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# INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT



## INTERNATIONAL DEVELOPMENT ASSOCIATION

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Bank Press Release No. 66/31  
IDA Press Release No. 66/10  
June 24, 1966

Subject: Bank/IDA financing for development finance company in Turkey

The World Bank and its affiliate, the International Development Association (IDA), are making available the equivalent of \$25 million to a privately-owned development finance company in Turkey. A World Bank loan of \$10 million has been approved for Turkiye Sinai Kalkinma Bankasi A.S. (TSKB) -- the Industrial Development Bank of Turkey -- and an IDA credit of \$15 million to the Government of Turkey which will be relent to TSKB. These funds will provide a substantial part of the foreign exchange which TSKB expects to need over approximately the next two years for its loans to private industrial enterprises in Turkey.

The Industrial Development Bank of Turkey, established in 1950, is the oldest and one of the largest development finance companies with which the World Bank has been associated. The Bank and IDA have provided most of its foreign exchange resources. Including the loan and credit announced today, it will have received three Bank loans totaling \$27.7 million and four IDA credits aggregating \$35 million. In 1963, the Bank's other affiliate, the International Finance Corporation (IFC), subscribed to TSKB's share capital in an amount equivalent to \$900,000.

During its 15 years of operation more than 600 firms, including nearly all important industrial enterprises in Turkey, have benefited by TSKB's financing. From its own funds and from funds it has managed on behalf of the Turkish Government, it has made 936 local currency loans totaling 500 million Turkish lira (\$55.5 million), and 713 foreign exchange loans totaling \$51.5 million. It has also taken equity participations in 32 companies totaling LT 103.7 million (\$11.5 million). The principal beneficiaries have been plants producing textiles,

building materials, metal products, machinery and chemicals. Other industries which have received its financial assistance were beverages, timber and wood pulp products, vehicles, rubber and leather goods, printing and publishing, repair and maintenance.

TSKB's operations are making a significant contribution to the growth of Turkish private industry, which is important to Turkey's continued economic development. The growth of industrial output is largely responsible for the 5.4% estimated increase in gross national product last year. The private sector, which has responded vigorously to an improved climate in recent years, accounted for 60% of industrial output. TSKB is the only institutional source of long-term finance for industry, and it is providing about half the total credit used for financing private manufacturing fixed assets.

TSKB has also been at the center of efforts to develop a capital market in Turkey. Turkey has reached the stage of development where a more flexible and efficient capital market is needed if industry is to gain access to the funds it needs to sustain the growth which appears feasible. Investors have a limited choice for placing investable funds and the facilities for directing funds to private industrial investment are restricted. Sales of TSKB's own shares and, more recently, sales from its growing portfolio of investments are an important source of negotiable securities.

In order to continue and expand its operations, TSKB will need to increase its Turkish lira funds and foreign exchange resources. Both are now practically completely committed. It is estimated that during the next three years TSKB will require additional foreign exchange funds of \$72 million and lira funds of LT 324 million.

The Bank loan and IDA credit announced today, together with other expected foreign borrowing, should be adequate to meet the foreign exchange requirements of TSKB's customers until late 1967 or mid-1968. The loan and credit will be used

only for loans and not for equity investments. TSKB expects to obtain the lira it needs from repayments and from special sources, such as local currency funds held by the United States Government; additions may also come from further issues of its own shares. Its ability to borrow has been enhanced by a recent arrangement under which TSKB has taken over two important funds which it has been administering for the Government of Turkey: the Marshall Plan Private Enterprise Fund for long-term loans, and the Capital Participation Fund for equity investments. The two funds have now been included in TSKB's portfolio at book value against an LT 368 million long-term loan from the Turkish Government, subordinated to all other indebtedness.

The initial amortization schedule of the Bank loan to TSKB provides for repayment over a term of 15 years. The loan will bear interest at the standard rate applied by the Bank at the time of actual commitment of funds for specific projects. The amortization schedule may be amended from time to time to conform substantially to the aggregate of the repayment schedules applied to TSKB loans financed out of the proceeds of the World Bank loan. The loan will be guaranteed by the Republic of Turkey.

The IDA credit to the Republic of Turkey will be for a term of 50 years. Repayment of the principal will begin April 1, 1976, after a ten-year period of grace. Thereafter, 1% of the principal will be repayable annually for 10 years and 3% will be repayable annually for the final 30 years. The credit is free of interest, but a service charge of 3/4 of 1% per annum on the amount withdrawn and outstanding will be made to meet IDA's administrative costs. The Government of Turkey will re-lend the proceeds of the IDA credit to TSKB under a subsidiary loan agreement, the terms and conditions of which are similar to those of the Bank loan to TSKB.