

JAN 5 10 36 AM '89

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

PDCBC210

**ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND NEAR EAST**

**FROM:** ANE/PD, Ronald F. Venezia *Ronald Venezia*  
**SUBJECT:** Turkey: FY 1989 ESF Cash Transfer (A.I.D. Grant Number 277-K-613)

**Problem:** To obtain your authorization of the PAAD for a \$60 million cash transfer grant to Turkey. (The PAAD is attached as Tab A.)

**Background:** This grant continues balance of payments support to Turkey that began in 1978 in concert with the OECD donor consortium. Although formal pledging sessions have been discontinued, OECD consortium members, including the United States, have continued 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 institutional, legal, and policy frameworks. Following the grave economic crisis in the late 1970's, an impressive array of reforms was 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 production, (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 improvements 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 is required to support Turkey's economic stabilization and development efforts.

Discussion: A.I.D.'s FY 1989 Congressional Presentation notified Congress that we planned to provide a \$70 million cash transfer to Turkey. However, the FY 1989 Appropriations Act only earmarked \$60 million for Turkey for the current fiscal year. The FY 1989 Appropriations Act requires that Congress be notified 15 days in advance of the obligation of any cash transfer. That notification was submitted on November 17, 1988 and the waiting period expired December 2, 1988.

The text of the proposed Grant Agreement has been sent to the American Embassy at Ankara for pre-negotiation with the Turkish Ministry of Finance. Consistent with requirements for cash transfers, and A.I.D.'s "ESF Cash Transfer Assistance - Amplified Policy Guidance", the Agreement includes provisions for a separate account and tracking of the dollars, and specifies eligible uses.

As described in the PAAD, Turkey has substantially liberalized its foreign exchange regime since 1985. In addition, Turkey has a very substantial debt service burden which limits its growth and development. Given the magnitude of Turkey's debt service burden, Turkey will not be required to limit its use of the cash transfer to the first order of preference, financing of imports from the U.S.. Turkey may, as provided for by A.I.D.'s "ESF Cash Transfers - Amplified Policy Guidance," use this for servicing of bilateral, non-military debt owed to the U.S.. Since 35% of Turkey's debt service is owed to multilateral development banks and the IMF, your approval is requested, as required by the "Amplified Policy Guidance", to also include payment of such debt, as required for good management of foreign exchange flows, among the eligible uses of the Grant.

A.I.D.'s "Supplemental Guidance on Programming Local Currency" requires that Missions establish separate accounts for all local currencies associated with funds provided by the FAA unless appropriately waived by the regional bureau Assistant Administrator. This requirement is moot in this instance since no local currencies will be associated with this cash transfer to Turkey. However, the sensitivities surrounding the separate accounts issue are so great that we wish to highlight the fact that setting aside local currency under this PAAD is not required. The amplified PD No. 5 encourages programming of local currency as a tool for moving toward the goal of an overall host country budget that represents a sound, development oriented allocation of budget resources set within a market-oriented policy framework. Turkey has an open economy which is performing very well. For this reason, and given its status as a NATO ally, it is inappropriate for the U.S. to be

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involved in management of Turkey's budget and internal economy. A reflection of Turkey's status is the fact that A.I.D. no longer maintains staff in that country. Thus, neither this cash transfer, nor those of prior years have involved the setting aside of the Government of Turkey's own local currency resources for programming for mutually agreed purposes. Your approval that the FY 1989 cash grant to Turkey not require the setting aside of local currency for such purposes is, therefore, requested.

Disbursement of the Grant will be via a cash transfer immediately after conditions precedent have been met. Please note the Section 2.1(c) condition precedent requiring the Turkish Government to deposit the sum of \$18,735.35 into a special account prior to disbursement of the grant. Such deposit was necessitated by an inadvertent comingling of funds by the GOT in utilizing the proceeds of the FY 1988 cash transfer.

Recommendations:

1. That you authorize a \$60 million ESF cash grant to Turkey by signing this Action Memorandum and the PAAD attached as Tab A;
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;
3. That you hereby approve payment of debt to multilateral development banks and the IMF, as an eligible use of the Grant;
4. That you hereby approve that, as in past years, A.I.D. not require that the Government of Turkey set aside an amount of local currency at least equivalent to the Grant, for programming for mutually agreed upon purposes.

Approved: \_\_\_\_\_

*Thomas A. Blaine for*

Disapproved: \_\_\_\_\_

Date: \_\_\_\_\_

*1/5/1989*

Attachment:

Tab A - Program Assistance Approval Document (PAAD)

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Clearances:

DAA/ANE:WFuller	<u><i>W Fuller</i></u>	Date	<u>1/8/89</u>
ANE/PD/ME:JMSilver	<u><i>JMSilver</i></u>	Date	<u>12/3/88</u>
ANE/PD, BODell	(draft)	Date	<u>11/23/88</u>
ANE/GC:JSilverstone	(draft)	Date	<u>11/25/88</u>
EUR/SE:LUncu	(draft)	Date	<u>11/28/88</u>
F/FM:MUSnick	<u><i>MUSnick</i></u>	Date	<u>1/4/89</u>
ANE/DP:DCarr	(draft)	Date	<u>11/22/88</u>
ANE/DP:PBenedict	(draft)	Date	<u>11/22/88</u>
ANE/EE:RBrown	(draft)	Date	<u>11/28/88</u>
DAA/PPC:GLaudato	(draft)	Date	<u>12/6/88</u>

Drafted: ANE/PD/ME:TEJohnson:11/21/88:docid 3965c

UNITED STATES  
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT

PAAD NUMBER 277-K-613

PROGRAM ASSISTANCE

APPROVAL DOCUMENT

(PAAD)

TURKEY: FY 1989 PROGRAM CASH TRANSFER

NOVEMBER, 1989

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APPENDIX

Statutory Checklists  
Draft Cash Transfer Agreement  
State 368816  
Ankara 15433  
State 381319

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CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT  PROGRAM ASSISTANCE  APPROVAL DOCUMENT  (PAAD)	1. PAAD Number 277-K-613
	2. Country TURKEY
	3. Category Economic Support Funds (ESF)
	4. Date December , 1988
5. To AA/ANE, Carol C. Adelman	6. OYB Change Number N/A
7. From ANE/PD, Ronald F. Venezia <i>Ronald F. Venezia</i>	8. OYB Increase N/A To be taken from: N/A
9. Approval Requested for Commitment of \$ 60,000,000	10. Appropriation Budget Plan Code QES9-89-37277-KG-31 970-63-277-00-50-91
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 6 months	
14. Transaction Eligibility Date	

15. Commodities Financed  
N/A Cash Transfer

16. Permitted Source U.S. only Limited F.W. Free World Cash \$60,000,000	17. Estimated Source U.S. \$60,000,000 Industrialized Countries Local Other
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18. Summary Description  
This authorization approves a \$60 million grant to the Government of Turkey (GOT) to be used for balance-of-payments purposes, subject to the terms and conditions contained in the PAAD and the accompanying Action Memorandum. The grant will be provided as a cash transfer, disbursed in a single tranche. The dollars provided under the Grant will be placed in a separate account. Eligible uses will include payment for imports of goods and services from the U.S.; payment of bilateral non-military debt owed to the U.S.; and subject to AA/ANE approval in the context of this authorization, payment of debt owed to multi-lateral development banks and the IMF. Other uses could be agreed to if requested by the GOT and approved by A.I.D. according to the requirements of the Agency's "Amplified Policy Guidance" on ESF Cash Transfer Assistance.

This authorization also approves the fact that the A.I.D. will not require that the GOT set aside an amount of local currency at least equivalent to the grant for programming for mutually agreed purposes. Your authorization also delegates to the U.S. Ambassador to Turkey, or his designee, the authority to execute a Grant Agreement in the above amount.

Additional Clearances:  
ANE/DP:PBenedict *AK* (draft) Date 11/22/88 DAA/PPC:GLaudato (draft) 12/6/88  
ANE/EE:RBrown (draft) Date 11/28/88

19. Clearances	Date	20. Action
DAA/ANE:WFuller	<i>for [signature]</i> 11/15/88	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
ANE/DP/ME:JSilver <i>JS</i>	11/13/88	
ANE/DP:BOdell (draft)	11/23/88	Authorized Signature <i>Carol C. Adelman</i> Date 1/5/1989
ANE/GC:JSilverstone (draft)	11/25/88	
EUR/SE:LUnCu (draft)	11/28/88	Title Assistant Administrator, ANE
F/FM:MUSnick <i>for [signature]</i>	1/4/89	
ANE/DP:DCarr (draft)	11/22/88	

## I. Summary

This PAAD proposes a grant to the Republic of Turkey in the amount of \$60 million. The grant will be made from FY 1989 ESF funds, to be provided as a cash transfer and disbursed in a single tranche.

Turkey is a close, valued ally in the North Atlantic Treaty Organization (NATO). Its location, between Europe and the Middle East, bordering the Soviet Union, is of strategic importance to the United States. The United States has an interest in encouraging and supporting the growth, development and stability of a democratic, Western-oriented Turkey, willing and able to meet its NATO commitments.

The United States continues to support the economic reform program which the Turkish Government initiated in 1980. The program features a flexible foreign exchange regime, major efforts to reform Turkey's parastatal enterprises, and tight fiscal, monetary and wage policies. These and complementary policies have been used to change the Turkish economy from one which looked inward, producing for a highly protected domestic market, to one which increasingly is oriented toward the world market.

The Agreement will require that dollars provided under the grant be placed in a separate account. Eligible uses provided for in the Agreement will be for balance-of-payments purposes, and will include payment for imports of goods and services from the U.S., payment of non-military, bilateral debt owed to the U.S., and subject to AA/ANE approval, payment of debt owed to multilateral development banks and the IMF. Other uses, such as payment of official debt owed to U.S. private sector entities could be agreed to if requested by the Government of Turkey and approved by A.I.D. according to the requirements of the Agency's "Amplified Policy Guidance" on ESF Cash Transfer Assistance.

This PAAD recommends that AA/ANE approve the following recommendations:

- Authorize a \$60 million ESF cash grant to Turkey;
- Delegate authority to the U.S. Ambassador to Turkey, or his designee, to execute the grant agreement;
- Approve payment of debt to multilateral development banks and the IMF, as an eligible use of the Grant;

- Approve that A.I.D. not require that the Government of Turkey set aside an amount of local currency at least equivalent to the Grant, for programming for mutually agreed upon purposes.

## II. Program History

U.S. economic assistance since 1978 has totalled \$1.9 billion, ranging from \$350 million in 1982 to \$100 million in 1987. All assistance has been in grant form.

Assistance from other OECD countries averaged about \$700 million per year during the early part of this period.

## III. Economic Setting

In the late 1970's, Turkey experienced severe foreign exchange shortages, mounting debt obligations, rising inflation, disruptions in industrial production, and a sharp rise in unemployment. The Turkish authorities responded to the economic crisis in 1980 by adopting a comprehensive structural reform program, supported by debt rescheduling and IMF, World Bank and OECD assistance.

The reform program has been successful on a number of counts. After declining in 1979-80, real GDP growth expanded by an average 4% during 1981-85 and accelerated to 8% in 1986 and about 7% during 1987 and 1988. The budget deficit fell from 5% of GDP in 1980 to 2% in 1982; the average during the 1983-86 period has been just below 3%. After peaking at 107% in 1980 and dropping sharply to 23% in 1982, the inflation rate rose again to 48% by 1984 and then steadily dropped to about 35% in 1986. The current account balance of payments deficit declined from \$3.4 billion in 1980 to \$935 million in 1982 before widening again to \$1.9 billion in 1983. This deficit has since ranged between \$1.0 and \$1.5 billion.

Two worrisome aspects of economic performance over the last two years have been the marked erosion in the fiscal deficit to about 5% of GDP during 1987 and the sharp rise in the inflation rate during 1988 to about 70%. The fiscal deficit ratio may have continued to increase during 1988. The cause of these adverse developments has been sharply increased expenditures connected with the November 1987, September 1988 and March 1989 elections.

Some fiscal stabilization measures were taken following the November 1987 election, with an emphasis on price increases on goods and services produced by state enterprises to reduce

their need for budgetary transfers. The price increases between December 1987 and February 1988 averaged about 20%. Some additional price increases took place during the spring of 1988, notably increases for petroleum products by 12-23%. Some tax increases also took place, especially for motor vehicles, gasoline, alcohol and cigarettes. VAT exemptions were eliminated on basic foodstuffs and key agricultural products and the rate raised on luxury consumer goods from 12 to 15%, and on agricultural pesticides, pharmaceutical products, health and other services from 5 to 8%. Other stabilization measures included limitations on new investment spending, increases in the interest rates on lira deposits, and a rise in reserve requirements.

After the September 1988 referendum, further fiscal restraint measures were expected, but were limited to an increase in the stamp tax on imports from 6 to 10% and to price rises for a small number of items, including dairy products, soap, lentils, cement, tea, and sheet iron. Another significant reform measure was the near freeing of interest rates. Substantial additional measures are needed to bring down the fiscal deficit again and to reduce inflationary pressures.

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TABLE I  
Balance of Payments and Other Data  
1982-1987

	1982	1983	1984	1985	1986	1987
(Millions of US \$)						
Current Account	-935	-1,898	-1,407	-1,013	-1,528	-987
Merchandise Exports (fob)	5,890	5,905	7,389	8,255	7,583	10,322
Merchandise Imports (fob)	8,518	8,895	10,331	11,230	10,664	13,556
Trade balance	-2,628	-2,990	-2,942	-2,975	-3,081	-3,234
Service credits	2,038	2,041	2,366	3,148	3,250	4,111
Service debts	2,639	2,734	2,945	3,185	-3,646	4,282
Private transfers net	2,189	1,549	1,885	1,762	1,703	2,066
Official transfer net	105	236	229	236	246	352
Current account deficit as percent of GNP	2.2	3.6	2.8	1.6	2.6	1.5
<u>Other Data</u>						
Real GNP growth (%)	4.5	3.4	5.9	5.1	8.1	7.4
Inflation	23	31	48	44	35	39
Consolidated budget deficit (% of GNP)	2.5	2.0	4.5	2.5	2.6	4.9

#### IV. U.S. Interests

Turkey is a close and valued ally in the North Atlantic Treaty Organization (NATO). Its location, between Europe and the Middle East, bordering the Soviet Union, is of strategic importance to the United States. The United States has an interest in encouraging and supporting the growth, development and stability of a democratic, Western-oriented Turkey, willing and able to meet its NATO commitments.

#### V. Conditionality

A condition precedent to disbursement will be included in the Grant Agreement, requiring the Government of Turkey to establish a separate account for deposit of the dollars. A separate condition precedent to disbursement will require the GOT to deposit, from its own resources, the sum of \$18,735.35 into the special account before the FY 1989 cash transfer can be disbursed. Such deposit was necessitated by an inadvertent comingling of funds by the GOT of the FY 1989 cash transfer.

#### VI. Description of the Grant

The Grant will be a cash transfer from FY 1989 ESF funds in the amount of \$60 million, to be provided in a single tranche. As in the past, there will be no setting aside of a local currency equivalent. PD No. 5 encourages programming of local currency as a tool for moving toward the goal of an overall host country budget that represents a sound, development oriented allocation of budget resources set within a market-oriented policy framework. Turkey has an open economy which is performing very well. Thus, neither this cash transfer, nor those of prior years have involved the setting aside of the Government of Turkey's own resources for programming for mutually agreed purposes. For this reason, and given its status as a NATO ally, it is inappropriate for the U.S. to be involved in management of Turkey's budget and internal economy. AA/ANE approval to forgo requiring that the Government of Turkey set aside its own resources in an amount at least equivalent to the Grant, for programming for mutually agreed purposes, is requested in the context of approving this PAAD.

#### VII. Uses of the Grant

The Grant proceeds will be used by Turkey for any or all of the following purposes determined by Turkey to be necessary for balance of payment purposes in the following order of

preference: (1) financing the importation of raw materials, intermediate and capital goods or services and essential consumer goods from the United States; (2) servicing of official debt owed to the United States Government, (3) servicing of debt owed to multilateral development banks and the IMF. As described in Section III of this PAAD covering the economic setting, Turkey has substantially liberalized its foreign exchange regime in the past few years, providing for more rational exchange rate determination, and granting import licenses on a non-restrictive basis. In addition, Turkey has a very substantial debt service burden which limits the country's growth and development. Given the magnitude of Turkey's debt service burden, A.I.D. has determined, consistent with the provisions of A.I.D.'s "ESF Cash Transfers - Amplified Policy Guidance," that Turkey need not limit its use of the cash transfer to the first order of preference, financing of imports from the U.S., but may use this for servicing non-military bilateral debt owed to the U.S.. The "Amplified Policy Guidance" requires prior concurrence of the Regional Assistant Administrator to use cash transfer dollars to pay debt owed to multilateral development banks and the IMF. Approximately one-third of Turkey's debt service is owed to such institutions. AA/ANE concurrence for Turkey to also use its cash transfer for payment of debt to multilateral institutions, as required for good management of foreign exchange flows, is, therefore, requested in the context of approving this PAAD.

If it should be determined that Turkey may not be able to utilize the dollar proceeds made available under the Grant in a reasonable period of time and keep within the above categories of uses, A.I.D. would consider a written request by the Government of Turkey to expand eligible categories of uses of the dollar proceeds to include, in order of preference: servicing of commercial debt owed in the United States, servicing of debt owed to A.I.D. Geographic Code 899 countries, and financing of imports from Code 899 countries. Approval of any such use would be made following the procedures set out in A.I.D.'s "Amplified Policy Guidance" on ESF Cash Transfer Assistance.

Any interest earned on the dollar proceeds placed into the separate account or accounts shall be treated as if it were principal (i.e., Grant proceeds). Should there be a period of time between the disbursement of the cash transfer and ultimate disposition of the proceeds in the separate account for actually agreed purposes, in the interest of good cash management principles, the Government of Turkey would be permitted to place the Grant proceeds in various low-risk, non-speculative financial instruments in the United States pending ultimate use of those proceeds. Such interest-bearing

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financial instruments might include United States Treasury securities, certificates of deposit, and high quality money market accounts. Prior to the time of ultimate disposition of the separate account proceeds for import financing, debt servicing, or other agreed uses, Grant proceeds could not be converted to or exchanged for the currencies of countries other than the United States or otherwise placed in international financial markets. The temporary placement of Grant proceeds in financial instruments, other than those stipulated above, would be a matter of consultation and agreement between the two parties.

VIII. Accountability for the Grant

Financial documentation, books, and records will be maintained, in accordance with generally accepted accounting principles and practices, concerning the use of Grant proceeds for a period of three years. Over the three year period appropriate documentation will be made available to A.I.D. upon reasonable request. Financial records will at least be suitable to document the withdrawal and disposition of dollar funds from the separate account and their tracking into final uses. This documentary evidence might, for example, take the form of letters of credit or bank statements in support of actual transactions for specific purposes and end uses. Should Grant proceeds be used for other than for the eligible purposes, the Government of the Republic of Turkey would be required to deposit, from its own foreign exchange, a commensurate amount of dollars in the separate bank account and to treat such deposit as principle under the Grant Agreement.

Clearances:

DAA/ANE:WFuller	<u><i>W Full</i></u>	Date	<u>1/5/89</u>
ANE/PD/ME:JMSilver	<u><i>J Silver</i></u>	Date	<u>11/23/88</u>
ANE/PD, BODell	<u>(draft)</u>	Date	<u>11/23/88</u>
ANE/GC:JSilverstone	<u>(draft)</u>	Date	<u>11/25/88</u>
EUR/SE:LUncu	<u>(draft)</u>	Date	<u>11/28/88</u>
F/FM:MUsnick	<u><i>M Unick</i></u>	Date	<u>1/4/89</u>
ANE/DP:DCarr	<u>(draft)</u>	Date	<u>11/22/88</u>
ANE/DP:PBenedict	<u>(draft)</u>	Date	<u>11/22/88</u>
ANE/EE:RBrown	<u>(draft)</u>	Date	<u>11/28/88</u>
DAA/PPC:GLaudato	<u>(draft)</u>	Date	<u>12/6/88</u>

Drafted: ANE/PD/ME:TEJohnson:11/21/88:docid 3965c

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1989 Appropriations Act Sec. 578(b).  
Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances 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 United States Government personnel or their dependents or from entering the United States unlawfully?
  
2. FAA Sec. 481(h); FY 1989 Appropriations Act Sec. 578; 1988 Drug Act Secs. 4405-07. (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are

No

Per State Department International Narcotics Matters Bureau memo dated December 29, 1988, Turkey is not considered a major drug transit or illicit drug producing country.

laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. 1986 Drug Act Sec. 2013; 1988 Drug Act Sec. 4404. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the

Per State Department International Narcotics Matters Bureau memo dated December 29, 1988, Turkey is not not considered a major drug transit or illicit drug producing country.

government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

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

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any 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.

6. FAA Secs. 620(a), 620(f), 620D; FY 1989 Appropriations Act Secs. 512, 550, 592. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided

No. Assistance will not be so provided.

either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?  
Turkey is not known to be in violation of this section.
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC?  
No. There is such an agreement.
9. 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 vessel because of fishing activities in international waters?  
(b) If so, has any deduction required by the Fishermen's Protective Act been made?  
Turkey is not known to have taken such action
10. FAA Sec. 620(q); FY 1989 Appropriations Act Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (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 FY 1989 Appropriations Act appropriates funds?  
No.
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources 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  
Yes, as reported in the Annual Report on Implementation of FAA Section 620(s).

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.)

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
13. 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 A.I.D. Administrator in determining the current A.I.D. 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 UN obligations.
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? No.
15. FY 1989 Appropriations Act Sec. 568. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)? No.
16. 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.

17. FAA Sec. 666(b). 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.
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? 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 delivered or received such items or detonated such a device.
19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? We have no knowledge that Turkey has attempted such exports
20. 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. on Sept. 25 and 28, 1981, and did it fail 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.
21. FY 1989 Appropriations Act Sec. 527. 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.

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22. FY 1989 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? No. Assistance has not been terminated.
23. FY 1989 Appropriations Act Sec. 540. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? Yes.

**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?

No.

FY 1989 Appropriations Act Sec. 536. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No.

**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 President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

No, it has not been so determined

FY 1989 Appropriations Act Sec. 578(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?

Yes.

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? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project. Congressional Notification expired on December 2, 1988.
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 provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs. No.

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4. FAA Sec. 601(a). Information and conclusions on 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.  
Funds will finance Turkey imports from the U.S. and or debt service payments, and generally assist Turkey's economic stabilization and development efforts.
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 U.S. are expected to expand, we foresee this program having a positive effect.
6. FAA Secs. 612(b), 636(h); FY 1989 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.  
Not applicable.
7. FAA Sec. 612(d). Does the U.S. 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 Sec. 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 1989 Appropriations Act. Will assistance be designed so that the percentage of women participants will be demonstrably increased?  
Not applicable.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

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

b. FAA Sec. 531(e). 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 at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

No.

d. 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.

e. FY 1989 Appropriations Act. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA

a) Yes.

b) No local currency equivalent will be generated by this cash transfer.

c) CN expired on December 2, 1988.

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would themselves be available)? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a).  
Extent to which activity will (a) effectively involve the poor in development, by expanding 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?

Not applicable.

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. 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, 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 programs explicitly addressing the problem of malnutrition 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.

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(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 outreach.

(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, and 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 of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for energy, private voluntary organizations, 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 research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, 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 manmade disaster and programs of disaster preparedness;

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

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

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

c. FY 1989 Appropriations Act. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

Not applicable.

d. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Not applicable.

e. 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.

Not applicable.

f. FAA Sec. 101(a). 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?

Yes.

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APPROVED BY: AID/ANE/PD:RFVEVEZIA  
AID/ANE/EE:CAD:MCZYK (DRAFT) AID/ANE/ME:JSILVER (DRAFT)  
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TAGS:

SUBJECT: FY 89, TURKEY CASH TRANSFER

REF: STATE 338151

1. THIS CABLE TRANSMITS THE TEXT OF THE FY 89 CASH TRANSFER GRANT TO TURKEY FOR DOS 60 MILLION, PLUS SUPPLEMENTAL INFORMATION RELEVANT TO YOUR DISCUSSION AND NEGOTIATIONS WITH THE GOVERNMENT OF TURKEY. THE EMBASSY MAY UTILIZE THIS DRAFT DOCUMENT TO EEGIN INITIAL DISCUSSIONS AND NEGOTIATIONS WITH THE GOV RELATED TO THE CASH TRANSFER FOR FY 1989. WE WILL HAVE TO APPROVE ANY SUBSTANTIVE CHANGES. THE FY 89 APPROPRIATIONS ACT REQUIRES ALL CASH TRANSFERS TO HAVE A CONGRESSIONAL NOTIFICATION (CN) OF 15 DAYS PRIOR TO OBLIGATION. CN HAS BEEN DRAFTED AND IS IN CLEARANCE. FUNDS WILL BE AUTHORIZED BY MEANS OF A PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD), TO BE APPROVED BY THE A.I.D. ASSISTANT ADMINISTRATOR FOR ASIA-NEAR EAST (AA/ANE). ONCE THE PAAD HAS BEEN APPROVED HERE BY THE AA/ANE, AND 15 DAY WAITING PERIOD ON CN HAS EXPIRED, WE WILL ADVISE EMBASSY OF AUTHORIZATION TO EXECUTE THE AGREEMENT, AND FORWARD A BUDGET ALLOWANCE BY SEPTEL. THE TEXT OF THE PROPOSED

GRANT AGREEMENT IS ESSENTIALLY THE SAME AS LAST YEAR, EXCEPT FOR AMOUNT AND NEW SECTIONS 2.1 (C) AND (D) CONDITIONS PRECEDENT TO DISBURSEMENT.

2. TEXT OF THE DRAFT GRANT AGREEMENT FOLLOWS. BEGIN TEXT.

- 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 (QUOTE THE GRANTEE UNQUOTE) AND THE UNITED STATES OF AMERICA ACTING THROUGH THE AGENCY FOR INTERNATIONAL DEVELOPMENT (QUOTE A.I.D. UNQUOTE), TOGETHER REFERRED TO AS THE QUOTE PARTIES UNQUOTE.

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

SECTION 1.1 THE GRANT

A.I.D., PURSUANT TO THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED, AGREES TO GRANT TO THE GRANTEE UNDER THE TERMS OF THIS AGREEMENT NOT TO EXCEED SIXTY MILLION UNITED STATES DOLLARS (DOLS 60,000,000) (THE QUOTE GRANT QUOTE) 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 ISSUANCE BY A.I.D. OF DOCUMENTATION PURSUANT TO WHICH DISBURSEMENT WILL BE MADE, THE GRANTEE 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) 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 SPECIFIED SIGNATURE OF EACH PERSON IN SUCH STATEMENT;

(B) A DESIGNATION OF THE BANK ACCOUNT TO WHICH THE GRANT PROCEEDS ARE TO BE DEPOSITED, TOGETHER WITH THE GRANTEE'S STATEMENT THAT SUCH BANK ACCOUNT IS ESTABLISHED AND WILL BE MAINTAINED IN THE MANNER REQUIRED BY SECTION 4.3 OF THIS AGREEMENT;

(C) CERTIFICATION BY A REPRESENTATIVE OF THE GOVERNMENT OF THE REPUBLIC OF TURKEY AUTHORIZED PURSUANT TO SECTION 2.1 (A) OF THIS AGREEMENT, THAT THE SUM OF EIGHTEEN THOUSAND SEVEN HUNDRED THIRTY-FIVE UNITED STATES DOLLARS AND THIRTY-FIVE CENTS (DOLS 18,735.35) HAS BEEN DEPOSITED BY THE GOVERNMENT OF TURKEY FROM ITS OWN RESOURCES INTO THE BANK ACCOUNT ESTABLISHED IN ACCORDANCE WITH SECTION 2.1 (B) TO RECEIVE THE GRANT. THESE FUNDS WILL BE TREATED AS GRANT PROCEEDS AND SUBJECT TO ALL THE TERMS AND CONDITIONS OF THIS AGREEMENT;

(D) AN OPINION OF COUNSEL, IN FORM AND SUBSTANCE ACCEPTABLE TO A.I.D., THAT THE AGREEMENT HAS BEEN DULY AUTHORIZED AND/OR RATIFIED AND EXECUTED ON BEHALF OF THE GOVERNMENT OF THE REPUBLIC OF TURKEY AND THAT IT CONSTITUTES A VALID AND LEGALLY BINDING OBLIGATION OF THE GOVERNMENT OF THE REPUBLIC OF TURKEY IN ACCORDANCE WITH ALL ITS TERMS.

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 THE GRANTEE.

SECTION 2.3 TERMINAL DATE FOR CONDITIONS PRECEDENT

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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 THE GRANTEE.

- ARTICLE III -  
- DISBURSEMENTS

SECTION 3.1 DEPOSIT OF DISBURSEMENTS

AFTER SATISFACTION OF THE CONDITIONS PRECEDENT, AT THE WRITTEN REQUEST OF THE GRANTEE, A. I. D. WILL DEPOSIT THE GRANT PROCEEDS IN A BANK OR BANKS DESIGNATED IN WRITING BY THE GRANTEE PURSUANT TO SECTION 2.1 (B) ABOVE.

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 COVENANTS

SECTION 4.1 NO USE FOR MILITARY OR OTHER SPECIFIED PURPOSES

IT IS THE UNDERSTANDING OF THE PARTIES THAT THE GRANT WILL NOT BE USED FOR FINANCING MILITARY REQUIREMENTS OF ANY KIND, INCLUDING THE PROCUREMENT OF COMMODITIES OR SERVICES FOR MILITARY PURPOSES OR THE REPAYMENT OF DEBT INCURRED FOR SUCH PROCUREMENT. NOR WILL THE GRANT BE USED FOR SUCH OTHER PURPOSES AS MAY BE SPECIFIED IN IMPLEMENTATION LETTERS BY A. I. D.

SECTION 4.2. USES OF GRANT PROCEEDS

(A) THE GRANT PROCEEDS WILL BE USED BY THE GRANTEE FOR ANY OR ALL OF THE FOLLOWING PURPOSES DETERMINED BY THE GRANTEE TO BE NECESSARY FOR BALANCE OF PAYMENT PURPOSES IN THE FOLLOWING ORDER OF PREFERENCE: (1) FINANCING THE IMPORTATION OF RAW MATERIALS, INTERMEDIATE AND CAPITAL GOODS OR SERVICES AND ESSENTIAL CONSUMER GOODS FROM THE UNITED STATES; (2) SERVICING OF EXTERNAL DEBT OWED TO THE UNITED STATES GOVERNMENT, OTHER THAN TO REPAY U. S. FOREIGN MILITARY SALES (FMS) DEBT; (3) DEBT OWED TO MULTILATERAL DEVELOPMENT BANKS, OR TO THE INTERNATIONAL MONETARY FUND; AND (4) OTHER PURPOSES OR USES AS AGREED IN WRITING BETWEEN THE PARTIES.

(B) IF IT SHOULD BE DETERMINED THAT THE GRANTEE MAY NOT BE ABLE TO UTILIZE THE DOLLAR PROCEEDS MADE AVAILABLE UNDER SECTIONS 4.2 (A) (1) THROUGH 4.2 (A) (3) OF THIS GRANT IN A REASONABLE PERIOD OF TIME AND KEEP WITHIN THOSE CATEGORIES OF USES, A. I. D. IS PREPARED TO CONSIDER A WRITTEN REQUEST TO EXPAND ELIGIBLE CATEGORIES OF USES OF THE DOLLAR PROCEEDS TO INCLUDE, INTER ALIA, IN ORDER OF PREFERENCE, SERVICING OF COMMERCIAL DEBT OWED IN THE UNITED STATES, SERVICING OF DEBT OWED TO A. I. D. GEOGRAPHIC CODE 899 COUNTRIES, AND FINANCING OF IMPORTS FROM CODE 899 COUNTRIES.

(C) ANY INTEREST EARNED ON THE DOLLAR PROCEEDS PLACED INTO THE SEPARATE ACCOUNT OR ACCOUNTS SHALL BE TREATED AS IF IT WERE PRINCIPAL (I. E., GRANT PROCEEDS). SHOULD THERE BE A PERIOD OF TIME BETWEEN THE DISBURSEMENT OF THE CASH TRANSFER AND ULTIMATE DISPOSITION OF THE PROCEEDS IN THE SEPARATE ACCOUNT FOR ACTUALLY AGREED

PURPOSES, IT IS AGREED THAT, IN THE INTEREST OF GOOD CASH MANAGEMENT PRINCIPLES, THE GRANTEE MAY PLACE THE GRANT PROCEEDS IN VARIOUS LOW-RISK, NON-SPECULATIVE FINANCIAL INSTRUMENTS IN THE UNITED STATES PENDING ULTIMATE USE OF THOSE PROCEEDS. SUCH INTEREST-BEARING FINANCIAL INSTRUMENTS MAY INCLUDE UNITED STATES TREASURY SECURITIES, CERTIFICATES OF DEPOSIT, AND HIGH QUALITY MONEY MARKET ACCOUNTS. PRIOR TO THE TIME OF ULTIMATE DISPOSITION OF THE SEPARATE ACCOUNT PROCEEDS FOR IMPORT FINANCING, DEBT SERVICING, OR OTHER AGREED USES, GRANT PROCEEDS SHOULD NOT BE CONVERTED TO OR EXCHANGED FOR THE CURRENCIES OF COUNTRIES OTHER THAN THE UNITED STATES OR OTHERWISE PLACED IN INTERNATIONAL FINANCIAL MARKETS. THE TEMPORARY PLACEMENT OF GRANT PROCEEDS IN FINANCIAL INSTRUMENTS, OTHER THAN THOSE STIPULATED ABOVE, SHALL BE A MATTER OF CONSULTATION AND AGREEMENT BETWEEN THE TWO PARTIES.

(D) NEITHER PARTY EXPECTS THAT GRANT PROCEEDS WOULD BE USED OTHER THAN FOR THE ELIGIBLE PURPOSES SET FORTH ABOVE. SHOULD THIS TURN OUT FOR WHATEVER REASONS NOT TO BE THE CASE, HOWEVER, THE GRANTEE SHALL PROMPTLY DEPOSIT, FROM ITS OWN FOREIGN EXCHANGE, A CORRESPONDING AMOUNT OF DOLLARS IN THE SEPARATE BANK ACCOUNT AND TO TREAT SUCH DEPOSIT AS PRINCIPAL UNDER THE CASH TRANSFER AGREEMENT. THAT IS TO SAY, SUCH DEPOSITS WOULD BE SPENT FOR ELIGIBLE PURPOSES AS NOTED ABOVE AND ACCOUNTING WOULD TAKE PLACE IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THE AGREEMENT.

SECTION 4.3. ACCOUNTING FOR GRANT PROCEEDS

THE PARTIES AGREE ON THE FOLLOWING APPLICABLE PROCEDURES:

(A) GRANT PROCEEDS WILL BE DEPOSITED TO A BANK ACCOUNT ESTABLISHED BY THE GRANTEE SOLELY FOR THE RECEIPT OF CASH TRANSFER ASSISTANCE FROM A. I. D. SUCH PROCEEDS MAY NOT BE COMINGLED WITH OTHER FUNDS FROM WHATEVER SOURCE PRIOR TO THEIR USE FOR ELIGIBLE PURPOSES PURSUANT TO SECTION 4.2 HEREUNDER. IN OTHER WORDS, DOLLAR PROCEEDS DEPOSITED IN THE SEPARATE ACCOUNT SHOULD BE USED DIRECTLY FROM THAT ACCOUNT WITHOUT COMINGLING WITH OTHER FOREIGN EXCHANGE ACCOUNTS. SHOULD ANY INTEREST BE EARNED ON SUCH ACCOUNT, SUCH INTEREST WILL BE TREATED AS THOUGH IT WERE PRINCIPAL (I. E., GRANT PROCEEDS) RECEIVED UNDER THE TERMS OF THIS AGREEMENT.

(B) THE GRANTEE WILL MAINTAIN FINANCIAL DOCUMENTATION, BOOKS, AND RECORDS, IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND PRACTICES, CONCERNING USE OF GRANT PROCEEDS FOR A PERIOD OF THREE YEARS FROM THE DATE OF THIS AGREEMENT. WITHIN ONE YEAR OF THE DISBURSEMENT BY A. I. D. OF GRANT PROCEEDS, THE GRANTEE WILL ADVISE A. I. D. IN WRITING, WITH APPROPRIATE DETAIL, ON THE USES TO WHICH SUCH GRANT PROCEEDS HAVE BEEN PUT. THE DOCUMENTATION, BOOKS AND RECORDS REQUIRED HEREUNDER SHALL BE AVAILABLE FOR EXAMINATION BY A. I. D. OR ANY OF ITS AUTHORIZED REPRESENTATIVES AT ALL TIMES AS A. I. D. MAY REASONABLY REQUEST FOR A PERIOD OF THREE (3) YEARS AFTER THE DATE OF FINAL DISBURSEMENT BY A. I. D. UNDER THIS AGREEMENT.

(C) FINANCIAL RECORDS SHOULD AT LEAST BE SUITABLE TO DOCUMENT THE WITHDRAWAL AND DISPOSITION OF DOLLAR FUNDS DIRECTLY FROM THE SEPARATE ACCOUNT FOR ELIGIBLE USES. THIS DOCUMENTARY EVIDENCE MIGHT, FOR EXAMPLE, TAKE THE FORM OF LETTERS OF CREDIT OR BANK STATEMENTS IN SUPPORT OF ACTUAL TRANSACTIONS FOR SPECIFIC PURPOSES. IN THE CASE OF DEBT, THIS MAY INCLUDE CENTRAL BANK AND COMMERCIAL BANK DOCUMENTS DEMONSTRATING THAT SEPARATE

BEST AVAILABLE DOCUMENT

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ACCOUNT DOLLARS WERE TRANSFERRED TO AN ACCOUNT FOR EXTERNAL DEBT REPAYMENT, AND THAT DEBT SERVICE PAYMENTS WERE MADE WITH THOSE FUNDS. ANY QUESTION ON THE REQUIREMENTS OF ACCOUNTING SET FORTH IN THIS SECTION SHOULD BE THE SUBJECT OF CONSULTATION BETWEEN THE PARTIES.

FOR THE REPUBLIC OF TURKEY

UNDERSECRETARY OF TREASURY AND FOREIGN TRADE

END TEXT.

3. ITEMS TO PARTICULARLY NOTE DURING DISCUSSION AND NEGOTIATION WITH THE GOT INCLUDE THE FOLLOWING:

A. THE U.S. DOLLAR AMOUNT IS DOLS. SIXTY MILLION (DOLS 60,000,000).

B. SECTION 4.2 (A) (3) INDICATES THAT GRANT DOLLARS MAY BE USED TO PAY DEBT OWED TO MULTILATERAL DEVELOPMENT BANKS OR THE IMF. THIS PROVISION IS SUBJECT TO CONCURRENCE OF THE A.I.D. ASSISTANT ADMINISTRATOR FOR ASIA-NEAR EAST (AA/ANE), WHICH HAS NOT YET BEEN OBTAINED. IN LIGHT OF THE MAGNITUDE OF TURKEY'S OBLIGATIONS TO THE WORLD BANK AND IMF, AA/ANE WILL BE REQUESTED TO PROVIDE SUCH CONCURRENCE IN THE CONTEXT OF APPROVING THE PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD) WHICH WILL AUTHORIZE THE CASH TRANSFER. FOLLOWING PROCEDURE DESCRIBED IN PARA. 1 OF THIS CABLE, AID/W WILL NOTIFY EMBASSY WHEN PAAD APPROVED, AND CONFIRM THAT CONCURRENCE OBTAINED AS REQUESTED AT THAT TIME. IN ADDITION, PLEASE NOTE THAT DESPITE ORDER OF PREFERENCE IN SECTION 4.2 (A) OF THE AGREEMENT, GOT'S STRONG DESIRE TO APPLY DOLLAR PROCEEDS TO NONMILITARY DEBT SERVICE MAY BE HONORED. SUCH DEBT SERVICE TO U.S. GOVERNMENT SHOULD TAKE PRECEDENCE. HOWEVER, PAYMENT COULD BE MADE FOR MULTILATERAL DEBT (SUBJECT TO AA/ANE CONCURRENCE AS DISCUSSED) IF DETERMINED NECESSARY BY THE GOT TO UTILIZE THE GRANT IN A TIMELY MANNER AND TO MANAGE FOREIGN EXCHANGE FLOWS.

C. WITH RESPECT TO SECTION 4.2 (A) (4), IF IT SHOULD BE

DETERMINED THAT TURKEY MAY NOT BE ABLE TO UTILIZE THE GRANT IN A REASONABLE PERIOD OF TIME AND KEEP WITHIN THE PERMITTED USES AS DEFINED IN SECTION 4.2 (A) (C) OF THE DRAFT AGREEMENT, A.I.D. COULD CONSIDER A REQUEST, SUPPORTED BY APPROPRIATE INFORMATION AND JUSTIFICATION, TO EXPAND ELIGIBLE CATEGORIES OF USES OF THE GRANT CONSISTENT WITH A.I.D.'S POLICY ON USE OF CASH TRANSFERS. FOR EXAMPLE, AA/ANE COULD BE REQUESTED TO AUTHORIZE PAYMENT OF TURKISH OFFICIAL DEBT TO U.S. PRIVATE SECTOR ENTITIES.

D. IF GRANT DOLLARS WILL BE USED TO PAY BACK DEBT, PARTICULAR ATTENTION MUST BE PAID TO GUIDANCE ON THE PROHIBITION OF FINANCING ITEMS WITH SPECIFIC LEGAL PROHIBITIONS, E.G., ABORTION EQUIPMENT, WHICH MAY HAVE TO BE SPELLED OUT IN SUBSEQUENT IMPLEMENTATION LETTER(S). THIS IS IN ADDITION TO PRECLUSION OF DEBT FOR MILITARY ITEMS. SECTIONS 4.1 AND 4.2 (B) OF THE AGREEMENT TEXT COVER THIS PROBLEM.

E. SIMILARLY, IF GRANT DOLLARS ARE TO BE USED FOR PURCHASE OF IMPORTED GOODS, ADDITIONAL PROJECT IMPLEMENTATION LETTERS WHICH CLEARLY DEFINE NONALLOWABLE ITEMS WILL BE SENT BY THE EMBASSY. THIS IS ALSO COVERED BY SECTIONS 4.1 AND 4.2 (B) AID/W WILL PROVIDE GUIDANCE TO EMBASSY IN REGARD TO ANY NECESSARY IMPLEMENTATION LETTERS IN SITUATIONS OUTLINED IN THIS PARA OR PARA 3 (D) ABOVE.

4. TO ASSIST AID/W IN CARRYING OUT ITS RESPONSIBILITY FOR OVERSEEING THE AGENCY'S IMPLEMENTATION OF THE PROVISION OF THE FY 1989 APPROPRIATIONS ACT, WHICH REQUIRES THE ESTABLISHMENT OF SEPARATE ACCOUNTS FOR ALL

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SECTION 5.1. COMMUNICATIONS

THE GRANTEE UNDERTAKES TO PROVIDE TO A.I.D. SUCH INFORMATION RELATING TO THE ECONOMIC AND FINANCIAL SITUATION AND RELATED PROBLEMS OF THE GRANTEE 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 U.S.: U.S. AMBASSADOR  
- U.S. EMBASSY  
- ANKARA, TURKEY

ALL SUCH COMMUNICATION WILL BE IN ENGLISH, UNLESS THE PARTIES OTHERWISE AGREE IN WRITING. OTHER ADDRESSES MAY BE SUBSTITUTED FOR THE ABOVE UPON GIVING OF NOTICE. THE GRANTEE, IN ADDITION, WILL PROVIDE THE DIRECTOR, OFFICE OF PROJECT DEVELOPMENT, ASIA/NEAR EAST (ANE) BUREAU, A.I.D. WASHINGTON, D. C. 20523, WITH A COPY OF EACH COMMUNICATION SENT TO THE U.S. EMBASSY IN ANKARA.

SECTION 5.2. REPRESENTATIVES

FOR ALL PURPOSES RELEVANT TO THIS AGREEMENT, THE GRANTEE 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 THE GRANTEE, WITH SPECIFIC 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

U.S. AMBASSADOR

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ESF CASH TRANSFERS, THE FOLLOWING INFORMATION MUST BE INCLUDED IN ANY EMBASSY CABLE REQUESTING DISBURSEMENT UNDER THE GRANT:

- A. DESCRIPTION OF THE MEANS BY WHICH FUNDS MAY BE WITHDRAWN FROM THE SEPARATE DOLLAR ACCOUNT INTO WHICH THE DISBURSEMENT IS MADE, INCLUDING ANY CONDITIONS PRECEDENT AND ANY NOTIFICATION REQUIREMENTS.
- B. A BRIEF DESCRIPTION OF HOW THE SPECIAL ACCOUNT REQUIREMENT FOR LOCAL CURRENCY CONTAINED IN THE FY 1989 APPROPRIATIONS ACT HAS BEEN IMPLEMENTED. IN THE CASE OF TURKEY, THE AA/AHE WILL BE REQUESTED TO WAIVE, IN THE CONTEXT OF APPROVING THE PAAD, THE REQUIREMENT THAT THE GOT SET ASIDE AN AMOUNT OF LOCAL CURRENCY AT LEAST EQUIVALENT TO THE GRANT, FOR PROGRAMMING FOR MUTUALLY AGREED UPON PURPOSES.
- C. ALTHOUGH THE AMBASSADOR HAS OVERALL RESPONSIBILITY FOR ASSURING THAT DISBURSEMENTS INTO AND WITHDRAWALS FROM THE SPECIAL ACCOUNT ARE MONITORED, THE IS WOULD LIKE THE NAME OF THE PERSON WITHIN THE EMBASSY WHO HAS RESPONSIBILITY FOR DAY-TO-DAY OVERSIGHT OF THE SPECIAL ACCOUNT.
5. EMBASSY SHOULD INSURE THAT ADEQUATE PROCEDURES ARE ESTABLISHED TO ACCOUNT FOR THE FUNDS GOING INTO AND OUT OF THE SEPARATE ACCOUNT.
6. PLEASE DO NOT HESITATE TO BE IN TOUCH WITH JOAN SILVER (PHONE 202-647-6919) ON ANY QUESTIONS YOU OR THE GOT MAY HAVE ON TEST OF THE AGREEMENT, OR RELATED ISSUES WITH AID DESK OFFICER CHRISTINE ADAMCZYK (202-647-7654). WHITEHEAD

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UNCLAS ANKARA 15433

E.O. 12356: DECL: OADR  
TAGS: EAID, TU  
SUBJECT: GOT COMMENTS ON DRAFT ESF AGREEMENT

REF: STATE 368816

1. SUMMARY - GOT REPRESENTATIVES HAVE NO OBJECTIONS TO PROPOSED TEXT OF THE DRAFT ESF AGREEMENT. ONLY MINOR TECHNICAL CHANGES WILL BE REQUIRED TO EXECUTE THE AGREEMENT ONCE AUTHORIZED. WE WOULD APPRECIATE EXPEDITIOUS CONSIDERATION OF THE PROPOSED CHANGES SO WE CAN RESPOND TO THE GOT ASAP.

2. IN ACCORDANCE WITH THE CONDITIONS PRECEDENT TO DISBURSEMENT, THE GOT HAS INITIATED PROCEDURES TO ESTABLISH A SEPARATE ACCOUNT FOR RECEIPT OF FY 89 FUNDS AND HAS DEPOSITED USD 18,735.35. THIS AMOUNT CORRESPONDS TO THE AMOUNT WHICH HAD BEEN TRANSFERRED TO THE GOT'S GENERAL ACCOUNT AT THE END OF LAST YEAR CONTRARY TO THE PROHIBITION AGAINST COMMINGLING OF FUNDS. END SUMMARY

3. ECONOFF CONVEYED COPIES OF THE DRAFT ESF AGREEMENT TO UNDERSECRETARIAT OF TREASURY AND FOREIGN TRADE (UTFT) OFFICIALS ON NOVEMBER 16 AND 17. THEY NOTED CHANGES IN THE AMOUNT OF THE GRANT (FROM USD 32 MILLION TO USD 50 MILLION) AND CHANGES IN SECTION 2.1 (C) AND (D). LAST YEAR UTFT'S LEGAL ADVISOR EXECUTED A LEGAL OPINION ON THE EXECUTION OF THE AGREEMENT. PLEASE ADVISE WHETHER PROPOSED TEXT (AS FOLLOWS) BASED ON LAST YEAR'S LEGAL OPINION MEETS THE CONDITIONS DESCRIBED IN SECTION 2.1 (D).

4. PROPOSED TEXT OF LEGAL OPINION - "CONCERNING ASSISTANCE AGREEMENT DATED (BLANK) BETWEEN THE REPUBLIC OF TURKEY AND THE UNITED STATES OF AMERICA ACTING THROUGH THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID) IN THE AMOUNT OF SIXTY MILLION UNITED STATES DOLLARS (US\$ 60,000,000),

-- I, THE UNDERSIGNED HUFIT KOLDAS, FIRST LEGAL ADVISOR FOR THE UNDERSECRETARIAT OF TREASURY AND FOREIGN TRADE, HEREBY DECLARE THE FOLLOWING TO BE MY LEGAL AND CONSCIENTIOUS OPINION.

(1) MR. YAVUZ CANEVI, UNDERSECRETARY OF THE TREASURY AND FOREIGN TRADE, IS AUTHORIZED TO SIGN THIS ASSISTANCE AGREEMENT ON BEHALF OF THE REPUBLIC OF TURKEY.

(2) THIS AGREEMENT HAS BEEN DULY AUTHORIZED AND EXECUTED ON BEHALF OF THE REPUBLIC OF TURKEY AND THAT IT CONSTITUTES A VALID, LEGALLY BINDING OBLIGATION OF

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THE REPUBLIC OF TURKEY IN ACCORDANCE WITH ALL OF ITS TERMS. END PROPOSED TEXT

5. IN ADDITION, THEY NOTED THE FOLLOWING CHANGES:

-- SECTION 3.3 IN LAST YEAR'S AGREEMENT SET THE TERMINAL DATE FOR REQUESTING DISBURSEMENT OF FUNDS SIX MONTHS AFTER EXECUTION OF THE AGREEMENT HAS BEEN COMPLETED. THE GOT INTERPRETS THIS AS AN IMPROVEMENT FROM THEIR PERSPECTIVE BECAUSE IN THE ABSENCE OF SUCH A TERMINAL DATE, THEY COULD REQUEST DISBURSEMENT AFTER SIX MONTHS HAS ELAPSED.

-- SECTION 4.1 (SPECIAL COVENANTS) PROHIBITS THE USE OF FUNDS FOR MILITARY "OR OTHER SPECIFIED" PURPOSES. PREVIOUSLY, ONLY MILITARY PURPOSES HAD BEEN PROHIBITED.

-- SECTION 4.2 (B) ADDS LANGUAGE DESCRIBING ALLOWABLE PURPOSES FOR USE OF FUNDS.

-- SECTION 4.3 ADDS LANGUAGE WHICH SPECIFIES THAT INTEREST EARNED ON THE ACCOUNT WILL BE TREATED IN THE SAME MANNER AS GRANT PROCEEDS.

THESE CHANGES ARE ACCEPTABLE TO THE GOT.

6. UTFT OFFICIALS SUGGEST THE FOLLOWING CHANGES BE MADE IN SECTION 5, COMMUNICATIONS.

-- COMMUNICATIONS TO TURKEY SHOULD BE ADDRESSED TO THE PRIME MINISTRY, UNDERSECRETARIAT OF TREASURY AND FOREIGN TRADE, VEKALELLER CADDESI, NO. 3, BAKANLIKLAR, ANKARA, TURKEY. (THIS IS VICE "MINISTRY OF FINANCE, GOVERNMENT OF THE REPUBLIC OF TURKEY".)

-- LIKEWISE, SECTION 5.2 SHOULD BE AMENDED TO READ THAT THE GRANTEE WILL BE REPRESENTED BY THE INDIVIDUAL HOLDING OR ACTING IN THE OFFICE OF THE UNDERSECRETARY OF TREASURY AND FOREIGN TRADE (NOT IN THE OFFICE OF MINISTER OF FINANCE).

7. THE GOT HAS ESTABLISHED A SPECIAL ACCOUNT, NUMBER 0210/D1210/8, AT THE FEDERAL RESERVE FOR THE RECEIPT OF FY89 ESF FUNDS. USD 18,735.35, THE AMOUNT WHICH WAS TRANSFERRED TO THE GOT GENERAL ACCOUNT AT THE END OF LAST YEAR, HAS BEEN DEPOSITED IN THE ACCOUNT IN ACCORDANCE WITH SECTION 2.1 (C) OF THE DRAFT AGREEMENT. THE GOT IS AWAITING WRITTEN CONFIRMATION OF THIS TRANSACTION.

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DRAFTED BY: AID/AID/ANE/PD/ME: TJOHNSON; LUCI: 3998C  
APPROVED BY: AID/ANE/PD: RFVENEZIA  
AID/ANE/PD/ME: JSILVER (DRAFT) AID/GC/ANE: HMORRIS (DRAFT)  
AID/ANE/EE: CADAMCYZK (DRAFT) STATE/EUR/SE: LUNCU (DRAFT)  
AID/PFM/FM/C: MUSNICK (INFO)

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E. O. 12356: N/A

TAGS:

SUBJECT: GOT COMMENTS ON DRAFT ESF AGREEMENT

REFS: (A) ANKARA 15433; (B) STATE 368816

1. PROPOSED TEXT OF LEGAL OPINION AS SET FORTH PARA 4 REF (A) WILL SATISFY SECTION 2.1 (D) CONDITION PRECEDENT TO DISBURSEMENT.
2. UTFT SUGGESTED CHANGES TO DRAFT AGREEMENT SECTION 5, REGARDING COMMUNICATIONS AND GRANTEE REPRESENTATIVE ARE ACCEPTABLE AND MAY BE INCORPORATED INTO FINAL AGREEMENT.
3. GOT INITIATIVE IN ESTABLISHING SPECIAL ACCOUNT AND IN DEPOSITING USD 18,735.35 THEREIN IS WELCOMED. FYI, CN WAS FORWARDED TO HILL 11/7/88. WAITING PERIOD WILL EXPIRE 12/2/88. PAAD HAS BEEN DRAFTED AND IS IN CLEARANCE PROCESS. WILL KEEP YOU ADVISED - END FYI. SHULTZ

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