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UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PROGRAM ASSISTANCE PAPER

TURKEY: FY 83 PROGRAM CASH TRANSFER

UNCLASSIFIED

Washington, D.C. November 1982

CLASSIFICATION:

AID 1120-1 (8-68)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO. NESA 83-3
Grant No. 277-K-607

2. COUNTRY
Turkey

3. CATEGORY
Cash Transfer

4. DATE
December 10 , 1982

5. TO:
A/AID, Mr. M. Peter McPherson

6. OYB CHANGE NO.

7. FROM:
AA/NE, W. Antoinette Ford

8. OYB INCREASE

TO BE TAKEN FROM:

9. APPROVAL REQUESTED FOR COMMITMENT OF:
$ 200,000,000

10. APPROPRIATION - ALLOTMENT
72-1131037/NESA-83-33277-KG31

11. TYPE FUNDING
☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT
☐ INFORMAL ☐ FORMAL ☒ NONE

13. ESTIMATED DELIVERY PERIOD
Not Applicable

14. TRANSACTION ELIGIBILITY DATE
Not Applicable

15. COMMODITIES FINANCED

Not Applicable

16. PERMITTED SOURCE

U.S. only:	Not Applicable
Limited F.W.:	
Free World:	
Cash:	$ 200,000,000

17. ESTIMATED SOURCE

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

18. SUMMARY DESCRIPTION

This assistance is part of a continuing assistance program to Turkey. Turkey is a key NATO ally and its political and economic stability have been deemed vital to U.S. interests. The U.S. Economic Support Fund (ESF) directly supports Turkey's economy. It is provided in conjunction with Turkey's program of economic reform which conforms to IMF criteria and is designed to restore economic vitality.

A total program of $350 million is proposed for Turkey. This will provide the U.S.contribution to a multilateral assistance package to help the Government of Turkey finance its external deficit. Funds for this cash transfer will come from the FY 1983 Economic Support Fund as appropriated, apportioned and alloted for this purpose. The proposed program is composed of a $250 million grant and a $100 million loan on the following terms: 20-year repayment period including five years' grace on repayment of principal, at five percent annual interest.

It is proposed that $200 million of the $350 million program for FY 83 be obligated immediately. It is recommended that you authorize the obligation of $200 million now, as a grant, to be disbursed upon completion of execution of a grant agreement and satisfaction of conditions precedent, but in no event prior to the 30th day of December 1982.

Additional loan and grant tranches will be authorized under this program as funds become available up to the total approved.

GC/[redacted]:CLvan Orman Date 16 Dec

** Funds available, $ 200,000,000.00
Grant ESF

19. CLEARANCES

		DATE
DAA/NE:BLangmaid		12/16/82
NE/PD:SATaubenblatt		12/15/82
NE/DP:CJohnson		12/16/82
NE/EA:RMisheloff		12-14-82
EUR/SE:DMcClellan		12-15-82
GC/NE:GDavidson		
M/FM/D:CWChristensen		12/16/82**
NE/PD/MENA:DHMcCall		

20. ACTION

☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE

DATE Dec 16, 1982

ADMINISTRATOR, A.I.D.

TITLE

CLASSIFICATION:

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Document 0304c

SUMMARY

1. Borrower/Grantee: Republic of Turkey

2. Grant Amount: U.S. $250 million

3. Loan Amount: U.S. $100 million

4. Loan Terms: Repayment in 20 years, including five years' grace period on the repayment of principal; interest at 5 percent per year, accruing from date of first disbursement.

5. Disbursement Mode: Cash Transfer

6. Purpose: To support Turkey's January 1980 program of structural adjustment designed to restore a viable economy.

7. Fund Source and Availability: Congress has appropriated funding for the Economic Support Fund under a continuing resolution through December 17, 1982, pursuant to the Foreign Assistance Act of 1961, as amended. Accordingly, $200 million in ESF for Turkey has been apportioned by OMB and allotted by Treasury. It is anticipated that Congress will appropriate the balance of the grant/loan amounts for Turkey subsequently. If Congress does not provide a F.Y. '83 appropriation, we expect a minimum of $300 million for the Turkey program under a continuing resolution.

8. Recommendations: That A/AID: (1) approve the full $350 million grant/loan program; (2) authorize the first tranche as a grant for $200 million; and (3) delegate authority to the Assistant Administrator for the Near East to authorize subsequent loan and grant tranches in FY-1983, the total amount of grant funds not to exceed $250 million and the total loan amount not to exceed $100 million, as funds are appropriated.

BACKGROUND

A. Political Considerations

1.01 Turkey is a key NATO ally, located in an area of strategic importance to the United States and the West. The United States has vital interests at stake in Turkey's efforts to restore economic viability, a crucial underpinning of a stable democracy. Without external aid, Turkey would be forced to take more severe austerity measures thus threatening domestic and social stability and Turkey's long-standing Western orientaton.

B. Economic Situation

1.02 Turkey's population is about 48.1 million and is growing at an annual rate of about 2.2 percent. Per capita GNP was $1,510 in 1981.

1.03 Turkey's GDP increased at an average annual rate of 6.7 percent from 1963 to 1977, due to the Turkish Government's commitment to rapid growth and modernization. The public sector played a key role in this economic development for its share of total fixed investment was about 50 percent. Nevertheless, the economy exhibited a number of structural weaknesses which set the stage for the current crisis: (1) A very low level of exports relative to GDP highlighted the vulnerability of Turkey's balance of payments. (2) The ratio of domestic savings to GDP was very low, and, as domestic investment levels continued high, there was a relatively high level of external borrowing and domestic inflationary pressure. (3) A relatively high proportion of the labor force remained in agriculture, reflecting underemployment and the need for accelerated job creation in non-agricultural activities. Unemployment became more serious after the near halt of workers' migration to Europe after 1974. (4) Industry was dominated by inefficient State Economic Enterprises (SEE's). (5) There was excessive reliance on central economic planning, rather than market forces.

1.04 These institutional and structural characteristics made the Turkish economy excessively vulnerable to the sharp increase in petroleum and other import prices that occurred in 1974. Despite the worsening international situation, politically weak Turkish governments continued to pursue a high growth policy, principally through increasing reliance on short-term external borrowing. This directly led to the economic crisis that began in mid-1977 but which is now beginning to abate.

1.05 In early 1978 the government faced a massive external debt burden and large arrearages. This financial crisis required a methodical approach to the problems. The approach included: (1) a halt in the growth of short-term borrowing; (2) debt relief arrangements, and (3) new sources of medium and long-term credits.

1.06 In May 1978 the OECD consortium arranged the first debt relief for Turkey. A second major rescheduling of official bilateral and government guaranteed credits took place in July 1979. A third major rescheduling was agreed upon in July 1980. In 1979 Turkey also concluded agreements with its bank creditors for consolidation and rescheduling of its commercial debt. Grace and repayment periods on commercial debt were liberalized in 1981.

1.07 Turkey also received major new loans and grants. In May 1979, the OECD sponsored a pledging of $1 billion in special assistance. The Saudi Fund provided $250 million in project credits. The A.I.D. share of that year's OECD pledge amounted to $198 million; it was disbursed via cash transfers in late 1979 and early 1980.

1.08 By January 1980, however, it was clear that the stabilization measures that had been taken to date were not sufficient to reverse the adverse economic tide. On January 25, 1980, the government announced a bold program to effect structural adjustments in the economy over the medium term. The program's goal was to bring about a major reorientation of the economy. Specific objectives and policies included (1) greater public and private sector reliance on market forces; (2) reduction of the rate of inflation; (3) improved management of external debt; (4) greater public and private sector efficiency and international competitiveness; (5) rational exchange rate policies and other measures to encourage exports; (6) augmentation of domestic resource mobilization through increased tax efforts, realistic SEE pricing, and banking system and financial market inducements to increased private saving; (7) an investment policy to more fully utilize existing productive capacity, complete ongoing projects, set realistic investment priorities, and conserve scarce resources, and (8) stimulation of foreign investments in oil, industry and agriculture. After the military takeover on September 12, 1980, the new government reaffirmed its commitment to this program.

1.09 In June 1980, the International Monetary Fund approved a three-year Standby Arrangement involving $1.63 billion. The conditions of the Standby are: (1) maintenance of a flexible exchange rate policy; (2)improvement in the public sector financial position, primarily through improved SEE operations; (3) tightening of monetary policythrough limits on Central Bank lending; (4) adjustment of interest rates to reflect market conditions.

1.10 In early 1980, West Germany took the lead in organizing a second OECD pledging session. Sixteen countries, including the U.S., pldeged $1.16 billion; the World Bank provided a $200 million structural adjustment loan in March 1980, and a $75 million supplement in November 1980. The U.S. share of the OECD pledge amounted to $295 million—$200 million from A.I.D. and a $95 million ExIm Bank guarantee. The A.I.D. share was disbursed via a cash transfer in late 1980.

1.11 A third OECD pledging session was held in May 1981. Eighteen countries, including the U.S., pledged the equivalent of nearly one billion dollars. The U.S. pledged $300 million in ESF funds, two-thirds of this in the form of grants and one-third in the form of a loan on the following terms: 20-year repayment period including five years' grace on repayment of principal, at five percent annual interest. The U.S. also pledged a $50 million Export - Import Bank guarantee. The World Bank provided a $300 million structural adjustment loan in 1981.

1.12 Have the new economic policies and massive infusion of capital had any positive effect on the Turkish economy? Key indicators, i.e. statistics on the rate of inflation, production, exports, and workers' remittances are encouraging. GDP increased by 4% in 1981 after declining in 1980. The rate of inflation has been reduced from a triple digit figure in 1980 to about 25 percent per annum in September of this year; 1982 exports are estimated to be double what they were in 1980 and workers' remittances are up by 20 percent. The balance of payments deficit on current account, which was $3.2 billion in 1980, was reduced to $2.1 billion in 1981 and to an estimated $ 750 million in 1982. A tax reform package designed to increase revenues and decrease inequities was enacted in early 1981. Increased tax revenues coupled with strict expenditure control, helped reduce the consolidated budget deficit. It is anticipated that SEE operating deficits will persist but at lower levels.

1.13 A flexible exchange rate policy, real effective depreciation of the lira, and generous export incentives (including a tax deduction of up to 20 percent in exporters' earnings) were adopted in 1980-81. At the same time, restrictive monetary and fiscal measures constrained domestic demand, adding impetus to the efforts to increase exports. Turkish entrepreneurs responded quickly. Turkey's exports in 1982 are projected at an all time record of $6.1 billion (compared with $2.9 billion in 1980 and $4.7 billion in 1981). At the same time, imports have grown to a projected level of $9.1 billion (compared with $8.9 billion in 1980 and $7.9 billion 1980), as a result of the export led revival of the economy. (See Annex D for details.) Fairly severe import rationing continues. Capital inflows are expected to be slightly higher than last year. Debt rescheduling has eased the external debt situation in the medium term. Nevertheless, the debt service burden remains heavy. In 1982, even after debt relief, it is estimated that over 20 percent of receipts from exports of goods and services will be required to make scheduled principal and interest payments.

1.14 The January 1980 reform program is working. The fundamental structural changes necessary to restore steady sustainable economic growth are taking place. The Government's commitment to the program has been unwavering. The achievements, however, are fragile and, in part, are dependent upon factors over which Turkey has no control, e.g. maintenance of stable oil prices, (2/3 of Turkey's record 1982 export earnings will be required just to pay the oil import bill), economic recovery in the West and political stability in the Middle East.

1.15 Last year it was predicted that: "Substantial levels of assistance and stable oil prices will be necessary for a few more years, but Turkey's economy appears to have turned the corner." This prediction seems to be bourne out by the events of the past year. Turkey is adhering closely to the IMF conditions and is in good standing with the IMF. We expect this to continue. In recognition of the successes of the program and the need for staying the course, in July 1982, the United States Government pledged $350 million for the 1982 OECD consortium effort for Turkey. To date pledges have been made by Italy, Belgium and the U.K., although the U.K. has not yet specified a pledge amount. It is of great importance to the U.S. that contributions be made by others and that they be substantial. In this regard it is important that the U.S. contribution be made promptly.

II

PROPOSED CASH TRANSFER

2.01 In July 1982, the U.S. pledged $350 million in ESF funds. In the FY 1983 Congressional Presentation, A.I.D. informed Congress that it would make a $350 million cash transfer to Turkey composed of a grant and loan.

A. The Grant

2.02 A.I.D. proposed to grant $250 million.

B. The Loan

2.03 A.I.D. proposed to loan $100 million on the same terms as those agreed to by the U.S. Government the previous year to wit: 20-year repayment period including five years' grace on repayment of principal, at five percent annual interest.

III

IMPLEMENTATION

3.01 As of this writing, Congress has not yet enacted an FY-1983 appropriations act for A.I.D. activities. Until such enactment, A.I.D.'s appropriations are provided pursuant to a Continuing Resolution (P.L. 97-276 dated October 2, 1982) which is effective until December 17, 1982. Under this Continuing Resolution, $200 million has been apportioned as a first tranche of the proposed $350 million FY 1983 ESF cash transfer to Turkey. It is proposed that the first tranche be entirely a grant. Upon authorization of the first tranche the grant agreement (at Annex B) will be signed in Ankara.

3.02 When a FY-1983 appropriations act is enacted, or when a subsequent continuing resolution is passed, and when the funds have been apportioned and allotted, additional grant and loan tranches of the total $350 million Turkey ESF program will be obligated. After signature of the grant and loan agreements (Annexes B and C), the grant and loan proceeds will be disbursed by U.S. Treasury electronic disbursement to the U.S. bank account specified by the GOT, Ministry of Finance.

3.03 The five-year grace period for the proposed loan portion of the program should defer repayment long enough for Turkey to achieve a measure of economic stability and viability and thus to create a situation that will insure reasonable repayment prospects. The risk attached to this loan stems primarily from external contingencies. The Turkish government's commitment to the reform program appears solid.

FY 1982 - 83

ESF - TURKEY

A. GENERAL CRITERIA FOR COUNTRY ELIGIBLITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	It has not been so determined.
2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?	Turkey is not known to be in violation of this section.

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

Turkey is not known to be in violation of this section.

4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?

No. Assistance will not be so provided.

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.

Not applicable.

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?

No.

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?	There is an Investment Guarantee Program between the U.S. and Turkey (TIAS2500).
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?	Turkey has not taken any such actions.
9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more ~~than~~ six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?	No.
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into	Yes, as reported in the annual report on implementation of FAA Section 620(s).

Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No. Turkey has not servered diplomatic relations.

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

To the best of our knowledge, Turkey is not in arrears on its U.N. obligation.

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or

No; No.

abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No.

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

We have no knowldege that Turkey has delivered or received such items or detonated such a devise.

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed

Turkey is not a non-aligned nation and was not so represented.

to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti.

Not applicable.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

Not. applicable.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

No. Turkey is not engaged in a consistent pattern of gross violations of internationally recognized human rights.

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.?	Not applicable.
c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?	Not applicable.

NONPROJECT ASSISTANCE CHECKLIS

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) Yes.
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?	No further legislative action is required within the recipient country.
3. FAA Sec. 209, 619. 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. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?	The program is part of the multilateral emergency assistance effort recently arranged by OECD to help the Turkish Government finance its external deficit.
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) strengthen free labor unions.	The program is part of a program to support Turkey's January 1980 policies to restore a viable economy.

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).

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.

Not applicable.

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

Not applicable.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

The purpose of this assistance is to support the economic and political stability of Turkey.

Yes.

2. Nonproject Criteria for Development Assistance

Not Applicable.

3. Nonproject Criteria for Development Assistance (Loans only)

Not Applicable

4. Additional Criteria for Alliance for Progress

Not Applicable

ANNEX B

ASSISTANCE AGREEMENT

BETWEEN

THE UNITED STATES OF AMERICA

AND

THE GOVERNMENT OF THE REPUBLIC OF TURKEY

Agreement, dated the day of 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 REPUBLIC OF TURKEY HAS UNDERTAKEN A VIGOROUS PROGRAM OF ECONOMIC REFORMS TO STABILIZE ITS ECONOMY, AND

WHEREAS THE GOVERNMENT OF THE UNITED STATES, ACTING THROUGH THE AGENCY FOR INTERNATIONAL DEVELOPMENT, IS DESIROUS OF SUPPORTING THESE EFFORTS,

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I

THE GRANT

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 United States Dollars ($) (the "grant") for balance-of-payments financing to support and promote the financial stability and economic recovery of Turkey.

ARTICLE II

CONDITIONS PRECEDENT TO DISBURSEMENT

SECTION 2.1 DISBURSEMENT

Prior to disbursement of the grant or to issuance by A.I.D. of documentation pursuant to which disbursement will be made, 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 statement of the name of the person holding or acting in the office specified in Section 5.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

SECTION 2.2 NOTIFICATION

When A.I.D. has determined that the conditions precedent specified in Section 2.1 have been met, it will promptly notify Turkey.

SECTION 2.3 TERMINAL DATE FOR CONDITIONS PRECEDENT

If all the conditions specified in Section 2.1 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 III

DISBURSEMENTS

SECTION 3.1 DEPOSIT OF DISBURSEMENTS

AFTER SATISFACTION OF THE CONDITIONS PRECEDENT, AT THE WRITTEN REQUEST OF TURKEY, A.I.D. WILL DEPOSIT ON OR AFTER THE 30TH DAY OF DECEMBER 1982, IN A BANK OR BANKS DESIGNATED IN WRITING BY TURKEY, THE SUM OF TWO HUNDRED MILLION DOLLARS ($ 200,000,000).

SECTION 3.2 DATE OF DISBURSEMENT

Disbursement by A.I.D. will be deemed to occur on the date A.I.D. makes deposit to the bank or banks designated pursuant to Section 3.1.

ARTICLE IV

SPECIAL COVENANT

SECTION 4.1

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

ARTICLE V

MISCELLANEOUS

SECTION 5.1 COMMUNICATIONS

Turkey undertakes to provide to A.I.D. such information relating to the economic and financial situation and related problems of Turkey as reasonably may be requested in writing by A.I.D. Any notice, request, documents or other communication 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 5.2 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 repsentatives of Turkey, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized an instrument singed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 5.3 AMENDMENT

This Agreement may be amended by the execution of written amendments by the authorized representatives of both of the parties.

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

Robert Strausz-Hupe
American Ambassaor

FOR THE REPUBLIC OF TURKEY

Minister of Finance

22

LOAN AGREEMENT

BETWEEN

THE UNITED STATES OF AMERICA

AND

THE GOVERNMENT OF THE REPUBLIC OF TURKEY

Agreement, dated the day of 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 REPUBLIC OF TURKEY HAS UNDERTAKEN A VIGOROUS PROGRAM OF ECONOMIC REFORMS TO STABILIZE ITS ECONOMY, AND

WHEREAS THE GOVERNMENT OF THE UNITED STATES, ACTING THROUGH THE AGENCY FOR INTERNATIONAL DEVELOPMENT, IS DESIROUS OF SUPPORTING THESE EFFORTS,

NOW THEREFORE, The Parties hereto agree as follows:

ARTICLE I

THE LOAN

A.I.D. pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend Turkey, under the terms of this Agreement, not to exceed United States dollars ( ) (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".

ARTICLE II

LOAN TERMS

SECTION 2.1 INTEREST

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

SECTION 2.2 REPAYMENT

Turkey will repay to A.I.D. the Principal within twenty (20) years from the date of first disbursement of the Loan in thirty-one (31) 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 the final disbursement under 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 Turkey and A.I.D. under it will cease.

SECTION 2.6 EVENTS OF DEFAULT ACCELERATION

It will be an "Event of Default" if Turkey shall have failed:

(a) To pay when due any Interest or installment of Principal required under this Agreement, or

(b) To comply with any other provision of this Agreement, or

(c) To pay when due any Interest or installment of Principal or other payment required under any other loan, guaranty or other agreement, between Turkey or any of its agencies and A.I.D. or any of its predecessor agencies. If an Event of Default shall have occured, then A.I.D. may give Turkey notice that all or any part of the unpaid Pricipal will be due and payable sixty (60) days thereafter, and unless such Event of Default is cured within that time, such unrepaid Principal and accrued Interest hereunder will be due and payable immediately.

SECTION 2.7 CONTINUED EFFECTIVENESS OF AGREEMENT

Notwithstanding any acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued Interest hereunder.

ARTICLE III

CONDITIONS PRECEDENT TO DISBURSEMENT

SECTION 3.1 DISBURSEMENT

Prior to disbursement under the Loan, 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, and/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, and of any additional representatives, together with a specimen signature of each person specified in such statement.

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 to in writing, A.I.D. at its option may terminate this Agreement by written notice to Turkey.

ARTICLE IV

DISBURSEMENT

SECTION 4.1 DEPOSIT OF DISBURSEMENTS

After satisfaction of the conditions precedent, at the written request of Turkey, A.I.D. will deposit the proceeds of the Loan in the 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 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 Loan proceeds shall be six (6) months from the date of this agreement.

ARTICLE V

PURPOSES OF FUNDS

SECTION 5.1

Turkey agrees that the Loan will be used for balance-of-payments financing 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 reasonably may be requested in writing by A.I.D. Any notice, request, documents, or other communication 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 Agrement, 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

Robert Strausz-Hupé

American Ambassador Minister of Finance

ANNEX D

Balance of payments

(US $ millions)

	1980	1981	1982 estimate	1983 programme	1985 projection
Foreign trade	-4 999	-4 230	-2 950	-2 900	-3 000
Exports	2 910	4 703	6 075	7 100	8 500
Imports	7 909	8 933	9 025	10 000	11 500
Oil	(3 862)	(3 878)	(3 875)	(4 200)	
Non-oil	(4 047)	(5 055)	(5 150)	(5 800)	
Invisibles (net)	1 789	2 138	2 215	2 425	3 050
Interest payments	-668	-1 193	-1 300	-1 300	-1 350
Tourism and travel	212	277	325	375	400
Workers' remittances	2 071	2 490	2 500	2 550	3 000
Other invisibles (net)	174	564	750	800	1 000
Current balance	-3 210	-2 092	-735	-475	50
Capital account	1 872	879	1 000	530	250
Debt repayment	-576	-585	-750	-920	-1 600
Private foreign capital	53	60)	175	225	300
Imports with waiver	95	69)			
Project credits	547	642	725	875)	1 000
Programme credits	1 811	735	800	450)	
- OECD Special Assistance	(996)	(360)	(400)		
- World Bank (structural adjustment loan	(250)	(325)	(300)		
- Saudi Arabia loan	(200)	(50)	(100)		
Other credits	307	-42	50	-100	550
SDR allocations	27	24			
Errors and omissions and short-term credits	941	1 124	400	-	-
Overall balance	-370	-65	665	55	300
Financing	370	65	-665	-55	-300
IMF (net)	461	335	320	30	-300
Net change in official reserves other than IMF (- = increase)	-91	-270	-985	-85	...

Sources: Ministry of Finance, Central Bank of Turkey, and Secretariat projection.