

Agency for International Development  
Washington, D.C. 20523

PDCBF 056

APR - 3 1990

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

FROM: ANE/PD, Bruce J. Odell   
SUBJECT: Turkey: FY 1990 ESF Cash Transfer (A.I.D. Grant Number 277-K-614)

Problem: To obtain your authorization of the PAAD for a \$14,263,403 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 (U.S.), have continued to provide economic support to Turkey. Turkey is a valued NATO ally located in an area that is strategically important to the U.S.

Turkey has been implementing a comprehensive economic structural reform program, involving far-reaching changes in institutional, legal, and policy frameworks. Following the economic crisis in the late 1970's, an impressive array of reforms were implemented. While some slippage has taken place, the commitment to reform has been renewed by the current Turkish government. The program features a flexible foreign exchange regime, major efforts to reform or privatize Turkey's parastatal enterprises, more liberal trade policies, and tight fiscal and monetary policies. These 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.

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 substantial 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 U.S. is required to support Turkey's economic stabilization and development efforts.

Discussion: A.I.D.'s FY 1990 Congressional Presentation notified Congress that we planned to provide a \$60 million cash transfer to Turkey. However, the FY 1990 A.I.D. OYB process provides only \$14,325,000 for Turkey for the current fiscal year, of which .043% has been sequestered to meet the President's Drug Initiative Program required under the Transportation Appropriation Bill for FY 1990, leaving a balance of \$14,263,403.

The FY 1990 Appropriations Act requires that Congress be notified 15 days in advance of the obligation of any cash transfer. That notification was submitted on January 26, 1990 and the waiting period expired February 10, 1990.

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 bilateral, non-military debt owed to the U.S. Since 26% of Turkey's medium and long-term external debt is owed to multilateral development banks and the IMF, your approval is requested, as required by the "Amplified Policy Guidance," also to 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. 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. These conditions are already largely met in Turkey. 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. 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 1990 cash grant to Turkey not require the setting aside of local currency for such purposes is, therefore, requested.

The Embassy notified us that the agreement was signed on 29 March 1990, in a public ceremony, although no authorization or delegation was given by A.I.D. It is, therefore, necessary to make the authorization and delegation retroactive.

Recommendations:

1. That you authorize a \$14,263,403 million ESF cash grant to Turkey by signing this Action Memorandum and the PAAD attached as Tab A;
2. That you delegate authority to the U.S. Ambassador to Turkey, or his designee, to execute a grant agreement for the above amount;
3. That you approve payment of debt to multilateral organizations, including the IMF, as an eligible use of the Grant;
4. That you 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; and
5. That the authorization, delegation, and approvals above be effective with respect to actions taken on or after March 29, 1990.

Approved: Carol Adelman

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

Date: April 2, 1990

Attachment:

Tab A - Program Assistance Approval Document (PAAD)

**UNITED STATES**  
**INTERNATIONAL DEVELOPMENT COOPERATION AGENCY**

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

**PAAD NUMBER 277-K-614**

**PROGRAM ASSISTANCE**

**APPROVAL DOCUMENT**

**(PAAD)**

**TURKEY: FY 1990 PROGRAM CASH TRANSFER**

**April 2, 1990**

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### APPENDIX

Statutory Checklists  
Draft Cash Transfer Agreement

CLASSIFICATION:

<p>AGENCY FOR INTERNATIONAL DEVELOPMENT</p> <p><b>PROGRAM ASSISTANCE</b></p> <p><b>APPROVAL DOCUMENT</b></p> <p><b>(PAAD)</b></p>		1. PAAD Number 277-K-614	
		2. Country TURKEY	
		3. Category Economic Support Funds (ESF)	
		4. Date N/A	
5. To AA/ANE, Carol C. Adelman		6. OYB Change Number N/A	
7. From ANE/PD, Bruce J. Odell <i>Bruce J. Odell</i>		8. OYB Increase N/A To be taken from: N/A	
9. Approval Requested for Commitment of \$14,263,403		10. Appropriation Budget Plan Code 72-110/11037 QESO-90-37277-KG-31	
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 \$14,263,403		17. Estimated Source U.S. \$14,263,403 Industrialized Countries Local Other	

18. Summary Description

A \$14,263,403 grant to the Government of Turkey (GOT) is authorized 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 payment of debt owed to multilateral 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 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. This authorization also delegates to the U.S. Ambassador to Turkey, or his designee, the authority to execute the Grant Agreement.

Additional Clearances:

ANE/EE:RBrown (draft) Date 2/12/90  
AAA/PPC/EA:JLaPittas(draft) Date 2/12/90

19. Clearances	Date	20. Action
DAA/ANE:JBlackton <i>JBlackton</i>	2/12/90	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
ANE/PD/ME:JMSilver (draft)	2/12/90	
ANE/PD:RNachtrieb (draft)	2/20/90	Authorized Signature: <i>Carol C. Adelman</i> Date: <i>2/2/90</i> Title: Carol C. Adelman Assistant Administrator, ANE Bureau
ANE/GC:JSilverstone (draft)	2/7/90	
ANE/SE:BTurner (draft)	2/12/90	
F/FM:MUstick <i>MUstick</i>	2/6/90	
ANE/DP:PDavis (draft)	2/21/90	

## **I. Summary**

This PAAD proposes a grant to the Republic of Turkey in the amount of \$14,263,403. The grant will be made from FY 1990 ESF funds, to be provided as a cash transfer and disbursed in a single tranche in support of continuing progress in the implementation of a market-oriented economic policy framework in Turkey.

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 (U.S.). The U.S. 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 U.S. 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 or privatize Turkey's parastatal enterprises, more liberal trade policies, and tight fiscal and monetary policies. These policies have been used to change the Turkish economy from one which locked inward, producing for a highly protected domestic market, to one which no longer discriminates against production for external markets.

The Agreement will require that dollars provided under the grant be placed in a separate account. Eligible uses provided for in the Agreement 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 payment of debt owed to multilateral organizations 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:

- Authorize a \$14,263,403 ESF cash grant to Turkey;
- Delegate authority to the U.S. Ambassador to Turkey, or his designee, to execute the grant agreement;
- Include payment of debt to multilateral organizations, including the IMF, as an eligible use of the Grant;

- That A.I.D. not require that the Government of Turkey to 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 totaled \$1.96 billion, ranging from \$350 million in 1982 to \$60 million in 1988. All assistance has been in grant form.

During the main period of structural adjustment from June 1979 through April 1985, Turkey received \$2.0 billion in Stand-By assistance from the International Monetary Fund (IMF). The World Bank also extended \$1.6 billion in Structural Adjustment Loan (SAL) assistance to support reform in the industrial, trade and financial areas. Supporting balance of payments assistance totaling \$1.5 billion was received from the Organization for Economic Cooperation and Development (OECD) and the Saudi Arabian Monetary Agency during the same period. Restructuring of official and commercial debt totaling \$7.2 billion completed the package of emergency assistance.

## III. Early Economic Background and Policy Setting

For half a century through the end of the 1970s, Turkey generally followed an inward-looking economic strategy with heavy reliance on government intervention. Besides erecting barriers to trade and financial flows, the Government created numerous public enterprises. Rapid industrialization was the main objective and the state economic enterprises (SEEs) were given ample funds, extensive protection and other preferential treatment.

Turkey's autarchic policy appeared successful during most of the 1970s, with rapid economic growth, a low rate of inflation, and, during the early part of the period, an external current account surplus. However, by the end of the decade, declining efficiency in investment, sharply rising energy costs, and internal price rigidities brought about severe imbalances. By 1979, the Turkish economy was in crisis, with severe foreign exchange shortages, mounting debt obligations, rising inflation, disruptions in industrial production, and a sharp rise in unemployment.

#### IV. Stabilization and Structural Reform

Beginning in 1980, Turkey introduced significant demand restraint and began to make a fundamental break with the inward-looking status strategy of the preceding half century. Turkey made remarkable strides during the first half of the 1980s - it implemented far-reaching reforms and they worked clear improvements in the performance of the economy. Since 1985, however, policy performance has deteriorated somewhat. Turkey needs to arrest this deterioration, particularly in fiscal, monetary, and inflation rate policies, or the economy could suffer increasing difficulties.

##### A. Liberalization of Foreign Exchange and Trade Policies

Turkey abandoned its fixed exchange rate regime, beginning with a 33% devaluation in January 1980. Thereafter, the exchange rate has been adjusted frequently to reflect relative rates of inflation at home and in major industrial partner countries. The multiple currency practices were phased out in 1981 and 1982. Beginning in 1983, exporters were permitted to retain a portion of their foreign exchange earnings. This flexible exchange rate policy did indeed succeed in maintaining an unchanged real effective exchange rate between 1980 and 1988. During the first eight months of 1989, however, Turkey's exchange rate policy became less flexible, with the Turkish lira appreciating in real effective terms by about 25%. This inflexibility is designed to brake inflation, but at the cost of decreasing trade competitiveness.

With Turkish reliance through 1988 on a flexible exchange rate as its major calibrator of the external balance, the government moved several times, though with brief relapses, to dismantle quantitative trade restrictions and reduce and rationalize tariffs, other import impediments and export incentives. Advance import deposit requirements were reduced three times through 1985 and the prohibited list of imports was reduced from 500 to 3. The number of items requiring advance approval before importation was reduced from 1,000 to 245 by 1985 and duty reductions had taken place on about one fifth of the total value of imports. Turkey has this year taken several comprehensive steps to liberalize trade in a major effort to contain inflation, but also to help break up monopolies and lower the cost of capital imports for small producers. Import deposits have been reduced three additional times on the way to a complete phase-out and large duty cuts took place in May and August. These tariff and surcharge cuts cover foodstuffs, cotton, carpets, consumer electronics, cars and spare parts, metal goods, chemicals, and construction materials. The

highest tariffs have been reduced from 150% to 50-60% (still fairly high). The surrender requirement on export receipts has been reduced from 80% to 70%. The former cumbersome system of export tax rebates has been replaced by expanded export subsidies. Turkey is thus opening up its economy to improve resource allocation and eventually become a more competitive trading partner. The temporary cost, however, may be a renewed increase in the trade deficit, particularly if the exchange rate remains inflexible, and reduced budgetary revenues from imports.

**B. Changing Profitability of SEEs and Limited Privatization**

A major element in budgetary restraint was to bring about sharp cuts in government transfers to SEEs by granting autonomy to almost all SEEs to adjust their prices based on cost developments. This overall policy was broadly followed, except during election periods, and was effective through 1985. A notable achievement occurred in the energy field: whereas prices for electricity and fuels covered only 50% of costs in 1983, the regular large price adjustments since 1984 eliminated energy subsidies. Thereafter, rapid inflation more than offset the impact of the large increases outside the energy field through 1988 and much more than offset the small increases of 1989. For example during 1988, increases of 81% or higher took place for electricity, LPG, gasoline, kerosene, telephone and postal rates, and local air and rail transport. During 1989, the price increases were mainly limited to sugar, iron and steel, petroleum products and cement and averaged about 25%. (The inflation rate during each year was 75% and efficiency gains have apparently been modest throughout the late 1970s and 1980s).

The SEEs have long been overstaffed and have received excessive investment funds. The government after 1980 moved to curtail budgetary transfers to them not only through price increases, but also through hiring freezes, slowdowns in wage increases through about 1985, and strict controls over investment and SEE borrowing. The principle of equal treatment of public and private enterprises was increasingly enforced. Turkey's debt and debt service obligations have declined slightly in absolute terms. The debt service ratio is still high -- about 37% --, but is expected to fall gradually to more manageable levels during the next few years. Whether Turkey will actually reach these more manageable levels depends critically on whether the country completes its structural adjustment process. The critical aspect of this process is further reduction in its budget deficit, recently stuck at 4% of GDP. Progress in this

area would facilitate a reduction in its stubbornly high inflation rate. Such an improvement, accompanied by a renewed flexibility in exchange rate management, would then permit a current account surplus and a strengthened capacity to service its debt obligations.

The SEEs thus made an important contribution to the stabilization effort through 1985, with their operating surpluses rising from nil in 1980 to 3.0% of GNP in 1985. These surpluses then declined successively to 1% of GNP by 1988 and probably disappeared entirely in 1989.

A limited privatization program was launched by Parliamentary decree in 1986 which established procedures and responsibilities. A master plan for long-term privatization was then developed with the assistance of Morgan Guaranty. It took many months of auditing and legal preparations to prepare the first public offering (Teletas). This offering in a successful, high return public company was over-subscribed in February 1988. The other privatizations since have been the November 1988 sale of Ansan bottling company to Coca Cola for \$13 million, the May 1989 sale of five Citosan cement plants to a French firm for \$105 million, and the May 1989 sale of four public fodder plants to Turkish investors for \$1.7 million. Another firm, an air transport company, was liquidated rather than privatized. Turkish authorities take the position that privatization cannot take place for SEEs which are losing money or are providing social services or strategic goods. Thus, their limited, long-range, privatization program appears to involve about 40 SEEs. A more rapid or comprehensive privatization program would contribute more to reduce the budget deficit.

Foreign investment regulations were liberalized in 1980, 1983 and 1986 to ensure the repatriation of earnings, eliminate the limit on foreign ownership for most activities, and to waive the minimum export requirements in many cases. A July 1988 decree allows foreign investors to take part in privatization schemes and permits foreign mutual funds and investment trusts to enter the Turkish capital market and repatriate funds and profits. In a move to enhance the international character of the Turkish economy, an August 1989 decree authorizes Turkish investors to buy and sell foreign stocks and bonds freely and expands the ability of Turkish companies to borrow abroad.

These improvements in the investment climate have resulted in recent increases in investment applications. Continued irritants to the foreign investor community, however, are disputes over the protection of intellectual property.

### C. Fiscal Restraint

The authorities launched a comprehensive tax reform in 1981 to simplify the system and eventually increase revenues. Top rates were reduced, corporate rates unified and increased, and financial taxes reduced. In 1985, a 10% value added tax took the place of several sales taxes. Government tax revenues, however, have not risen rapidly, so that the progress registered on fiscal restraint during part of the mid-1980s has been due to the limitations on expenditures. The principal elements of expenditure restraint have consisted of a freeze on government employment, containment of public sector wage adjustments below the rate of inflation, and sharp cuts in transfers to the SEEs. Before 1986, containment of wage increases took place through basing wage settlements on the official annual inflation target: as actual inflation mostly exceeded these targets and later year adjustments only partly compensated for these excesses, real wages declined. Workers became increasingly restive at this steady erosion in their real wages and, since 1986, the Government has committed itself to at least maintaining real wages, with perhaps some increase. This commitment has made fiscal policy more expansive, with adverse implications for the budget deficit.

Other aspects of fiscal policy, for example central government reimbursements of rapidly expanding municipal spending, also became slightly more expansive after 1985. As a percentage of GDP, the fiscal deficit declined from 5% in 1980 to an average of below 3% during 1981-3. As indicated in Table I, the average worsened again to about 4% during the 1984-8 period. The fiscal deficit would have risen more rapidly had not central investment spending been severely curtailed. The deficit during 1989 or 1990 may rise further due to the explosive wage increases effective in March-July 1989 of 95% for civil service workers and 142% for SEE workers. The recent reductions in import duties imply a reduction in revenue from that source. The effect of the higher compensatory payments to farmers for drought losses is another negative, while the limitations after the March 1989 municipal elections of central government reimbursements for excessive municipal spending are a positive development. Some initial progress in fiscal restraint was indeed made during the mid-1980s, but more effective measures need to be adopted soon to bring the budget back again into better balance.

#### D. Mixed Experience On Inflation and Interest Rates

Turkey initially made good progress in reducing the inflation rate, but inflation is now the indicator that is most out of control. Inflation was quickly reduced from 109% in 1980 to 39% in 1981 and 27% in 1982. The annual inflation rate hovered at around 40% during 1983-87, before shooting up to around 75% during 1988 and 1989 (Table II). Declining fiscal restraint has been the primary factor. Also at fault have been an accommodating monetary policy, a dearth in efficiency improvements within the SEEs, and limited success in achieving foreign exchange rate flexibility. Renewed attempts at fiscal restraint and credit tightening, and improving the competitiveness of Turkish enterprises are now necessary to bring inflation under control.

During the 1970s, interest rates were steeply negative in real terms as inflation reached triple-digit rates, while very low ceilings were maintained on deposit interest rates. For instance, the rate was only 12% in early 1980 on 6 to 12 month deposits. Interest rates were decontrolled in July 1980 and then set by a "gentlemen's agreement" among commercial banks. This system, combined with rapidly falling inflation rates, resulted in positive real deposit rates between late 1981 and mid-1983. After a six-month period of negative real deposit rates, the Central Bank in December 1983 set up a system of review and determination of ceilings on deposit rates, with an eye on the current inflation rate. This new system resulted in positive real interest rates for almost all maturities for nearly the entire period until late 1987. A surge in the annual inflation rate to beyond 70% then led to negative rates of interest until October 1988. A rapid rise in interest rates made them positive in real terms for several months, but slight declines since, while inflation stayed at the 75% annual level, have again led to interest rates below the rate of inflation.

The record on achieving positive real interest rates during the 1980s has certainly been much stronger than during the 1970s, but still has not been fully satisfactory. At times, a lack of competition among banks appeared to explain the low interest rates offered, especially in reaction to periods when an alleged excessive competition for funds has resulted in sudden, sharp increases in interest rates. Positive, real interest rates appear easier to attain during falling rates of inflation and, conversely, harder to attain during periods of inflation acceleration. Lags in perception and in making policy changes among bankers (and central bankers) might explain this phenomenon.

Another banking weakness is the widespread use of preferential loan interest rates. With credits generally rationed and extended to many types of preferred customers at rates falling short of borrowing costs, the overall health of the banking system is endangered.

#### V. Recent Economic Performance and Outlook

The most remarkable aspect of Turkish economic progress has been the rapid increase in real GNP. After sluggish growth averaging 2.5% annually from 1977-83, the growth rate averaged 6% over the 1983-7 period (Table II). Turkey, however, has been in a recession since 1989, with a sharp drop in public investment during 1988 and a 10% decline in agricultural output during 1989. The real GNP growth rate was accordingly a moderate 3.4% during 1988 and probably below 1% during 1989.

With other aspects of Turkish expenditure policy still expansionary and with disappointing revenue experience, the sharp cut in public investment was an attempt to rein in the fiscal deficit. An indirect effect was to contribute to restrained import growth. It is always easier politically to cut investment rates than other expenditures, but the unfavorable effects on future production and productivity are unfortunate. Turkey needs to push other measures to rein in the budget deficit and inflation rate to permit a renewed expansion of public investment, essential for a revival of rapid economic growth.

There has also been a continuing weakness in private nonresidential investment, with the industrial sector growing by only 2% during 1988. An example of sluggish performance in the industrial sector was the recent weakening of auto production. Apparently angered by excessive profit margins in that industry, the government increased the surcharge tax on domestic vehicles in the summer of 1988 from 20% to 37.5% while reducing duties on imported cars. The resulting higher prices dissolved the former waiting lists, and capacity utilization fell to 50% by the end of 1988 and to 41% by March 1989. The automobile industry had expanded output by over 30% yearly during 1986 and 1987, but the production increase was only 3% during 1988.

Turkey's achievements on the external front were a successful outcome of the flexible exchange rate policies followed from 1980 to 1988. Merchandise exports tripled in dollar value between 1980 and 1985. Increased diversification also took place, with the share of industrial products rising from 36% to 58%. Exports rose by a further 46% by 1988. This is an

impressive achievement, although assisted somewhat by a weakening dollar during much of this period. Also impressive were the recent steady rises in tourism. Exchange rate depreciation also has dampened import growth. The upshot was the \$1.5 billion current account surplus during 1988 after 15 years of deficits. For the first half of 1989, the current account surplus amounted to \$20 million, compared to a deficit of \$368 million during the first half of 1988. A sharp rebound in worker remittances offset the weaker export and tourism performance. The inflexibility in exchange rate management since early 1989, resulting in its appreciation in real effective terms, and the recent sharp reductions in many import duties are again bringing about a widening in the trade deficit. The current account could therefore easily swing into deficit again in 1990. The inflation rate should be brought under control by other fiscal and monetary measures so that the exchange rate can again move flexibly and promote a narrowed trade deficit.

The favorable balance-of-payments developments have permitted Turkey to manage well its large debt burden and consequently to restore its international creditworthiness. Both interest and principal have been paid on time. The 1988 current account surplus permitted Turkey to reduce its short-term debt obligations by \$1.0 billion. Its foreign exchange reserves rose from \$3.01 billion in June 1988 to \$5.12 billion in June 1989. As already noted, however, the balance-of-payments outlook may turn slightly more adverse again during 1990. Continued strength in Turkey's balance-of-payments position is necessary to maintain this favorable debt-payment experience.

As indicated in Table III, Turkey's civilian debt declined marginally during 1988 to \$37.7 billion. (Its military debt is between \$2.5-\$3.0 billion). Turkey's civilian debt payments totalled \$7.2 billion during 1988 and are estimated at \$6.9 billion during 1989. As a percentage of GNP, Turkey's outstanding debt declined from a high of 59% during 1988 to 54% during 1989. Its debt service ratio is about 37%, still close to the peak of 38% reached during 1986, but now scheduled to fall gradually to more manageable levels during the next few years. Whether Turkey will actually reach these more manageable levels depends critically on whether the country completes its structural adjustment process. Critical to this process is further reduction of its budget deficit, recently stuck at around 4% of GDP. This reduction could be effected through greater expenditure restraint outside the investment area and through a more rapid and comprehensive privatization program. Progress in this area would facilitate a reduction in Turkey's stubbornly high inflation rate. Such an improvement,

accompanied by a renewed flexibility in exchange rate management, would then permit a current account surplus and a strengthened capacity to service its debt obligations.

#### VI. 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 U.S. The U.S. 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.

#### VII. 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.

#### VIII. Description of the Grant

The Grant will be a cash transfer from FY 1990 ESF funds in the amount of \$14,263,403 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 relatively well, despite high inflation. 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 forego 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.

#### IX. 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 U.S.; (2) servicing of official debt owed to the U.S. Government, (3) servicing of debt owed to multilateral organizations or to the International Monetary Fund. 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. In order that our assistance not encourage the re-imposition of tighter foreign exchange controls, and 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 organizations and the IMF. Approximately one-quarter of Turkey's medium and long-term debt is owed to such institutions. AA/ANE concurrence for Turkey also to 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 remain within the above categories of uses, A.I.D. would then 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 U.S., 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.

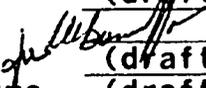
Any interest earned on the dollar proceeds placed into the separate account or accounts shall be treated as if it were principal (i.e., Grant proceeds). Should there be a period of time between the disbursement of the cash transfer and ultimate disposition of the proceeds in the separate account for 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 U.S. pending

ultimate use of those proceeds. Such interest-bearing financial instruments might include U.S. 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 U.S. 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.

X. 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 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 principal under the Grant Agreement.

Clearances:

DAA/ANE: JBlackton		Date	<u>2 April 90</u>
ANE/PD/ME: JMSilver	(draft)	Date	<u>2/12/90</u>
ANE/PD: RNachtrieb	(draft)	Date	<u>2/20/90</u>
ANE/GC: JSilverstone	(draft)	Date	<u>2/14/90</u>
ANE/TR: BTurner	(draft)	Date	<u>2/12/90</u>
ANE/EE: RBrown	(draft)	Date	<u>2/12/90</u>
EUR/SE: BTurner	(draft)	Date	<u>2/12/90</u>
F/FM: MUSnick		Date	<u>3/6/90</u>
ANE/DP: PDavis		(draft) Date	<u>2/20/90</u>
AAA/PPC/EA: JLaPittas	(draft)	Date	<u>2/12/90</u>

ANE/PD/ME: TEJohnson/ANE/DP: DCarr: X76905: pat: 12/20/89: docid 4522c

**TABLE I**  
**GOVERNMENT FINANCE 1**  
**(Billions of Turkish Liras)**

	1984	1985	1986	1987	1988
<b>Revenues</b>	<b>2,806</b>	<b>4,526</b>	<b>6,758</b>	<b>10,100</b>	<b>17,057</b>
Tax Revenues	2,372	3,830	5,972	9,051	14,267
Other Revenues	434	696	786	1,049	2,790
<b>Expenditures</b>	<b>3,784</b>	<b>5,313</b>	<b>8,165</b>	<b>12,698</b>	<b>20,958</b>
Personnel Expenditures	896	1,276	1,840	2,996	5,021
Other Current Exp.	594	819	1,211	1,542	2,388
Interest Payments	441	675	1,331	2,266	4,978
Investment	691	1,030	1,624	2,296	3,200
Transfers to SEEs	275	181	138	446	1,025
Other Transfer	887	1,332	2,021	3,152	4,346
<b>Budget Balance</b>	<b>-979</b>	<b>-787</b>	<b>-1,407</b>	<b>-2,598</b>	<b>-3,901</b>
<b>Deficit/GNP (%)</b>	<b>5.3</b>	<b>2.8</b>	<b>3.6</b>	<b>4.4</b>	<b>3.9</b>
<b>Current Expenditures/GNP</b>	<b>16.8</b>	<b>15.4</b>	<b>16.6</b>	<b>17.8</b>	<b>17.8</b>
<b>Capital Expenditures/GNP</b>	<b>3.8</b>	<b>3.7</b>	<b>4.1</b>	<b>3.9</b>	<b>3.2</b>

1. Central government only; local municipalities, SEEs, and special fund budget figures are not included.

SOURCE: Ministry of Finance and Customs

TABLE II

Balance of Payments 1983-1988  
(Millions of US \$)

	1983	1984	1985	1986	1987	1988
Current Account	-1,898	-1,407	-1,013	-1,528	-982	1,503
Merchandise Exports (fob)	5,905	7,389	8,255	7,583	10,322	11,846
Merchandise Imports (fob)	<u>8,895</u>	<u>10,331</u>	<u>11,230</u>	<u>10,664</u>	<u>13,551</u>	<u>13,648</u>
Trade Balance	-2,990	-2,942	-2,975	-3,081	-3,229	-1,802
Service Credits	2,041	2,366	3,148	3,250	4,111	5,945
Service Debts	2,734	2,945	3,185	3,646	4,282	4,812
Private Transfers, Net	1,549	1,885	1,762	1,703	2,088	1,806
Official Transfers, Net	236	229	236	246	352	364
Current Account Deficit as Percent of GNP	3.6	2.8	1.9	2.6	1.4	-2.1

Source: Central Bank of Turkey

Other Data

Real GNP Growth (%)	3.4	5.9	5.1	8.1	7.4	3.4
Inflation-Consumer Prices	31	48	45	35	39	75

Sources: State Planning Organization and State Institute of Statistics

**TABLE III**  
**EXTERNAL DEBT**  
**(Millions of U.S. Dollars)**

	1984	1985	1986	1987	1988
<b>I. DISBURSED EXTERNAL DEBT</b>					
TOTAL	21,258	25,349	31,228	38,304	37,694
Medium- & Long-Term	18,078	20,590	24,317	29,612	29,990
Multilateral	5,494	6,157	6,588	7,780	7,750
Bilateral	7,204	4,955	10,187	12,316	11,066
Private	5,380	6,478	7,542	9,516	11,174
Short-Term	3,180	4,759	6,911	8,692	7,704
<b>II. DEBT SERVICE</b>					
Medium- & Long-Term					
Principal Payments	1,182	2,453	2,551	3,099	4,359
Interest Payments	1,661	1,753	2,134	2,507	2,799
<b>III. RATIOS (%)</b>					
Medium- & Long-Term Debt					
Service/Exports of Goods					
and Services and Worker					
Remittances	24.8	32.1	37.6	34.1	36.6
Total Debt/Nominal GNP	43	48	55	59	54

Sources: Central Bank of Turkey

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). No.  
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. No.  
(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

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 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

No.

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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?
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC?
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?
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?
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

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

No. There is such an agreement.

Turkey is not known to have taken such action.

No.

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.

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.
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?
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.

Congressional Notification expired on February 10, 1990.

No further legislative action is required within Turkey.

No.

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.
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).
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.
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?
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
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?
10. FY 1989 Appropriations Act. Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Funds will finance Turkey's imports from the U.S. and/or debt service payments, and generally assist Turkey's economic stabilization and development efforts.

To the extent that trade patterns between Turkey and U.S. are expected to expand, we foresee this program having a positive effect.

Not applicable.

Not applicable.

Not applicable.

Not applicable.

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 February 10, 1990.

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.

(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.

UNCLASSIFIED  
Department of State

OUTGOING  
TELEGRAM

PAGE 01 OF 04 STATE PJ9754  
ORIGIN AID-00

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STATE 039754  
STABILIZE ITS ECONOMY, AND

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ORIGIN OFFICE ANPD-05  
INFO ANDP-03 PPMF-01 OL-01 PPPB-02 IG-01 GC-01 PPEA-01 GCAN-02  
GCCM-01 ANME-03 ANEG-02 PRE-06 AAPF-01 SEOP-01 FMAD-02  
IG-1-04 FM-01 SERP-01 SECS-02 RELO-01 AHAD-01 FMPS-02  
FMAO-01 /046 AB 07/04072

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:

INFO LOG-00 EUR-00 EB-00 L-03 /003 R

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 FOURTEEN MILLION TWO HUNDRED SIXTY-THREE THOUSAND FOUR HUNDRED AND THREE UNITED STATES DOLLARS (DOLS 14,263,403) (THE QUOTE GRANT QUOTE) FOR BALANCE-OF-PAYMENTS FINANCING TO SUPPORT AND PROMOTE THE FINANCIAL STABILITY AND ECONOMIC RECOVERY OF TURKEY.

DRAFTED BY AID/ANE/PD/ME TJOHNSON:TONI:4510C  
APPROVED BY AID/ANE/PD BJODELL  
AID/ANE EE CADAMCZYK (DRAFT) AID/ANE/ME JSILVER (DRAFT)  
AID/GC/ANE JSILVERSTONE (DRAFT) AID/ANE/PD RNACHTRIEB (DRAFT)  
STATE.EUR/SE BTURNER AID/ANE/DP. SHUDEG (DRAFT)  
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O 070326Z FEB 90  
FM SECSTATE WASHDC  
TO AMEMBASSY ANKARA IMMEDIATE

UNCLAS STATE #39754

AIDAC, FOR EMBASSY ECONOFF

E O 12356. N/A  
TAGS.  
SUBJECT: FY 90, TURKEY CASH TRANSFER

REF:

1. THIS CABLE TRANSMITS THE TEXT OF THE FY 90 CASH TRANSFER GRANT TO TURKEY FOR DOLS 14,263,403, PLUS SUPPLEMENTAL INFORMATION RELEVANT TO YOUR DISCUSSION AND NEGOTIATIONS WITH THE GOVERNMENT OF TURKEY. THE EMBASSY MAY UTILIZE THIS DRAFT DOCUMENT TO BEGIN INITIAL DISCUSSIONS AND NEGOTIATIONS WITH THE GOVT RELATED TO THE CASH TRANSFER FOR FY 1990. WE WILL HAVE TO APPROVE ANY SUBSTANTIVE CHANGES. THE FY 90 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, MIDDLE EAST AND EUROPE (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 SEPT. THE TEXT OF THE PROPOSED GRANT AGREEMENT IS ESSENTIALLY THE SAME AS LAST YEAR, EXCEPT FOR AMOUNT.

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

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 SPECIMEN 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) 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

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

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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 3.1 (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 COMMENSURATE 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 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.

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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 THE PRIME MINISTRY  
- UNDERSECRETARIAT OF TREASURY  
- AND FOREIGN TRADE  
- VEKALETLER CADDESİ, NO. 3  
- BAKANLIKLAR 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 AND EUROPE (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 THE UNDERSECRETARIAT OF TREASURY AND FOREIGN TRADE 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 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

U.S. AMBASSADOR

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 FOURTEEN MILLION TWO HUNDRED SIXTY-THREE THOUSAND FOUR HUNDRED AND THREE (DOLS. 14,263,403). FY1 THIS AMOUNT REPRESENTS THE DOLS 14,325,000 APPROPRIATED UNDER THE FY 1990 APPROPRIATIONS ACT LESS A 043 PERCENT SEQUESTRATION APPLIED WORLDWIDE TO ALL ESF ACCOUNTS TO MEET THE PRESIDENT'S DRUG INITIATIVE PROGRAM REQUIRED UNDER THE TRANSPORTATION APPROPRIATIONS BILL FOR FY 1990. END. FY1

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 AND EUROPE (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 3 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 1990 APPROPRIATIONS ACT, WHICH REQUIRES THE ESTABLISHMENT OF SEPARATE ACCOUNTS FOR ALL ESF CASH TRANSFERS, THE FOLLOWING INFORMATION MUST BE INCLUDED IN ANY EMBASSY CABLE REQUESTING DISBURSEMENT

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UNDER THE GRANT:

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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 1990 APPROPRIATIONS ACT HAS BEEN IMPLEMENTED IN THE CASE OF TURKEY, THE AA ANE WILL BE REQUESTED TO WAIVE, IN THE CONTEXT OF APPROVING THE PAAD, THE REQUIREMENT THAT THE GOY 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 IG WOULD

LINE 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 THOMAS E. JOHNSON (PHONE 202-647-6905) ON ANY QUESTIONS YOU OR THE GOY MAY HAVE ON TEST OF THE AGREEMENT, OR RELATED ISSUES WITH AID DESK OFFICER CHRISTINE ADAMCZYK (202-647-7654). EAGLEBURGER

