

Turkey

The Development Challenge: Since the 1980s, Turkey has encountered repeated challenges to its legislative and economic reform efforts toward democracy and a more private-sector market based economy. By early 2002, its economic reforms efforts began to show results, thanks in part to International Monetary Fund (IMF) assistance. On March 11, 2003, Recep Tayyip Erdogan, the leader of the Justice and Development Party, was elected to replace Abdullah Gul as Prime Minister. Erdogan pledged that the government must maintain sound economic policies and institute further reform in order to win market confidence and create an internationally competitive economy. This includes progress with tax reforms, privatization, and administrative streamlining. Turkey won praise for progress from the IMF leadership in Fall 2003. However, Turkey's present economy remains weak, especially due to public sector indebtedness and inflation.

The United States recognized Turkey as an important ally in the global war on terrorism after September 11, 2001. Turkey has provided valuable assistance in the stabilization and rebuilding of Iraq, including the resupply of U.S. forces and use of bases and ports for operations consistent with United Nations Security Council Resolution 1483, which lifted economic sanctions on Iraq and encouraged the international community to contribute to Iraq's recovery. The Turkish Government has facilitated delivery of humanitarian assistance from or through Turkey, and helped to meet the energy needs of the Iraqi people and rehabilitate the medical sector. Turkey's role as a front-line ally is expected to assume even greater prominence as the stabilization and rebuilding of Iraq and the global war on terrorism continue.

The U.S. also considers Turkey's stance on the Cyprus issue to be of strategic importance in the region. While the desire of both Turkey and Cyprus to join the European Union (EU) has increased efforts to resolve the longstanding problem of a divided island, only the Greek Cypriot portion is set to join the EU by invitation on May 1, 2004. A resolution of the Cyprus problem would help Turkey to reach agreement on a date to begin EU accession negotiations. The EU is anxious to avoid the problem of having a divided country within the community, while the U.S. does not want to see relations worsen between two neighboring NATO countries, Greece and Turkey.

The USAID Program: The United States seeks the Government of Turkey's (GOT) continued support in the ongoing global war on terrorism. In order to protect U.S. interests in the region, it is important that the USG mitigate Turkey's potential economic loss from its continued assistance, as well as a possible domestic economic crisis. In FY 2004, \$99,410,000 will be applied to continue Turkey's debt servicing to the United States and international financial institutions (IFI) through a cash transfer program to the Government of Turkey. This will tangibly demonstrate U.S. support for the GOT's continued assistance in the war on terrorism, besides offsetting added economic stress; it will relieve potential balance-of-payments shortfalls, help maintain market confidence in Turkey, and enable the GOT to continue carrying out its necessary economic and fiscal reforms. U.S. assistance is conditioned on Turkey's continued adherence to its IMF-backed economic reform program. The FY 2005 request for \$50 million Economic Support Funds (ESF) will be applied to a cash transfer program to the GOT for the same purpose.

Though USAID closed its Mission in Turkey in 1976, USAID continues to provide assistance to Turkey for discrete issues, including immediate humanitarian and disaster mitigation needs after serious earthquakes there in 1999, and support to Turkey's family planning and reproductive health program until spring 2002.

In 2002, the United States gave \$200,000,000 in ESF provided by the 2002 Supplemental Appropriations Act for Further Recovery and Response to Terrorist Acts on the United States (P.L. 107-206), to offset the economic stress on Turkey that resulted from the GOT's support for combating international terrorism. U.S. grant funds were used to service Turkey's debts to the U.S. and IFIs, and to thereby aid its economic recovery.

Other Program Elements: USAID's Economic Growth Bureau oversees a water resource management plan for the city of Istanbul, implemented by Mississippi State University. It is expected to be completed in FY 2004.

Other Donors: The United States is the principal donor of support funds to Turkey, with assistance meant to compensate this important ally for the economic costs of its participation in the global war on terrorism at a time of general economic hardship in Turkey. Other major donors to Turkey include the EU and World Bank. Turkey has also received large scale lending from the IMF to address its economic difficulties.

Data Sheet

USAID Mission:	Turkey
Program Title:	Cash Transfer Program
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	277-0410
Proposed FY 2004 Obligation:	\$99,410,000 ESF
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$50,000,000 ESF
Year of Initial Obligation:	2002
Year of Final Obligation:	FY 2005

Summary: FY 2002 grant funds were provided to enable Turkey to service debts to the United States and international financial institutions (IFIs) and to thereby aid its economic recovery. FY 2004 Economic Support Funds (ESF) funds will be used to continue Turkey's debt servicing. Proposed FY 2005 grant funds are anticipated to be applied for the same purpose, tangibly demonstrating U.S. support for the GOT's continued assistance in the global fight against terrorism.

Inputs, Outputs, Activities:

FY 2004 Program:

FY 2004 funds will be used to help Turkey carry out economic and fiscal reforms and relieve potential balance of payments shortfalls resulting from hostilities in Iraq, and to service Turkey's debts to the United States and to IFIs. With policy guidance from the Department of State, USAID implements this cash transfer program to the Government of Turkey.

FY 2005 Program:

FY 2005 funds are intended to continue to help Turkey carry out economic and fiscal reforms and relieve potential balance of payments shortfalls resulting from hostilities in Iraq, and to service Turkey's debts to the United States and to IFIs. With policy guidance from the Department of State, USAID plans to implement this cash transfer program to the Government of Turkey.

Performance and Results: The U.S. grant funds were obligated at the end of FY 2002 and fully disbursed to the GOT in early FY 2003, thereby enabling the GOT to address immediate debt servicing requirements. The proposed future ESF funds will demonstrate the U.S. support for Turkey during the global war on terrorism. The funds will enable the GOT to continue its strong implementation of the IMF-supported economic program in support of Turkey's economic recovery.