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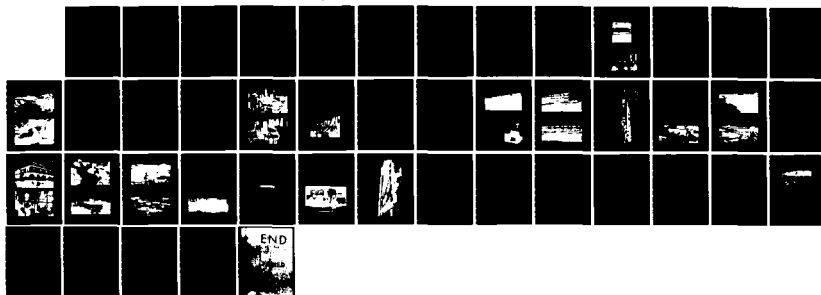
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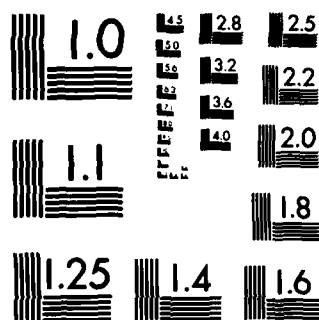
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BY THE U.S. GENERAL ACCOUNTING OFFICE
**Report To The Subcommittee On Europe
And The Middle East**
House Committee On Foreign Affairs

U.S. Assistance To Cyprus

AD-A145 120

Since the Turkish invasion in July of 1974, the United States has appropriated \$131.5 million for disaster relief and humanitarian assistance to Cyprus. This assistance has been channeled through the United Nations High Commissioner for Refugees. This report relates how the program has operated and changed over the past several years and how funds have helped displaced Cypriots.

Because so much has been accomplished and because the initial emergency needs in Cyprus have been met, GAO believes that the need for continued U.S. assistance has greatly diminished. Should the Congress decide to continue assistance to Cyprus, GAO believes the program should be designed to enable the UNHCR to phase out as coordinator of the U.S. assistance program.

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

B-205437

The Honorable Lee H. Hamilton
Chairman, Subcommittee on Europe
and the Middle East
Committee on Foreign Affairs
House of Representatives

The Honorable Paul Findley
Ranking Minority Member,
Subcommittee on Europe and
the Middle East
Committee on Foreign Affairs
House of Representatives

This report discusses how the United States has assisted the country of Cyprus in coping with its economic and population disruptions caused by the events of 1974 and provides information on a number of matters that are of interest to the subcommittee. We made the review pursuant to your April 10, 1981 joint request. The scope of the review was determined during subsequent meetings with your subcommittee.

As arranged with the subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.

Frank C Conahan

Frank C. Conahan
Director



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GENERAL ACCOUNTING OFFICE
REPORT TO THE CHAIRMAN AND
RANKING MINORITY MEMBER,
SUBCOMMITTEE ON EUROPE AND
THE MIDDLE EAST
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

U.S. ASSISTANCE TO CYPRUS

D I G E S T

GAO was asked to review the assistance program for Cyprus in a joint request from the Chairman and Ranking Minority Member, Subcommittee on Europe and the Middle East, Committee on Foreign Affairs. The subcommittee expressed interest in (1) the extent to which assistance continues to be needed for disaster relief, (2) potential areas where future U.S. assistance could be earmarked, (3) alternative ways of administering future assistance, and (4) whether the government publicly recognizes U.S. assistance. GAO's report is in response to this request.

Following the Turkish invasion in Cyprus in July-August 1974, a quarter million people were displaced from their homes. Approximately 180,000 Greek Cypriots living in the occupied North fled South; about 45,000 Turkish Cypriots moved North.

Since 1974, the island country has remained divided between the area under Government of Cyprus control--the internationally recognized Government of Cyprus--and the North, where the Turkish Cypriot community has organized its own administration under the name of the Turkish Federated State of Cyprus. The U.N. Peacekeeping Force patrols the cease-fire line separating the Greek/Turkish Cypriot sides.

International response with financial contributions for health care, food, and protection was prompt and substantial. During 1974-75, total international relief to Cyprus amounted to \$52 million; the United States contributed \$25 million of that amount.

No U.N. appeals for further assistance from the international community have been made since 1975. The Government of Cyprus has continued to request assistance, and the United States

has contributed an additional \$106.5 million during 1976-81. For fiscal year 1982, the administration has requested \$7.5 million for the Cyprus assistance program. As of November 4, 1981, the Congress had not completed action on the amount of U.S. assistance to Cyprus for fiscal year 1982.

U.S. assistance to Cyprus is channeled through the U.N. High Commissioner for Refugees (UNHCR), who serves as program coordinator, and has been used for high-priority relief and reconstruction programs benefiting the displaced populations. Among these programs, funds have helped to finance construction of housing in the South as well as new hospitals, homes for the elderly, and various kinds of schools, both in the North and South. (See pp. 11 to 21.) Recently, the Cyprus Government has given more recognition that the assistance was provided by the United States. (See p. 22.)

The assistance to Cyprus started in 1974, similar to other humanitarian responses to a major disaster, by providing food, clothing, and shelter to the displaced populations. In 1975, the program began to shift from relief operations to one with a longer range and developmental character. Funds were increasingly used to finance construction of housing, schools, and hospitals and to provide jobs. Housing has been, and continues to be, the Cyprus Government's top priority.

The Cyprus Government has not maintained current and reliable data on the number of displaced Greek Cypriots who needed housing or on the number and types of housing still needed. The Government often-cited estimate of 200,000 displaced persons appears somewhat inflated because it is rounded up from 187,000 and includes children born subsequent to the events of 1974.

Using best available government statistics, GAO calculated the total number of displaced to be about 176,000 excluding projected natural increases since 1974. The 36,100 housing units completed and projected for completion through 1983 would accommodate about 163,000 displaced persons. Cyprus Government officials told us

not all displaced people needed housing assistance because of their incomes but their number has not been determined.

The Cyprus Government foresees its housing program continuing into 1983 and beyond. These projections include some people who have already been provided housing and those still living in temporary camps. Under Government housing policies, housing needs could continue for many years.

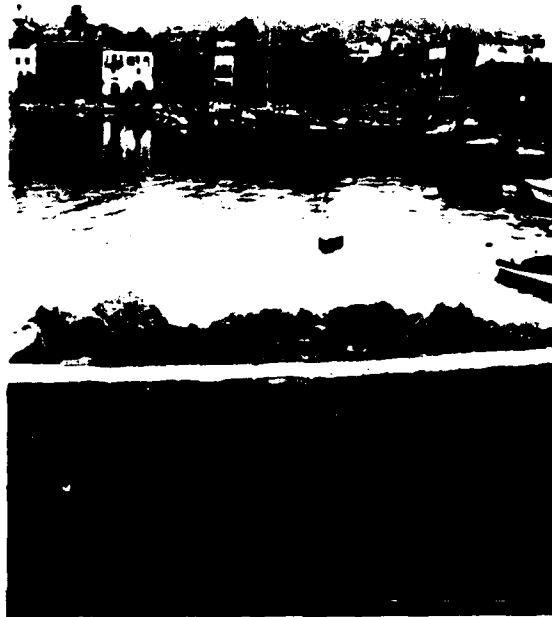
GAO believes that continued U.S. assistance to Cyprus based on humanitarian needs of the displaced Cypriots has greatly diminished. (See p. 35.) Further, providing such assistance goes somewhat beyond that normally associated with U.S. foreign disaster recovery and reconstruction. If there are other foreign policy reasons to continue some level of assistance to Cyprus, GAO believes the program should be designed to enable the UNHCR to terminate its involvement as coordinator of the U.S. assistance program, as it has long sought.

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ABBREVIATIONS

AID	Agency for International Development
ESF	Economic Support Fund
GAO	General Accounting Office
UNFICYP	United Nations Peacekeeping Force in Cyprus
UNHCR	United Nations High Commissioner for Refugees



Kyrenia (above) and Famagusta (below) in North Cyprus, were major resort cities where over 110,000 Greek Cypriots lived before the events of 1974.



CHAPTER 1

INTRODUCTION

During calendar year 1980, we examined foreign disaster-reconstruction activities in six countries, including Cyprus, where the United States has provided assistance. The Agency for International Development (AID) administers disaster-reconstruction programs which are designed to assist countries stricken by natural or other disasters to bring their public facilities, agriculture, housing, and economies back to (or beyond) predisaster levels. In our review, we examined AID overall management of disaster-reconstruction programs, with special attention on how well such projects are planned, implemented, and monitored. Our report, dealing with issues needing AID management attention, was issued to the AID Administrator. 1/

We prepared this report on the Cyprus program at the request of the Chairman and the Ranking Minority Member, Subcommittee on Europe and the Middle East, House Committee on Foreign Affairs. The subcommittee requested that we supplement the information obtained on Cyprus under the earlier review, with a study on how the Economic Support Fund (ESF) program for Cyprus has operated and changed during the last several years.

This report is organized as follows:

- Chapter 2 discusses the origin of the disaster, the international and U.S. financial resources provided for the relief of displaced Cypriots, and contains a brief description of the country's economic recovery.
- Chapter 3 describes how U.S. funding has assisted Greek and Turkish Cypriots.
- Chapter 4 discusses the specific concerns of the subcommittee regarding the operation of the Cyprus assistance program through the United Nations High Commissioner for Refugees (UNHCR), the changing direction of the program, and possible alternative uses of future U.S. funding.

BACKGROUND

The American people traditionally have responded generously to the victims of earthquakes, floods, droughts, storms, civil strifes, and other calamities. Over the years, the U.S. Congress

1/ "Managing Assistance for Foreign Disaster Reconstruction," (ID-81-40, June 10, 1981).

has reflected that humanitarian concern through the authorization of funds for disaster-relief programs in many affected countries. Since 1976, for example, the United States--through AID--has provided more than \$700 million for disaster relief, rehabilitation, and reconstruction.

The U.S. policy has been to provide emergency relief to disaster victims, to assist in rehabilitating vital facilities and services, and to provide long-term reconstruction assistance in cases of severe social and economic disruption. The basic authority for providing disaster-relief assistance is contained in the Foreign Assistance Act of 1961, as amended.

The AID Administrator has been designated as the Special Coordinator for assistance in cases of international disaster. The AID Office of Foreign Disaster Assistance and the Chief of the U.S. diplomatic mission have the responsibility for initiating and coordinating international relief and rehabilitation. When long-term disaster-reconstruction assistance is authorized, AID geographic bureaus assume responsibility for project planning and implementation. U.S. disaster-reconstruction assistance has funded such projects as the construction of permanent buildings for housing and schools, as well as construction of roads, medical, electrical, and agriculture facilities.

U.S. disaster relief to any country begins when the U.S. Ambassador determines that the situation is serious enough to warrant U.S. assistance. Following this determination, mission personnel assess damage and plan and coordinate the delivery of short-term relief and rehabilitation.

OBJECTIVES, SCOPE, AND METHODOLOGY

In its report to the Committee on Foreign Affairs on the fiscal year 1982 aid request, the Subcommittee on Europe and the Middle East indicated that it wanted GAO to study the ESF program for Cyprus. In a letter dated April 10, 1981, the Chairman and the Ranking Minority Member of the subcommittee asked us to review the Cyprus program and report the results to the subcommittee so that the information could be of maximum use in considering the fiscal year 1983 legislation.

The subcommittee asked us to concentrate our review on ascertaining (1) the extent to which assistance continues to be needed for disaster relief of displaced persons, (2) potential areas where future U.S. assistance could be earmarked, (3) alternative ways of administering future U.S. assistance to Cyprus, and (4) whether the Government of Cyprus publicly recognizes U.S. assistance.

We reviewed past congressional oversight and appropriations hearings on the Cyprus program, examined records, and held discussions with AID officials in Washington and with State Department officials in Washington and Cyprus. We also interviewed Government of Cyprus and Cyprus Red Cross officials, and UNHCR officials in Cyprus and Geneva.

In connection with our worldwide review of disaster-reconstruction activities, we visited Cyprus in November 1980. In July 1981, we again visited Cyprus to obtain information on the specific concerns which the subcommittee expressed. We also examined available government records on the number of housing units either completed, under construction, or planned to satisfy these needs.

We obtained comments from responsible officials in the various Government ministries involved in planning and administering the disaster-relief programs for which the United States has provided funds. We also reviewed pertinent budgetary and fiscal data and audit reports on U.S.-assisted projects as well as correspondence files to verify the information obtained. Site visits were made to various projects to determine their overall use in meeting the objectives of U.S. assistance.

As agreed with the subcommittee, we did not obtain written agency comments on this report. However, we did discuss its contents with officials of AID and the Department of State. Their views were considered in preparing this report.



Tent cities sprung up everywhere in Cyprus to accommodate Greek and Turkish Cypriots who were displaced from their homes as a result of intercommunal fighting and the Turkish military intervention of 1974. About 225,000 people lost their homes, becoming refugees in their own land.

(Photo courtesy of A.I.D.)



CHAPTER 2

ORIGIN AND AFTERMATH OF THE CYPRUS DISASTER

Cyprus became an independent republic on August 16, 1960, and has had internal difficulties ever since. Shortly after independence, serious differences arose over the implementation and interpretation of the constitution, based on deep-seated animosity and suspicion which had long existed between Greek and Turkish Cypriots. Internal discussions aimed at resolving differences broke down in mid-1963. In November 1963, the President of Cyprus proposed significant constitutional revisions which would have eliminated special protection and representation accorded the minority Turkish Cypriots in the 1960 constitution. The Turkish Cypriots were unwilling to accept the revisions and, after a serious outbreak of violence in December 1963, they withdrew completely from the central government.

Intercommunal fighting continued throughout the 1960s and in 1964, the United Nations Security Council set up a Peacekeeping Force (UNFICYP) to enforce a cease-fire between the Greek and Turkish communities. In the mid-1960s, many Turkish Cypriots in ethnically mixed villages began to move to communities which were wholly or predominantly Turkish. Relatively homogeneous Turkish Cypriot enclaves with their own administration and security forces gradually evolved and became increasingly dependent on financial assistance from the Turkish Government while the Government of Cyprus came to function in practice as a purely Greek Cypriot institution.

In July 1974, the Government of Cyprus was overthrown in a coup by a group of Greek Cypriots, proponents of union with Greece, triggering the north coast invasion of Cyprus by Turkish military forces. By mid-August, Turkish forces occupied the northern third of the island. Since then, the island has remained divided between the area under Government of Cyprus control--the internationally recognized government for the entire island--and the North, where the Turkish Cypriot community has organized its own administration under the name of the Turkish Federated State of Cyprus. UNFICYP patrols the cease-fire line separating the Greek and Turkish Cypriot sides. Its presence is an essential element of stability in the present situation--a country divided into two relatively distinct areas which have little contact with each other. (See the map which follows the digest.)

As a result of the intercommunal fighting and the Turkish military intervention in July 1974, about 225,000 people--nearly one-third of the estimated 650,000 total population of Cyprus--were displaced from their homes, becoming refugees in their own country. (See photographs on the opposite page.) Approximately 180,000 Greek Cypriots living in the occupied North fled South; about 45,000 Turkish Cypriots eventually moved North.

ASSISTANCE PROVIDED

International response with financial contributions for providing care, food and protection was prompt and substantial. On July 28, 1974, the U.S. Ambassador to Cyprus declared the July events to be a major disaster and authorized U.S. emergency assistance. The International Committee of the Red Cross arrived in Cyprus in early August 1974 and began handling the most pressing relief needs. The United States channeled \$4.2 million to Cyprus through the Red Cross during 1974-75 for relief operations.

On August 20, 1974, the U.N. Secretary General requested that the UNHCR assume responsibility for coordinating all U.N. assistance to Cyprus. To administer this program, the UNHCR set up an office in the Greek Cypriot-controlled zone of Nicosia and also based a representative in the Turkish Cypriot zone. On September 6, 1974, the Secretary General appealed to the international community for the necessary resources and funds to meet relief needs for the remainder of 1974. A large number of government and other organizations responded to this appeal; the United States contributed \$8 million.

In January 1975, the UNHCR made a second and final appeal to the international community for donations to cover the costs of continuing relief to Cyprus from January through April 1975. This assistance goal was also reached, with the U.S. Government contributing \$3.1 million. In June 1975, the United States provided \$10 million for relief and reconstruction assistance.

Total international relief to Cyprus during 1974-75 amounted to \$52 million in cash and goods for the care, food, and shelter of those affected by the civil strife. Of this total, the international community contributed about \$27 million; the United States contributed \$25 million. No U.N. appeals for assistance from the international community have been made since 1975. The Government of Cyprus, however, has continued to request assistance and the United States has contributed an additional \$106.5 million during the period 1976-81.

During these years, differing views have evolved between the administration and the Congress regarding the need and amount of assistance the United States should provide to Cyprus. Since fiscal year 1977, the Congress has authorized and appropriated substantially more assistance for Cyprus than requested by the administration, as shown on the next page.

<u>Fiscal year</u>	<u>Executive branch request</u>	<u>Congressional appropriation</u>
	----- (millions) -----	-----
1977	\$10	\$17.5
1978	-	15.0
1979	5	15.0
1980	2	15.0
1981	2	a/15.0

a/ \$1 million subsequently reprogramed for other programs.

According to congressional documentation, these appropriations were made primarily to demonstrate continued concern for the people in Cyprus and interest in promoting a just and lasting settlement. The administration's requests have been based on the view that the immediate humanitarian needs of displaced Cypriots have been satisfied and the economy has largely recovered.

Because ESF is a more flexible means of helping countries which are important to the U.S. national interest in dealing with economic, political, or security problems, the assistance to Cyprus has been funded under ESF since fiscal year 1977, rather than through other disaster assistance funding. Despite this change in funding sources, the actual use of the funds provided to Cyprus has continued to be used largely for relief and reconstruction activities.

For fiscal year 1982, the administration has requested \$7.5 million in ESF for Cyprus. Although this is a \$5.5 million increase over requests of the last 2 years, the justification accompanying the request did not elaborate on why the increase was needed. It did indicate, however, that the funds would be used for humanitarian projects in both Greek and Turkish communities to meet the remaining needs of displaced persons and to further the development of the Cyprus economy, such as housing, health, education, and agricultural improvements. As of November 4, 1981, agreement had not been reached by the congressional committees on the amount of U.S. assistance to Cyprus for fiscal year 1982.

RECOVERY OF THE CYPRUS ECONOMY

The 1974 hostilities marked a temporary end of a long period of very successful economic growth for Cyprus. The Government of Cyprus has successfully diversified the economy through improved industry and service, and the Greek Cypriot economy has experienced rapid recovery. The Turkish Cypriot economy is recovering much more slowly. Available economic studies by the U.S. Embassy, AID, and the World Bank show a significant disparity between the economies of the South (Government of Cyprus controlled) and the



Cash Grants to
 Employment opportunities have been provided to many displaced Cypriots through U.S. assistance. Handicraft workers and small businesses received cash grants to promote vital industries and handicrafts. May 1977. (Photo courtesy of A.I.D.)



North (Turkish Cypriot controlled). The economic disparity was quite evident during our November 1980 visits to project sites. A brief discussion of the economic situation follows.

Economic conditions in the South

The massive population dislocation with the consequent loss of manufacturing and tourist trades, arable land, and the loss of private capital, severely damaged the economy. Authorities in the South were faced with an urgent requirement to shelter, feed, and employ the displaced, and to restore industry. In 1975, the gross domestic product in the Government-controlled area declined 20 percent, unemployment rose over 20 percent, and private investment was cut in half, compared to previous years. This economic setback, however, did not last long. The per capita income, estimated at \$1,500 in 1973, rebounded within 3 years, and by 1979 was about \$3,500. According to U.S. Embassy estimates, the provisional 1980 per capita income in the South had reached \$4,200. In 1980, the average unemployment rate was 2.1 percent, compared to 25 percent at the end of 1974, and significant labor shortages have developed in certain skilled trades.

The impressive economic recovery in the South has been attributed to sound policy, resourceful management, and generous foreign assistance. Construction, which was stimulated by the need to rehouse a large proportion of the population, was key to this recovery.



U.S.-funded handicraft programs provide jobs for these workers in a Cypriot village. May 1977.

(Photo courtesy of AID.)

Economic conditions in the North

Considerably less data is available on economic conditions in the North, and the accuracy of available data is uncertain. Information before 1974 generally did not distinguish between ethnic communities. Hence, little basis for measuring progress exists.

The slow recovery in the North since 1974 has been attributed principally to the lack of capital, and to the shortage of skilled labor and managerial experience. Other causes are limited external assistance and access to foreign markets. Generally, the economy depends heavily on Turkey as an import-export market to strengthen foreign exchange and budget support. In 1979, the inflation rate in North Cyprus reached more than 60 percent.

Per capita income in the North was estimated at \$1,700 in 1980, compared to approximately \$800 in 1974. The unemployment rate in 1979 was 1.9 percent but it was believed to be underestimated, particularly when the unemployment level for agriculture during the off-season is considered.

CHAPTER 3

ACHIEVEMENTS OF U.S. ASSISTANCE

U.S. financial assistance to Cyprus, channeled through the UNHCR, has contributed toward its economic recovery and has been used for high-priority Government programs to benefit those displaced and in some instances, the general population, as well. U.S. funds have helped to finance construction of homes, hospitals, schools, and welfare facilities. Various employment opportunities have also been made possible through U.S. funds. However, U.S. assistance in Cyprus has been given little public recognition.

Of the \$131.5 million appropriated for the Cyprus program through fiscal year 1981, \$111.1 million was used for specific projects. No breakdown is available for the remaining \$20.4 million which was used for initial relief. North and South received assistance, as follows.

	<u>South</u>	<u>North</u>	<u>Total</u>
	----- (in millions) -----		
Housing	\$58.1	\$ -	\$ 58.1
Food	6.6	3.2	9.8
Health	8.7	5.9	14.6
Education	2.4	2.8	5.2
Social Welfare	4.8	2.3	7.1
Reforestation	1.7	1.5	3.2
Cyprus Red Cross	3.1	.2	3.3
Agriculture	.2	4.2	4.4
Other projects	<u>4.7</u>	<u>.7</u>	<u>5.4</u>
Total	<u>\$90.3</u>	<u>\$20.8</u>	<u>\$111.1</u>

A total of 232 projects have been undertaken since 1975: 123 projects in the South and 109 in the North. As of March 31, 1981, 21 projects were still being implemented. The achievements in some of the major assistance categories are discussed below.

HOUSING

As the above schedule shows, the most significant contribution of U.S. assistance has been in housing. In 1974, the influx of Greek Cypriots caused a severe shortage of shelter in the South, while there was actually a surplus of vacated housing in the North. With international assistance and domestic resources, the Government of Cyprus has undertaken an ambitious housing construction program, totaling about \$243 million through 1980. The United States has provided \$58 million of that amount, or just over 20 percent.



Two-bedroom housing units at the Platy Estate low-cost Government housing project near Nicosia. November 1980.



Water for most low-cost houses is heated using solar collectors which are located on the roofs. November 1980.

(Photo by GAO staff.)



Low-cost Government housing project near Nicosia. U.S. contributions were \$1.5 million for the project.



Newly constructed housing project near Nicosia for the displaced. The United States contributed \$1.2 million for this project.



Latchia housing project. The United States Government contributed \$4,523,300 toward construction of 709 family units. May 1977.

(Photo courtesy of AID.)

The Government program consists of three basic housing schemes:

- Government-financed construction of low-cost housing developments, which is the backbone of the program;
- self-help housing under which the Government provides grants-in-aid to displaced families to purchase building materials--the family provides the labor to construct the house on Government-owned or privately owned land; and
- repair of abandoned Turkish Cypriot homes.

In November 1980 and July 1981, we visited several low-cost housing developments in Cyprus. These structures are low-rise, concrete apartment buildings with small enclosed gardens in front of most apartments. The unfurnished apartments are modest--approximately 750 square feet for a two-bedroom unit--and are provided rent-free to qualified persons, who must pay utilities.

The housing projects appeared to be of higher quality than those found in traditional villages. Paved streets, public utilities, shopping centers, schools, health facilities, and community centers were integrated with housing projects we visited. All housing units have solar collector hot water systems. Families living in these housing projects seemed to be taking pride in them, as evidenced by the clean interiors and well-tended gardens which enhanced each completed unit.



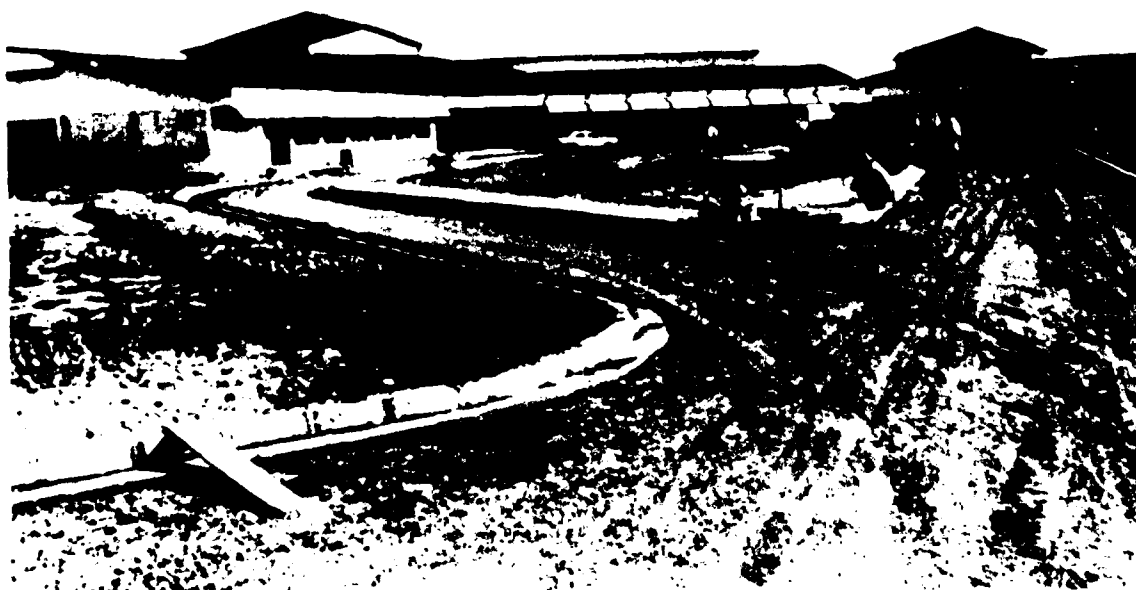
Community center at the Ayii Anargyri housing project. May 1977.

(Photo courtesy of AID.)



Construction of Makarios III General Hospital (above) near Larnaca. The U.S. contribution through fiscal year 1981 is \$7 million. Construction of a mental treatment wing of the Nicosia General Hospital (below). The United States contributed \$2 million to construct and equip this wing as of 1980.

(Photos by GAO staff.)



HEALTH

Significant U.S. assistance has also been provided for health care, both in the North and South. New hospitals, medical equipment, and supplies have benefited not only displaced Cypriots but the general population as well. For example, the general hospital in the Turkish Cypriot zone of Nicosia offers a full range of medical and surgical facilities, including a nurses' training program. The equipment of this hospital was obtained through UNHCR projects to which the United States has contributed over \$2.5 million. In addition, approximately \$200,000 has been spent to train hospital personnel. A mental health and treatment wing being built near the Nicosia general hospital is totally financed and equipped with U.S. contributions, amounting to over \$1.9 million. We visited the mental health wing and the hospital in November 1980 and they appear to be well-designed, modern medical facilities.

In the South, the major U.S.-assisted health project has been the construction of a \$10-million general hospital near Larnaca for which the United States has provided \$7 million (through 1981.) Construction had just started when we visited the project site in November 1980. Other health facilities to which the United States has contributed include medical supplies and equipment, several outpatient facilities, and several rural health centers.

SOCIAL WELFARE

As the immediate emergency needs of displaced Cypriots were largely alleviated, substantial U.S. assistance was channeled into long-range recovery projects which promoted the social well-being of the elderly and handicapped and provided jobs.

In the North, U.S. assistance has financed the promotion of handicrafts and over \$1 million has been given as cash grants to farmers, small businesses, and cottage industries. We visited a home for the elderly which had been converted with U.S. assistance. We were told that the home, containing 110 beds, was the only facility in the North.

Examples of welfare assistance in the South include 6 homes for the elderly, 11 child-welfare and day-care community centers, several homes for retarded and handicapped children, 3 community centers, and nearly \$1 million in cash grants for small businesses and the promotion of handicrafts. We visited a home for the elderly, a home for orphans, and a community center. The completed structures appeared to be solidly constructed and effectively used.



Orphans' Home, Larnaca. The United States contributed \$110,000 toward the construction and equipment for this home. November 1980.

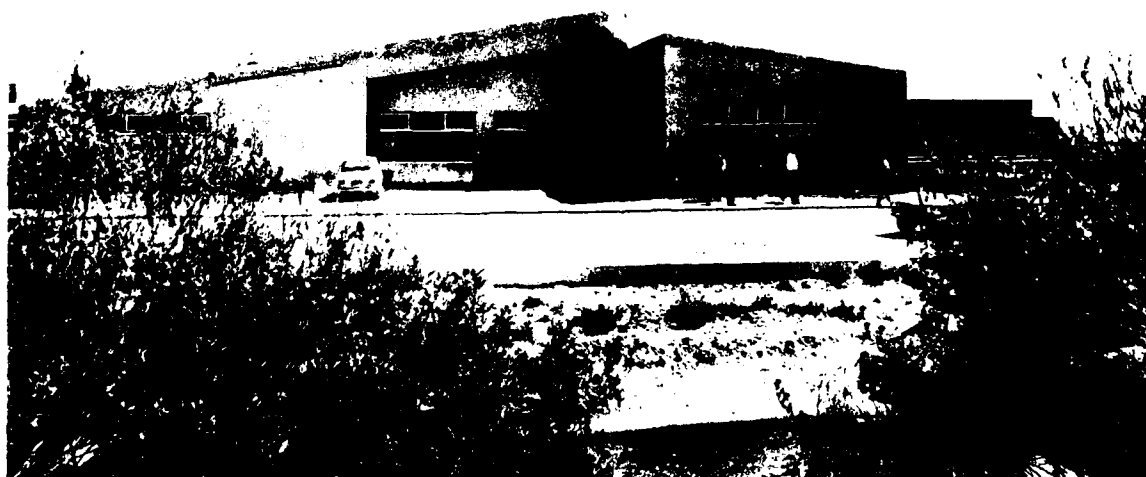


Orphans at the Orphans' Home, Larnaca. November 1980.

(Photo by GAO staff.)



With the help of U.S.-financed audio equipment, Turkish Cypriot children learn to speak at the Lapithos school for the deaf near Kyrenia, North Cyprus. November 1980. (Photo by GAO staff.)



One of eight child welfare centers in South Cyprus constructed with U.S. assistance. May 1977. (Photo courtesy of AID.)



Construction site for the engineering workshops and laboratories at the Famagusta Technical School. The United States contributed \$2 million for this construction and for laboratory equipment. November 1980.



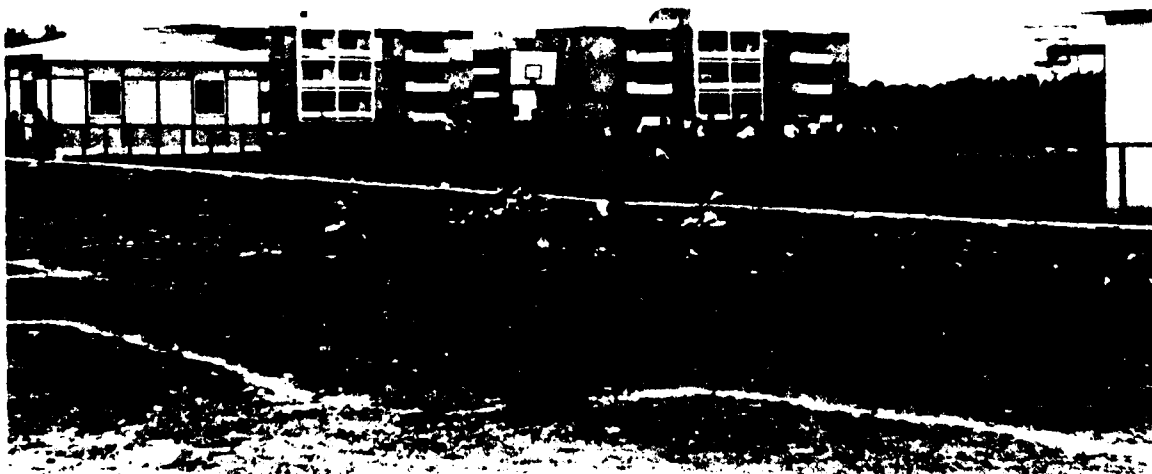
Construction of engineering laboratory building of Famagusta Technical School. November 1980.

EDUCATION

This is another key area of assistance where projects have benefited Cypriots displaced in the civil strife and the general population as well. For example, to alleviate a serious shortage of skilled and semi-skilled technical workers in the North, where there was no existing vocational training school, the United States contributed \$2 million in supplies and equipment for a large vocational training school near Famagusta.

We visited the school in November 1980. One building was completed and vocational training classes were in session. Construction of two other buildings--modern engineering workshops and laboratories--was in progress. Officials told us that, when completed, the vocational training facility is expected to draw students not only from North Cyprus but also from Near East countries.

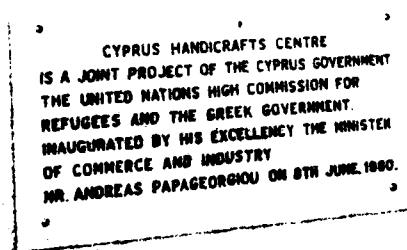
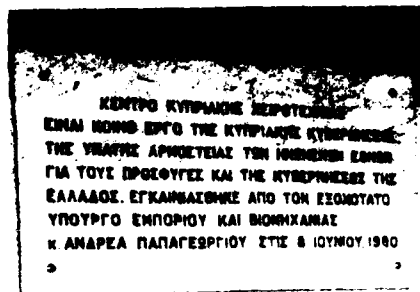
We also visited a 3-year grade school for deaf children near Kyrenia. This school--the only one of its kind in the North--is designed for 20 pupils and appeared well constructed and contained modern audio-visual training equipment. In the South, the United States has contributed \$1.7 million to construct nine elementary schools in low-cost housing projects. Other funds have been used to construct schools for disadvantaged children and to purchase equipment and supplies.



U.S. ASSISTANCE GIVEN
LITTLE PUBLIC RECOGNITION

Although the United States has been the only major contributor to the Cyprus recovery program since 1976, public recognition in Cyprus is rarely given. Our report on foreign disaster-reconstruction activities ^{1/} noted that despite U.S. Embassy and AID attempts to obtain wider recognition of U.S. contributions, Government of Cyprus officials, when dedicating completed housing projects, had not always acknowledged this assistance. In November 1980, we did not see any display or public acknowledgement of U.S. assistance at any of the projects we visited.

The Congress and various U.S. Government officials have repeatedly expressed concern to the Cyprus Government about the lack of public and official recognition of U.S. financial assistance. For example, in 1980 when discussing the level of funding for the Cyprus program, the House Subcommittee on Europe and the Middle East noted that few Cypriots recognize that the United States has provided more than \$117 million in aid since 1974 because it has been channeled through the UNHCR. Our report prompted the subcommittee to express its concern to the Cyprus Ambassador in Washington on this matter.



A plaque in the Cyprus Handicraft Center, Nicosia, acknowledges the support of the UNHCR and the Government of Greece. The United States contributed \$850,000 for the construction of this project. November 1980. (Photo by GAO staff.)

^{1/}"Managing Assistance for Foreign Disaster Reconstruction,"
(ID-81-40, June 10, 1981.)

In his reply, the Ambassador said that Cyprus Government officials have expressed appreciation for the aid provided by the United States in speeches and official diplomatic occasions which received wide publicity in the local press. He expressed confidence that public acknowledgement and appreciation in Cyprus will further improve.

In our discussions with U.S. Embassy and Cyprus Government officials, we found that some effort was made to acknowledge U.S. assistance. For example, the U.S. Ambassador to Cyprus told us in June 1981, that the President of Cyprus had recently and openly acknowledged U.S. financial aid when new housing settlements for displaced Cypriots were opened. The Ambassador said he had attended these opening ceremonies.

The President of the Cyprus Red Cross Society told us in July 1981 that a memorandum had been sent to various ministries in the Government of Cyprus, reminding them to acknowledge U.S. financial assistance. In addition, a press release, acknowledging the United States as a major project contributor, was issued in May 1981 when a new convalescent hospital for children was dedicated. These appear to be positive actions which have been taken recently to improve recognition of U.S. assistance within the Cyprus Government.



This Mobile Dental Clinic was financed in part with U.S. assistance. The markings of the vehicle reflect the UNHCR as the donor, however, rather than the United States. (Photo by GAO staff.)



Construction sites for housing developments are typical scenes in South Cyprus. May 1977.

(Photo courtesy of AID.)

CHAPTER 4

DEVELOPMENTS ON ASSISTING THE DISPLACED CYPRIOTS

The Subcommittee on Europe and the Middle East has become increasingly concerned with how the program has operated and changed over the last several years. Some fundamental questions have also arisen, which are of interest to the subcommittee in its future deliberations. These questions deal primarily with (1) the extent to which humanitarian assistance to the displaced people continues to be needed; (2) what other uses, beyond assisting the displaced, might be made of U.S. financial assistance, assuming it would continue in future years; and (3) what less costly alternatives might be employed to administer the U.S. assistance as opposed to the current UNHCR arrangements. We examined these questions; the information developed from our review and our observations follows.

PROGRAM OPERATION AND CHANGES

The initial phase of U.S. assistance to Cyprus operated much like any humanitarian response to a major disaster. An early decision was made that emergency assistance was warranted and the U.S. Government took several actions to assist those persons who were displaced as a result of the Turkish invasion in July 1974.

With the international relief operations which followed, the immediate humanitarian needs of the displaced were substantially alleviated by April 1975. However, the United States continued to provide funding, not only for relief operations, but also for general self-sufficiency schemes, emphasizing employment of the displaced in handicraft and cottage industries. As noted earlier, the U.S. Government committed about \$10 million for these relief and employment activities in June 1975. This added dimension in assisting displaced Cypriots, beyond the initial humanitarian relief needs, began a shift of the assistance program to one with more of a longer range and developmental character.

U.S. assistance in subsequent years has been used to finance a variety of development projects intended to assist the displaced and needy persons. As noted in Chapter 3, the projects have included housing, reactivation of employment and business opportunities, facilities for the handicapped and aged, reforestation, education, agricultural programs, and health. Currently, U.S. assistance is used largely to finance construction of housing and health facilities.

Division and use of U.S. aid

The stated objective of U.S. financial assistance to Cyprus is to assist local authorities in the North and South in relieving the plight of both displaced Greek and Turkish Cypriots. To achieve this objective, the annual U.S. assistance has been divided between the North and South since 1976. The division formula, established by the UNHCR, is based on the pre-1974 population of Greek and Turkish Cypriots, which allocates 80.95 percent to the South and 19.05 percent to the North. This division has been firmly adhered to, although Turkish Cypriot officials contend the North should receive a larger share based on its greater economic needs.

In the North, where there is a chronic shortage of foreign exchange, much of its share of U.S. assistance is used to purchase project needs from foreign sources. In the South, the Government of Cyprus has used most of its U.S. assistance to finance the local costs of projects in an effort to foster employment and economic development.

Project approval procedures

A project selection and approval procedure has been established to determine which projects will be supported by the UNHCR in the North and the South. First, the UNHCR estimates the amount of money that will be available for a given fiscal year from which the UNHCR's projected overhead costs are deducted. The remaining amount is divided according to the distribution formula noted above. The respective authorities in both zones are informed as to their projected shares and are requested to submit project proposals.

Separate tripartite meetings are held to arrive at an agreed-upon project list and project priorities for each category of assistance. The three parties represented at these meetings are the respective North and South representatives of the Cyprus Red Cross Society, and UNHCR and U.S. Embassy officials. When the actual appropriated amounts become known, they are made available for application to the agreed projects. Separate formal agreements are signed by the UNHCR and the respective Cyprus Red Cross representatives from the two zones.

Program coordination

When the Secretary General designated the UNHCR in August 1974 to coordinate the Cyprus assistance program, the United States began channeling its assistance through that organization and relied upon it for program coordination. The UNHCR was selected because (1) the displaced Cypriots were considered to be refugees and (2) the UNHCR's long and traditional mission is to care for and protect refugees.

The UNHCR proceeded to establish the necessary operating and coordinating mechanisms required to carry out the relief operations which were to follow. The UNHCR initially planned to cease relief operations and leave Cyprus on April 30, 1975, because the immediate needs of the displaced were expected to have been fulfilled by that time. However, on April 11, the UNHCR mandate was extended until mid-December 1975, largely because the program had begun to shift to the self-sufficiency schemes and because of expectations of additional U.S. funding to continue the program. Because financial aid has continued to be made available, almost exclusively from the United States, the UNHCR has maintained a staff in Cyprus and serves today as the assistance coordinator.

NEED FOR FUTURE ASSISTANCE

Since 1976, the United States has been the only major international donor to continue financial support of disaster-related programs in Cyprus. As previously noted, the assistance has greatly relieved the plight of those displaced. The record shows, however, that throughout these years, administration requests have continued to favor a reduced aid program or even complete termination of U.S. assistance to Cyprus. The administration's position has been based on the significant economic recovery Cyprus has experienced in recent years and a belief that the humanitarian needs of the displaced have been satisfied.

Housing the displaced

The Government of Cyprus continues to cite housing as its most pressing need. However, there has been little accurate data on the number of displaced Greek Cypriots in need of housing and the number and types of housing still needed. AID officials have attempted to identify actual housing needs in recent years, but have been hampered by the lack of accurate data. One AID document on Cyprus housing states in part that "Statistics on the refugee and housing situations in Cyprus are multiple, contradictory, and usually unreconcilable."

Disparity in the number of people to be housed

Cyprus Government estimates on the actual number of displaced Greek Cypriots and those in need of housing differ from the estimates prepared by the U.S. Embassy in Nicosia and the UNHCR. A December 1980 report, prepared by the Government's Office of Special Service for the Care and Rehabilitation of the Displaced, claims that 200,000 Greek Cypriots were displaced, representing 50,000 homeless families, for which only about 30,000 suitable housing units will actually have been provided by the end of 1981. A Government official told us that there is no accurate information on the number of displaced and the housing units completed.

The official said the number of displaced was calculated to be around 180,000 but this was usually rounded to 200,000.

Furthermore, several Government officials told us that not all displaced Greek Cypriots needed housing assistance because of their incomes, but the Government does not have an estimate of the number of such persons. One Government official told us he believed some 140,000 displaced persons needed housing. Another Government official stated in March 1977 that at the end of 1976, a total of 147,206 displaced persons were receiving public assistance.

In June 1981, AID estimated that about 140,000 displaced Greek Cypriots needed housing, and that sufficient housing units were programed by 1982 to accommodate them. The UNHCR has reported that the total number of displaced Greek Cypriots ranged from 182,000 to 199,000 and that between 145,000 and 153,000 of them were receiving Government support. We noted that in 1980, when the Government of Cyprus proposed using U.S. assistance for a new housing project for fiscal year 1981, the Embassy and UNHCR officials objected to the proposal, contending that housing needs of the displaced had largely been met. Agreement was finally reached to continue ongoing funding of existing housing projects.

In attempting to reconcile these numbers and to develop accurate data, we found that reliable statistics on the number of displaced, those needing housing, and those accommodated in Government housing schemes, had not been maintained. We learned that as an apparent recognition of this lack of information, the Cyprus Council of Ministers had established a special commission on June 4, 1981, to examine the Government's entire housing program and develop accurate and reliable information on all aspects of the program, upon which future direction and decisions of the Government can be based. The commission had begun its examination at the time of our visit in July 1981 and was expected to issue a report on its findings in September 1981. On October 31, 1981, the report had not been completed and we did not have the benefit of the study results in preparing this report.

Status and projections of housing needs

In the absence of the study results and current statistical information, we attempted to develop an overall perspective on the housing situation of the displaced Greek Cypriots. The Cyprus Government's policies toward the provision of housing for its displaced people are an important aspect of this perspective. For example, the Government continues to project housing requirements to accommodate 200,000 displaced people. Additionally, the Government has recently adopted a policy of providing housing for new families resulting from marriages of children of the displaced, and for many displaced who occupy Turkish Cypriot houses.

The Government views the provided housing as temporary accommodation and charges no rent or maintenance.

The Government has followed a practice of first accommodating displaced families based on established income levels and the greatest number of people in the household. We were told that income levels might be raised to qualify middle-income families for government housing.

Our initial effort was to ascertain how the Cyprus Government had determined that 200,000 people were displaced by the events of 1974. We were provided with a statistical document dated December 1977 that showed a computation in which the total displaced Greek Cypriots was estimated to be 187,000. This estimate included approximately 11,000 persons as natural increases (births exceeding deaths) since 1974. To more accurately reflect the number of displaced who needed housing, we excluded these people arriving at a total of about 176,000. Our exclusion of these people was because births would not necessarily give rise to an increase in the number of families to be housed.

Cyprus Government data shows that as of December 31, 1980, 18,361 new housing units had been completed, and 4,700 abandoned Turkish Cypriot houses were repaired. An additional 5,134 housing units are estimated to be completed by the end of 1981, and 7,923 are planned for completion in 1982 and 1983. A total of 36,118 housing units will be available by the end of 1983. We estimate, based on an average family size of 4.5 persons, that these housing units will accommodate approximately 162,500 persons.

Cyprus Government officials were reluctant to comment about the accuracy of the above calculations, although they did acknowledge that the information we used was probably the best that was available. Government officials told us that, because the housing program has three different schemes and is under the jurisdiction of several departments, current and accurate data on the entire program has been difficult to maintain.

The Cyprus Government foresees its housing program continuing beyond 1983. An April 1981 document on its refugee housing program continues to reflect the Government's intention to provide housing for all people it claims were displaced in 1974, and also for some people currently occupying Government-provided housing. For example, this document shows a total need under present housing policies for 42,604 family housing units. It should be noted that this figure includes a projected need for 5,950 units for people already housed--new households resulting from the marriages of children of the displaced and many present occupants of repaired Turkish Cypriot houses wishing to relocate for economic reasons or because their houses are no longer in satisfactory repair.

The Government's housing schedule shows that the 42,604 units needed did not include housing for refugee civil servants, refugee employees of semi-government organizations, and middle-income refugee families because all these people are not currently entitled to housing under the Government's existing criteria. As noted earlier, the Government did not have an estimate of how many people were in this category.

Cyprus Government officials told us in November 1980 and again in July 1981, that approximately 7,900 displaced people still reside in temporary camps. Of this number, 3,580 were in 11 Government-constructed and operated camps, mostly in the Larnaca area; 1,320 were in "unofficial" camps or abandoned property in areas near Nicosia and Limassol. The remaining 3,000 were living in what was described as "scattered sheds outside refugee camps." In the Government camps, people live in windowless, individual wood structures which are erected on concrete slabs. Water, bathing, and other sanitary facilities are centrally located and serve all the residents.

A Cyprus official explained that the population of the camps had remained at about 7,900 because most were either single or 2-member families, and their needs for smaller housing units had not been included in the early housing construction program. This official assured us that the housing needs of the remaining camp residents have been included in the program planned through the end of 1983. Officials had hoped to close the camps in 1981, but will be unable to because of the length of time required to plan and construct these smaller units.

The information we obtained on the Cyprus housing situation is based on the best data that was available. On balance, it does appear to suggest that the housing for the displaced Cypriots in greatest need will have been largely satisfied by current and planned construction through 1983. The Government plan to provide housing to new families of the displaced, to occupants of the repaired Turkish Cypriot houses, and the likelihood of revising the criteria to include middle-income people and government employees, suggests also that funding for housing could continue to be sought for several years.

External solicitation of aid to Cyprus

Since the events of July and August 1974, Cyprus Embassy officials in Washington and representatives of various American-Hellenic organizations have actively sought continuing U.S. assistance through a variety of means. Appearances by representatives of these organizations before the committees of the Congress have become routine in recent years.



These wooden structures are at 1 of 11 official camps in South Cyprus. Approximately 3,500 displaced Greek Cypriots still live in such housing. November 1980. (Photo by GAO staff.)

A regular system has been developed for formalizing what is perceived as the Cyprus annual humanitarian aid needs of its displaced population. These needs are first identified by an ad hoc committee, comprised of various Government of Cyprus ministry officials. They are subsequently formalized into a "pro forma" document entitled, "Requirements for Humanitarian Aid Through UNHCR to Meet Certain Essential Basic Needs of the Displaced Population of Cyprus in [year]." These annual requirement documents are supplied to the Cyprus Embassy in Washington and given wide distribution within the administration and the Congress. They are also frequently included in the published hearings of the authorizing congressional committees.

We examined the annual requirement documents for the immediate past 3 years--1980, 1981, and 1982. The documents tend to focus on events and conditions of the past. They do not focus on the present, such as the recovery of the economy, the high level of employment that has been maintained in recent years, and the extent to which the U.S. assistance has alleviated the needs of the displaced people. Total planned expenditures, shown as being needed for the displaced persons, have increased each year (for 1980--\$87.4 million; for 1981--\$100.9 million; and for 1982--\$127.8 million.)

The documents also reported on the following subjects.

- It is consistently claimed that there are "200,000 Greek Cypriot refugees," which substantially exceeds the number of displaced reported by the U.S. Embassy and the UNHCR.
- The requirement document for 1982 contends that, after 6 years of U.S. assistance, "The needs of the displaced persons continue to be great and pressing and must be given priority." However, Cyprus has enjoyed low unemployment, and the 1980 per capita income was about \$4,200.
- Housing for the displaced people continues to be cited as "by far the most pressing need." However, thousands of housing units have been constructed and only some 7,900 displaced people still reside in temporary housing.
- Annual estimates of expenditures for housing vary substantially from each year and reflect significant increases. A decline in housing needs should follow the completion of housing construction in prior years.

REPLACING THE UNHCR AS COORDINATOR

UNHCR costs to administer and coordinate the U.S. program have averaged \$600,000 a year. These costs are classified as administrative support costs and are comprised largely of costs associated with its personnel and local-hire staff in Cyprus and a small share of its Geneva headquarters support costs. At the request of the subcommittee, and with the view of possibly reducing the administrative support costs, we examined other means of administering the program.

It should be noted that, because the UNHCR is a U.N. agency, it is uniquely equipped to serve as the coordinator, especially in a politically divided country such as Cyprus. The UNHCR operates through the Cyprus Red Cross Society, is not hampered by political constraints, and has the freedom to move and operate in both the North and South. Because most of the North's share of the U.S. assistance is used for foreign procurement of supplies and equipment, the UNHCR is able to effect these procurements through its Geneva-based headquarters. Procurement and shipping to the North require a great deal of the UNHCR's staff time.

Officials associated with the Cyprus aid program at the U.S. Embassy, AID, the State Department, and the Government of Cyprus were highly complimentary of the manner in which the UNHCR has coordinated and administered the assistance program. They stated

that the program has been free of fraud and scandal and that it has proved effective. These officials also stated that the program is one of the most successful operations of its kind.

A number of alternatives to administering the U.S. assistance program to Cyprus were examined, including (1) placing an AID program officer in Cyprus, (2) using UNFICYP, and (3) using the services of U.S. private voluntary agencies. Our examination was influenced by the fact that the U.S. Government does not officially recognize the Government of the Turkish-controlled North, and was made on the assumption that U.S. financial aid would continue to Cyprus--allocated to both the North and the South--and used for developmental projects as in the past.

Some practical obstacles to implementing the three alternatives (listed above) exist, as well as a question about whether any would result in appreciable savings. In each case, we concluded that a procurement capability would have to be established to continue the foreign procurement of supplies and equipment for the North. In addition, small staffs would still be needed in the North and South to administer and oversee the program and to receive and deliver foreign-procured items to the North. Further, UNFICYP officials view its activities as a strictly military operation and believed that it would be inappropriate to administer the U.S. assistance program.

Although a private voluntary organization could likely serve as a conduit for U.S. assistance to both Cypriot communities, the normal problems of project design, approval, implementation, liaison, and accountability could be expected, in addition to the other aspects mentioned above. Finally, although placing an AID official in Cyprus may be less costly, solutions would have to be found for the political ramifications likely to arise in formulating a bilateral agreement where some of the assistance would be provided to the North, which has been termed a "non-country" and not officially recognized by the United States.

On several occasions, the UNHCR has proposed relinquishing the role of coordinator to the U.N. Secretary General. Reasons have centered around a decreased need of humanitarian assistance for the displaced and the increased developmental character of the program. Interested parties have opposed UNHCR proposals. For example, in January 1978, the President of Cyprus provided the Secretary General a written appeal to retain the UNHCR as coordinator, contending, among other things, that the refugee problems in Cyprus remained acute and that replacing the UNHCR as coordinator would run the serious risk of disrupting a successful humanitarian operation. The Secretary General has not changed the UNHCR's coordinator role and the United States continues to channel its assistance through the UNHCR.

In our discussions with UNHCR officials both in Cyprus and Geneva, there continues to be a strong desire to terminate the Cyprus operations and to use the staff for more pressing refugee problems in other parts of the world. These officials recognize, however, that they will likely remain as long as the United States continues to fund a development program in Cyprus and the Secretary General is satisfied with the UNHCR serving as coordinator.

OTHER POTENTIAL USES OF ASSISTANCE

In authorizing the continuation of a \$15-million level assistance program for fiscal year 1981, the Congress specified that part of the amount could be used to finance a Cypriot scholarship program in addition to refugee relief and reconstruction. This was the first time the Congress had specified such use of the assistance. This practice was appealing to the Subcommittee on Europe and the Middle East, and we sought the views of knowledgeable officials regarding other areas where U.S. financial assistance beyond 1983, if any, might be designated.

Government of Cyprus officials all agreed that further assistance should be provided and used in the same fashion as in the past. As stated earlier, they believe that housing construction will continue for some time. Another official contended that schools were needed in the Limassol area, where some half-day classes were still being held. Continued financing of the construction and equipment for the Larnaca hospital was cited as urgent. As noted earlier, the construction of this facility is expected to cost about \$10 million with an additional \$6 million for equipment. Through 1981, the United States has contributed \$7 million toward its construction costs.

In commenting on other potential uses of future U.S. financial assistance to Cyprus, U.S. officials agreed that further financing of the Cypriot scholarship program was the most worthy. These officials envision directing ongoing assistance solely to scholarships.

Scholarship program

In 1980, AID formulated a proposal to finance a Cypriot scholarship program. The Congress received the proposal as part of the administration's fiscal year 1981 budget request. Because there is no university in Cyprus, financing a scholarship program was appealing because it would be a way of (1) helping people who were displaced by the events of 1974, (2) leading toward a North/South reconciliation, and (3) offering an American alternative to students who might otherwise attend universities in the Soviet Union and Eastern Europe. Scholarship grants would be divided between Greek and Turkish Cypriots on an approximate 4 to 1 ratio

(basically the same ratio currently used in sharing U.S. assistance).

Congressional reaction to the scholarship proposal was very favorable. After some initial hesitation and questions, Government of Cyprus officials agreed to the program, with the initial funds coming from the fiscal year 1981 authorization.

AID is currently developing a 7-year program during which about 100 Greek and Turkish Cypriot students will be selected to attend U.S. universities at graduate and undergraduate levels. The Cyprus Fulbright Commission will promote the scholarship program and screen scholarship recipients. The routine program management and required logistic support will be handled by a U.S.-based organization through a cooperative agreement. AID expects the 7-year program to require about \$5 million--\$1.5 million in fiscal year 1981 and \$3.5 million in fiscal year 1982.

CONCLUSIONS

We believe that the need for continued U.S. humanitarian assistance to Cyprus has greatly diminished. The Government of Cyprus continues to request financial assistance to house all the displaced, irrespective of their incomes, including families of their children. In our view, providing such assistance goes somewhat beyond that normally associated with U.S. foreign disaster recovery and reconstruction.

We recognize that there may be other foreign policy reasons to continue some level of assistance to Cyprus. Should the Congress decide to continue assistance to Cyprus, we believe the program should be designed to enable the UNHCR to phase out as coordinator of the U.S. assistance program and cease its operation in Cyprus--an objective long sought by the UNHCR.

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