were obtained during negotiations that a review of the fruit and vegetable marketing situation will be undertaken by the Government and the Bank by December 31, 1985 following which Government will implement recommendations resulting from the review as agreed with the Bank to further ensure the adequate organization of marketing channels for fruit and vegetable export (Loan Agreement, Section 4.06).
PART V - LEGAL INSTRUMENTS AND AUTHORITY

59. The draft Loan Agreement between the Republic of Cyprus and the Bank, and the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement are being distributed to the Executive Directors separately. Special conditions of the project are given in Section III of Annex III. Appointment of the Project Manager and two Deputy Project Managers is an additional condition of effectiveness of the proposed loan.

60. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

61. I recommend that the Executive Directors approve the proposed loan.

A. W. Clausen
President
by Ernest Stern
## TABLE 3A

### CYPRUS - SOCIAL INDICATORS DATA SHEET

<table>
<thead>
<tr>
<th>AREA (THOUSAND SQ. KM.)</th>
<th>CYPRUS</th>
<th>REFERENCE GROUPS (WEIGHTED AVERAGES)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>9.3</td>
<td>MOST RECENT</td>
</tr>
<tr>
<td>AGRICULTURAL</td>
<td>5.3</td>
<td>ESTIMATE</td>
</tr>
</tbody>
</table>

### GDP PER CAPITA (US$)

- Total: 2323.9
- Agricultural: 10328.2

### ENERGY CONSUMPTION

#### PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)

- Total: 1230.8
- Agricultural: 1736.9

### POPULATION AND VITAL STATISTICS

#### POPULATION, MID-YEAR (THOUSANDS)

- Total: 573.0
- Agricultural: 604.0

#### POPULATION PROJECTIONS

- Population in Year 2000 (Millions): 0.7
- Stationary Population (Millions): 0.8
- Year Stationary Population is Reached: 2055

#### POPULATION DENSITY

- Per SQ. KM: 61.9
- Per SQ. MIL. AGRICULTURAL LAND: 106.2

#### POPULATION AGE STRUCTURE (PERCENT)

- 0-14 Yrs: 36.7
- 15-64 Yrs: 57.4
- 65 Yrs. And Above: 5.9

#### POPULATION GROWTH RATE (PERCENT)

- Total: 1.5
- Urban: 3.3
- Rural: 0.8

#### CRUDE BIRTH RATE (PER THOUSAND)

- Total: 25.8
- Urban: 19.7
- Rural: 14.5

#### CRUDE DEATH RATE (PER THOUSAND)

- Total: 10.5
- Urban: 9.8
- Rural: 9.3

#### GROSS REPRODUCTION RATE

- Total: 2.1

#### FAMILY PLANNING

- Acceptors, Annual (Thousands)
- Users (Percent of Married Women)

### FOOD AND NUTRITION

#### INDEX OF FOOD PRODUCTION PER CAPITA (1969-71=100)

- Total: 64.0
- Agricultural: 91.0

#### PER CAPITA SUPPLY OF CALORIES (PERCENT OF REQUIREMENTS)

- Total: 102.4
- Agricultural: 121.8

#### PROTEINS (GRAMS PER DAY)

- Total: 73.7
- Agricultural: 88.5

#### OF WHICH ANIMAL AND PULSE (GRAMS PER DAY)

- Total: 29.9
- Agricultural: 42.2

#### CHILD (AGES 1-4) MORTALITY RATE

- Total: 1.8
- Agricultural: 1.6

### HEALTH

#### LIFE EXPECTANCY AT BIRTH (YEARS)

- Total: 68.7
- Agricultural: 70.9

#### INFANT MORTALITY RATE (PER THOUSAND)

- Total: 29.8
- Agricultural: 27.7

#### ACCESS TO SAFE WATER (PERCENT OF POPULATION)

- Total: 95.0
- Agricultural: 95.0

#### ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)

- Total: 95.0
- Agricultural: 95.0

#### POPULATION PER PHYSICIAN

- Total: 1.4
- Agricultural: 1.1

#### POPULATION PER HOSPITAL BED

- Total: 221.1
- Agricultural: 227.5

#### ADMISSIONS PER HOSPITAL BED

- Total: 16.2
- Agricultural: 16.2

### HOUSING

#### AVERAGE SIZE OF HOUSEHOLD

- Total: 4.0
- Agricultural: 4.0

#### AVERAGE NUMBER OF PERSONS PER ROOM

- Total: 1.5
- Urban: 1.5

#### ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)

- Total: 43.1
- Agricultural: 90.4

<table>
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<tr>
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</table>

## ANNEX I

- Page 1 of 5
TABLE 3A  
CYPRUS - SOCIAL INDICATORS DATA SHEET  

<table>
<thead>
<tr>
<th>CYPRUS</th>
<th>MOST RECENT</th>
<th>MIDDLE INCOME MARKET ECONOMIES</th>
</tr>
</thead>
</table>

**EDUCATION**

Adjusted Enrollment Ratios

<table>
<thead>
<tr>
<th></th>
<th>PRIMARY</th>
<th>TOTAL</th>
<th>MALE</th>
<th>FEMALE</th>
<th>TOTAL</th>
<th>MALE</th>
<th>FEMALE</th>
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<tbody>
<tr>
<td></td>
<td>102.0</td>
<td>88.0/8</td>
<td>84.0/8</td>
<td>102.0</td>
<td>87.0/8</td>
<td>83.0/8</td>
<td>107.1</td>
</tr>
<tr>
<td></td>
<td>103.0</td>
<td>87.0/8</td>
<td>83.0/8</td>
<td>103.0</td>
<td>86.0/8</td>
<td>82.0/8</td>
<td>103.6</td>
</tr>
</tbody>
</table>

Reference Groups (Weighted Averages - Most Recent Estimate)

<table>
<thead>
<tr>
<th></th>
<th>Most Recent</th>
<th>Middle Income</th>
<th>Industrialized</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>102.0 103.0</td>
<td>107.1 103.6</td>
<td>102.9 101.7</td>
</tr>
</tbody>
</table>

**CONSUMPTION**

Passenger cars per thousand population

|----------|-------|-------|-------------------|---------------------|

**LABOR FORCE**

Total labor force (thousands)

|----------|-------|-------|-------------------|---------------------|

**INCOME DISTRIBUTION**

Percent of private income received by highest 5 percent of households

<table>
<thead>
<tr>
<th></th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
</table>

**POVERTY TARGET GROUPS**

Estimated absolute poverty income level (US$ per capita)

<table>
<thead>
<tr>
<th></th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
</table>

**NOTES**

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.


c Due to emigration population growth rate is lower than rate of natural increase; #7 1977; #6 1975; #5 1962; #4 1972; Excluding Turkish schools; #3 1966, urban only.

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Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be interpretable in exactly the same way by different countries due to some limitations in definition and concepts and differences among countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the subject country.

The data are annual averages of purchases weighted arithmetic means for each indicator and shown only when

Percentage of children under standard of care and -ocpts easd by different ronori- in colleting the data. The data are, some-

The reference .oopo -o (1) the -s coutry grouP of tie nubiset

Access

Access in Electricity (Percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity used for lighting purposes as percentage of total, urban, and rural dwellings respectively.

Percentage of their Ceseenotioseelnee esaraALds=e say t-uclde

Secondary school - total, male and female - Grouped as above; secondary education requires at least four years of formal instruction, including general, vocational, or teacher training instructions for pupils usually of 21 to 12 years of age.

Vaccination requirement (percent of secondary) - Vocational institutions.

Vaccination enrollment (percent of secondary): Vocational institutions.

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Access in Electricity (Percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity used for lighting purposes as percentage of total, urban, and rural dwellings respectively.

Percentage of their Ceseenotioseelnee esaraALds=e say t-uclde

Secondary school - total, male and female - Grouped as above; secondary education requires at least four years of formal instruction, including general, vocational, or teacher training instructions for pupils usually of 21 to 12 years of age.

Vaccination requirement (percent of secondary) - Vocational institutions.

Vaccination enrollment (percent of secondary): Vocational institutions.
### Cyprus - Economic Development Data Sheet 1

#### National Accounts (US$ million, 1975 prices)

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<td>GDP</td>
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<td>1344.0</td>
<td>1397.0</td>
<td>1459.3</td>
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<td>Gain from terms of trade</td>
<td>-1.1</td>
<td>-1.6</td>
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<td>Gross domestic income</td>
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<td>513.6</td>
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<td>857.0</td>
<td>907.1</td>
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<td>Imports (goods &amp; NFIs)</td>
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<td>727.4</td>
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<td>1103.9</td>
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<td>16.0</td>
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#### Sector Output

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<td>Agriculture</td>
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<td>Industry</td>
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<td>29.7</td>
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<td>Others</td>
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#### Prices (1975 = 100)

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<td>Export price</td>
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<td>107.0</td>
<td>114.2</td>
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<td>137.2</td>
<td>165.4</td>
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<td>Import price</td>
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<td>119.2</td>
<td>146.1</td>
<td>151.9</td>
<td>161.1</td>
<td>185.3</td>
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<td>Terms of Trade</td>
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<td>104.3</td>
<td>90.3</td>
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<td>GDP deflator</td>
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<td>118.0</td>
<td>148.8</td>
<td>188.3</td>
<td>193.8</td>
<td>205.6</td>
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#### Public Finance

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<tr>
<td>Government revenues</td>
<td>21.3</td>
<td>18.8</td>
<td>20.4</td>
<td>22.3</td>
<td>23.0</td>
<td></td>
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<td></td>
<td></td>
<td>23.0</td>
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<tr>
<td>Government expenditures and net lending</td>
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<td>26.6</td>
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<td>30.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30.1</td>
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<tr>
<td>Deficit</td>
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<td>8.4</td>
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<td></td>
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<td>7.1</td>
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#### Selected Indicators

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<tr>
<th>Year</th>
<th>1975-80</th>
<th>1981-85</th>
<th>Annual Growth Rate</th>
<th>Share as % of GDP</th>
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<tr>
<td>1975</td>
<td>201.4</td>
<td>204.0</td>
<td>101.1</td>
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<td>1980</td>
<td>233.8</td>
<td>204.1</td>
<td>52.7</td>
<td>49.4</td>
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1/ Refer to the area under Government's control only.

EMDD
April 1983
### BALANCE OF PAYMENTS SUMMARY

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<tr>
<th></th>
<th>Actual</th>
<th>1977</th>
<th>1979</th>
<th>1981</th>
<th>Estimated</th>
<th>Projected</th>
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<td>Exports (goods &amp; NCR)</td>
<td>275.6</td>
<td>519.1</td>
<td>872.0</td>
<td>997.9</td>
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<td>Imports (goods &amp; NCR)</td>
<td>390.3</td>
<td>703.1</td>
<td>1138.7</td>
<td>1248.9</td>
<td>1281.2</td>
<td>1377.2</td>
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<td>Resource gap</td>
<td>-114.7</td>
<td>-184.0</td>
<td>-265.1</td>
<td>-241.0</td>
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<td>-281.8</td>
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<td>Net factor income</td>
<td>5.2</td>
<td>23.0</td>
<td>-10.4</td>
<td>-24.5</td>
<td>36.7</td>
<td>54.2</td>
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<tr>
<td>Net transfer</td>
<td>15.2</td>
<td>14.2</td>
<td>24.8</td>
<td>27.6</td>
<td>27.2</td>
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<td>Current account balance</td>
<td>-94.3</td>
<td>-160.8</td>
<td>-251.7</td>
<td>-189.1</td>
<td>-180.2</td>
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<td>Grants to government</td>
<td>57.0</td>
<td>58.0</td>
<td>40.8</td>
<td>35.7</td>
<td>39.8</td>
<td>39.0</td>
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<td>Net M &amp; LT</td>
<td>2.2</td>
<td>41.7</td>
<td>128.4</td>
<td>143.3</td>
<td>132.6</td>
<td>148.6</td>
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<td>Disbursement</td>
<td>-12.3</td>
<td>-57.3</td>
<td>-106.6</td>
<td>-221.1</td>
<td>-222.0</td>
<td>-257.1</td>
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<td>Amortization</td>
<td>10.1</td>
<td>15.6</td>
<td>45.0</td>
<td>37.8</td>
<td>33.0</td>
<td>108.3</td>
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<td>Capital, n.i.e.</td>
<td>-8.9</td>
<td>-13.9</td>
<td>-24.3</td>
<td>-7.6</td>
<td>77.0</td>
<td>83.0</td>
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<td>Net errors and omissions</td>
<td>-9.6</td>
<td>8.3</td>
<td>32.0</td>
<td>16.2</td>
<td>-</td>
<td>-</td>
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<td>Overall balance</td>
<td>-38.8</td>
<td>5.4</td>
<td>-32.2</td>
<td>80.7</td>
<td>63.2</td>
<td>73.7</td>
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<td>International reserves (end year)</td>
<td>212.2</td>
<td>382.2</td>
<td>373.9</td>
<td>558.3</td>
<td>575.7</td>
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<td>Exchange rate ($/CL)</td>
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<td>2.4510</td>
<td>2.8220</td>
<td>2.3789</td>
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<td>Petroleum imports</td>
<td>49.1</td>
<td>83.0</td>
<td>125.4</td>
<td>230.6</td>
<td>270.5</td>
<td>298.2</td>
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### LOAN COMMITMENTS

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<tr>
<td>Total M &amp; LT</td>
<td>7.0</td>
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<td>IBRD</td>
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<tr>
<td>Other multilateral</td>
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<td>5.5</td>
<td>2.7</td>
<td>29.4</td>
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<tr>
<td>Bilateral</td>
<td>-</td>
<td>10.4</td>
<td>14.4</td>
<td>25.4</td>
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<td>Suppliers</td>
<td>1.4</td>
<td>1.7</td>
<td>3.9</td>
<td>5.3</td>
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<td>Financial institutions</td>
<td>-</td>
<td>30.8</td>
<td>13.7</td>
<td>30.4</td>
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### AVERAGE TERMS OF MULT COMMITMENTS

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<td>Grant element of total</td>
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<td>commitments</td>
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<td>Average interest (%)</td>
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<td>Average maturity (year)</td>
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<td>12.5</td>
<td>9.5</td>
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1/ Refer to the area under Government's control only.

EMDD
April 1983
**ANNEX II**  
(Page 1 of 4)

THE STATUS OF BANK GROUP OPERATIONS IN CYPRUS

A. STATEMENT OF BANK LOANS  
(As of March 31, 1983)

<table>
<thead>
<tr>
<th>Loan Number</th>
<th>Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>Bank</th>
<th>Undisbursed</th>
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<tr>
<td>Eleven loans fully disbursed</td>
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<td></td>
<td></td>
<td>75.5</td>
<td>-</td>
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<tr>
<td>1344</td>
<td>1976</td>
<td>Republic of Cyprus</td>
<td>Highway II</td>
<td>10.0</td>
<td>4.7</td>
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<tr>
<td>1483</td>
<td>1977</td>
<td>Republic of Cyprus</td>
<td>Rural Development</td>
<td>10.0</td>
<td>2.6</td>
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<tr>
<td>1540</td>
<td>1978</td>
<td>Cyprus Ports Authority</td>
<td>Ports II</td>
<td>8.5</td>
<td>1.4</td>
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<td>1658</td>
<td>1979</td>
<td>Republic of Cyprus</td>
<td>Water Resources Development</td>
<td>11.0</td>
<td>9.8</td>
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<td>1744</td>
<td>1979</td>
<td>Cyprus Development Bank</td>
<td>DFC</td>
<td>5.0</td>
<td>0.1</td>
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<td>1873</td>
<td>1980</td>
<td>Electricity Authority of Cyprus</td>
<td>Power V</td>
<td>16.0</td>
<td>9.7</td>
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<td>1988</td>
<td>1981</td>
<td>Republic of Cyprus</td>
<td>Fruit and Vegetable Export</td>
<td>14.0</td>
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<td>2128</td>
<td>1982</td>
<td>Republic of Cyprus</td>
<td>Highways III</td>
<td>12.2</td>
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<td>Total</td>
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<td>162.2</td>
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<tr>
<td>of which has been repaid</td>
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<td>38.8</td>
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<td>Total now outstanding</td>
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<td>Amount sold</td>
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<tr>
<td>of which has been repaid</td>
<td></td>
<td></td>
<td></td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>Total now held by Bank</td>
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<td></td>
<td></td>
<td>123.4</td>
<td></td>
</tr>
<tr>
<td>Total undisbursed</td>
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<td></td>
<td></td>
<td>53.8</td>
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B. STATEMENT OF IFC INVESTMENTS
(As of March 31, 1983)

<table>
<thead>
<tr>
<th>Year</th>
<th>Obligor</th>
<th>Type of Business</th>
<th>Loan</th>
<th>Equity</th>
<th>Total</th>
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<td>1972</td>
<td>Cyprus Cement Company</td>
<td>Cement</td>
<td>2.3</td>
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<td>1977</td>
<td>Cyprus Pipes Industry</td>
<td>Construction material</td>
<td>0.5</td>
<td>0.2</td>
<td>0.7</td>
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<td>1983</td>
<td>Dome Hotel</td>
<td>Tourism</td>
<td>1.9</td>
<td>0.3</td>
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<td>1983</td>
<td>Cyprus Investment and Securities Corp.</td>
<td>Money and Capital Markets</td>
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<td>0.2</td>
<td>0.2</td>
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<tr>
<td></td>
<td>Total gross commitments</td>
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<td>4.7</td>
<td>1.3</td>
<td>6.0</td>
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<td></td>
<td>Less cancellations, sales,</td>
<td></td>
<td>2.6</td>
<td>0.5</td>
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</tr>
<tr>
<td></td>
<td>terminations and repayments</td>
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<td>2.1</td>
<td>0.8</td>
<td>2.9</td>
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<td></td>
<td>Total commitments now held by IFC</td>
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<td>2.1</td>
<td>0.8</td>
<td>2.9</td>
</tr>
<tr>
<td></td>
<td>Total undisbursed</td>
<td></td>
<td>1.9</td>
<td>0.5</td>
<td>2.4</td>
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C. STATUS OF PROJECTS IN EXECUTION AS OF SEPTEMBER 30, 1982 1/


The project has had considerable delays due to contractual disputes and financial problems experienced by the contractor. In view of the contractor's serious liquidity problems, the contractor forfeited the contract and the Government rebid the outstanding works under arrangements satisfactory to the Bank and the Kuwait Fund for Arab Economic Development. Following award of contract, work was restarted on the remaining construction for the Nicosia-Limassol road, total completion of which (75 km.) is estimated by February 1984 with partial completion and use by traffic of 37.5 km. by June 1983.


Overall implementation of project works is proceeding satisfactorily. Construction of the Xyliatos Dam and the irrigation ponds is underway, with about half of the ponds already completed. Health facilities and village streets are essentially completed, and work is progressing on farm roads, on-farm water distribution systems, and land conservation, consolidation and rehabilitation. However, due to delays in project commencement, the project is not expected to be completed before the original closing date of June 30, 1983. Accordingly, the Government has requested and the Bank has agreed to an extension of the closing date by one year to June 30, 1984.


The contract for the main civil works component involving construction of quays at Limassol has been awarded and construction work is

---

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems that are being encountered and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.
underway after initial delays. Overall progress is satisfactory, and substantial progress toward project completion has been accomplished. The closing date has been extended to December 31, 1983 to allow additional time for completion of all Bank-financed project components.


Although the project suffered initial delays due to slow progress in appointment of consultants and recruitment of staff, implementation is now proceeding satisfactorily. Contracts for dam construction have been awarded and construction work is expected to start shortly.


The management and staff of CDB have developed a good project appraisal and supervision capability, and project implementation continues smoothly. The loan for this project has been fully committed.


The project experienced delays in start-up. However, construction of the transmission line financed under the project is now substantially completed. Project implementation is proceeding satisfactorily and project completion is expected by December 1984.


Project implementation is proceeding satisfactorily with the exception of the continued delay in the components coordinated by the Ministry of Commerce and Industry. Construction work is underway on the model winery at Limassol.


Project implementation is underway and proceeding satisfactorily.
SUPPLEMENTARY PROJECT DATA SHEET

Section I: Timetable of Key Events

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<th>Event</th>
<th>Date/Time</th>
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<td>Time taken by country to prepare</td>
<td>Three and a half years (April 1979 - November 1982)</td>
</tr>
<tr>
<td>project:</td>
<td></td>
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<tr>
<td>Agency which prepared project</td>
<td>Ministry of Agriculture with assistance from UNDP</td>
</tr>
<tr>
<td>Project first presented to Bank</td>
<td>August 1982</td>
</tr>
<tr>
<td>Departure of appraisal mission</td>
<td>November 1982</td>
</tr>
<tr>
<td>Completion of negotiations</td>
<td>April 8, 1983</td>
</tr>
<tr>
<td>Planned date of effectiveness</td>
<td>August 1983</td>
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Section II: Special Bank Implementation Actions

None

Section III: Special Conditions

1. **Condition of Effectiveness:**

   Appointment of Project Manager and two Deputies (Para. 43)

2. **Measures to be undertaken by the Government include:**

   (a) Establish by September 30, 1983 the PPACC and the PAC (Para. 43) and maintain the Panel of Experts to review the plans and designs of the Evretou Dam (Para. 45).

   (b) Provide to the Loan Commissioners for medium-term on-lending to project participants such amounts as needed to assure their full development of production (Para. 46).

   (c) By December 31, 1986, prepare and submit to the Bank for its review detailed operation and maintenance manuals for all project works and establish the operation and maintenance section within WDD (Para. 48).

   (d) Undertake appropriate studies to determine the proposed water charges for the 1986 season and submit these for the Bank's comments by December 31, 1985 (Para. 53).

   (e) Review, together with the Bank, the fruit and vegetable export marketing situation by December 31, 1985 and thereafter implement recommendations resulting from the review as agreed with the Bank to further ensure the adequate organization of marketing channels for fruit and vegetable export (Para. 58).