

PPCAO 029  
UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D C 20523

ASSISTANT  
ADMINISTRATOR

DEC 27 1985

**FILE**

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/PPC, Richard <sup>AM for</sup> Derrham  
FROM: AA/ANE, Charles W. Greenleaf, Jr.  
SUBJECT: Turkey - FY 1986 ESF Cash Transfer Grant Number  
277-K-007 PAAD Number 277-K-610

PROBLEM: Your authorization is required for a \$100 million cash transfer grant to Turkey.

BACKGROUND: This continues support to Turkey that began in 1978 in concert with the OECD donor consortium. Although formal pledging sessions have been discontinued, OECD consortium members continue to provide economic support to Turkey. Turkey is a valued NATO ally located in an area that is strategically important to the United States.

Turkey has been implementing a comprehensive economic structural reform program, involving far-reaching changes in attitudes, institutions, and legal and policy framework. Following the grave economic crisis in the late 1970s, an impressive array of reforms were implemented. While some slippage has taken place, the commitment to reform has been renewed by Prime Minister Ozal's government, which stands committed to an increase in the importance of the private sector. Primary thrusts of the reform program continue to be (a) reduction in protection afforded domestic industries, (b) export promotion, (c) encouragement of private sector activity and (d) the use of market signals rather than government regulation.

Turkey is in need of foreign exchange to finance imports and service its large external debt. In spite of improvement in many elements of the balance of payments, over the next few years the GOT will continue to encounter financial constraints due to a substantial bulge in debt-servicing requirements. While the reform program has rendered the GOT sufficiently creditworthy to obtain funds on international capital markets, such loans must be serviced. Hence, assistance from the United States would be extremely useful at this time, especially if provided on preferential terms.

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USG assistance will permit Turkey to finance imports required for further development of the economy. If spending must be cut back in response to financial difficulties, the unemployment problem, critical even during the 1970s when the economy was growing rapidly, will deepen.

DISCUSSION: The proposed program is consistent with A.I.D.'s FY 1986 Congressional Presentation, which notified Congress that we planned to provide a \$150 million cash transfer to Turkey. Congress was notified on December 11, 1985 that AID intended to grant \$130 million and provide \$20 million as a loan. Authorization of \$100 million is requested at this time. Consideration of additional funds for Turkey will be deferred until the needs of other programs and budgetary limitations are clarified.

The text of the proposed grant agreement (Annex B of the PAAD) has been sent to the American Embassy at Ankara for pre-negotiation with the Turkish Ministry of Finance. Disbursement will be via a cash transfer immediately after obligation.

RECOMMENDATION 1: That you authorize a \$100 million ESF cash grant to Turkey by signing the PAAD attached at Tab A.

RECOMMENDATION 2: That you hereby delegate authority to the U.S. Ambassador to Turkey, or his designee, to execute a grant agreement for the above amount (sample at Annex B of the PAAD).

APPROVED: *[Signature]*

DISAPPROVED: \_\_\_\_\_

DATE: 12-27-85

Attachment:  
Program Assistance Approval Document (PAAD)

for Clearance: *[Signature]* Date 12/26/85  
GC:HFry \_\_\_\_\_

ANE/PD/MENA:JMCarroll:jmc:12/03/85:632-9064 doc.3551d

CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT  <b>PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)</b>		1. PAAD Number 277-K-610	
		2. Country Turkey	
		3. Category Cash Transfer	
		4. Date	
5. To: M. Peter McPherson Administrator, A.I.D.		6. OYB Change Number N/A	
7. From: Charles W. Greenleaf, Jr. Assistant Administrator, ANE		8. OYB Increase N/A To be taken from: Economic Support Fund	
9. Approval Requested for Commitment of \$ 100,000,000		10. Appropriation Budget Plan Code QESA-86-37277-KG-31 72-1151037	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input type="checkbox"/> Informal <input type="checkbox"/> Formal <input checked="" type="checkbox"/> None	13. Estimated Delivery Period N/A	14. Transaction Eligibility Date N/A
15. Commodities Financed			

16. Permitted Source		17. Estimated Source	
U.S. only	N/A	U.S.	N/A
Limited F.W.	N/A	Industrialized Countries	N/A
Free World	N/A	Local	N/A
Cash	\$100,000,000	Other	N/A

18. Summary Description

This cash transfer is part of USG assistance to Turkey to assist in providing the resources needed to deal with the problems of economic reform and stabilization efforts. It is anticipated that Turkey will continue to emphasize policies to develop the private sector, increase exports and enhance the climate for foreign investment.

It is recommended that you approve a cash transfer grant in the amount of one hundred million dollars (\$100,000,000).

19. Clearances (cont.)

ANE/MENA:MSterne (draft) Date 12/5/85 PPC/PB:JPielemeier *[Signature]* Date 12/23/85  
 ANE/PD/MEDNE:MKSinding *[Signature]* Date 12/19/85 EUR/SE:AKaraer (draft) Date 12/09/85  
 AA/PPC:RDerham *[Signature]* Date 12/27/85  
 ANE/PD/MEDNE:JMcCarroll:jmc:12/04/85:x632-9064 doc.3551d

19. Clearances		20. Action	
M/FM:CWChristensen <i>[Signature]</i>	Date 12/26/85	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED	
GC/ANE:RJohnson (draft)	12/18/85	Authorized Signature: <i>[Signature]</i> Date 12-27-85 Title: M. Peter McPherson Administrator, A.I.D.	
ANE/DP:BSidman (draft)	12/19/85		
DAA/ANE:RHBell <i>[Signature]</i>	12/23/85		
ANE/DP:DHarrison (draft)	12/19/85		
ANE/DP:NNicholson (draft)	12/19/85		
ANE/PD:PBloom <i>[Signature]</i>	12/23/85		

CLEARANCES:

M/FM: CWChristensen	<i>[Signature]</i>	Date	<i>12/26/85</i>
GC/ANE: RJohnsor	(draft)	Date	12/18/85
ANE/DP: BSidman	(draft)	Date	12/19/85
DAA/ANE: RBell	<i>[Signature]</i>	Date	<i>12/23/85</i>
ANE/DP: DHarrison	(draft)	Date	12/19/85
ANE/DP: NNicholson	(draft)	Date	12/19/85
ANE/DP: MCrosswell	(draft)	Date	12/19/85
ANE/PD: PBloom	<i>[Signature]</i>	Date	<i>12/23/85</i>
PPC/PB: JPielemeier	<i>[Signature]</i>	Date	<i>12/26/85</i>
PPC/EA: PDeuster	<i>[Signature]</i>	Date	<i>12/20/85</i>
ANE/MENA: MSterne	(draft)	Date	12/05/85
ANE/MENA: RMisheloff	(draft)	Date	12/05/85
ANE/PD/MEDNE: MKSinding	<i>[Signature]</i>	Date	<i>12/19/85</i>
EUR/SE: AKaraer	(draft)	Date	12/09/85

UNCLASSIFIED

UNITED STATES

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

PAAD NUMBER 277-K-610

PROGRAM ASSISTANCE

APPROVAL DOCUMENT

(PAAD)

TURKEY: FY 1986 PROGRAM CASH TRANSFER

DECEMBER 1985

UNCLASSIFIED

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## TRANSACTION SUMMARY

1. Grantee: Republic of Turkey
2. Grant Amount: U.S. \$100 million
3. Disbursement Mode: Cash Transfer
4. Purpose: To support Turkey's program of structural adjustment designed to restore a viable economy.
5. Fund Source and Availability: Congress has appropriated funding for the Economic Support Fund pursuant to the Foreign Assistance Act of 1961, as amended. Accordingly, \$100,000,000 in ESF for Turkey has been apportioned by OMB and a warrant was issued by Treasury.
6. Recommendation: That A/AID: approve and authorize \$100 million as a grant to the Government of Turkey.

I. Summary of Economic and Political Considerations and Recommendations

A. Recommendations

The ANE Bureau recommends that a \$100 million Cash Transfer to the Government of Turkey (GOT) be authorized, utilizing FY 1986 Economic Support Funds. Monies will be furnished in one tranche. The ANE Bureau recommends that consideration of additional cash transfers to Turkey be deferred until the needs of other programs and budgetary limitations are clarified.

B. Grantee

The Grantee will be the Government of Turkey, acting through the Ministry of Finance.

C. Program Summary

Turkey is a key NATO ally, located in an area of strategic importance to the United States. The United States has vital interests at stake in supporting Turkey's efforts to restore economic viability, a crucial underpinning for a stable democracy. The country has been implementing a comprehensive economic structural reform program, involving far-reaching changes in attitudes, institutions, and legal and policy framework. Following the grave economic crisis in the late 1970s, an impressive array of reforms were implemented. While some backsliding has taken place, the commitment to reform has been renewed by Prime Minister Ozal's government. Primary thrusts of the reform program continue to be (a) reduction in protection afforded domestic industries, (b) export promotion, (c) encouragement of private sector activity and (d) the use of market signals rather than government regulation. The Ozal administration has indicated a desire to see an increase in the relative importance of the private sector.

Turkey is in need of foreign exchange to finance imports and service its large external debt. In spite of improvement in many elements of the balance of payments, over the next couple of years the GOT will continue to encounter financial constraints due to a substantial bulge in debt-servicing requirements. While the reform program has rendered the GOT sufficiently creditworthy to obtain funds on international capital markets, such loans must be serviced. Unless foreign

exchange earnings continue to grow, Turkey could encounter debt-servicing difficulties. Hence, assistance from the United States would be extremely useful at this time.

USG assistance would permit Turkey to finance imports required for further development of the economy. If spending must be cut back in response to financial difficulties, the unemployment problem, critical even during the 1970s when the economy was growing rapidly, will deepen.

## II. United States Economic Support for Stabilization Program.

The United States bilateral development assistance program to Turkey was phased out in 1974. However, with the emergence of Turkey's debt servicing problem in 1978, the United States participated with other OECD members in the rescheduling of Turkish debts to official creditors and in providing balance of payments assistance to Turkey. For 1979, OECD consortium members pledged \$989 million in balance of payments assistance to Turkey; an ExIm credit of \$50 million and \$198 million in cash transfers in FY 1980 met the United States commitment. In 1980, the OECD consortium agreed to provide Turkey with a further \$1,161 million in balance of payments support, of which the USG contributions was \$295 million (\$200 million in A.I.D. funds and \$95 million in ExIm Bank guarantees). For 1981, the consortium pledged \$974 million including \$350 million from the United States -- \$300 million from A.I.D. and a \$50 million ExIm Bank supported program. At the last formal pledging session of the OECD consortium -- calendar year 1982, \$825 million was pledged, with the United States offering \$350 million in Economic Support Funds. While formal pledging sessions have been discontinued, OECD members -- including the United States -- have continued to provide important economic support to Turkey. A.I.D provided \$285 million in FY 1983, \$138.5 million in FY 1984, and \$175 million in ESF funds in FY 1985, including \$90 million in grants and a \$85 million loan. ExIm has continued to lend to the state; its exposure now stands at \$748 million. The proposed FY 1986 cash transfer continues U.S. balance of payments support.

## III. Economic Structural Reform

### A. Background

Productive sector activity is dominated by manufacturing and agriculture, contributing 22.6 and 17.9%, respectively, to GDP. Private services, including tourism, account for 5.2% of

GDP. Other important sectors are wholesale and retail trade (17.0% of GDP), transport, storage and communications (9.8), and government services (7.5).

Although the relative economic significance of agriculture is declining, the sector is still important. In addition to contributing significantly to GDP, it employs between 50 and 60% of the labor force and provides about a third of export earnings (excluding processed food). Manufacturing has been faring well in recent years. Real growth averaged 7.7% per annum over 1981-83. Concomitantly, manufacturing's share of GDP rose from 20.1 to 22.6%. While domestic demand has remained stagnant, exports experienced dynamic growth. Industrial products exports went from \$785 million in 1979 to \$3,658 million in 1983; the average annual growth rate was 52.1%. Turkey became one of the countries with the fastest growth of exports in the world over the 1980-84 period.

Inflation remains an issue of considerable concern, and its control is one of the highest priorities of the Ozal government. Inflation in Turkey has been fueled by budget deficits which have been monetized by the Central Bank. In the late 1970s, expansionary GOT fiscal policies together with the OPEC oil price hikes led to a dramatic increase in the rate of inflation. By 1980, it had reached triple digit levels. Although it has come down in subsequent years with the implementation of the structural reform program, it still remains at approximately 35%.

Unemployment is a serious problem. Despite rapid economic growth in the mid-1970s as well as substantial emigration of workers to Western Europe and, more recently, the Middle East, the employment situation has deteriorated steadily. Effective unemployment is estimated at over 20%. The global economic slowdown has reduced the demand for foreign workers. Moreover, with an annual population growth rate of 2.1%, as many as 450,000 new workers enter the labor force each year. Last year, only 10% of these new workers were able to find employment. While the immediate goals of the economic adjustment program were to reduce inflation and increase foreign exchange earnings, the present government and all the political parties have identified unemployment as one of Turkey's most serious economic and social problems.

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## B. Economic Crisis

Turkey's difficulties can be traced back to the 1970s. The country did not make the necessary adjustments to the shocks caused by the steep rise in oil prices, recession in the OECD economies and the ensuing deterioration of terms of external trade. Instead of adopting structural adjustment measures, Turkey sought to prolong the then prevailing buoyant output performance by raising the share of public investment in GDP. These public investment expenditures were financed by short-term external borrowing, in addition to workers' remittances. After averaging 7.7% over 1970-75, growth came to a halt when foreign credit dried up. The massive external debt burden, arising from the short term borrowing, led to a sharp deterioration in creditworthiness, severe shortages of imports, and disruption in industrial production, all of which contributed to a rise in unemployment. By the end of the decade, inflation had become a critical issue.

## C. Reform Program

The Turkish authorities' response to the crisis of the late 1970s was the imposition of a comprehensive structural reform program, including a major shift in development strategy. The GOT moved from an industrial strategy based on import substitution to an outward orientation, providing for an enhanced role for the private sector and expanded use of market forces as opposed to regulation. The adjustment program was designed to stabilize the economy through alleviation of balance of payments constraints and encouragement of foreign investment while concurrently laying the foundation for a sustainable medium term growth path. The program consisted of a number of elements, including:

- the adoption of a realistic and flexible exchange rate;
- incentives to encourage producers to export;
- stringent monetary policy to restrain domestic demand and control inflation;
- improved external debt management policies and information systems;
- deregulation of interest rates to encourage private savings;
- steps to improve productive efficiency in key sectors;
- rationalization of the public investment program;
- reform of parastatal enterprises to reduce the burden on public finances and improve efficiency, and
- progressive liberalization of imports including reduction of quantitative restrictions and the rationalization of the tariff structure.

In adopting reforms, the GOT has received important support from the IBRD -- five structural adjustment loans totaling \$1.55 billion and the IMF. A \$235 million Stand-by Arrangement was secured from the IMF in April 1984. Back in 1980, a three year, \$1.6 billion arrangement was negotiated and subsequently disbursed.

#### D. Specific Reforms

##### 1. Exchange Rate

The GOT is pursuing a flexible exchange rate policy. The aim of the policy is to provide sufficient inducements to exports and limit domestic absorption of imports.

The realistic exchange rates maintained between the Turkish lira and the currencies of Turkey's major trading partners are credited by many observers for the large jump in manufactured exports. Over the past five years, the GOT has taken a number of steps to bring market factors to bear in establishing the exchange rate of the lira. In December 1983, commercial banks were given permission to establish their own buying and selling rates for the U.S. dollar and other foreign currencies within a 6% spread from a "central" U.S. dollar rate established by the Central Bank. From May 1, 1984, the Turkish Central Bank fixed the value of the lira vis-a-vis currencies of major trading partners on a daily, as opposed to an irregular, basis. Most recently, on July 1, 1985, the limitation imposed by the 6% spread was eliminated, allowing commercial banks to establish freely rates for buying and selling foreign exchange. The ultimate objective is full convertibility, an exchange rate determined by market forces.

##### 2. Import Controls

The GOT's long-term policy is that import restrictions should not be used to protect domestic producers. Reduction in protection is essential to restructuring the economy and stimulating competitive exports in support of growth.

The import liberalization program undertaken by the Ozal government is a dramatic departure from past practice. Now, anything not on three rather limited lists may be freely imported without GOT permission or license.

Imported goods are now placed in one of three categories. One, there is a prohibited list containing some 200 items. Importation of goods on this list is usually not possible; however, a special exemption may be obtained. Two, a list of goods has been designated which can be imported with the permission of the Under-secretariat of the Treasury and Foreign Trade (UTFT). Three, all other goods are divided into two further categories.

Some 250 goods have been identified which may be imported but are subject to a special surtax up to 200% ad valorem, the proceeds of which go into a special housing fund. This category consists primarily of luxury goods and items in which Turkey is self-sufficient. Certain items in this category over which the GOT now has a monopoly--coffee, cigarettes and alcoholic beverages, for example--may only be imported by Tekel, the state monopoly.

All other goods not included above may be imported freely. For these items, qualified importers need only apply to a commercial bank for a foreign exchange allocation. No other formalities are necessary. GOT agencies, including the state monopolies, however, are required to obtain permission for all imports.

In 1983, the number of goods requiring an import license totalled 821; by August 1984 that number had been reduced to 373. Simultaneously, the average tariff level was reduced from 16 to 13%. Also, to improve productive efficiency, quantitative restrictions are being replaced by tariffs. The effect of these reforms is to reduce the general level of protection afforded Turkish industry.

### 3. External Debt Management

Phase I of the installation of a computerized debt recording system, consisting of the design of a system of information flows and development of input-output formats, was completed on schedule in 1984 and the final report has been published.

### 4. Energy

The GOT's actions in energy pricing have been particularly impressive. As a result of a number of increases in electricity tariffs implemented since January 1984, bulk tariffs are now equal to 85-90% of the estimated long-run marginal cost of production, compared with 50% in 1983.

## 5. Financial Sector

The financial sector, one of the economy's weakest links, was in dire need of reform. Commercial bank interest rates, which were deregulated in July 1980, have been raised. As a result, bank deposits have increased significantly. The new banking law enacted in June 1983 reduced under-capitalization of banks, introduced a deposit insurance scheme, and provided for increased Central Bank supervision of the banking sector, among other items. Additionally, the GOT took a major step toward reducing the cost of intermediation by reducing the financial transactions tax from 15 to 3%. Progress has been maintained in the development of a capital market. The GOT has continued to issue Treasury bonds at attractive interest rates. This has led to a small but fast growing secondary market.

## 6. Public Finances

Over 1980-82, the GOT made progress in strengthening the public finances. The budget deficit to GNP ratio was reduced from 5.3% in 1980 to 2.1% in 1982, largely as a consequence of retrenchment in the public sector, and the borrowing requirements for the public sector dropped sharply from 12.6% of GNP to 6.9% over the same period. Civil servant salaries have declined in real terms and budgetary transfers to parastatal enterprises as a percentage of GNP have fallen steadily from 4.8% in 1980 to 1.6% in 1984.

## 7. Public Investment

Over the last three years, considerable progress has been made towards rationalization of the public investment program. In particular, the size of the program has been made more consistent with available resources and priority projects are receiving larger allocations to speed up their completion. In sharp contrast to average annual growth of 18.4% during 1972-77, public investment registered an average increase of only 2.4% per annum during 1980-83. Concurrently, private fixed investment grew 5.3% annually during the period. Furthermore, the number of public sector projects has been reduced from over 9000 in 1980 to about 7400 in 1984. A large number of projects of unproven economic merit have been either dropped, deferred for restudy, or substantially reduced in scope and no new large projects were included in the program during 1981-83. The sectoral composition of public investment is now in greater harmony with macroeconomic objectives. An

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increasing share of allocations is being directed to essential infrastructure, especially energy, with substantial reductions in allocations to manufacturing. The restoration of private investment is dependent in large part on the availability of essential infrastructure, including power, adequate transport facilities and basic materials.

#### 8. Taxation

The GOT has been seeking to reform the tax system. A value added tax (VAT) was instituted; at the same time, tax rates on (a) income, (b) financial transactions, and (c) interest payments have been lowered. The tax on financial transactions which has been reduced substantially had been an especially important revenue earner.

#### 9. Parastatal Enterprise

Reform of parastatal enterprise has been a major goal of the structural adjustment program. Parastatal enterprises are of considerable economic significance, e.g. those enterprises in the manufacturing sector account for 30% of industrial value-added, 35% of employment, and 60% of investment. In the past, parastatals were characterized by widespread inefficiencies arising from excessive protection. During 1980-82, the GOT implemented a number of measures to improve short term financial performance, redirect the parastatals' investment programs and finance them increasingly from non-budget sources. Organizational structures were streamlined; managerial autonomy was strengthened; and human and financial resources were rationalized. As a consequence, financial performance registered substantial improvement; instead of chronic deficits, selected enterprises registered profits. In 1983, the GOT passed a wide ranging reform decree, whose purpose was to introduce structural reforms. The overall objective was a viable parastatal sector more responsive to market forces. The ultimate goal was to place the enterprises in an economic environment where they would compete with private sector firms. Since the passage of the reform decree in May 1983, a review of the capital structure of the enterprises has been initiated and capital increases have been authorized in some cases. The outstanding debts of parastatals have been consolidated and arrears to the GOT converted into equity. The parastatals have been encouraged to exercise freedom in setting prices and they have done so in a number of cases. Major price changes were announced in late 1983 and March 1984. As a result of the continuous improvement in accounts, budgetary transfers in 1984 should be reduced to \$680

million -- 1.4% of GNP versus the 1983 figure of 2.5%. Hidden subsidies are also being eliminated. The GOT has withdrawn exemptions for import taxes and duties. In addition, the GOT is promoting competition for the enterprises from the private sector. For example, competing imports are being permitted into the country.

#### E. Economic Response to the Program

The Turkish economy's response to the structural adjustment program has been impressive. Real GNP expanded by 4.1% in 1981 and 4.6% in 1982, slipped to 3.2% in 1983 due in part to a bad harvest, and rebounded to an estimated 5.7% in 1984. Real GNP growth had been negative in 1979-80. Through 1982, the Government met with considerable success in reducing the rate of inflation through a combination of fiscal, monetary and incomes policies. After peaking at 107% in 1980, the annual average rate of increase in the wholesale price index declined to 37% in 1981 and 27% in 1982. Improvements in the balance of payments were recorded through 1982. The current account deficit decreased from \$3.3 billion -- 5.7% of GDP -- in 1980 to \$ 835 million -- 1.6% of GDP -- in 1982. On balance, merchandise exports have performed well over the 1980-84 period, growing at an average annual rate of about 26% in dollar terms. This growth has been led by the manufacturing sector, especially exports to Middle Eastern countries. Over the 1982-83 period, import growth was held in check. Imports fell by 1.0% in dollar terms in 1982 and rose by only 4.4% in 1983. Finally, confidence in Turkey's overall economic performance, its stable record in meeting debt-servicing obligations and its improved debt management encouraged commercial banks to commit about \$1.5 billion of medium term credits in 1984 on reasonably favorable terms.

#### F. Slippages

Some slippages, however, have been in evidence. The most significant relates to the budget deficit. Standing at 2.1% of GNP in 1982, the budget deficit was estimated at 5.2% of GNP in 1984. The principal cause was the very disappointing tax revenue performance. Revenues as a percentage of GNP fell from 20.3% in 1981 to 15.6% in 1984. The fall-off in revenues can be attributed to the tax reform measures -- the various reductions in tax rates -- and expertise on the part of Turkish businessmen in evading taxes. As a result of the increase in the budget deficit, the Central Bank printed money and this has helped fuel inflation.

In 1983, the GOT reduced the interest rate on time deposits from 45 to 35%. With the reemergence of inflation, real returns after tax to holders of time deposits became negative, resulting in a fall in the rate of growth of commercial bank time deposits and an inability on the part of the banks to service credit needs of customers. In the face of the likely collapse of several large firms, central bank credit to banks rose dramatically. These credits added to monetary growth, thereby promoting inflation. By 1984, inflation, which had been brought down to under 30% in 1982, was back up to 50%, double the official target for the year.

Other setbacks occurred. The GOT's Fifth Five Year Plan (1985-89) approved in July 1984 called for an average annual real rate of growth of 6.8% in public investment. Clearly, this was excessive. Further, the current account deficit in 1984 was somewhat higher than projected, reaching \$1.4 billion. This represented an increase in the deficit's share of GDP from 1.6% in 1982 to 2.8%. The principal cause was the ongoing import liberalization program; imports were \$1.2 billion higher than anticipated in 1984. Those imports that were subject to major liberalization in terms of both a lowering of tariff rates and removal of quantitative restrictions rose the most.

#### G. The GOT Response

The Ozal administration's response to these difficulties has been very encouraging, although more needs to be done especially with respect to the budget deficit. Inflation already is coming down. Over the June 1984-June 1985 period, it declined to 36% from 50% in 1984. This should enable the GOT to secure support for the structural reform program from the domestic populace.

The GOT has taken a number of measures to strengthen fiscal performance. To increase revenues, a value added tax was introduced in January 1985 and several new tax bills were passed. The revised public sector investment target for 1985 calls for a real decline of 5.2% and stringency in this area will continue into 1986. In a related move, the GOT has issued a directive, (a) reducing the budgeted appropriations of the public sector by 20% and (b) requiring all public agencies to apply for fresh approval of investment expenditures if contracts have not already been signed. Nonetheless, while revenues from the VAT have surpassed expectations, the 1985 budget deficit is still projected to total \$1 billion in contrast to the \$500 million earlier estimate. Tax collections, primarily non-VAT, continue to lag and expenditure growth remains brisk. The deficit to some extent is being monetized, and this could lead to a reemergence of inflationary pressures.

The remainder of the adjustment program, however, continues on track.

In the area of import liberalization, the number of items on the prohibited list has been reduced substantially from 207 under the 1984 regime to 127 in January 1985 and to only 23 items in May 1985. The GOT has decided that cash guarantees which had to be deposited by industrialists and commercial importers at the time of import application should be gradually reduced to 25% of the previous level by the end of 1985, thereby easing the burden on importers.

As for external debt management, Phase II, comprising the installation and testing of the computerized debt system, is in progress and completion was scheduled for August 1985.

A number of preferential discount rate schemes had been employed, including short-term export credit, agriculture, housing and small enterprise. These schemes resulted in these sectors paying interest on credit that was negative, or at best marginally positive, in real terms. In an important reform, the preferential scheme for short-term export credit was eliminated in January 1985.

A new banking law, which was approved by Parliament in April 1985, provides for improved procedures for the handling of non-performing loans as well as for the introduction of a standardized accounting system for banks from January 1986.

Work on the opening of the new stock exchange in Istanbul is in the final stage. The president of the stock exchange has recently been appointed and detailed regulations are expected to be finalized over the course of the next few months.

Studies on the privatization of parastatal enterprise are taking place and the services of Morgan Guaranty Trust Company have been enlisted to assist in the matter. In addition, the GOT intends to convert selected parastatal enterprises into joint stock ventures by offering stock to the public. In this regard, the GOT already has decided to sell to private investors 10% of the shares in the state airlines company. The GOT is also continuing to restrict budgetary transfers to parastatals; such transfers will be down more than 35% in 1985 alone.

The GOT recently carried out a sweeping liberalization of foreign exchange controls. Merchandise exporters are required to surrender only 80% (as opposed to the previous 100%) of foreign exchange receipts. Surrender requirements on invisibles earnings were completely eliminated and such requirements for commercial banks were loosened as well. In addition, individuals and firms are permitted to open foreign exchange accounts in domestic Turkish banks.

In agriculture, the GOT is reducing fertilizer subsidies, increasing irrigation water charges, and easing import restrictions on seed.

As for energy, prices of petroleum products continue to be adjusted to maintain them in line with international levels.

#### IV. Balance of Payments

The GOT has made significant strides in strengthening the balance of payments. However, debt servicing continues to pose a major concern.

Turkey's balance of payments position improved in 1984, although the improvement was not as much as had been targeted. The current account deficit fell from \$1.8 billion or 3.6% of GDP in 1983 to \$1.4 billion, roughly 2.8% of GDP in 1984. Exports in 1984 increased by about 24% to \$7.4 billion. The increase in imports was held to 16% and totaled \$10.3 billion. Turkey's surplus on invisibles increased from \$1.2 billion in 1983 to \$1.5 billion in 1984, largely as a result of higher workers' remittances and other private transfers (\$1.9 billion). Exports of manufactured products increased 41% from \$3.7 billion in 1983 to \$5.1 billion in 1984, raising the share of these products in total merchandise exports from 64% in 1983 to 72% in 1984. Especially notable were large increases in exports of textiles (up 44% to \$1.9 billion), leather (up 108% to \$400 million), and petroleum products (up 75% to \$409 million). Exports of mineral products increased 27% to \$240 million in 1984. Exports of agricultural products, however, fell by 7% in value from \$1.88 billion in 1983 to \$1.75 billion in 1984.

Continued improvement in the balance of payments is anticipated for 1985; a current account deficit of only \$1 billion is expected. As of September, the merchandise trade balance has improved; exports are up 8% while imports have risen only 4%. In addition to the improvement in the merchandise trade balance, tourism has fared well and remittances are up.

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External debt has been a source of concern and a handicap to trade with Turkey over the past decade. As of December 31, 1984, Turkey's medium and long term disbursed debt totalled \$16.7 billion; and disbursed short term debt was \$4.6 billion. The combined total stood at \$21.4 billion. Undisbursed public and private sector external debt added up to another \$4.4 billion. Of total short term debt, 53% is owed to Turkish citizens residing abroad, either through the Dresdner Bank Scheme,\* convertible Turkish lira deposits, or foreign exchange deposits in Turkish commercial banks.

Major rescheduling of official and commercial debt in 1980 and 1981, along with a coordinated assistance program, allowed time for an aggressive economic adjustment program to restore Turkey's international creditworthiness. Over the past few years, Turkey has been able to borrow on commercial terms to cover trade and balance-of-payments requirements.

Enormous inflows of short-term capital to finance public sector investment in the years 1976-77 -- \$13.3 billion -- was followed by a massive bail out operation involving rescheduling of both official debt and commercial borrowings with high levels of "emergency aid" and other medium and long-term assistance from 1978 onwards. Following the resolution of the 1978 debt crisis, Turkey pursued a very conservative policy, restricting borrowing almost entirely to long-term. Much of this was arranged through the OECD Consortium for Turkey and was extended on concessional terms. Between 1978-80, Turkey and her official and commercial creditors rescheduled some \$9.2 billion of outstanding obligations through a series of arrangements. Approximately \$6.0 billion of short-term debt, including \$2.6 billion in convertible Turkish lira deposits and bankers credits and \$1.2 billion of non-guaranteed suppliers credits, were consolidated into medium-term loans or partially converted into Turkish lira obligations. As a result of the major restructuring, short-term debt as a percentage of total debt outstanding fell from 50.6% in 1978 to 11.7% in 1981. Inflows were mostly from official sources, including OECD and OPEC countries, the World Bank and the IMF.

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\*Under this scheme, Dresdner Bank in West Germany collects deposits from Turkish workers in the country. It automatically places these funds at the disposition of the Central Bank of Turkey which in turn guarantees the deposits and pays an interest rate commensurate with the Euro-market rate. Dresdner Bank is essentially an intermediary between the Turkish workers in Germany and the Central Bank of Turkey.

Signs of Turkey's increasing ability to tap the commercial markets for medium-term loans is encouraging. In March 1984, the Central Bank signed a \$300 million balance of payments loan with a consortium of thirty-six foreign banks, and in early 1985, Turkey secured \$500 million under a similar arrangement. In addition, a group of Swiss and German banks signed a credit of \$300 million in March 1984 for financing of the Ataturk hydro-electric power project, and a \$217 million credit was extended by American Express Banking Corporation for export financing. Turkey is continuing to receive funds from the United States and other official sources. In addition to the fifth World Bank Structural Adjustment Loan of \$376 million in 1984, monies were obtained in 1984 from the Saudi Arabian Monetary Authority (\$250 million equivalent signed in June) and \$175 million from the United States. Additionally, the United States Export/Import Bank is continuing to provide funds to the state. Exposure stands at \$748 million; if new commitments are included, exposure could reach \$1.3 billion.

Nonetheless, debt-servicing remains worrisome. The debt service ratio\* is projected to increase to 26.9% in 1985 from 24.8% in 1989. Servicing of debt is projected at a very substantial \$3.3 billion in 1985 and to remain at that level through 1989. \*\* Over 1985-89, debt service also includes repayment of principal on rescheduled debt, amounting to some \$500 million annually. According to the country's development plan, the GOT will be borrowing abroad \$2.95 billion in 1985 and \$3.1 billion in 1986, including short-term borrowings of \$1 billion in each year. All the borrowing is to be used to service debt rather than to add to the productive capacity of the economy through investment in requisite economic infrastructure. Such loans through generation of their own debt-servicing requirements, of course, will add to future debt-servicing difficulties.

The short-term borrowing promises to become especially burdensome. While the ratio of short-term debt to total debt stood at 11.4% in 1982, by 1984 it was 20%. Much of the growth is due to flows associated with the Dresdner Bank Scheme. As of end year 1983, the outstanding liabilities associated with the scheme amounted to \$1.2 billion or 41% of Turkey's short-term external obligations. The projected figure for 1984

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\* Total debt service as a proportion of the combined sum of (a) exports of goods and services and (b) workers' remittances

\*\* Excluding repayments to the IMF.

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is 45% which would bring liabilities under the scheme to \$1.8 billion or 8.5% of total debt outstanding. Although the Dresdner Bank scheme appears relatively riskless because Turkish workers deposit their foreign exchange with a Turkish institution, it still represents a liability for the Central Bank. This is not to argue that the GOT should not seek out these deposits.

Rather we are suggesting that should confidence in Turkey's economic management erode, the scheme could represent a source of serious foreign exchange outflows. According to the GOT's newest development plan, the burden of short-term debt increases from 18.8% of total debt outstanding in 1984 to a precariously high 33.5% by 1989.

The proposed cash transfer while not inconsequential, will cover only a relatively small portion of Turkey's foreign exchange requirements. Nevertheless, USG balance of payment support can be exceedingly helpful in assisting Turkey to service its heavy debt without unduly compressing the imports it needs to sustain an acceptable rate of economic growth and development.

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Turkey: Selected Indicators

Population: 47.3 million

Land Area: 780.600 sq. km.

Health:

Life Expectancy at birth: 62.7 years  
Infant Mortality: 83/1,000  
Birth Rate: 30.9/1,000

Education:

Adult Literacy Rate (%) 68.8  
Adjusted School Enrollment  
Ratio

Death Rate: 8.8/1,000  
Doctors per 100,000 Inhabitants: 61  
Hospital Beds/100,000 Inhabitants: 204

Primary: 102  
Secondary: 42

Nutrition:

Per Capita Supply of Calories as Per Cent of Requirements: 122  
Per Capita Supply of Proteins (grams per day): 86

Services:

Household Electrification (percent of dwellings): 57  
Access to Potable Water (percent): 75

Consumption:

Energy Consumption per Capita (Kilograms of oil equivalent): 569  
Radio Receivers per 1,000 Inhabitants: 96.4  
TV Receivers per 1,000 Inhabitants: 75.3  
Passenger Cars per 1,000 Inhabitants: 11.5

<u>Gross Domestic Product (GDP):</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
GDP per Capita (1983): \$1,076			
GDP (U.S. \$Billion):	53.03	50.86	50.19*
Real GDP Growth Rate (percent):	4.5	3.7	5.7

<u>Inflation:</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Consumer Prices (percent):	37.2	28.8	45.6
Wholesale Prices (percent):	25.8	30.4	51.6

<u>Public Finances:</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Overall Budget Deficits (% of GDP):	2.7	1.8	3.3
Nominal Expenditures Growth (%):	40.1	4.8	60.8

  

<u>Exchange Rate (Period average):</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Lira/\$U.S.	162.55	225.46	366.68

\*While rising in local currency terms, GDP is falling in U.S. dollar terms because of the depreciation of the Turkish currency against the U.S. dollar.

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<u>Balance of Payments:</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Current Account Deficit (\$Million):	835	1,828	1,407
Current Account Deficit (% of GDP):	1.6	3.6	2.8
<u>Foreign Debt:</u>			
Gross Official Reserves (\$Million):	1,078	1,425	2,071*
Gross Official Reserves (Months of Imports):	1.2	1.5	1.9
Disbursed External Debt (\$Million):	16,324	15,886	21,358
Disbursed External Debt (Percent of GDP):	30.8	31.2	42.5
Debt Service (US \$Million):	1824.3	2434.4	2837.1
Debt Service Ratio (percent):	23.0	33.4	24.8

\*Gold was revalued on December 31, 1984 from \$42.42 per ounce to \$216.65.

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VI. Implementation

3.01. On December 11, 1985, Congress was notified of A.I.D.'s intention of making a cash transfer to the Government of Turkey, \$130 million as a grant and \$20 million as a loan.

3.02. The grant agreement (at Annex B) will be signed in Ankara. After signature of the grant agreement (Annex B), the grant proceeds will be disbursed by U.S. Treasury electronic disbursement to the U.S. bank account specified by the GOT, Ministry of Finance.

TURKEY - FY 1986 CASH TRANSFER

STATUTORY CHECKLIST

- I. COUNTRY CHECKLIST
- II. NON-PROJECT ASSISTANCE CHECKLIST

(a) FAA Sec. 531(a). Will this assistance promote economic or political stability?

It will promote economic stability by providing vital foreign exchange required for Turkey's development.

To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

Yes; the program reflects the policy direction of Section 102 to the extent possible.

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

No.

(c) FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

Not Applicable.

(d) ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

Not Applicable.

(e) ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

Not Applicable.

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development;

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Annex B

## 5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

### A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1985 Continuing Resolution Section 528. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, 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. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers? No.
  
3. 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.

4. 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.
5. FAA Sec. 620(a), 620(f), 620(D); FY 1985 Continuing Resolution Sec. 512 and 513. Is recipient country a Communist country? (If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver.
- No. Assistance will not be so provided.
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?
- Turkey is not known to be in violation of this section.
7. FAA Sec 620(1). Has the country failed to enter into an agreement with OPLC?
- There is an Investment Guarantee Agreement between the U.S. and Turkey.
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?
- Turkey is not known to have taken such action.
- (b) If so, has any deduction required by the Fishermen's Protective Act been made?
9. FAA Sec. 620(q), FY 1985 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of
- No.

any A.I.D. 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 (or continuing  
resolution) appropriates funds?

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 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?
12. FY 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 A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)
13. FAA Sec, 620A; FY 1985 Continuing Resolution Sec. 521. Has the President determined that the country (a) grants sanctuary from prosecution to any individual or group which has committed an act

Yes, as reported in the Annual Report on implementation of FAA Section 620(s).

No.

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

No.

of international terrorism, or (b) otherwise supports international terrorism? Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed or is being sought by any other government for prosecution for any war crime or act of international terrorism?

14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No.
15. 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.
16. 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? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) We have no knowledge that Turkey has delivered or received such items or detonated such a device.
17. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology We have no knowledge that Turkey has attempted such exports.

which would contribute significantly to the ability of such country to manufacture a nuclear explosive device?

18. 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 Assembly of the U.N. of Sept. 25 and 28, 1981, and failed 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.)

No.

19. FY 1985 Continuing Resolution. If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion?

Not Applicable.

20. FY 1985 Continuing Resolution Sec. 530. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

No. It has not been determined that Turkey has engaged in a consistent pattern of opposition to the foreign policy of the United States.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

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?

Not Applicable.

2. Economic Support Fund Country Criteria

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; it has not been determined that Turkey is engaged in a consistent pattern of gross violations of internationally recognized human rights.

### 3(A)2 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 Assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

#### A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1985 Continuing Resolution Sec. 525: FAA Sec. 634A

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project assistance.

Committees have been notified in accordance with normal Agency procedures.

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 Turkey.

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.

No.

4. FAA Sec. 601(a). 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; discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and strengthen free labor unions.

Funds will help finance Turkey's imports and generally assist the economy.

5. FAA Sec. 601 (b). Information and conclusions 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). To the extent that trade patterns between Turkey and the U.S. are expected to grow and expand, we foresee this program as having a positive effect.
6. FAA Sec. 612(b), Sec. 636(h); FY 1985 Continuing Resolution Sec. 507. 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 in lieu of dollars. Not Applicable.
7. FAA Sec. 612(d). Does the United States own excess foreign currency of the country and, if so, what arrangements have been made for its release? Not Applicable.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Not Applicable.
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds? Not Applicable.
10. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? Not Applicable.
- B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE
1. Nonproject Criteria for Economic Support Fund Assistance

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in sub-paragraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA:

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

(f) ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues non-proliferation policies consistent with those of the United States?

No.

(g) FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

Not Applicable.

2. Nonproject Criteria for Development Assistance

Not Applicable.

(a) FAA Sec. 102(a); 111; 113; 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level; increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries' and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

(b) FAA Sec. 103, 103A, 104, 105, 106 107. Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.)

(1) (103) for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; (103A) if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) (104) for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for

health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) (105) for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) (106) for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

(ii) technical cooperation and development activities, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or man-made disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for special development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) (107) is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

(c) FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?

(d) FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

(e) FAA Sec. 122(b) Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?



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.

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## DISBURSEMENTS

### Section 3.1 Deposit of Disbursements

After satisfaction of the conditions precedent, at the written request of Turkey, A.I.D. will deposit in a bank or banks designated in writing by Turkey, the sum of

### 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 services 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  
Bureau for Asia and Near East  
A.I.D.  
Washington, DC 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 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.

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

FOR THE REPUBLIC OF TURKEY

\_\_\_\_\_  
American Ambassador

\_\_\_\_\_  
Minister of Finance