

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PROGRAM ASSISTANCE PAPER

TURKEY: Cash Transfer Loan
277-K-106
Cash Transfer Grant
277-K-604

UNCLASSIFIED

BEST AVAILABLE COPY

TURKEY

PROGRAM ASSISTANCE PAPER

Table of Contents

	<u>Page NO.</u>
Program Assistance Approval Document (PAAD)	1
Supporting Analysis.....	4
I. Political and Economic Considerations.....	4
II. Economic Overview.....	4
III. Multilateral Emergency Assistance.....	7
IV. Balance of Payments.....	7
V. Debt Rescheduling.....	9
VI. Economic and Repayment Prospects.....	12

ANNEXES

A. Statutory Checklist.....	Annex A
B. Draft Agreement.....	Annex B

AID 1120-1
(8-66)

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PAAD

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO. A.I.D. Loan No. 277-K-106 NE80-5 A.I.D. Grant No. 277-K 604
2. COUNTRY Turkey
3. CATEGORY Cash Transfer
4. DATE

5. TO:

A/AID

5. OYS CHANGE NO.

5. OYS INCREASE

TO BE TAKEN FROM:

7. FROM:
White
AA/NE, Joseph C. Wheeler *fu*

9. APPROVAL REQUESTED FOR COMMITMENT OF:
\$ 98,000,000

10. APPROPRIATION - ALLOTMENT (L) 72-1101037/
G) 72-110137
037-62-298-00-50-01 037-62-298-00-58-01

11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input checked="" type="checkbox"/> NONE	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL	13. ESTIMATED DELIVERY PERIOD Not Applicable	14. TRANSACTION ELIGIBILITY DATE Not Applicable
---	---	---	--

15. COMMODITIES FINANCED

Not Applicable

16. PERMITTED SOURCE

U.S. only: _____
 Limited F.W.: _____
 Free World: _____
 Cash: \$98,000,000

17. ESTIMATED SOURCE

U.S.: Not Applicable
 Industrialized Countries: Not Applicable
 Local: Not Applicable
 Other: Not Applicable

18. SUMMARY DESCRIPTION

Authorization is requested for a \$98 million cash transfer to Turkey to provide the final tranche of the U.S. contribution to a multilateral emergency assistance package to help the Government of Turkey finance its external deficit. Funding for this cash transfer will come from FY 80 Economic Support Fund funds programmed and authorized for this purpose. Of this \$98 million, \$63 million will be in the form of a cash loan and \$35 million as a cash grant.

Clearance:

NE/PD:RHbell *SAM* Date *1/3/80*
 NE/DP:BLangmaid _____ Date _____
 NE/NENA:MHuntington *AE* Date *1/3*
 EUR/SE:RASmith _____ Date _____
 GC/NE:JMullen *JSM* Date *1/4*
 GC/NLHolmes *RC* Date *1/7/80*
 PPC/PDPR:BSidman _____ Date _____
 AA/PPC:AShakow *CP* Date *1/14/80*
 DAA/NE:ADWhite _____ Date _____

20. ACTION

APPROVED DISAPPROVED

Douglas A. Bennet, Jr. *1/15/80*
 AUTHORIZED SIGNATURE DATE

 Administrator TITLE

At the Guadeloupe summit meeting earlier this year, the U.S., West Germany, France and Britain acknowledged the seriousness of Turkey's economic plight and the need for additional financial support to enable the Turkish Government to undertake the politically difficult economic austerity measures needed to address the imbalance in its economy. With the Federal Republic of Germany taking the lead, an emergency aid effort was organized under the chairmanship of the Director General of the OECD which culminated in a meeting in Paris at the end of May where 15 industrial countries, including the U.S., pledged approximately \$900 million in concessional loans and export credits for immediate balance of payments assistance. The U.S. pledged approximately \$250 million made up of \$198 million in concessional aid and \$50 million in export credits. Donor countries stipulated that release of these contributions should be conditioned upon Turkey reaching agreement with the IMF on a new standby arrangement. In July 1979, following the economic recovery program, the IMF approved a new one-year standby for Turkey. Accordingly, the first tranche of the U.S. contribution to the multilateral assistance effort amounting to \$100 million was released to Turkey in early November.

The second, and final, tranche of the U.S. contribution, \$98 million, was planned for authorization and obligation in early FY 1980. It was anticipated that the release of these funds would be conditional upon the Government of Turkey remaining in good standing with the IMF, which was to be determined by an IMF review of Turkey's economic performance scheduled to take place in November 1979.

Having been overtaken by political events within Turkey, the IMF review was not conducted until December. The result has been an agreement in principle between the IMF and Turkey. This agreement includes Turkey's assurance of initiating economic policy changes recommended by the IMF and the IMF's assurance of continued financial support. Action by the IMF to formalize this agreement will be contingent upon Turkey taking steps to implement it. Our delegation of authority to the Ambassador to negotiate and sign an Assistance Agreement will similarly be contingent upon Turkey's meeting applicable IMF requirements, but could occur prior to formal IMF approval of the agreement.

Consistent with the overall aim of the OECD group to provide quick-disbursement assistance to Turkey, no further preconditions to disbursement will be imposed on the \$98 million recommended herein (other than the standard requirement for a legal opinion and designation of authorized representatives).

The funds will be disbursed as a cash transfer, the disbursement expected to take place within two to three days after the signing of the agreement. The loan terms will provide for a 20-year maturity, including a grace period of 5 years and an interest rate of 5 percent per annum during both the grace period and repayment period. Overall, the proposed assistance is consistent with the objectives of the FY 1980 Economic Support Fund legislation.

Recommendation

It is recommended that you authorize a cash transfer loan to Turkey of Sixty-three million U.S. dollars (\$63,000,000) and a cash transfer grant of Thirty-five million U.S. dollars (\$35,000,000) under the Economic Support Fund account of the Foreign Assistance Act of 1961, as amended, for balance of payments assistance on the following terms:

1. Borrower shall repay the loan to A.I.D in U.S. dollars within twenty (20) years from the date of the disbursement of the loan, including a grace period of five (5) years. Borrower shall pay interest at the rate of five (5) percent per annum following the date of disbursement of the loan on the outstanding balance of principal and on any due and unpaid interest.
2. In addition to the standard requirements of a legal opinion from Borrower and appointment of representatives, the loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Program Assistance Committee

Larry Brown, NE/PD/NENA, Chairperson
Roger D. Carlson, NE/PD/NENA
Leonard Rosenberg, NE/PD
Edwin Anderson, NE/PD
John Mullen, GC/NE
Keys MacManus, NE/TECH
Richard A. Smith

Supporting Analysis

I. Political and Economic Considerations

The outcome of Turkey's efforts to overcome the serious problems plaguing the economy is of considerable interest to the U.S. Turkey is a NATO ally, situated in a part of the world in which the U.S. has long-standing national objectives. Operating in a democratic society, the Turkish Government faces a very difficult period ahead in attempting to maintain austerity in a nation accustomed over the past decade to rapid growth. The program which the Turkish authorities have agreed upon with the IMF to bring equilibrium to the economy calls for policy initiatives requiring a large measure of political courage and perseverance. Even with strict adherence to the IMF program, the improvements will not be immediately felt. Unemployment is expected to remain high; the rate of inflation could go higher; and a zero growth rate is quite likely. Without financial assistance during this period, the Government would be forced to take even more stringent austerity measures which could aggravate serious domestic political and social problems and could ultimately affect Turkey's stability and its Western orientation.

The assistance to be provided as a result of the multilateral effort along with the rescheduling of official and commercial debts and the drawings under the IMF standby will enable Turkey to cover its financing gap in 1979.

II. Economic Overview

Turkey is presently beset with many difficult problems, the culmination of years of development strategies which stressed rapid industrial growth aimed at import substitution. Industrialization in many cases led to the establishment of capital-intensive state-owned industries heavily dependent upon imported raw materials and capital goods and upon budget subsidies because of unrealistic pricing policies and inefficiency. Outputs of the state-owned enterprises are almost totally geared to the domestic market where demand has been buoyant. Foreign exchange earnings stem mainly from agriculture and workers' remittances.

Expenditures for industrialization resulted in large budget deficits financed by Central Bank expansion of money supply. While economic growth was achieved—annual GNP growth averaged about 7.3 percent from 1970-76—it was accompanied by accelerating inflation, high unemployment and an overvalued exchange rate which stifled exports and discouraged private investment. The balance of payments deteriorated as imports surged, while export earnings and worker remittances lagged. The Government resorted to short-term borrowings from capital markets but by the end of 1977, with foreign exchange reserves drastically drawn down, the payments problem caused many foreign suppliers to restrict or terminate deliveries, as debts owed to them rose.

The Turkish Government reacted to these problems with a stabilization program announced in March 1978, involving a substantial depreciation of the currency and measures to improve public sector finances, which formed the basis for a two-year standby arrangement with the IMF. The hoped-for objectives of halting the deterioration in the economic situation was not achieved. A basic reason for the disappointing outcome was that the policies adopted at that time were not followed through. In particular, the exchange rate arrangements did not preserve competitiveness of Turkish goods and services and the financial position of the public sector did not show the intended improvement, partly as a result of much larger increases in wages and other costs than had been foreseen.

The difficulties were compounded, in the view of the IMF, by the fact that foreign assistance was made available on a smaller scale than had been expected. A large bank loan and the re-scheduling of short-term banking funds could not be arranged in the course of 1978 as originally had been expected. However, the main reason for the failure to obtain a sharp reduction in the rate of inflation by the end of 1978 is to be found in the weaknesses of domestic policies. The rate of inflation accelerated and, with the exchange rate remaining unchanged, the competitiveness of the economy again deteriorated sharply. The lateness in effecting measures to raise public sector revenues increased the borrowing requirement of the public sector.

Owing to Turkey's failure to meet the economic performance targets under the 1978 stabilization program, the third drawing under the IMF standby was withheld. Following long and hard negotiations, an agreement was reached in July 1979 between the Government and the Fund on a new recovery program and a new one-year standby arrangement. The intervening delay discouraged both public and private capital inflows, with increasingly adverse effects on the Turkish economy.

The recent adoption of a new economic program by the Turkish Government represents a substantial effort to deal with these problems. The principal elements of the program are the strengthening of public finances, to be brought about mainly by more realistic prices for goods and services produced by the public sector, and the maintenance of a competitive exchange rate. The changes in the exchange arrangements involve a large depreciation of the currency, necessitating further difficult political decisions in the coming months. They may not be easily reached, especially because the measures already taken are not likely to be rewarded quickly by a resumption of growth or a rapid deceleration in the rate of inflation. But further action will be essential. In the best of circumstances the external constraint will be such that the growth of domestic demand must be kept severely in check throughout 1979 and for some years to come, and that economic growth must derive its impetus from a rise in exports of goods and services. The deceleration of inflation, which is a prime aim of the program, is likely to be a difficult objective if only because the requisite price and exchange rate adjustments will impart new inflationary impulses.

The program's aim is to substantially lower the rate of monetary expansion in the course of the stand-by period. It essentially relies on more flexible pricing policies of the state economic enterprises to avoid further deterioration in their profitability and on greater control over public sector expenditures and borrowing. If adhered to, it should help to bring about an urgently needed lowering of the public sector borrowing requirement, in terms of GDP, from the levels prevailing in the first half of 1979. Interest rates, though still considerably below prevailing inflation rates in Turkey, have been raised to a more realistic level. The program also relies on more flexible exchange arrangements in order to maintain the competitiveness of the Turkish economy (already substantially enhanced as a result of the changes in the exchange arrangements introduced on June 11, 1979). The importance of the urgent need for restructuring the economy in favor of export growth is recognized.

In sum, the overall objectives of the recovery program are to bring about a substantial reduction in the inflation rate, a strengthening in the external financial position, and a resumption of sustainable economic growth to create employment for a rapidly rising population. To an important extent, these aims complement each other, but the process of reducing the inflation rate and reactivating the economy is likely to be slow. Apart from the difficult policy initiatives the Turkish Government must pursue if the program is to succeed both the Government and the IMF

consider that the success of the program depends critically upon the support of foreign governments and financial institutions abroad in providing debt relief and balance of payments assistance on a substantial scale in 1979 and subsequent years.

III. Multilateral Emergency Assistance Effort

As an outgrowth of the discussions which took place at the Guadeloupe summit meeting and the follow-up actions of the Federal Republic of Germany, a meeting of member countries of the OECD was convened at the end of May 1979 under the chairmanship of the OECD Director General, to organize the financial assistance effort for Turkey on an emergency basis. Virtually all 15 donor countries attending the meeting acknowledged the link between the Turkish Government's ability to begin to address the underlying structural problems of the economy and the need for quick external financial assistance. The participating countries shared the view that Turkey's relationship with the IMF is central to reestablishing credit worthiness in international capital markets, and emphasized the importance of concluding negotiations with the IMF on a new standby arrangement.

The OECD meeting produced pledges of approximately \$900 million in emergency balance of payments assistance, composed of \$661 million in concessional loans, including \$123 million from the U.S., \$245 million medium-term export credits, of which about \$50 million is expected to come from the U.S. and \$75 million as a cash grant from the U.S. Member countries generally agreed that disbursement of these funds would follow conclusion of a new standby arrangement between Turkey and the IMF.

In July 1979, the IMF approved a new one-year standby arrangement for Turkey, and donor countries have begun fulfilling their pledges.

IV. Balance of Payments

A. General

Turkey's international payments position in the near future is burdened by an extremely heavy foreign debt service which, leaving aside debt relief, is estimated to rise from about \$1.3 billion in 1978 to over \$1.8 billion in 1979 (the equivalent of more than 40 percent of estimated current international receipts). Of this amount, about \$1.0 billion is in respect of interest payments alone.

The overall financing deficit of the Turkish balance of payments in 1979 is projected at \$1.37 billion. This figure is \$300 million higher than the deficit experienced in 1978 but approximately \$700 million lower than 1977. The increase in the deficit in 1979 is due mainly to a predicted rise of imports in current values by \$400 million, because of higher prices for imported goods, including oil. The forecast assumes a slight quantitative reduction in oil imports resulting from Turkey's new energy saving program.

B. Current Account

In 1978 the trade deficit narrowed sharply to \$2.3 billion. The volume of exports rose by about 30 percent while there was a decline in the volume of imports also by about 30 percent for lack of credit resources. The substantial increase in exports was attributable to the shipment of large stocks of wheat and cotton. In 1979, export receipts, though not benefiting to the same extent as in 1978 by the large availability of agricultural stocks, could nonetheless reach \$2.75 billion (20 percent more than in 1978) as a result of a substantial rise in industrial exports. In the first four months of 1979, exports of industrial products rose by as much as 70 percent over the very depressed level in the corresponding four months of 1978. The favorable performance of industrial exports, in turn, was attributable to special measures taken in the second half of 1978, notably the widening of the scope of retention quotas and the introduction of special foreign exchange allocation schemes for exporters of manufactured goods.

Imports fell sharply in 1978 as a result of the disappointing developments of current receipts and severe borrowing constraints abroad. The value of imports was \$4.6 billion for 1978, representing a decline of about 20 percent in value terms and a cut of at least 30 percent in volume terms. Imports are projected at \$5.0 billion for 1979. The prospect for workers' remittances and other invisibles in 1979 is also forecast for a fairly substantial increase for 1979 as a whole.

The current account deficit of the balance of payments in 1979 is expected to be of about the same order of magnitude as in 1978—\$1.7 billion. The estimate assumes that the new policy measures announced by Turkey will lead to no significant improvement of the current balance in the first year.

C. Capital Account

Principal repayments on foreign debt totaled 199 million in 1978, a 7 percent drop from 1977. Government-to-government debt accounted for \$113 million of the total principal repayment, down from \$188 million in 1977. The reduction was mainly due to the OECD rescheduling. The balance on long-term capital improved slightly (from \$458 million to \$528 million) primarily as a result of \$100 million in program credits from the IBRD and West Germany. About \$1 billion in various forms of short-term capital inflows (including about \$375 million in new commercial arrears) financed the basic balance deficit of \$1.0 billion.

The \$1.4 billion basic balance of payments deficit projected for 1979 should be manageable in view of the recently agreed-upon rescheduling of official OECD creditors, the emergency assistance package pledged by OECD countries, and the conclusion of arrangements for dealing with private short-term obligations.

V. Debt Rescheduling

The extensive short-term borrowing of the past three years greatly increased Turkey's external debt, adversely affected its previously rather attractive foreign debt maturity structure, and caused a sharp rise in debt service payments—mainly interest—from \$230 million in 1974 to an amount of \$945 million in 1978 after taking into account approximately \$300 million for debt relief resulting from the rescheduling agreement of May 1978 with the OECD consortium countries.

Turkey's acute balance of payments problems in 1979 again precluded servicing of existing external obligations. In July 1979, a working party of the OECD Consortium for Turkey reached general agreement on terms for rescheduling payments due between July 1, 1979 and June 30, 1980 on Turkey's official and officially-guaranteed medium term debt. The total debt rescheduled, on the order of \$850 million, also includes substantial short-term arrears dating back to May 21, 1978. The terms represent a slight improvement over those in last year's rescheduling, but result in a smaller total amount of debt relief than the \$1.1 billion extended last year. The resulting amount is, however, consistent with IMF projections of Turkish financial needs. Eighty-five percent of both short-term arrears and medium and long term debt service were rescheduled as follows:

Short-term: Repayment over seven years, including a three-year grace period.

Medium and long-term: Repayment over nine years, including a four-year grace period.

Payment of the remaining 15 percent will be made by Turkey in three equal payments at six-month intervals commencing on April 1, 1980.

Of the \$850 million rescheduled, \$166 million represents USG debts falling due between the contract period (July 1, 1979 through June 30, 1980), and of that amount, approximately \$35.7 million consist of A.I.D. debts.

The following presents a summary of Turkey's balance of payments position:

Turkey: Balance of Payments

(In Millions of U.S. Dollars)

	1977	1978	1979 (Projected)
Exports, f.o.b.	1,755	2,288	2,750
Imports, c.i.f.	5,797	4,599	5,000
Trade	-4,042	-2,311	-2,250
Workers' remittances	982	983	1,200
Interest payments (before debt relief)	-570	-750	-1,000
Tourism	-63	145	200
Other services (net)	59	153	150
Services (net)	408	531	550
Current Account	-3,634	-1,780	-1,700
Project and supplier credits	499	450	450
Program credits	3	80	250
Private foreign capital <u>1/</u>	168	147	200
Petroleum loans	365	163	50
Loans from banks	710	450	250
Acceptance credits (net)	(710)	(350)	(-50)
Euro-loans	(--)	(100)	(300)
Special assistance under the auspices of the OECD	--	--	750
Debt repayments (before debt relief)	-214	-560	-870
IMF purchases and SDR allocation	--	253	200
Debt relief	--	250	350
Capital (net)	1,531	1,233	1,630

1/ Direct foreign investment and imports financed with own foreign exchange ("imports with waiver").

Source: IMF Document No. EBS/79/390 dated July 6, 1979

VI. Economic and Repayment Prospects

Turkey's economic situation will be difficult over the next few years. Restraint on government expenditures will affect the growth rate. The economy will be burdened by its heavy debt service obligations, as well as by the costs of the inevitable process of adjustment to a more balanced economy. A deceleration of the rate of inflation is likely to be achieved only gradually. However, with per capita income around \$1,000, good geographic location, exploitable natural resources (though deficient in fossil fuels) and a labor force, many with experience abroad, Turkey has good long-term prospects.

Despite the many near-term economic problems discussed above, Turkey's announced commitment to the new economic stabilization program under the recently concluded IMF standby arrangement, new credits donors, and the potential for future economic development and growth in Turkey, make for reasonable prospects for repayment of the A.I.D. \$63 million loan.

NonProject Assistance Checklist

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered: FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

(a) Committees have been notified in accordance with normal agency procedures.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than \$1 million over that figure plus 10%)?

(b) The assistance is within amount available pursuant to current continuing resolution.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

2. No further legislative action is required within the recipient country.

3. FAA Sec. 209. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

3. The program is part of the multilateral emergency assistance effort recently arranged by OECD to help the Turkish Government finance its external deficit in 1979.

4. FAA Sec. 601(a):(and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strenghten free labor unions.

4. The program is part of 15-nation \$900 million loan to aid Turkey's economic recovery thereby avoiding default on large external debts.

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

5. The program will lay a foundation for expanded private U.S. economic activity in Turkey, both directly and through foreign assistance programs.

6. FAA Sec. 612(b): Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

6. N/A. The loan will be disbursed as a cash transfer.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

7. N/A

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance support promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?

(a) (1) The assistance will aid Turkey's recovery from the worst economic crisis in history, thus promoting economic and political stability.

b. FAA Sec. 531(c) Will assistance under this chapter be used for military, or paramilitary activities?

(a) (2) Yes.
(b) No.

2. Nonproject Criteria for Development Assistance.

N/A

Assistance agreement
between
the United States of America and
the Government of The Republic of Turkey.

Agreement, dated the day of 1979 between the Government
of The Republic of Turkey ("Turkey"), and the United States of
America acting through The Agency for International Development
("A.I.D."), together referred to as the "Parties".

Whereas, the Government of the United States, acting through the
Agency for International Development, is desirous of supporting
the Government of the Republic of Turkey's efforts to stabilize
its economy:

Now, therefore the parties hereto agree as follows:

Article I
The Assistance

A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended,
agrees to grant to Turkey under the terms of this Agreement not to
exceed Thirty-five million United States dollars (\$35,000,000) (The "Grant")
and to lend Turkey, under the terms of this Agreement, not to exceed
Sixty-three million United States dollars (\$63,000,000) (The "Loan") for
balance-of-payments financing to support and promote the financial
stability and economic recovery of Turkey. The aggregate amount of
disbursements under the Loan is referred to as "Principal". The
Loan and Grant together are referred to as the "Assistance".

Article II
Loan Terms

Section 2.1 Interest.

Turkey will pay to A.I.D. interest which will accrue at the rate of
five percent (5%) per annum following the date of disbursement of
the Loan on the outstanding balance of the Principal and on any due
and unpaid interest. Interest on the outstanding balance will accrue
from the date of disbursement (as defined in Section 4.2) and will
be payable semi-annually. The first payment of interest will be due
and payable no later than six (6) months after disbursement of the
Loan.

Section 2.2 Repayment.

Turkey will repay to A.I.D. the Principal under the Loan within Twenty
(20) years from the date of disbursement of the Loan in thirty
(30) approximately equal semi-annual installments of Principal and

interest. The first installment of Principal will be payable four and one-half (4-1/2) years after the date on which the first interest payment is due in accordance with Section 2.1. A.I.D. will provide Turkey with an amortization schedule in accordance with this section after disbursement of the Loan.

Section 2.3 Application, Currency and Place of Payment.

All payments of interest and Principal hereunder will be made in U.S. dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C., 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

Section 2.4 Prepayment.

Upon payment of all interest due, Turkey may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

Section 2.5 Termination on Full Payment.

Upon payment in full of the Principal and any accrued interest, this agreement and all obligations of the Borrower and A.I.D. under it will cease. However, with respect to any obligation arising out of the disbursement of Grant funds, this Agreement will remain in full force and effect.

Article III Conditions Precedent to Disbursement

Section 3.1 Disbursement.

Prior to disbursement under the Assistance, Turkey will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) An opinion of the Chief Legal Advisor of the Ministry of Finance that this Agreement has been duly authorized, or ratified by, and executed on behalf of Turkey, and that it constitutes a valid legally binding obligation of Turkey in accordance with all of its terms; and
- (b) A statement of the name of the person holding or acting in the office specified in Section 6.2.

Section 3.2 Notification.

When A.I.D. has determined that the conditions precedent specified in Section 3.1 have been met, it will promptly notify Turkey.

Section 3.3 Terminal Date for Conditions Precedent.

If all the conditions specified in Section 3.1 have not been met within ninety (90) days from the date of this agreement, or such later date as A.I.D. may agree in writing, A.I.D. at its option, may terminate this Agreement by written notice to Turkey.

Article IV
Disbursements

Section 4.1 Deposit of Disbursements.

After satisfaction of the conditions precedent, at the written request of Turkey, A.I.D. will deposit the Grant and/or the proceeds of the Loan, in a bank or banks in the United States designated in writing by Turkey.

Section 4.2 Date of Disbursement.

Disbursement by A.I.D. will be deemed to occur on the date(s) the Grant and the proceeds of the Loan are deposited by A.I.D. in (are disbursed by A.I.D. to) the bank or banks designated pursuant to Section 4.1.

Section 4.3 Terminal Date for Requesting Disbursement.

Except as A.I.D. may otherwise agree in writing, the terminal date for requesting disbursement of the Grant and the Loan proceeds shall be six months from the date of this Agreement.

Article V
Use of Funds

Section 5.1 Turkey agrees that the Assistance will be used for balance-of-payments and will not be used for financing military requirements of any kind, including the procurement of commodities or services for military purposes.

Article VI
Miscellaneous

Section 6.1 Communications.

Turkey undertakes to provide to A.I.D. such information relating to the economic and financial situations and related problems of Turkey as may be necessary. Any notice, request, documents, or other comm-

unication submitted by either party to the other under' this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To Turkey :
Ministry of Finance
Government of the Republic of Turkey
Ankara, Turkey

To A.I.D.:
Director
Office of Project Development
Near East Bureau
A.I.D.
Washington, D.C. 20523

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. Turkey, in addition, will provide the U.S. Embassy in Ankara with a copy of each communication sent to A.I.D.

Section 6.2 Representatives.

For all purposes relevant to this Agreement, Turkey will be represented by the individual holding or acting in the Office of Minister of Finance and A.I.D. will be represented by the U.S. Ambassador, each of whom, by written notice, may designate additional representatives. The names of the representatives of Turkey, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized an instrument signed by such representatives in implementation of this agreement, until receipt of written notice of revocation of their authority.

In witness whereof, the Republic of Turkey and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

For the United States of America:

For the Republic of Turkey: