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Report No. P-2614-TU

REPORT AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON
PROPOSED LOANS TO
TURKIYE SINAI KALKINMA BANKASI A.S.
AND
SINAI YATIRIM VE KREDI BANKASI A.O.
WITH THE GUARANTEE OF
REPUBLIC OF TURKEY
FOR A
PRIVATE SECTOR TEXTILE PROJECT

August 9, 1979

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CURRENCY EQUIVALENTS

Currency Unit		Calendar 1978	July 1979 1/
US Dollar 1	=	TL 24.28	TL 47.10 2/
TL 1	=	US$ 0.04	US$ 0.02

1/ Note: This Report and the Staff Appraisal Report have been prepared on the basis of the exchange rate of TL25 = US$1.00, which prevailed until Turkey introduced a multiple exchange rate system in April 1979 which was again modified on June 11, 1979.

2/ Except for imports of crude oil, petroleum products and fertilizer raw materials, and exports of agricultural products benefiting from official price supports, for which it is TL 35 = US$1.00.

FISCAL YEAR

Republic of Turkey	March 1 to February 28
TSKB	January 1 to December 31
SYKB	January 1 to December 31

ABBREVIATIONS

CLAs	Convertible Lira Accounts
EEC	European Economic Community
LA	Loan Agreement
LIBOR	London Inter Bank Offer Rate
SEE	State Economic Enterprise
SYKB	Sinai Yatirim ve Kredi Bankasi A.O.
TSKB	Turkiye Sinai Kalkinma Bankasi A.S.

TURKEY - PRIVATE SECTOR TEXTILE PROJECT

LOANS AND PROJECT SUMMARY

Borrowers: Turkiye Sinai Kalkinma Bankasi A.S. (TSKB)
Sinai Yatirim ve Kredi Bankasi A.O. (SYKB)

Guarantor: Republic of Turkey

Amounts: US$65 million and US$15 million in various currencies to TSKB and SYKB respectively

Terms:

TSKB loan

(a) $60.1 million for equipment financing to be repaid substantially in conformity with the aggregate of the amortization schedules for sub-loans, with a maximum repayment period of 15 years.

(b) $4.9 million for technical assistance (extension service and technology fund), research and training to be repaid over 7 years including 3 years grace.

SYKB loan

(c) $14.9 million for equipment financing to be repaid substantially in conformity with the aggregate of the amortization schedules for sub-loans, with a maximum repayment period of 15 years.

(d) $0.1 million for training to be repaid over 7 years including 3 years grace.

Interest at 7.9 percent per annum.

Project Description: The key project objective is to rationalize and modernize the private textile sector by improving sectoral balance, while promoting essential expansion and value added by the sub-sector. Related objectives are to: improve productivity and product quality, lower costs to domestic consumers, improve export competitiveness, induce modernization of equipment, promote exports and input supply to enhance export quality, and improve the institutional and policy framework for the sub-sector.

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Major components are:

(i) $75 million for sub-projects.

(ii) $4.5 million for technical assistance ($1.2 million for an extension service providing training and consultancy services, and $3.3 million for a supplementary training, technical assistance and technology fund).

(iii) $0.5 million for staff training for TSKB ($0.1 million) and SYKB ($0.1 million) and for TSKB textile research ($0.3 million).

To achieve the project objectives, 35-45 firms will be assisted, creating about 5,000 jobs directly. Of these, about 3,000 will meet the urban poverty criterion for capital-intensity. Annual exports worth $25 million are expected to be generated. Up to 160 firms, representing one-third of the sub-sector's capacity, will benefit through technical assistance. The project will develop the DFCs' capability for lending in this sub-sector, and sensitize them and their clients, to environmental problems. For all sub-projects with fixed assets above $2 million and $750,000, respectively, TSKB and SYKB will calculate the ERR, which normally will be at least 15 percent.

Project risks are minimal. Achievement of the targets for garments/making up investments and the export targets under the project will depend largely on market constraints abroad. Implantation of the extension service may prove slow. Full use of the technology fund will depend on successful promotion. Steps have been taken to minimize these risks, and the potential benefits justify taking those risks that remain.

Estimated Disbursements:

	$ Million					
Bank FY	80	81	82	83	84	85
Annual	20.0	30.0	20.0	7.0	2.9	0.1
Cumulative	20.0	50.0	70.0	77.0	79.9	80.0

Procurement: Normal commercial channels, but with comparison of offers from more than one supplier, for the majority of contracts. Adequate international tendering for contracts over $2 million. Most projects will have allocations around $2 million, with a maximum of $6 million.

Appraisal Report: No. 2525b-TU, dated July 27, 1979, issued by the IDF Division, EMENA Region

REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE IBRD TO THE EXECUTIVE DIRECTORS ON PROPOSED LOANS TO TURKIYE SINAI KALKINMA BANKASI A.S. AND SINAI YATIRIM VE KREDI BANKASI A.O. WITH THE GUARANTEE OF THE REPUBLIC OF TURKEY FOR A PRIVATE SECTOR TEXTILE PROJECT

1. I submit the following report and recommendation on proposed loans to Turkiye Sinai Kalkinma Bankasi A.S. (TSKB) and Sinai Yatirim ve Kredi Bankasi A.O. (SYKB) with the guarantee of the Republic of Turkey, for the equivalents of US$65 and US$15 million respectively, to help finance the rationalization and modernization of the private sector textile industry in Turkey. For the TSKB loan, amortization of US$60.1 million for equipment will conform substantially to the aggregate of the subproject amortization schedules, and will not exceed 15 years; amortization of US$4.9 million for technical assistance (an extension service and technology fund), research and staff training will be over 7 years including 3 years grace. For the SYKB loan, amortization of US$14.9 million for equipment will conform substantially to the aggregate of the subproject amortization schedules, and will not exceed 15 years; amortization of US$0.1 million for staff training will be over 7 years including 3 years grace. The interest rate will be 7.9 percent per annum.

PART I - THE ECONOMY 1/

2. An economic report (No. 1272-TU) entitled "Country Economic Memorandum - Turkey" dated October 21, 1976, was circulated to the Executive Directors on November 2, 1976. The situation subsequently deteriorated, culminating in a serious economic crisis. This Part analyzes these developments. (A fuller account may be found in the Economic Annex to the Report and Recommendation of the President on the Erdemir Stage II Steel Project, dated June 15, 1978.) It also describes the short and medium-term policy initiatives of the Ecevit Government which took power in early 1978, and cautiously assesses economic prospects. A special economic mission visited Turkey in April 1979 to review the Fourth Five-Year Plan (1979-83). A comprehensive report on the medium-term outlook is being prepared based on its findings.

Economic Structure and Causes of 1977 Crisis

3. In most respects, the record of Turkish economic development over the last two decades has been good. As the result of a strong commitment to rapid growth and modernization, real output has grown, on average, by more than 6 percent per annum. Laudable strides have also been made towards meeting basic needs in such areas as education, health care, water supply, and rural roads. This impressive record has been punctuated (in 1958, 1970

1/ Part I of this Report is virtually identical to Part I of the July 1979 President's Report on the Thirteenth TSKB project.

and most recently in 1977) by severe balance-of-payments crises. The recent crisis has been the product partly of extraneous factors and partly of the Turkish development strategy itself, which paid insufficient attention to the structural weaknesses of the economy and perhaps exacerbated some of them.

4. The emphasis of successive governments on industrialization doubled the sector's share in total output between 1955 and 1977, but resulted in comparative neglect of agricultural development, already hampered by inappropriate subsidy and pricing policies. Moreover, although some parts of Turkish industry are efficient, and more have the potential to become so, a strong emphasis so far on sophisticated capital-intensive technology has resulted in high-cost production in certain sectors. Unselective protection against competition from imports has also inhibited the development of an industrial structure well-suited to Turkey's comparative advantages in terms of location, natural resources and labor availability. One important consequence of this, has been that Turkey has so far been unable to develop a strong industrial export base, and has relied mainly instead on its traditional agricultural exports (supplemented by workers' remittances) to finance the imports of materials and capital goods needed for its ambitious modernization effort. This pattern of trade has been a fundamental cause of the difficulty which Turkey has periodically experienced in reconciling rapid growth with a viable external payments position.

5. During the world recession of the mid 1970s, unlike many other countries, the average annual real rate of GDP growth in Turkey was 7.2 percent. This includes 1977 when real GDP grew by only 4.4 percent, following the economic crisis that year and shortages of power, imported inputs and the like. Growth over this period was made possible by rising public sector activity, which provided a stimulus to aggregate demand that more than offset the depressing effect of sluggish exports and the increased outflow of payments for oil and other imports. The growth of output was therefore constrained not by demand, but by supply. Favorable weather and improved inputs led to an average annual rate of growth of agricultural output of about 4.1 percent in the period 1970-77, while industrial output grew at about 9.2 percent--principally as a result of the sustained high level of industrial investment. The general pace of investment in Turkey also did not slacken during the world recession of the mid 1970s. On the contrary, largely as the result of an intensified public investment drive from 1975 onwards, the share of fixed investment in GDP remained around 20 percent during 1973-78.

6. In this period, employment was not at the forefront of development objectives. Unemployment and underemployment were relatively high, totaling about 11 percent of the labor force in 1970 and over 13 percent in 1977. The underlying causes, aggravated by a sharp reduction in the emigration rate since 1973, are a high rate (2.5 percent per annum) of population growth and the adoption of relatively capital-intensive methods of production in the modern sectors of agriculture and industry. The comparatively slow rate of growth of employment has also had an adverse effect on the distribution of income, although basic needs are largely met. The two main causes of this inequality, however, are the large gap between agricultural and non-agricultural labor productivity and the wide dispersion of farmers' incomes.

7. During the mid 1970s, Turkey's external trading position deteriorated markedly due to rapid increases in imports of goods. These tripled in value between 1973 and 1977, reaching $5.8 billion. About half this increase was due to rising world prices, including a four-fold rise in the price of oil, which currently accounts for one third of the import bill. The other half was due to a steep rise in the volume of imports.

8. High import demand has been characteristic of Turkey in the 1970s, and may partly be a "catching up" phenomenon. In 1970, after a decade of strict import rationing, the ratio of imports to GDP was only 7 percent, about half the average for countries of Turkey's size and stage of development. By 1977, after several years of liberalization of import restrictions, it reached 14 percent. This process was associated with increased imported inputs in agriculture and changes in industrial structure and technology, which rested growth on imported inputs. After 1973, the growth of imports was accelerated by: a fall in the local currency price of imported goods relative to domestic output, due to a rate of inflation which exceeded the international inflation rate by more than the rate of depreciation of the TL against other currencies; an absolute shortage of domestically produced goods; an increase in the share of fixed investment in total expenditure; and a tendency to build up imported stocks in anticipation of devaluation or import restrictions.

9. From 1970 to 1973, rising imports were more or less offset by rapid expansion of exports--particularly manufactured exports such as cotton yarn and fabric, leather products and processed food--and workers' remittances. In value terms, merchandise exports increased from $588.5 million in 1970 to $1,317 million in 1973, or 31 percent per annum. Manufactured exports increased even faster--from $100.3 million in 1970 to $443.4 million in 1973, or by 64 percent per annum. In volume terms, they increased by an average annual rate of 22 percent, a very high rate indeed. The increase in workers' remittances was even more dramatic--up from $273 million in 1970 to $1,183 million in 1973, reaching a peak of $1.4 billion in 1974. Since 1973 however, export performance has been weak and remittances also declined after 1974. The value of exports of goods rose by 33 percent between 1974 and 1977, when it reached $1.8 billion, mainly due to rising world prices; in volume terms, they showed no upward trend. Thus by 1977, merchandise exports were only one-third of the imports.

10. The poor showing of exports between 1974-77, is partly attributable to world recession. This not only affected industrial exports; it also depressed Turkish agricultural exports such as hazelnuts, raisins and tobacco, and industrial raw materials like cotton. The difficulties were aggravated by two other factors: (a) agricultural support prices bore little relation to world prices, and thus failed to provide incentives to farmers to increase production of exportable commodities; and (b) this was compounded by a general neglect of agricultural development, buoyant domestic demand for its produce and ineffective administration of its export sales. More importantly, industrial exports, presently only 7 percent of the value of industrial output, were stifled by a more rapid increase of production costs in Turkey than in her trading partners, which was insufficiently offset by periodic small

devaluations of the TL. Consequently, exporting, which had been lucrative in the early 1970s, became less profitable, and potentially exportable production was diverted to a booming and profitable domestic market.

11. The current account balance moved from a surplus of $0.5 billion in 1973 to a deficit of $3.5 billion in 1977, because of a rapid deterioration in the trade balance, besides a decline in workers' remittances from a peak of $1.4 billion in 1974 to around $1 billion in 1977. One important cause of this has been the restrictions on immigration imposed by Western European countries in the face of growing domestic unemployment caused by the world recession. The rate at which earnings were remitted also fell substantially. This partly reflected the overvaluation of the TL, which induced workers to hold their savings abroad or remit through unofficial channels.

12. The large current account deficit was not matched by an increased inflow of medium and long-term external capital. Turkey had deliberately kept both foreign private investment and private long-term borrowing to a minimum. The gross inflow from official long-term borrowing during 1970-75 stagnated at about $300 million per annum. Initially, this was due to a manageable need for foreign finance, given the tremendous increase in workers' remittances in the early 1970s. Subsequently, it was because of a lack of experience and initiative on the part of successive governments to develop and tap new sources of external borrowing, when faced with a decline in multilateral and bilateral lending on concessional terms. While in 1976 and 1977, long-term loan commitments rose to over $1 billion per annum, disbursements continued to be slow because most loans were tied to specific projects, whose implementation was slow. Consequently, the overall balance of payments moved from a surplus of $0.9 billion in 1973 to a deficit of $2.4 billion in 1977. It was financed by running down the foreign exchange reserves and by various forms of short-term borrowing, which by the end of 1977 totalled $6.5 billion.

13. An important source of short-term borrowing was the Convertible Lira Accounts (CLAs). It provided nearly $2 billion in 1975 and 1976. These are deposits placed with Turkish banks by foreign commercial banks and non-resident Turks, which were guaranteed until last year against exchange rate risk, by the Central Bank. Another major source of finance was short-term suppliers' credits, partly covered by export credit insurance in the exporting countries. A swap facility was also established with the Bank for International Settlements, and a scheme whereby the Dresdner Bank took in time deposits from Turkish workers in Germany, offered high interest rates, and made the proceeds available to Turkey. During 1977 however, foreign banks became reluctant to rollover the outstanding stock of short-term debt, and even more reluctant to make further substantial loans. The Central Bank was driven to delaying foreign exchange transfers on a large scale. The resulting substantial accumulation of arrears, made it even harder to obtain new credits.

14. The deterioration in the balance of payments position can also be viewed partly as a reflection of inadequate efforts at demand management and domestic resource mobilization, especially in the public sector. The public sector deficit rose steadily from TL 6 billion (2 percent of GDP) in 1973 to TL 77 billion (9 percent of GDP) in 1977. This occurred despite a creditable tax performance and was mainly due to a deterioration in the

financial position of the State Economic Enterprises (SEEs), and in particular of the operational SEEs which dominate the transport and energy sectors and account for half the output of mining and manufacturing. Successive governments, in an effort to slow inflation, held the price increases of operational SEEs below the rate at which their already high costs were rising, thus transforming a TL 5 billion profit in 1973 into a TL 20 billion loss in 1977. The scale of SEE investment was also greatly escalated, further widening the gap between public sector savings and public sector investment. Most of the increased deficit was financed by borrowing from the Central Bank, since administered ceilings on interest rates made it hard to attract sufficient purchasers for government bonds. As a result, and despite a large decline in the foreign exchange reserves, the money supply increased rapidly, at an average annual rate of about 30 percent between 1974 and 1977.

15. The rate of inflation (as measured by the wholesale price index) declined from 30 percent in 1974 to 10 percent in 1975, but rose to 24 percent in 1977. Besides cost-push influences on the price level (including a powerful labor union movement and a farmer-oriented agricultural price support policy), the recent trend also results from excess demand caused by the enlargement of the public sector deficits and the private investment boom.

Recent Economic Programs and Performance

16. Tentative stabilization measures to stem the resulting economic crisis, taken by the coalition government of Mr. Demirel towards the end of 1977, did not go far enough and came too late. In early 1978, a new government, with a small but working majority, came to power under Mr. Ecevit. It purposefully set about taking painful, but essential, steps to restore order in the chaotic economic house it inherited and build up the confidence of the international financial community in Turkey's future. It swiftly formulated a package of stabilization measures as part of the 1978 Budget and Annual Program. This formed the basis of a Standby Agreement with the IMF in April, 1978. In summary, the short and medium term remedies applied by the Government to solve the economic crisis contain four salient elements. First, restraint of domestic demand relative to output, through increases in public and private savings relative to domestic investment. Second, measures that directly boost exports substantially, including the maintenance of competitiveness, or that restrain imports. Third, sustained efforts to obtain a substantial increase in medium and long-term external loans. Fourth, pari passu with the rescheduling of the outstanding stock of short-term debts, conversion of these debts into medium-term obligations, and exercise of strict control over future short-term borrowing. Ultimately, considerable restructuring of the economy to rectify imbalances in Turkey's current foreign trade pattern, will be entailed.

17. To raise domestic savings relative to domestic investment, the Ecevit government, between March and May 1978, increased a wide range of SEE prices and tariffs. In early September 1978, SEE prices for petroleum, petroleum products and sugar were increased by 80 percent. All price increases together were expected to add TL 54 billion to SEE revenues in a full year. The Government also substantially raised the stamp duty on

imports, and proposed to the Parliament, a number of other tax revenue measures, including a large increase in motor vehicle, income, corporation and municipal taxes, as part of a broader set of measures designed to enhance the efficiency and equity of the fiscal system. To control public sector expenditures, especially investment, it decided to concentrate on the completion of existing projects and cut back on new projects, except in the bottleneck energy and ports sectors, and for exports and such basic imported commodities as steel and fertilizers. In these ways, the Government aimed to markedly reduce public sector deficits and public sector borrowing from the Central Bank. In conjunction with other limits on Central Bank lending agreed with the IMF, these were expected to reduce the rate of growth of the money supply and the availability of credit, so as to restrain investment and consumption. To mobilize private savings, most interest rates, including those on government bonds and the repatriated savings of migrant workers were increased.

18. Despite the stringency of these politically difficult stabilisation measures, the results were mixed. The consolidated budget deficit in 1978 is officially estimated at about TL 34 billion, compared with TL 48 billion in 1977. But the rate of growth of the money supply in 1978 was 37 percent, roughly the same as in 1977. Moreover, the price level rose very sharply in 1978, even at the end of the year, the rate of inflation was around 50 percent per annum. Money wages also increased at an annual rate of over 50 percent, despite the Government's "social contract" with the largest trade union federation in July 1978.

19. To discourage imports and stimulate exports further, the TL was devalued against the dollar three times between September 1977 and March 1978, by a total of about 50 percent. In addition, it drifted downwards with the dollar against other currencies. The effect of this devaluation on imports was augmented by the increase in stamp duty in 1978 and in the short term, also by government's decisions to reduce imports of investment goods and give priority to imports of materials and spares needed to maintain, as far as possible, output from existing installed capacity. This, together with the shortage of foreign exchange, resulted in a drop in merchandise imports from $5.8 billion in 1977 to about $4.6 billion in 1978. This compares with the $5 billion figure envisaged under the April 1978 Standby Agreement.

20. As regards exports, the effects of the devaluations were partly offset by a reduction in April 1978 of export rebates. In July 1978, these rebates were increased again. As an additional financial incentive, the Government accorded priority in the allocation of foreign exchange for the purchase of imported inputs for export production and that of essential goods for domestic sale. Exporters have also been given special permission to finance their import requirements through acceptance credits. The degree of priority accorded to exporters in the allocation of domestic credit through the banking system was increased, as were the interest rate rebates on domestic borrowing by exporters. An inter-ministerial Export Coordination Committee set up to resolve the problems faced by exporters, has succeeded in simplifying some export licensing and registration procedures. Export targets have been set for SEEs and Agricultural Sales Cooperatives. The Government took prompt steps to earn foreign exchange by disposing of large existing

stocks of exportable commodities, notably wheat. It also took steps to: restrain domestic demand through its fiscal, monetary and price policies, help prevent diversion of potential export goods for domestic use, and improve competitiveness through exchange rate adjustments. In response, the value of exports rose by 28 percent in 1978 to around $2.25 billion. But this was below the $2.6 billion anticipated in the Standby Agreement.

21. With these developments in foreign trade and a marginal decrease in worker remittances over the 1977 level, current account deficit dropped markedly to an estimated $1.7 billion in 1978. This compares favorably to $3.5 billion in 1977 and the $1.8 billion deficit anticipated in the Standby Agreement. This substantial reduction, achieved mainly by severe curbing of imports, and vigorous efforts to raise fresh medium and long-term funds along with the rescheduling of existing debt (para. 23) led to an improved balance of payments position. Nevertheless, the overall 1978 deficit is estimated at about $900 million, some $150 million more than that envisaged in the Standby Agreement. On a net basis, it was financed by $180 million in IMF drawings (para. 22), $340 million in petroleum and Eurodollar loans, $145 million from the Dresdner Bank scheme and the remaining $235 million from various commercial banking sources.

22. The Standby Agreement provided for the immediate withdrawal of about $89 million in compensatory financing. In addition, since the Witteveen Facility was not in operation, Turkey was eligible to draw up to 150 percent of its quota, amounting to about $360 million, under the Exceptional Circumstances clause. This entitled Turkey to withdraw $60 million in May 1978. A further drawing of $48 million was made in September, following renewed discussions between the Government and the IMF concerning short-term economic developments and prospects. Further discussions with the IMF to revise the stabilization package in light of developments since April, prior to the release of the remaining tranches of about $252 million, took place in December.

23. Since April 1978, Turkey has taken steps to cope with its large stock of short-term debt ($6.5 billion at the end of 1977). The exchange rate guarantee on new CLAs with a maturity under one year was removed, stemming new inflows of these deposits. It also secured, from the members of the OECD Consortium for Turkey, a rescheduling of approximately $1.2 billion in interest and principal payments falling due between January 1977 and June 1979, on public bilateral debt and private debt guaranteed by bilateral export financing agencies. The terms were 2 years grace followed by 4 years to repay for short maturities, and 3 years grace with 5 years repayment for longer-term maturities; the interest rates were to be negotiated bilaterally. Bilateral agreements have now been signed with all countries concerned. However, nearly $1 billion of unguaranteed trade debts remain to be rescheduled. Finally, negotiations have been completed with some 220 commercial banks involved, to consolidate about $3.0 billion of outstanding short-term liabilities (including most of the CLAs, arrears on CLAs, reimbursement credits and banker's credits) into obligations with a maturity of 7 years, including 3 years of grace, at an interest rate 1.75 percent above LIBOR. In view of the complexities and numbers of banks involved, progress on this was slow. But rescheduling agreements are ready and are expected to be signed after the ongoing

discussions with the IMF have been completed. While all these efforts have eased the debt servicing burden for 1978 and 1979, it will cause a substantial bulge in debt service payments in the early 80s.

24. Concurrently, the Government pursued new sources of medium and long-term external finance, including the Middle East. In response to this initiative: Germany provided program credits of $75 million and project credits of $72 million; the US, Austria and Belgium provided program loans totalling $70 million; Libya provided a program credit of $100 million and another $300 million spread over five years to finance oil imports; Iran provided a short-term credit of $150 million for oil imports; an agreement was also signed with the Saudi Fund for $250 million in project aid; Austria, Norway and Finland provided project credits; trade agreements were signed with Romania, Bulgaria and U.S.S.R. Another indication of Turkey's change of direction in seeking external financing vigorously, is the engagement for the first time of internationally-reputed investment firms to assist in the rescheduling exercises and the tapping of new sources of private capital in Europe and U.S. As a first step, in conjunction with the commercial bank rescheduling, a fresh loan of about $400 million from a group of banks was envisaged, with disbursement contingent on a new Standby Agreement.

25. The discussions begun in December 1978 between Turkey and IMF on a revised stabilization program were interrupted because of difficulties in reaching agreement on certain important policy issues. They have since been resumed (see para 27). The discussions focussed on the need to continue the austerity measures initiated in early 1978 and to strengthen efforts to cope with excessive monetary growth, sagging SEE finances and the high inflation rate. It is evident that progress in these areas is complementary to stricter control of imports, tight control over short-term borrowings and the growth of arrears, and the continuation of foreign trade policies and measures directed to improve the balance of payments position further.

26. Against this background, adopting the pattern followed in early 1978, the Government announced its revised stabilization program in mid-March 1979 and amplified it further in early April. To improve the financial position of SEEs, increased prices of sugar (34 percent), iron and steel (41 percent), cement (63 percent), gasoline (84 percent), fuel oil (80 percent), diesel fuel (82 percent) and kerosene (110 percent), were announced. These prices are now well above their imported costs at the current rate of exchange. The Government estimates that these increases will together, yield an additional TL 80 billion in the current Turkish fiscal year and significantly reduce the SEE deficits, despite inflation in costs and wages (although the latter will be restrained by new limits on the growth of SEE employment). To ensure more effective mobilization and allocation of fiscal resources, interest rates for both deposits and lending have been substantially augmented. For time deposits, increased rates range from 12 percent for deposits between 6-12 months, to 24 percent for those between 3-4 years; in addition, the repatriated savings of migrant workers will receive an interest premium of 10 percentage points (15 points for deposits above 3 years). The interest rates for medium and long-term loans have been considerably increased: in the

agricultural sector from 10.5 percent to 16 percent; for small-scale industrial enterprises from 10.5 percent to 16 percent; and for general lending in industrial and other sectors from 16 to 20 percent. There is no ceiling in respect of loans extended by development and investment banks using funds acquired through the domestic bond issues of at least 5 years maturity. However, interest rate rebates have been increased for export oriented enterprises, and for those established in the poorer areas of Turkey.

27. To improve the balance of payments, a number of steps were taken. The TL was devalued against the US Dollar by about 6 percent to TL 26.5 = US$1. Pari passu, a multiple exchange rate regime was introduced for the first time, under which a more favorable exchange rate with a premium of 40 percent (TL 37.1 = US$1) became applicable for foreign tourists, workers' remittances and repatriated savings. This favorable rate carried an additional premium, bringing the effective rate to TL 47.1, if transactions took place up to May 9, and to TL 42.1 for those made between May 10 and June 9, 1979. In addition, a significant development was the creation of an officially sanctioned, but still limited, parallel market in respect of manufactured and mineral exports. Specifically, Turkish industrial exporters could retain 50 percent of their foreign exchange earnings and either use this to finance their own import requirements or transfer it to other industrialists, at whatever price it fetched. All these measures announced in April went in the desirable direction, although it was clear that further adjustments in the exchange regime would need to be introduced in due course to correct the over-valuation of the official exchange rate. Following a meeting in Zurich between the IMF Managing Director and the Turkish Finance Minister, an IMF mission visited Turkey between late April and mid-May, and then resumed talks in Paris in early June following the OECD-sponsored pledging session there on May 30. Agreement on a new Standby Arrangement has since been reached with the IMF, and it was approved by the IMF Board on July 19. Under that Arrangement, the IMF will provide a total of $329 million, $92 million of which has been released following the Board approval, and three further tranches of $79 million each in late November 1979 and late March and late June 1980.

28. The above-mentioned pledging session was also a successful one. Subject to an early standby arrangement with the IMF (previous para.), various Governments pledged a total of $661 million special aid, and $245 million in special export credits, and agreed to consider a further rescheduling of official bilateral debt and guaranteed export credits, to ease the debt service burden in the coming years. The OECD Consortium for Turkey met from July 23 to 25 for the latter purpose. Debt service up to July 1980 on official bilateral debt and guaranteed export credits totaling some $800 million has been rescheduled, on terms of 7 years, including 3 years grace on short-term debt and 9 years, including 4 years grace on medium-term debt. Meanwhile, the agreement with the IMF triggered the signing on July 12 of new commercial bank loans of $406 million (para. 24), to be followed in August by an agreement rescheduling the outstanding short-term liabilities owed to the commercial banks. On June 11, Turkey again revised the multiple exchange rate system introduced in April, and devalued the TL further to TL 47.1 = US$1, with a rate of TL 35 = US$1 for imports of crude oil, petroleum products and fertilizer raw materials, and exports of agricultural products benefiting from

official price supports. Other complementary measures have been and will be taken in accordance with the Government's program being supported by the Standby Arrangement.

29. For 1979, projections of the balance of payments can only be tentative. However, based on cautiously optimistic assumptions concerning exports, worker remittances and capital inflows, and taking into account the recent increases in international oil prices, the realization of a volume of imports similar to that achieved in 1978 would entail a foreign exchange gap of about $1.5 billion.

Medium-Term Policies and Prospects

30. The Fourth Plan was approved by the Turkish Parliament in November 1978. Its important feature is the strong emphasis on the balance of payments and in particular, on the promotion of exports. The export thrust is one of the cornerstones of Government's medium-term development strategy, whose success will be crucial to the restoration and maintenance of Turkey's creditworthiness in the medium-term future.

31. The Government's objective is to increase the volume of merchandise exports by a factor of almost two and a half between 1978 and 1983. This implies a real export growth rate averaging around 18 percent per annum during the Plan period. This is expected to be achieved broadly, in the following manner. The volume of agricultural exports is expected to grow at an annual rate of 6 percent, and that of manufactured products by an average annual rate of over 30 percent starting from about $700 million in 1978. About 40 percent of the latter is expected to come from food and beverages, textiles and clothing, and leather products; another 40 percent from intermediate goods such as rubber and plastics products, chemicals, cement, glass and ceramics, and basic metals; the remaining 20 percent is expected to consist of consumer durables, capital goods, and other products of the metal-working industries.

32. Preliminary Bank projections suggest that the share of unprocessed agricultural and mined products in total exports is likely to be higher than envisaged in the Plan, and that the overall export target, though ambitious, is feasible, provided that the present widespread commitment to export growth continues to be translated into appropriate policies. In addition, the Government intends to study the effects on export incentives of the existing system of protection, with a view to making appropriate changes when the balance of payments situation permits; and it has already begun to bring the relative support prices of different agricultural commodities more closely into line with relative world prices. There will also be a drive to increase invisible exports, particularly earnings from transportation, tourism and civil engineering contracts abroad.

33. The other Plan targets include an average annual real GDP growth rate of 8 percent, which seems overly optimistic, especially in view of the 3-4 percent growth rate achieved in 1978, and the prospect of a similar performance in 1979. Efforts not to allow unemployment to increase over the 1977 level, is now - for the first time in any Plan - a specific development

objective. Real fixed investment is expected to grow at an average annual rate of 12 percent (27 percent allocated to industry, 27 percent to energy and transportation and 12 percent to agriculture). Gross domestic savings are expected to rise from 16 to 22 percent of GNP, implying a marginal savings ratio of 35 percent, which seems over-optimistic in view of the experience of the last two Plan periods, in which the realised marginal savings ratio was only 12 percent, largely due to poor savings performance in the public sector. Significantly, in the Fourth Plan, the main contributor to the rapid growth of savings is expected to be the public sector, whose revenues are expected to increase in real terms at an average annual rate of 12 percent, compared with a real growth rate of 9 percent for public consumption.

Possible Outlook for the Future

34. If the export drive is successful and imports are appropriately restrained, and assuming significant growth of workers' remittances as a result of the recent exchange rate changes and interest rates for remittances, it should be possible, despite the increasing burden of interest charges on rescheduled debts, to keep the balance of payments current account deficit to an average of about $1.5 billion dollars per year during the Plan period. To finance such deficits and amortize the considerable external debt, it will also be necessary for Turkey to continue its efforts to achieve a much higher level of medium and long-term borrowing than in the past, both in commitment and disbursement terms. But this depends on the assessment of Turkey's creditworthiness, which in turn hinges on a successful export effort and careful debt management.

35. The extensive short-term borrowing of 1975-77 greatly increased Turkey's external debt, adversely affected its previously rather attractive maturity structure, and caused a sharp rise in debt service payments. At the end of 1978, total external indebtedness amounted to approximately $13 billion. Of this, $5.5 billion was medium and long-term debt. About one-fourth of it was held by international organizations, mainly the Bank ($836 million, plus $842 million committed but undisbursed) and the European Investment Bank; and about one-half by foreign governments and government agencies, notably those of the United States, Germany, Canada and the Soviet Union. The remaining $7.5 billion consisted of short-term liabilities of various sorts. If the consolidation arrangements finalized with the commercial banks and creditor countries are fully implemented, about $4.1 billion of short-term debt will be converted into medium and long-term debt. To summarize, these consolidations consist of: (a) about $3.0 billion to be rescheduled by commercial banks (para. 23); (b) guaranteed suppliers credits of about $700 million under the terms of the OECD sponsored agreement of May 1978 (para. 23); (c) another $100 million of short-term credits to be refinanced by CMEA countries; and (d) refinancing of $350 million of oil credit owed to Iraq.

36. Turkey's debt management initiatives should help restore a more attractive maturity structure to the external debt, by transforming a good portion of the short-term liabilities into medium-term obligations. However, a relatively high debt service ratio over the medium-term must be anticipated as a result of the large short-term debts and the rather hard terms available

to Turkey. In 1977, debt service payments, including interest on short-term debt, amounted to 20.2 percent of exports of goods, non-factor services and workers' remittances. In 1978, after making allowance for the rescheduled service payments, this ratio is estimated to have risen to around 25 percent. In subsequent years it will increase further, since Turkey has to take on new borrowings to maintain sound economic growth. Taking these factors into account, the debt service ratio is likely to peak in the early 1980s to a high level of about 40 percent, before it begins to decline. This, however, should represent the culmination of the financial consequences of the present crisis and should be manageable, provided the export drive is sustained. Thus, although the balance of payments situation will remain tight in the medium-term future, given sound economic and fiscal policies and careful debt management which the present Government shows determination to pursue, Turkey continues to have a substantial capacity to service long-term borrowing, and remains creditworthy for such financing.

PART II - BANK GROUP OPERATIONS IN TURKEY

37. Prior to 1970, Bank Group assistance was limited and intermittent. However, the success of Turkey's 1970 stabilization program, permitted larger and continuing lending. To date, the Bank/IDA have lent $2,034 million for 57 projects. Agriculture accounts for 29 percent of the funds lent, industry and DFCs for 36 percent, power for 19 percent and urban development, transportation, education and tourism for the rest. Annex II contains a summary statement of Bank loans, IDA credits and IFC investments as of June 30, 1979, with notes on the execution of ongoing projects.

38. Implementation of private sector projects has been satisfactory. But in the public sector, political uncertainty, limited coordination among agencies and staffing problems have resulted in uneven and delayed project implementation. Therefore, a system of joint project reviews between Turkey and the Bank was instituted in June 1975. Since up to end 1977, these resulted in modest improvements, the situation was reviewed with the new Ecevit Government in March 1978, and further discussed during my visit in April 1978. Subsequently, Turkey established a new high-level coordination team for Bank projects. This team set up procedures for monitoring and achieving realistic implementation and disbursement targets, and reviewed possible changes in sector policy covenants which because of Turkish laws and practices constrained effective project performance. As of January 31, 1979, disbursements increased to 72 percent of appraisal estimates against 51 percent in June 1975. A further successful implementation review was held in April. The encouraging progress and constructive cooperation which has now become manifest allow cautious optimism that performance will gradually improve further, permitting expansion of the Bank's lending.

39. Bank lending is now aimed at supporting Turkey's efforts to improve its: (a) capacity to earn or save foreign exchange, through promotion of industrial and agro-industrial exports; (b) income distribution, employment

opportunities and living standards, through rural and urban development; (c) lagging public sector savings, through the encouragement of improved management and financing of the investments of key SEEs; and (d) infrastructure posing bottlenecks for development. The Bank has begun discussions with the Government on how its lending can best contribute to the new Plan's objectives, especially export promotion, without being handicapped by past policy and institutional obstacles. Meanwhile, agriculture and industry remain the key sectors for lending. In agriculture, projects emphasize livestock, exports, and rural development; in industry (including DFCs), the emphasis is on promotion of exports and employment, as also the gradual strengthening of the SEEs. Projects for urban development, public utilities and transportation supplement these efforts.

40. A thirteenth TSKB project was approved by the Executive Directors on July 12, 1979. Other projects likely to be presented this fiscal year include an engineering loan to assist the alleviation of air pollution in Ankara, public sector textiles modernization, a fifth livestock and second fruit and vegetables projects, besides a second import program loan. Projects being processed for later consideration include: the first livestock products, rural development, and fertilizer production projects, besides those for transport and sewerage development in Istanbul, pilot secondary oil recovery, employment generation in selected cities, pulp and seed production.

41. At the end of 1978, the Bank Group's share of Turkey's medium and long-term external debt (outstanding and disbursed) was 15 percent. Its share of estimated total external debt (including short-term obligations) was about 7 percent. The gradual conversion of much of the short-term debt into medium and long-term debt, will cause the Bank's share of medium and long-term debt to fall sharply to around 10 percent by 1980. Thereafter, assuming the currently projected increase in Bank lending, the share would increase. The Bank's share of service payments on medium and long-term debt is expected to follow a similar path, dropping from 12 percent in 1977 to about 8 percent in 1980, but rising thereafter.

42. IFC has invested in the production of synthetic yarns, pulp and paper, glass, aluminum, iron and steel products, motor bicycle engines, piston rings and cylinder liners, and tourism. It has also invested in TSKB. As of June 30, 1979, gross IFC commitments totalled $206 million, of which $102 million were still held by IFC. Additional investment opportunities are being pursued.

PART III - THE TEXTILE AND CLOTHING INDUSTRY

Past Performance

43. Textiles and clothing has always been the largest manufacturing industry in Turkey. Value added has grown by a rapid 10 percent annually until recently. Over 90 percent of output goes to meet domestic demand. In 1976, the organized sector (establishments with 10 or more workers) accounted

for 20 percent of manufacturing investment, 16 percent of production and value added, 24 percent of employment and 45 percent of exports. Sumerbank, a SEE, controls 28 large plants producing 15-20 percent of the industry's output. The balance 80 to 85 percent is in the private sector, of which about 82 percent in cotton textiles. The organized private sector includes 1,400 establishments employing 200,000 workers, 73 percent in some 200 large plants. In addition, 8,000 establishments in the unorganized private sector employ another 100,000 persons.

44. The industry's main raw material--cotton--accounts for two-thirds of fiber consumption, and is in adequate domestic supply for the foreseeable future. The wool segment, which uses local and imported merino wool, has recently been hampered by shortages of imported inputs. Man-made fiber production is small, protected, inefficient and expensive. The range and supply of local fabrics of acceptable price and quality for use in exports is limited. Local accessories need significant quality upgrading for use in exported goods. Some textile machinery is produced in Turkey.

45. Despite its essentially domestic orientation, textiles and clothing has also become Turkey's largest export industry. Exports have expanded tenfold since 1970, to $266 million, or 15 percent of merchandise exports, in 1977. Cotton yarn earned $160 million, grey cloth $20-25 million, and garments $60 million. Since 1977, however, exports have stagnated due to continued growth in domestic demand, uncertainty about export opportunities (para. 51), and pricing problems. The EEC imports about 80 percent of the total. Turkey's share of EEC imports ranges from 22 percent in cotton yarn to about 1 percent in cotton fabrics and garments. Turkey's share of Middle Eastern textile imports is small, mainly because of the concentration hitherto on yarn exports.

46. Private sector textile investment increased tenfold in real terms between 1965 and 1974, particularly in spinning, tripling the capital/labor ratio and labor productivity in the industry. Subsequent adverse economic developments, excess capacity in spinning and later, the general scarcity of foreign exchange, have reduced investments to negligible levels since 1977. Profitability fell sharply after the early 1970s, because of over-capacity in spinning and declining prices for yarn exports. It has improved somewhat since 1976, as the investment pause has allowed some increase in capacity utilization.

47. The industry needs rationalization, balancing, increased efficiency, and capacity expansion in some segments, to continue its leading role and increase its competitiveness abroad. The over-investment in cotton spinning has led to unnecessarily low capacity utilization and sectoral imbalance, and the only additional such investment required is for higher quality (combed and doubled) finer yarns and sewing thread. Some cotton looms need to be replaced and, with demand growth, weaving capacity is becoming a bottleneck. Some 25-30 percent of dyeing, printing and finishing equipment also requires replacement; in printing, perhaps as much as 70 percent. There are regional shortages of finishing capacity, and a national shortage of drying machine capacity. The knitting segment must meet the growth of demand and its shift from woven

to knitted fabrics. Woolen spinning has stagnated; it needs modernization, as does wool weaving. Garments/making up is relatively undeveloped.

Sub-Sector Strategy

48. Turkey has a comparative advantage in textiles, given its energetic private sector, proximity to the EEC, Middle Eastern and African markets, substantial domestic cotton production, and established textile industry. Wage levels were only 20-40 percent of EEC levels in 1977, offsetting lower productivity. In garments, where highly productive labor-saving technology has not yet been developed, Turkey's advantage is even more pronounced.

49. A broad view of sub-sector strategy involves the market prospects, investment requirements, technical assistance needs and the policy and organizational framework. The Fourth Plan document's strategy for the industry is generally sound. In the public sector, it emphasizes modernization, reorganization and specialization. A separate Bank project, under preparation, will assist Sumerbank. For the private sector, the strategy is to discourage spinning expansion, promote the production of textile inputs and textile machinery, and increase exports. The Plan's quantitative targets are optimistic, but realistic output growth should permit continued self-sufficiency as well as increased exports. It will require both new investment and improvements in efficiency in the private sector. The major objective is to rationalize and balance this part of the industry, to increase its productivity and encourage exports as much as market constraints permit.

Future Demand Prospects

50. Based on past trends, the Fourth Plan projects a 9.5 percent per annum increase in the value of production. However, the proposed project is based on the more realistic assumption of 5-6 percent per annum growth, reflecting current constraints on demand and resources. Over 80 percent of the increase in demand will be met by the organized private sector. Domestic demand growth will continue to provide the main opportunity for efficient expansion of the industry.

51. The Plan also projects that textile exports can nearly triple by 1983, and garment exports grow by 24 percent per annum. However, this fails to reflect recent EEC agreements with over 30 countries, to limit its textile and clothing imports for five years. Cotton yarn and fabrics are classified by the EEC as "highly sensitive" products and imports are restricted to roughly the 1976 level. Almost all Turkey's garment exports are classified as "sensitive" or "highly sensitive", and more than half have been restricted. Exports of restricted items will grow between 1.5 and 4 percent per annum through 1980. It is however assumed that the EEC will relax its restrictions after its review in 1980, with particular benefit to countries such as Turkey with which it has preferential relationships. Nevertheless, Turkey's large share of EEC cotton yarn imports makes it unlikely that its exports can grow much. On the other hand, fabric exports can grow at 5-6 percent per annum. Exports of the restricted garment items can grow at 6 percent per annum after 1980. Exports of unrestricted items (in which

Turkey's EEC market share is less than 1 percent) are projected to grow at 14 percent per annum throughout the period. Turkey should also be able to find export outlets elsewhere. The value of garment exports to Middle Eastern and African markets can grow by 15 percent per annum through 1983, and thus total garment exports by 13 percent. Total textile and clothing exports are projected to grow at 8 percent per annum, from an estimated $240 million in 1978 to $345 million in 1983.

Investment Needs and Financing

52. Investment requirements for 1980-82 for the organized private sector are estimated at over $800 million, about half in foreign exchange. This assumes some increase in the productivity of existing equipment and a catching-up element, given the investment hiatus since 1977. The largest requirements are in weaving (45 percent), dyeing/printing/finishing (22 percent), and garments/ made-up articles (17 percent). About one fifth is for modernization.

53. The local currency portion is expected to be financed by sponsors, commercial banks and the two project intermediaries (para. 62). The latter will provide $75 million in foreign exchange from the proposed loans, and around $15 million from other resources. The remainder is expected to come from sponsors, commercial banks and supplier credits. The identification of external financiers is necessarily tentative in Turkey's present economic situation. However, the proposed project addresses the sub-sector's priority needs and does not depend on all desirable investments being made.

Technical Assistance Needs

54. Even the few larger garments firms with modern equipment, have productivity only some 40 percent of European levels. This is due to short production runs, unsuitable premises with poor layout, organization and work methods, and no cost control. Garment firms are inexperienced in export marketing. Except for a few well-run mills, even textile firms with modern equipment have a lower productivity than in Europe. While the booming and protected domestic market provided little incentive for improvement hitherto, and input shortages were beyond management control, other problems involve production management and engineering, preventive maintenance, and cost and quality controls. They arise primarily from inadequate training of supervisors and middle managers.

55. The available sources of technical assistance are inadequate. Formal educational institutions include the textile faculty of Ege University in Izmir, a school for textile technicians, and a recently established school for garment operatives. Sumerbank's Textile Training and Research Center has so far been of limited help to the private sector. TSKB provides practical advice to its clients. For garments, most training is on-the-job. Foreign marketing partners usually limit their assistance to meeting buyer specifications. Equipment suppliers provide important, but limited, services, while few foreign consultants have been employed because of the lack of market incentives, high costs and the foreign exchange shortage.

Policy Framework

56. Until 1978, virtually all segments of the textile industry qualified for Certificates of Encouragement, which provided for accelerated depreciation, exemption or deferral of customs duties on equipment, concessional interest rates and reduced income tax. The Certificates have recently been used to help mitigate regional disparities and foster exports. However, they have not effectively guided investment. Also, by reducing the cost of capital, they may have favored capital-intensive technology. The incentive schedule for 1979 substantially limits eligibility for customs duty concessions and accelerated depreciation, which should correct much of the capital-intensity bias. It also encourages modernization and emphasizes exports. These changes, in line with macroeconomic policy, will reduce the profitability of most domestically-oriented investment, and could therefore curtail total sector investment somewhat. However, its composition is expected to correspond more closely to current priorities.

57. The industry benefits from the general export incentives described in Part I. The most effective specific incentive is the export rebate, which ranges from 5 percent of export value on cotton yarn to 20 percent on garments.

58. Several related understandings were reached to ensure a consistent future policy framework. The Government will inform the Bank annually of the prevailing investment incentives affecting the private textile industry. In light of the information provided by the Government, it and the Bank will exchange views on the adequacy of the incentives, at the request of either party. TSKB will estimate semi-annually the impact of the prevailing export incentives on at least four representative garment products currently exported. The dialogue on incentives will also include the prevailing export incentives, mainly as they apply to garments.

PART IV - THE PROJECT

Project History

59. The rationalization and export potential of the private textile industry was identified in the Bank report entitled "Export-Oriented Industries and Small-Scale Industries in Turkey" (No. 1359-TU, dated August 17, 1977) distributed to the Executive Directors. The proposed project was thereafter identified in depth in November 1977, prepared by TSKB and SYKB with Government participation, and appraised in October-November 1978. Negotiations were held in Washington in July 1979 with a delegation including Mr. O. Eroguz, General Manager of TSKB, Mr. O. Altan, General Manager of SYKB, and Mr. A. Yoruk of the Embassy in Washington representing the Government.

Project Objectives and Description

60. Since 1971, the Bank has provided about $30 million for private textile subprojects accounting for about 20 percent of loans to TSKB, and IFC,

a further $11 million. The proposed FY80 projects for private and public sector textiles involve a unified and consistent approach to rationalize the industry for the first time. The proposed project for the private subsector aims to: (i) rationalize and improve the structural balance of the industry, to promote viable expansion and value added; (ii) improve productivity and quality, to reduce costs and improve overall competitiveness; (iii) induce modernization of equipment; (iv) promote exports and ensure a domestic supply of inputs for exports of adequate quality; and (v) improve the institutional and policy framework. This is however the first project of its type in the Bank and hence its design and detailed arrangements are somewhat unusual.

61. The proposed project will channel $80 million in foreign exchange to private sector textile firms, through two direct loans to financial intermediaries (DFCs): $65 million to TSKB and $15 million to SYKB. From this total, $75 million will finance high priority subprojects in different segments of the industry, especially weaving, garments, knitting, and dyeing/printing/finishing, submitted by December 31, 1982. Another $4.5 million will finance two technical assistance programs administered by TSKB: (i) $1.2 million for an extension service in industrial engineering and assistance in export marketing; and (ii) $3.3 million for complementary training, technical assistance and technology transfer from abroad. The remaining $0.5 million will finance TSKB and SYKB staff training, and TSKB's textiles research (para. 66). Project details are provided in the Loans and Project Summary and Annex III to this Report, and in the report entitled "Turkey - Staff Appraisal Report on a Proposed Private Sector Textile Project" (Report No. 2525b-TU, dated July 27, 1979) being distributed separately to the Executive Directors.

Role of the Financial Intermediaries (DFCs)

62. Since direct Bank lending and technical assistance to a large number of firms are impractical, intermediaries are needed. Such intermediaries, dealing extensively with textile enterprises, are available in Turkey, namely, TSKB and SYKB. Their lending for subprojects will be integrated wherever possible with technical assistance. Agreed procedures will ensure that both DFCs' clients, as well as other firms, benefit from technical assistance. The objectives, structure and interdependence of the project components will require TSKB and SYKB to cooperate closely. They therefore agreed to sign a protocol satisfactory to the Government and the Bank, outlining their cooperation in the textile subsector, as a condition of effectiveness of the proposed loans; an understanding was reached on the main elements to be included, and the DFCs agreed to consult the Government and the Bank before amending the protocol (TSKB LA 3.11 and 6.01, SYKB LA 3.10 and 6.01). Such consultation is considered necessary given the first-time nature of this project, to retain room for flexibility and to learn from experience gained.

63. TSKB has become a leading authority on textiles through past lending (16 percent of commitments in 1975-78) and extensive research. Its staff includes 10 textile specialists. It is capable of undertaking the planning, appraisal and technical assistance roles proposed for it. It is a sound financial institution. However, the sizeable recent devaluations have caused large increases in TSKB's foreign debt when expressed in Turkish lira. This,

in turn, has carried its debt-equity ratio well beyond the 10:1 maximum agreed under the recently approved TSKB XIII project. TSKB's shareholders have therefore advanced the ongoing capital increase from TL 425 million to TL 1,500 million. TSKB has invited subscription (which under Turkish law requires 25 percent to be paid-in), and intends to complete it by September 15, 1979. IFC is seeking its Board's approval to participate. Agreement was reached that the capital increase will be fully paid-in by December 31, 1979 (TSKB LA 4.07); and that the debt-equity ratio will not exceed 10:1 on and after December 31, 1980 (TSKB LA 4.06). An understanding was also reached that, if the demand for TSKB's loans is such that the ratio will not be restored by December 31, 1980, TSKB would take steps, in consultation with the Bank, to increase its equity base further as needed.

64. The latest OED report on TSKB is the Project Performance Audit Report on TSKB IX and X (SecM77-92, dated February 11, 1977). It drew attention to the negative spread on TSKB's domestic borrowings, due to the interest rate structure which constrained resource mobilization. This problem was resolved under TSKB XIII, through agreement that TSKB will review its local currency lending rate annually with the Bank, and adjust it as permitted by prevailing legislation, so as to achieve a positive spread on average between the cost of borrowed local currency funds and local currency lending rates, to the satisfaction of the Bank.

65. SYKB, an experienced DFC with new dynamic management, will receive its first Bank loan through the proposed project. It has also financed textiles extensively (25 percent of approvals through 1978). Its clients are firms smaller than those of TSKB. It is capable of carrying out the planning and appraisal roles proposed for it. Its institutional and financial situation is currently satisfactory. SYKB agreed to submit its consolidated Statement of Policies by December 31, 1979 for Bank approval and promptly adopt it thereafter (SYKB LA 3.12). Also, in view of the projected growth of its operations and their changing nature, SYKB agreed to: (i) increase its present paid-in share capital of TL 100 million by at least TL 300 million by January 1, 1980 (SYKB LA 4.11(a)); (ii) prevent its debt-equity ratio from exceeding 7:1 (SYKB LA 4.06); and (iii) allocate 5 percent of annual net income to build up provisions, hitherto low because of a conservative lending policy, to 2 percent of portfolio (SYKB LA 4.11(b)).

66. Despite the DFCs' textile expertise, their staff need training in the export aspects of textile sub-projects. TSKB has therefore agreed to add to its general export training program under TSKB XIII, the specific requirements for textiles (TSKB LA 3.01(a)(v)). The estimated foreign exchange cost of $100,000 will be financed from the proposed loan to TSKB. SYKB has agreed to a similar program (SYKB LA 3.01(a)(ii)). Its estimated foreign exchange cost of $100,000 will be financed from the loan to SYKB. An understanding was reached that the DFCs will cooperate closely on training and combine programs and facilities where feasible. TSKB has also agreed to continue its textile research (TSKB LA 3.01(a)(iv)), focussing on: (i) productivity; (ii) export markets; and (iii) the impact of export incentives (para. 58). An understanding was reached that studies of the manufacture of textile dyes and textile machinery in Turkey will also be eligible. The estimated foreign

exchange cost of $300,000 will be financed from the proposed loan to TSKB. Agreement was reached that Bank approval would be obtained for: (i) detailed outlines of the training programs and an outline of the studies; (ii) technical assistance agreements with collaborating institutions; and (iii) the qualifications, experience and terms of reference of technical assistance staff, prior to disbursements on these programs (TSKB LA 3.09 and SYKB LA 3.08).

Project Financing and Eligibility Criteria

67. The $75 million equipment component will finance nearly 20 percent of the private textile industry's projected foreign exchange requirements for investment, during the expected commitment period (1980-82). It will be divided 4:1 between TSKB and SYKB, reflecting the relative sizes of their current and projected overall and textile operations. The DFCs agreed that any additional textile projects they may finance in 1980-82, will meet the same eligibility criteria (paras. 69 and 70) (LAs 2.03(a)(iii) and (b)(i) and Schedule 3, TSKB LA 3.10 and SYKB LA 3.09).

68. The agreed minimum targets for financing in each segment of the industry (LAs 3.07(b)) emphasize: (i) garments and knitting, which are undeveloped and have important urban employment, as well as export, potential; and (ii) weaving and dyeing/printing/ finishing, which require modernization and expansion to overcome bottlenecks and imbalances. An unallocated amount of $13 million will provide flexibility in implementation.

	TSKB	SYKB	Total	Share
	-------$ Million-------			%
Garments/Making up and Knitting	14.0	3.0	17.0	27
Weaving	16.0	4.0	20.0	32
Dyeing/Printing/Finishing	13.5	2.5	16.0	26
Spinning	4.5	1.5	6.0	10
Accessories and other	2.0	1.0	3.0	5
Total Allocated	50.0	12.0	62.0	100
Unallocated	10.1	2.9	13.0	
TOTAL	60.1	14.9	75.0	

69. Investment financing and technical assistance will be linked. The DFCs agreed to appraise the efficiency of the existing operations of all project sponsors. They have also agreed that they will require these sponsors to achieve reasonable improvements which the DFC identifies and judges feasible according to a timetable, and to obtain technical assistance if the DFC judges this necessary (LAs 3.02(a)(vii), TSKB LA 3.10(b) and SYKB LA 3.09(b)). Borrowers may use the technical assistance component for this purpose. Priority in equipment financing will be given to firms that have used the extension service (paras. 77-80).

70. Agreement was reached on the following eligibility criteria for subprojects reflecting the needs described in para. 47 (LAs Schedule 3). In

garments and knitting, priority will be given to directly exporting projects, but any viable project in these undeveloped areas will be eligible. Spinning projects will only involve: (i) modernization or bottleneck removal in wool; (ii) quality and product upgrading projects that are export-oriented (as defined in para. 72); or (iii) export quality inputs to garment exports. Weaving projects will not just increase capacity, but also involve: (i) modernization or bottleneck removal; (ii) forward integration of an under-utilized spinning mill; (iii) export-orientation as defined; or (iv) export quality fabrics for garment exports. Dyeing/printing/finishing projects are likely to be associated with weaving projects and will meet analogous criteria. Projects providing commission finishing facilities, either for knitting or in regions with a shortage of capacity, will also be eligible. Any project providing adequate quality accessories to garments/making up will be eligible.

71. The DFCs have prepared action plans, listed projects meeting the above criteria and specified the further preparation and promotion effort needed (mainly in garments and knitting). An understanding was reached that they will be updated semi-annually. The Bank has reviewed the initial action plans. They will permit smooth commitment of the equipment component.

72. In view of the industry's potential for gradual increases in exports and the importance of exports to Turkey's economic resurgence, the DFCs have agreed to targets of 80 percent of their garments and knitting approvals, and 30 percent of their total textiles approvals, in foreign exchange in 1980-82 for export-oriented projects (LAs 3.07(a)). Related provisions were made identical to those under TSKB XIII. Agreement was reached to regard sub-projects as export-oriented, if it is estimated that at least 40 percent of project output in the case of expansions or improvements, and 30 percent in the case of new projects, will be exported by the time they are expected to reach full capacity (TSKB LA 1.02(1) and SYKB LA 1.02(i)). Agreement was also reached that the DFCs' subloan agreements for these sub-projects will specify minimum export targets (LAs 3.02(a)(v)). Understandings were reached that the DFCs' appraisal reports thereon will demonstrate their bona fide export potential, using evidence of competitiveness and an adequate marketing strategy; also that the DFCs will satisfy themselves that sponsors obtain available incentives in accordance with their export targets.

73. The DFCs agreed to calculate the ERR, including 'shadow' pricing of labor where appropriate, for all projects with fixed assets above $2 million (for TSKB, as under TSKB XIII), and $750,000 (for SYKB); and that the ERR will normally be at least 15 percent, again as under TSKB XIII (LAs 3.06).

74. Annex IV provides details of proposed relending terms, free limits, spreads, disbursements and monitoring arrangements.

Procurement

75. The DFCs have considerable experience in textile equipment selection and actively advise their client firms in procurement. Most private textile firms are also well acquainted with the availability, performance and prices of equipment. Procurement on the usual DFC basis is therefore generally

efficient and economic. However, for contracts above $2 million an understanding was reached that the DFC's will normally require their sub-borrowers to use an appropriate form of international tendering which the Bank will review on an ex-post basis; that the DFCs will monitor such tendering; and that use of any other procedures will require Bank approval prior to disbursement. Most projects will have allocations around $2 million, with a maximum of $6 million.

Technical Assistance

76. The technical assistance component, which is necessarily detailed and experimental, will help significantly improve the industry's efficiency at low cost, through assistance in industrial engineering and financial control, and improve export marketing. It comprises an extension service and a complementary fund (TSKB LA Schedule 3, B(1) and C).

77. Extension Service. This will involve short plant consultancy visits and in-plant courses. For garments, the service will be more comprehensive than for textiles, and export marketing assistance will also be provided. In the first two years, the service is expected to reach about 40 firms, and in five years up to 160. Most are expected to be DFC clients, although all firms will be eligible.

78. TSKB has agreed to administer the service for at least 3 years from the effectiveness date (TSKB LA 3.01(a)(iii)), which will cover the commitment period for equipment loans. This is appropriate, given its proven management ability, experienced staff, and industry contacts. TSKB has also agreed to consult SYKB and representatives of the industry, in carrying out these services (TSKB LA 3.13). An understanding was reached that TSKB will establish, in consultation with SYKB and the consultants (para. 79), a mechanism, satisfactory to the Government and the Bank, for the selection of beneficiary firms. Since the service is outside TSKB's main lending activities, agreement was reached on a review within 2 years of effectiveness, by the DFCs, the Government, industry representatives and the Bank, to evaluate progress and propose successor institutional and financial arrangements satisfactory to the Government and the Bank (TSKB LA 3.15 and SYKB LA 3.11). An understanding was reached that TSKB will recommend successor arrangements to the review meeting.

79. TSKB will select individual consultants (TSKB LA 3.09(a)), to provide an estimated 128 man-months of services at an average foreign exchange cost (salary and benefits) of $6,400 per man-month. These consultants will train fourteen Turkish counterparts. The appointment of: (i) an experienced consultant to assist TSKB in starting up the service; and (ii) consultants in weaving/knitting, and for industrial engineering assistance to garments/making-up, will be conditions of effectiveness of the proposed TSKB loan (TSKB LA 6.01(a)). Agreement was reached that (i) the detailed description of the program; and (ii) the qualifications, experience and terms of reference of the consultants, will be approved by the Bank prior to disbursements on this service (TSKB LA 3.09(b)). An understanding was also reached that TSKB would secure the Government's and the Bank's approval before changing the program.

80. TSKB will use $1.2 million from its proposed loan to meet the estimated foreign exchange cost. The local currency cost is mainly counterpart

salaries. TSKB agreed that the service will be free for no more than two years, but thereafter, increasing fees will be charged with a view to its being self-supporting after five years (TSKB LA 3.14). To meet the deficit of the first three years, TSKB will retain a 1 percent per annum spread for 7 years, plus amounts sufficient to service the Bank loan portion (TSKB LA 4.11).

81. Training, Technical Assistance and Technology Fund. The extension service will cover only a portion of the industry's needs in five years, and will necessarily be limited by its staff's size and relative lack of specialization. The proposed project therefore includes a $3.3 million loan fund for additional and more specialized assistance in industrial engineering, financial controls, research and development, pollution control, and export marketing. It will finance the foreign exchange costs of training abroad, hiring foreign consultants, and the purchase of auxiliary equipment.

82. TSKB agreed to administer the fund (TSKB LA 3.01(a)(ii)). It has already identified sufficient demand to use 30 percent of it. It agreed to: promote the fund according to a plan to be submitted by March 31, 1980 for Bank review (TSKB LA 3.12); give priority to firms aiming to increase the productivity and efficiency of existing equipment, especially previous users of the extension service, and those entering, expanding, or upgrading exports; and use a first-come-first-served criterion to give equal consideration to SYKB's clients (TSKB LA Schedule 3, B(2)). Appraisal will be simple and involve creditworthiness of the firm, eligibility of the expenditure, and its appropriateness to the firm's objectives.

Environmental Impact

83. The Government intends to revise its environmental standards for textile plants shortly. Pending this, several related agreements were reached. The DFCs will require new sub-projects to meet guidelines reflected in Schedule 3 of the Loan Agreements. Firms modernizing or expanding dyeing/printing/finishing facilities, the most serious polluters, will be required to provide data on existing and projected effluent discharges, and to prepare and carry out plans for reasonable improvements, if in the DFCs' judgment these are feasible and necessary (LAs 3.02(a)(vi)); any such sub-project worsening the impact of effluent discharge will not be financed (TSKB LA Schedule 3 A.(d), SYKB LA Schedule 3, II.(4)). TSKB and SYKB already provide relevant advice to their clients and have sufficient capability to administer the agreed measures.

Benefits and Risks

84. The proposed project will help rationalize the structural balance and performance of the industry, and aims to institutionalize technical assistance for it. Firms operating about one-third of the subsector's capacity will be directly assisted. The project will also help generate about $25 million of exports annually, strengthen the export capability of the industry, and directly create about 5,000 jobs, of which 3,000 will meet the urban poverty criterion for capital-intensity of investment. It will also limit potential environmental damage. Individual sub-projects will have an economic rate of return of at least 15 percent.

85. This is the first Bank project using private DFCs to help develop a specific manufacturing sub-sector, and is necessarily experimental. The extension service is an unusual new activity for TSKB. Its implantation may be thwarted by industry resistance and recruitment problems despite provisions for industry participation and attractive salaries. Full use of the technology fund will require further promotion. The targets for garment firms may not be achieved, either because of the small industry characteristics of this segment, or because export market restrictions may be extended. But all these risks are relatively minimal and well worth taking in the larger macro-economic perspective.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

86. The draft Loan Agreement between TSKB and the Bank, the draft Loan Agreement between SYKB and the Bank, the draft Guarantee Agreement (TSKB Loan) between the Republic of Turkey and the Bank, the draft Guarantee Agreement (SYKB Loan) between the Republic of Turkey and the Bank, and the Report of the Committee provided for in Article III, Section 4(iii), of the Articles of Agreement are being distributed separately to the Executive Directors.

87. Special conditions of the project are listed in Section III of Annex III. Besides, the additional conditions of effectiveness are of particular interest:

For TSKB: (i) the appointment of a consultant to assist TSKB in the start-up of the extension service, and of the first two resident consultants (TSKB LA, Section 6.01(a)); and

(ii) the signature of a protocol between TSKB and SYKB for cooperation in the textile sub-sector (TSKB LA, Section 6.01(b)).

For SYKB: The effectiveness of the TSKB Loan Agreement (SYKB LA, Section 6.01).

TSKB could thus fulfill its effectiveness conditions before SYKB and begin project operations alone. This is reasonable since it will handle about 80 percent of the Bank funds and administer the extension service and technology fund.

88. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

89. I recommend that the Executive Directors approve the proposed loans.

Robert S. McNamara
President

Attachments

August 9, 1979
Washington, D.C.

TABLE 3A
TURKEY - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOUSAND SQ. KM.)
TOTAL 780.6
AGRICULTURAL 558.4

	TURKEY			REFERENCE GROUPS (ADJUSTED AVERAGES /a - MOST RECENT ESTIMATE)		
	1960 /b	1970 /b	MOST RECENT ESTIMATE /b	SAME GEOGRAPHIC REGION /c	SAME INCOME GROUP /d	NEXT HIGHER INCOME GROUP /e
GNP PER CAPITA (US$)	280.0	510.0	1110.0	1898.8	867.2	1796.4
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	245.0	479.0	630.0	1869.3	578.3	1525.0
POPULATION AND VITAL STATISTICS						
TOTAL POPULATION, MID-YEAR (MILLIONS)	27.8	35.6	42.2	.	.	.
URBAN POPULATION (PERCENT OF TOTAL)	31.9	38.7	42.6	43.0	46.2	52.2
POPULATION DENSITY						
PER SQ. KM.	35.0	46.0	54.0	81.4	50.8	27.6
PER SQ. KM. AGRICULTURAL LAND	52.0	65.0	76.0	135.2	93.3	116.4
POPULATION AGE STRUCTURE (PERCENT)						
0-14 YRS.	41.3	41.7	41.7	26.2	42.9	34.8
15-64 YRS.	55.2	54.0	53.9	63.4	53.5	56.0
65 YRS. AND ABOVE	3.5	4.3	4.4	9.9	3.5	5.7
POPULATION GROWTH RATE (PERCENT)						
TOTAL	3.0	2.5	2.5	0.8	2.5	1.6
URBAN	5.1 /f	4.9 /g	4.2	2.2	4.7	3.4
CRUDE BIRTH RATE (PER THOUSAND)	44.8	40.6	39.4	19.2	37.8	27.0
CRUDE DEATH RATE (PER THOUSAND)	16.9	14.4	12.5	9.0	10.8	9.9
GROSS REPRODUCTION RATE	2.9	2.6	2.3	1.3	2.5	1.9
FAMILY PLANNING						
ACCEPTORS, ANNUAL (THOUSANDS)	..	65.6	66.6	.	.	.
USERS (PERCENT OF MARRIED WOMEN)	5.3	8.2	38.0	38.0	20.0	19.3
FOOD AND NUTRITION						
INDEX OF FOOD PRODUCTION PER CAPITA (1970=100)	91.5	100.0	111.2	113.7	107.3	103.8
PER CAPITA SUPPLY OF						
CALORIES (PERCENT OF REQUIREMENTS)	110.0	112.0	113.0	127.4	105.3	110.4
PROTEINS (GRAMS PER DAY)	78.0	78.0	75.7	92.8	63.0	77.7
OF WHICH ANIMAL AND PULSE	..	22.0 /g	24.7	39.3	21.7	22.2
CHILD (AGES 1-4) MORTALITY RATE	16.0 /h	14.7 /i	..	1.6	8.0	1.9
HEALTH						
LIFE EXPECTANCY AT BIRTH (YEARS)	49.3	54.4	56.9	68.9	57.2	63.0
INFANT MORTALITY RATE (PER THOUSAND)	187.0 /f,j	153.0 /k	..	34.5	53.9	38.2
ACCESS TO SAFE WATER (PERCENT OF POPULATION)						
TOTAL	..	52.0	68.0	68.3	56.8	67.7
URBAN	..	51.0	74.0	74.3	79.0	83.5
RURAL	..	53.0	64.0	64.4	31.8	41.5
ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)						
TOTAL	..	..	8.0	94.0	30.9	70.3
URBAN	..	..	13.0	94.0	45.4	90.7
RURAL	..	..	5.0	93.0	16.1	38.3
POPULATION PER PHYSICIAN	3000.0 /l	2250.0	1830.0	686.5	2706.8	1310.8
POPULATION PER NURSING PERSON	3260.0	1880.0	1520.0	339.0	1462.0	849.2
POPULATION PER HOSPITAL BED						
TOTAL	590.0 /l	490.0	460.0	178.0	493.9	275.4
URBAN	190.0 /l	200.0	210.0	70.0	229.6	129.9
RURAL	..	5890.0	5750.0	1770.0	2947.9	965.9
ADMISSIONS PER HOSPITAL BED	..	20.0	20.0	15.3	22.1	18.9
HOUSING						
AVERAGE SIZE OF HOUSEHOLD						
TOTAL	5.7	5.9	..	..	5.2	3.9
URBAN	..	..	..	..	5.0	..
RURAL	..	..	..	..	5.4	..
AVERAGE NUMBER OF PERSONS PER ROOM						
TOTAL	..	2.2	..	0.9	2.0	0.9
URBAN	2.0	1.9	..	0.8	1.5	0.8
RURAL	..	..	..	1.0	2.7	1.0
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)						
TOTAL	29.0	40.0	57.0	57.5	64.1	59.2
URBAN	..	..	..	99.0	67.8	79.0
RURAL	2.0	18.0	..	..	34.1	12.5

TABLE 3A
TURKEY - SOCIAL INDICATORS DATA SHEET

	TURKEY			REFERENCE GROUPS (ADJUSTED AVERAGES /a - MOST RECENT ESTIMATE)		
	1960 /b	1970 /b	MOST RECENT ESTIMATE /b	SAME GEOGRAPHIC REGION /c	SAME INCOME GROUP /d	NEXT HIGHER INCOME GROUP /e
EDUCATION						
ADJUSTED ENROLLMENT RATIOS						
PRIMARY: TOTAL	75.0	109.0	104.0	108.0	99.8	97.6
FEMALE	58.0	94.0	94.0	99.5	93.3	87.4
SECONDARY: TOTAL	14.0	28.0	30.0	62.8	33.8	47.8
FEMALE	8.0	16.0	18.0	63.6	29.8	42.6
VOCATIONAL (PERCENT OF SECONDARY)	18.0	14.0	15.0	28.2	12.8	22.7
PUPIL-TEACHER RATIO						
PRIMARY	46.0	38.0	34.0	24.9	34.9	25.4
SECONDARY	19.0	28.0	27.0	17.3	22.2	24.9
ADULT LITERACY RATE (PERCENT)	40.0 /m	55.5 /m	..	88.3	71.8	96.3
CONSUMPTION						
PASSENGER CARS PER THOUSAND POPULATION	2.0	4.0	8.0	90.4	12.4	32.3
RADIO RECEIVERS PER THOUSAND POPULATION	49.0	89.0	107.0	199.0	104.5	201.9
TV RECEIVERS PER THOUSAND POPULATION	..	3.0	12.0	132.5	28.1	97.7
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	51.0	41.0	..	97.1	45.2	70.9
CINEMA ANNUAL ATTENDANCE PER CAPITA	1.1	6.7	..	6.6	4.6	4.4
EMPLOYMENT						
TOTAL LABOR FORCE (THOUSANDS)	13000.0 /n	14500.0	16400.0 /o	.	.	.
FEMALE (PERCENT)	40.2	37.2	37.3	32.4	25.7	17.4
AGRICULTURE (PERCENT)	71.7	63.4	52.5 /o	32.8	46.2	38.4
INDUSTRY (PERCENT)	10.5	12.1	..	..	..	..
PARTICIPATION RATE (PERCENT)						
TOTAL	50.1	44.3	42.8	39.1	33.8	33.7
MALE	58.7	54.9	53.2	56.7	48.1	50.8
FEMALE	41.2	33.4	32.1	29.7	17.3	12.6
ECONOMIC DEPENDENCY RATIO	1.0	1.1	1.2	0.9	1.4	1.4
INCOME DISTRIBUTION						
PERCENT OF PRIVATE INCOME RECEIVED BY						
HIGHEST 5 PERCENT OF HOUSEHOLDS	33.0 /h	32.8 /p	28.0	31.9	23.6	20.2
HIGHEST 20 PERCENT OF HOUSEHOLDS	61.0 /h	60.6 /p	56.0	59.7	52.3	47.9
LOWEST 20 PERCENT OF HOUSEHOLDS	4.2 /h	2.9 /p	3.5	4.0	4.3	3.2
LOWEST 40 PERCENT OF HOUSEHOLDS	10.6 /h	9.4 /p	11.5	12.9	13.1	13.7
POVERTY TARGET GROUPS						
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US$ PER CAPITA)						
URBAN	..	..	..	..	191.9	..
RURAL	..	..	162.0	194.9	193.1	157.9
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)						
URBAN	..	..	291.0	295.1	319.8	448.8
RURAL	..	..	218.0	309.2	197.7	313.1
ESTIMATED POPULATION BELOW POVERTY INCOME LEVEL (PERCENT)						
URBAN	..	..	18.0	18.2	19.8	23.2
RURAL	..	..	25.0	24.2	35.1	54.5

.. Not available
. Not applicable.

NOTES

/a The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1973 and 1977.

/c Europe; /d Intermediate Middle Income ($551-1135 per capita, 1976); /e Upper Middle Income ($1136-2500 per capita, 1976); /f 1955-60; /g 1965-70; /h 1963; /i 1967-68; /j Based on sample survey estimates of 9,700 households; might be underestimated; /k 1967; /l 1962; /m Six years and above; or 1965; /o 1977; /p 1968.

DEFINITIONS OF SOCIAL INDICATORS

Note: The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indi[illegible] and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform. Due to [illegible] of data, group averages for Capital Surplus Oil Exporters and indicators of access to water and excreta disposal, housing, income distribution and [illegible] are simple population-weighted geometric means without the exclusion of extreme values.

LAND AREA (thousand sq. km)
Total - Total surface area comprising land area and inland waters.
Agricultural - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow.

GNP PER CAPITA (US$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1975-77 basis); 1960, 1970, and 1977 data.

ENERGY CONSUMPTION PER CAPITA - Annual consumption of commercial energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of coal equivalent per capita.

POPULATION AND VITAL STATISTICS
Total population, mid-year (millions) - As of July 1; if not available, average of two end-year estimates; 1960, 1970, and 1977 data.
Urban population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.
Population density
Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area.
Per sq. km. agriculture land - Computed as above for agricultural land only.
Population age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.
Population growth rate (percent) - total, and urban - Compound annual growth rates of total and urban mid-year populations for 1950-60, 1960-70, and 1970-75.
Crude birth rate (per thousand) - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.
Crude death rate (per thousand) - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.
Gross reproduction rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1975.
Family planning - acceptors, annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.
Family planning - users (percent of married women) - Percentage of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION
Index of food production per capita (1970=100) - Index number of per capita annual production of all food commodities.
Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10 percent for waste at household level.
Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for a minimum allowance of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.
Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.
Child (ages 1-4) mortality rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group.

HEALTH
Life expectancy at birth (years) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970, and 1975.
Infant mortality rate (per thousand) - Annual deaths of infants under one year of age per thousand live births.
Access to safe water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.
Access to excreta disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.
Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.
Population per nursing person - Population divided by number of practicing male and female graduate nurses, practical nurses, and assistant nurses.
Population per hospital bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.
Admissions per hospital bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING
Average size of household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes. Statistical definitions of household vary.
Average number of persons per room - total, urban, and rural - Average number of persons per room in all, urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.
Access to electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION
Adjusted enrollment ratios
Primary school - total, and female - Total and female enrollment of all ages at the primary level as percentages of respectively primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.
Secondary school - total, and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.
Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.
Pupil-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.
Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION
Passenger cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.
Radio receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.
TV receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.
Newspaper circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper", defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.
Cinema annual attendance per capita per year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

EMPLOYMENT
Total labor force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc. Definitions in various countries are not comparable.
Female (percent) - Female labor force as percentage of total labor force.
Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force.
Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force.
Participation rate (percent) - total, male, and female - Total, male, and female labor force as percentages of their respective populations. These are ILO's adjusted participation rates reflecting age-sex structure of the population, and long time trend.
Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

INCOME DISTRIBUTION
Percentage of private income (both in cash and kind) received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS
Estimated absolute poverty income level (US$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.
Estimated relative poverty income level (US$ per capita) - urban and rural - Relative poverty income level is that income level less than one-third per capita personal income of the country.
Estimated population below poverty income level (percent) - urban and rural - Percent of population (urban and rural) who are either "absolute poor" or "relative poor" whichever is greater.

Economic and Social Data Division
Economic Analysis and Projections Department

TURKEY - ECONOMIC DEVELOPMENT DATA SHEET 1/

	Actual					Est.	Projected		Growth Rates		Share of GDP
	1970	1972	1975	1976	1977	1978	1979	1980	70-77	77-80	1976
A. NATIONAL ACCOUNTS (TL Billion, 1976 Prices)											
1. Gross Domestic Product	423.5	514.1	607.7	659.0	688.0	720.3	740.7	769.0	7.2	3.8	100.0
2. Gain from Terms of Trade	6.9	4.5	-5.4	0.0	-0.7	-6.2	-13.4	-19.6			0.0
3. Gross Domestic Income	430.4	518.6	602.3	659.0	687.3	714.1	727.3	749.4	6.9	2.9	100.0
4. Exports (G + NFS)	21.8	36.9	29.6	35.0	32.0	47.4	53.0	61.4	5.6	24.3	5.3
5. Imports (G + NFS)	31.4	50.2	81.2	82.8	96.7	81.3	77.3	75.6	17.4	-7.9	12.6
6. Resource Balance	-9.6	-13.3	-51.6	-47.8	-64.7	-33.9	-24.3	-14.2			7.3
7. Investment	79.5	97.3	145.8	156.7	163.8	146.3	146.3	146.3	10.9	-3.7	23.8
8. Consumption	353.6	430.1	513.5	550.1	588.8	607.9	618.7	636.9	7.6	2.7	83.5
9. Domestic Savings	76.8	88.5	88.8	108.9	98.5	106.2	122.0	132.1	3.6	10.3	16.5
10. National Savings	83.2	114.7	104.5	119.9	107.1	109.5	125.0	134.1	3.7	7.8	18.2
B. SECTOR OUTPUT	Share of Total Output										
1. Agriculture	27.1	22.6	23.4	23.2	22.1	23.3	23.0	22.0	4.1	3.6	
2. Industry 3/	22.8	25.2	25.0	25.2	25.8	24.3	24.8	25.4	9.2	3.2	
3. Other	50.1	52.1	51.6	51.5	52.2	52.4	52.2	52.6	7.9	4.0	
C. PRICES (1976 = 100)											
1. Export Prices	57.4	66.6	96.1	100.0	102.3	85.7	83.4	84.2	8.6	-6.3	
2. Import Prices	43.2	60.3	113.1	100.0	104.2	95.4	103.7	111.9	13.4	2.4	
3. Terms of Trade	132.9	110.4	85.0	100.0	98.2	89.8	80.4	75.2	-4.2	-8.5	
4. GDP Deflator	34.4	57.5	85.4	100.0	124.1	186.2	260.7	338.9	20.0	39.8	
5. Average Exchange Rate ($1.00 = TL)	11.5	14.1	14.4	16.1	18.0	24.3					
D. PUBLIC FINANCE	Percent of GDP										
1. Central Government Revenue	19.9	19.7	20.5	21.4	22.4	21.5					
2. Central Government Expenditures	22.5	22.0	22.8	24.1	27.4	24.1					
3. Public Sector Deficit 2/	N.A.	2.1	6.1	8.1	9.0	N.A.					

E. SELECTED INDICATORS	1970-77 4/
ICOR	2.9
Import Elasticity	2.4
Average Domestic Saving Rate	15.4
Marginal Domestic Saving Rate	7.7
Investment/GDP	21.1
Imports/GDP	11.4

F. LABOR FORCE	1970	1975	Est. 1977
Civilian Labor Force (millions)	13.8	15.7	16.2
Unemployment and Underemployment (% of CLF)	11.0	12.3	13.5
Civilian Employment (millions)	13.1	14.7	14.7
of which (%)			
Agriculture	67.1	64.5	61.8
Industry 3/	10.6	11.5	12.6
Other	22.3	24.0	25.6

1/ Totals may not add up because of rounding errors.

2/ Borrowing requirement of central government, state economic enterprises, and other public authorities.

3/ Includes mining, manufacturing, electricity, gas, water works, excludes construction.

4/ 1977-80 regarded as unrepresentative transitional years.

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TURKEY - BALANCE OF PAYMENTS
(Million US Dollars)

	Actual						Est.	Projected	
	1970	1973	1974	1975	1976	1977	1978	1979	1980
A. SUMMARY OF BALANCE OF PAYMENTS									
1. Exports of Goods and NFS	754	1799	2123	2152	2742	2556	3258	3545	4146
2. Imports of Goods and NFS	-1096	-2391	-4183	-5219	-5735	-6436	-5164	-5338	-5633
3. Resource Balance	-342	-592	-2060	-3067	-2993	-3880	-1906	-1793	-1487
4. Interest (net) 1/	-47	-59	-102	-124	-217	-500	-678	-744	-920
5. Profits	-33	-35	-71	-36	-83	-116	-58	-89	-94
6. Workers' Remittances	273	1183	1426	1312	983	982	975	1090	1180
7. Net Factor Service Income	193	1089	1253	1152	683	366	239	257	166
8. Transfers (net)	91	18	27	23	15	12	14	25	30
9. Current Account Balance	-58	515	-780	-1892	-2295	-3502	-1653	-1511	-1291
10. Direct Foreign Investment	58	27	88	153	27	67	40	150	175
11. Imports with Waiver	34	50	58	98	136	102	100	102	104
12. Public M and LT (gross) 2/	271	376	330	386	491	502	650	1639	1775
13. Amortisation of Public M and LT 1/ 2/	-146	-72	-126	-117	-119	-214	-387	-511	-674
14. Public M and LT (net)	125	304	204	269	372	288	263	1128	1101
15. IMF (net)	48	-11	-	243	148	-	180	150	-100
16. Short Term (net) 3/	18	-224	-80	916	1806	2972	730	-	-
17. Capital not included elsewhere 4/	-39	67	79	-204	-306	-478	540	-19	61
18 Charge in Reserves (- = increase)	-186	-728	431	417	112	551	-200	-	-50
B. M and LT LOAN COMMITMENTS 5/	506	547	577	721	1461	1076	1368		
Public Sector	487	491	527	615	1374	1076	1368		
1. Bank Group	40	135	228	158	237	144	358		
2. Other Multilateral	132	100	135	40	55	3	63		
3. Governments: Market Economies	154	218	145	178	180	301	375		
4. Governments: Centrally Planned Economies	114	4	-	3	295	216	343		
5. Suppliers	47	3	-	45	161	160	53		
6. Financial Institutions	-	32	19	191	423	251	177		
7. Other	-	-	-	-	24	-	-		
Private Sector	19	56	50	106	87	n.a.	n.a.		
C. AVERAGE TERMS OF M and LT LOAN COMMITMENTS 5/									
1. Grant Element (%)	36.4	39.0	29.7	15.4	14.3	14.0	n.a.		
2. Interest (%)	3.6	4.7	5.9	7.3	7.2	7.4	n.a.		
3. Maturity (yrs.)	18.0	25.6	22.9	13.4	12.6	12.7	n.a.		
4. Grace (yrs.)	4.6	7.0	5.6	3.9	3.8	4.6	n.a.		

/1 Net of debt relief.
/2 Up to and including 1978 these figures are Government estimates, which are not consistent with Bank DRS data.
/3 Up to and including 1978 mainly convertible Lira Accounts, Acceptance Credits, Commercial and Oil arrears, Bankers' Credits, Reimbursement Credits, Overdrafts, and Dresdner Bank Scheme deposits.
/4 Mainly errors and omissions up to and including 1978; in 1979 and 1980 represents net private M and LT borrowing.
/5 Public and publicly guaranteed external debt only.

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TURKEY - EXTERNAL DEBT AND CREDITWORTHINESS

	Actual 1970	1973	1975	1976	1977	Estimate 1978
A. OUTSTANDING DEBT (Million US Dollars)						
1. Public M and LT (Disbursed) 1/	1854	2869	3176	3585	4314	4928
2. Private M and LT (disbursed) 1/	42	115	160	253	479	557
3. Short Term 2/	n.a.	n.a.	1388	3342	6539	7469
4. Total Outstanding Disbursed Debt	1896 2a/	2984 2a/	4724	7180	11332	12954
5. Undisbursed Public M and LT 1/	840	1101	1608	2427	2787	2972
B. DEBT SERVICE (Million US Dollars)						
1. Interest on all Debt (net of relief) 3/	-47	-59	-124	-217	-500	-678
2. Amortisation of M and LT Debt (net of relief) 3/	-146	-72	-117	-119	-214	-387
3. Total Debt Service Payments	-193	-131	-241	-336	-714	-1065
C. DEBT BURDEN						
1. Debt Service Ratio 4/	18.8	4.4	7.0	9.0	20.2	25.2
2. Total Outstanding Disbursed Debt/GDP 4a/	15.0	14.3	13.1	17.5	23.9	24.1
D. TERMS						
1. Interest on all Debt 5/ / Total Outstanding Disbursed Debt	2.5	2.0	2.6	3.0	4.4	5.2
2. Total Debt Service 5/ / Total Outstanding Disbursed Debt	10.2	4.4	5.1	4.7	6.3	8.2
E. EXPOSURE						
1. Bank Group DOD/Total Outstanding Disbursed Debt	7.2	8.5	9.1	7.7	6.1	6.5
2. Bank Group Debt Service/Total Debt Service	3.2	14.9	13.5	13.4	9.1	6.6

F. COMPOSITION OF TOTAL OUTSTANDING DISBURSED DEBT (Million US Dollars)

	1977 6/		1978 6/	
1. Medium & Long-Term Debt	4793	42.3	5485	42.4
a. Public M and LT				
(i) Bank Group	693	6.1	836	6.5
(ii) Other Multilateral	502	4.4	558	4.3
(iii) Governments	2469	21.8	2907	22.4
(iv) Suppliers	133	1.2	131	1.0
(v) Financial Institutions	483	4.3	464	3.6
(vi) Other	34	0.0	32	0.2
Total	4314	38.1	4928	38.1
b. Private M and LT (Total)	479	4.2	557	4.3
2. Short Term				
(i) Convertible Lira Accounts	2267	20.0	2860	22.1
(ii) Suppliers' Credits/Commercial and Oil Arrears	1858	16.4	1675	12.9
(iii) Acceptance Credits	710	6.3	862	6.7
(iv) Bankers Credits, Reimbursement Credits, Overdrafts	828	7.3	924	7.1
(v) Dresdner Bank	173	1.5	363	2.8
(vi) IMF	409	3.6	622	4.8
(vii) Other	294	2.6	163	1.3
Total	6539	57.7	7469	57.6
3. Total Outstanding Disbursed Debt	11332	100.0	12954	100.0

/1 Bank DRS data.
/2 Based on Turkish Central Bank estimates. /2a Excluding short-term.
/3 Based on Turkish Balance of Payments data.
/4 Total debt service (line B3) divided by exports of goods and non-factor services plus workers' remittances.
/4a At market prices. /5 Net of debt relief.
/6 As of December 31 for respective years.

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STATUS OF BANK GROUP OPERATIONS IN TURKEY

STATEMENT OF BANK LOANS AND IDA CREDITS
(As of June 30, 1979)

Loan and Credit Number	Year	Borrower	Purpose	(Less Cancellations US$M) Bank	IDA	Undisbursed
Eighteen loans and twelve credits fully disbursed				383.0	160.2	
748-TU	1971	Republic of Turkey	Education	13.5		3.9
844-TU	1972	Republic of Turkey	Istanbul Water Supply	37.0		9.6
324-TU	1972	Republic of Turkey	Istanbul Urban Development		2.3	0.7
330-TU	1972	Republic of Turkey	Livestock II		16.0	1.1
883-TU	1973	Republic of Turkey	Ceyhan Aslantas	44.0		23.0
892-TU	1973	Republic of Turkey	Istanbul Power District	14.0		1.2
893-TU	1973	Turkish State Railway	Railway Project	46.7		7.5
957-TU	1974	Republic of Turkey	Antalya Forestry	40.0		4.5
1023-TU	1974	TEK/TKI	Elbistan Power	148.0		66.8
1024-TU	1974	DYB	Industry	40.0		3.0
1078-TU	1975	TSKB	Industry	65.0		2.0
1130-TU	1975	Republic of Turkey	Rural Development	75.0		48.6
1248-TU	1976	Agriculture Bank of Turkey (TCZB)	Agriculture Credit	54.3		36.6
1258-TU	1976	State Pulp and Paper Industry (SEKA)	Newsprint	70.0		21.0
1265-TU	1976	Republic of Turkey	Livestock III	21.5		17.7
1194-TU	1976	TEK	Power Transmission II	56.0		34.9
1310-TU	1976	Republic of Turkey	Tourism	26.0		24.1
1379-TU	1977	DYB	Industry	70.0		65.2
1430-TU	1977	TSKB	Industry	74.0		40.2
1585-TU	1978	Republic of Turkey	Northern Forestry	86.0		85.0
1586-TU	1978	Republic of Turkey	Livestock IV	24.0		24.0
1606-TU	1978	Republic of Turkey	Erdemir Steel Stage II	95.0		95.0
1627-TU	1978	Republic of Turkey	Program Loan	150.0		73.2
S-13-TU	1978	Republic of Turkey	Oil Recovery	2.5		2.1
		Total		1635.5 a/	178.5	690.9
		of which has been repaid		166.1	5.1	
		Total now outstanding		1469.4	173.4	
		Amount sold	3.6			
		of which has been repaid	3.6	- 0 -	- 0 -	
		Total now held by Bank and IDA b/		1469.4	173.4	
		Total undisbursed		689.1	1.8	690.9

a/ The following loans were approved June 26, 1979 and signed July 2, 1979:

1741-TU	1979	Republic of Turkey	Ports Rehabilitation	75.0		75.0
1742-TU	1979	Republic of Turkey	Grain Storage	85.0		85.0

The following loan was approved and signed July 12, 1979:

1748-TU	1979	TSKB	Industry	60.0		60.0

b/ Prior to exchange adjustments.

STATUS OF BANK GROUP OPERATIONS IN TURKEY

STATEMENT OF IFC INVESTMENTS
(As of June 30, 1979)

Fiscal Year	Obligor	Type of Business	Amount in US$ Million Loan	Equity	Total
1964	TSKB	DFC	-	0.92	0.92
1966	SIFAS I	Nylon Yarn	0.90	0.47	1.37
1967	TSKB II	DFC	-	0.34	0.34
1969	TSKB III	DFC	-	0.41	0.41
1969	SIFAS II	Nylon Yarn	1.50	0.43	1.93
1970	Viking I	Pulp and Paper	2.50	0.62	3.12
1970	ACS	Glass	10.00	1.58	11.58
1971	NASAS	Aluminum	7.00	1.37	8.37
1971	SIFAS III	Nylon Yarn	0.75	-	0.75
1971	Viking II	Pulp and Paper	-	0.05	0.05
1972	SIFAS IV	Nylon Yarn	-	0.52	0.52
1972	TSKB IV	DFC	-	0.43	0.43
1973	TSKB V	DFC	10.00	-	10.00
1973	Akdeniz	Tourism	0.33	0.27	0.60
1974	Borusan	Steel Pipes	3.60	0.44	4.04
1974	AKSA	Textiles	10.00	-	10.00
1975	Kartaltepe	Textiles	1.30	-	1.30
1975	Sasa	Nylon Yarn	15.00	-	15.00
1975	Aslan	Cement	10.60	-	10.60
1975	DOKTAS	Steel	7.50	1.37	8.87
1975	TSKB	DFC	25.00	1.22	26.22
1976	NASAS	Aluminum	1.58	-	1.58
1976	TSKB	DFC	25.00	-	25.00
1976	Asil Celik	Steel	12.00	2.20	14.20
1977	Borusan	Steel Pipes	-	0.08	0.08
1978	DOKTAS	Steel	-	0.15	0.15
1979	Ege Mosan	Engines for Mopeds	2.15	-	2.15
1979	ISAS	Motor Vehicles & Accessories	8.00	1.40	9.40
1979	Asil Celik	Steel	-	1.80	1.80
1979	Trakya Cam	Glass	31.14	4.00	35.14
	Total Gross Commitments		185.85	20.07	205.92
	Less Cancellations, Terminations, Exchange Adjustments, Repayments and Sales		100.57	2.99	103.56
	Total Commitments now held by IFC		85.28	17.08	102.36
	Total Undisbursed		31.40	5.63	37.03

C. PROJECTS IN EXECUTION 1/

Ln. No. 748 Education Project: US$13.5 million loan of June 9, 1971. Effective Date: September 29, 1971. Closing Date: March 31, 1980.

The project was substantially delayed due mainly to initial difficulties in providing the project unit with adequate qualified staff and authority commensurate with its responsibilities. Implementation is now proceeding satisfactorily, with equipment procurement progressing smoothly. Completion of some training institutions, including the Management Training Institute, has been delayed by contract disputes; however, 90 percent are now complete or almost complete, and remedial actions are being taken by Government to accelerate completion of the remaining schools. The Government is also considering alternative steps to formally establish the Management Training Institute without need for parliamentary action. Training of teachers for technician schools, adult training centers and practical trade schools has made considerable progress. Sixty-seven local advisory committees for vocational and technical education have been established, one in each province.

Ln. No. 844 Istanbul Water Supply Project: US$37 million loan of June 30, 1972. Effective Date: January 4, 1973. Closing Date: June 30, 1980.

Project construction was delayed about 2-1/2 years due mainly to problems in the use of ICB procurement procedures and inefficient management. However, construction moved swiftly in 1977 and the two major water resources development programs were completed in early 1979. Substantial improvements to the distribution system are required, however, to enable full utilization to be made of the new water sources. A tariff increase was implemented in March 1979, and a reorganization of the management, accounting and financial systems is under consideration.

Cr. No. 324 Istanbul Urban Development Project: US$2.3 million credit of June 30, 1972. Effective Date: January 4, 1973. Closing Date: June 30, 1980.

Consultants have completed Phase I of the general urban planning and urban transport/land use modelling studies as well as studies on wastewater and bus/traffic engineering and control. Phase II studies to prepare a shelter project for Bank financing are under discussion with the Government.

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution and in particular, to report any problems which are being encountered and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

Cr. No. 330 Second Livestock Project: US$16 million credit of September 28, 1972. Effective Date: January 5, 1973. Closing Date: June 30, 1980.

The Fattening Subproject is progressing satisfactorily and all funds have been committed. The Village Livestock Development Subproject, after resolution of initial difficulties in recruitment of technicians and gaining farmer confidence, is now progressing rapidly, with 95 percent of the funds committed. The project is expected to be completed on schedule.

Ln. and Cr. Nos. 883/360, Ceyhan Aslantas Multipurpose Project: US$44 million loan and US$30 million credit of March 22, 1973. Effective Date: March 20, 1974. Closing Date: December 31, 1981.

Following delays due to difficult rock conditions and inappropriate tunnelling methods, two diversion tunnels have been completed, about two years behind appraisal estimate. The upstream coffer dam has also been completed and work on the main dam and spillway is progressing satisfactorily. The construction of the irrigation system is progressing, with the system now ready to transport irrigation water to about 40,000 ha, one third of the target. On-farm works are progressing slowly, with about 36 percent of the land leveling, 25 percent of the surface drainage, and 45 percent of the feeder roads completed. Tile drainage is being delayed until the main drains are located. Staffing of the extension service is satisfactory except as regards consultants.

Ln. No. 892 Istanbul Power Distribution Project: US$14.0 million loan of May 25, 1973. Effective Date: September 28, 1973. Closing Date: December 31, 1979.

The project has been delayed by about four years mainly by slow procurement action; however, this is now almost completed. Local costs have increased substantially over appraisal estimates, and foreign costs by 15 percent. Consultant studies of the Istanbul power market and of the proposed reorganization of the company's electricity and transport services have been completed; a study of its gas operations is under review. IETT's tariffs were raised twice following the countrywide tariff adjustments made in September 1977 and again by about 35 percent in April 1979; additional steps are planned by the Government to help cover the increased project costs and revitalize the company's finances.

Ln. No. 893 Turkish State Railways: US$47 million loan of May 25, 1973. Effective Date: August 28, 1973. Closing Date: June 30, 1980.

After initial delays, physical progress, including track renewals, rolling stock, and locomotive production, the latter financed by the European Investment Bank, is satisfactory. Nearly 80 percent of the loan has been disbursed and procurement actions have been or are in the process of being completed for use of the remaining loan funds, although project completion will only be in mid-1980. Despite two tariff increases since the loan was

made, the Railways have continued to fall short of the financial targets in the revised Plan of Action agreed with the Bank in mid-1975. However, it is hoped that further increases in passenger fares and freight tariffs averaging 70 to 80 percent, which became effective earlier this year, will improve the Railways' financial situation. While the dieselization program is making satisfactory progress, other measures to improve operational efficiency, such as appropriate manpower planning, have not been given sufficient attention.

Ln. No. 957 Antalya/Akdeniz Forest Utilization Project: US$40 million loan of January 28, 1974. Effective Date: May 26, 1976. Closing Date: June 30, 1980.

Following the approval by the Executive Directors of needed changes in the agreements arising from relocation of the pulp and paper mill, the loan was declared effective. Construction at the new site is underway, and the project is expected to be completed by mid-1981, two years behind the revised schedule. Some cases of sub-standard civil works construction have occurred, but a corrective program and strengthened supervision by SEKA have produced some improvement. Arrangements have been made to complete the foreign exchange financing plan, and procurement for the industrial part of the project is resuming. Local currency payments for the Akdeniz establishment are also now being made.

Ln. No. 1023 Elbistan Lignite Mine and Power Project: US$148 million loan of June 28, 1974. Effective Date: June 1, 1976. Closing Date: July 30, 1982.

Project implementation has been delayed by critical problems, including insufficient staff, inefficient management, inadequate coordination among various agencies and unsatisfactory performance of civil contractors. Following continuous Bank and co-lender reviews of the situation with the Turkish authorities from early 1977, the remedial measures initiated by Turkey have resulted in some improvement of project coordination. Physical aspects of project implementation have recently shown encouraging improvement. The Government's continued provision of adequate local funds, and early arrangements to finalize plans to meet the substantial foreign exchange gap, would help maintain project momentum in future. The Government is reviewing possible actions to overcome these and other remaining implementation problems.

Ln. No. 1024 DYB (State Investment Bank of Turkey): US$40 million loan of June 28, 1974. Effective Date: September 30, 1974. Closing Date: December 31, 1979.

The loan was fully committed in February 1977, with eleven subprojects approved by the Bank. Project implementation is satisfactory.

Ln. No. 1078 TSKB (Industrial Development Bank of Turkey): US$65 million loan of January 22, 1974. Effective Date: April 24, 1975. Closing Date: December 31, 1979.

The loan is fully committed and project implementation is satisfactory. Disbursements are nearly complete, although somewhat behind original appraisal estimates, as a result of difficulties with a few subprojects.

Ln. No. 1130 Corum-Cankiri Rural Development: US$75 million loan of June 23, 1975. Effective Date: January 2, 1976. Closing Date: December 31, 1981.

The project is progressing satisfactorily. Corum dam has been completed and the works to divert run-off from 5 nearby watersheds will be completed in late 1979. Kumbabo pumping station is ready for testing. Diversion tunnels for Alaca and Guldercek dams are more than 50 percent completed. DSI and TOPRAKSU will soon jointly decide on methods of irrigation to be used in conjunction with Guldercek dam, and the related design of the conveyance works. The project extension service and credit components are operating successfully. All three consultants proposed for the extension service have been employed. Further construction of village centers is being delayed until a satisfactory plan for using and maintaining existing centers is drawn up and plans for additional centers are revised.

Ln. No. 1194 Second TEK Power Transmission Project: US$56 million loan of June 14, 1976. Effective Date: April 21, 1978. Closing Date: December 31, 1979.

Procurement action is complete, somewhat behind schedule, and almost the entire loan is committed. Some deliveries have also been delayed because of foreign exchange shortages. Overall project implementation and the rate of disbursement should improve in the coming period.

Ln. No. 1248 Agricultural Credit and Agroindustries: US$54.2 million loan of May 5, 1976. Effective Date: May 11, 1977. Closing Date: September 30, 1981.

The ferryship component has been implemented, and the two roll-on and roll-off ships purchased under this project and the Fruit and Vegetable Export project, are now operating a regularly scheduled service between ports in Turkey and two ports in Italy. Selection of agro-industries sub-loans has been delayed, but some have recently been approved. The Agricultural Bank (TCZB) has introduced improved lending procedures for its ongoing supervised credit program, and this component is being implemented satisfactorily. Terms of reference for, and recruitment of, consultants to carry out the study of TCZB's structure and procedures have been finalized after considerable delay. At the Borrower's request, a cattle-fattening component of the Project, and US$7.7 million of the original Loan amount of $63 million, allocated for this purpose, were cancelled on May 5, 1977. Also, as provided for in the Loan Agreement, $1.04 million for training was cancelled on December 22, 1977, following approval of UNDP funds for this purpose.

Ln. No. 1258 Balikesir Newsprint: US$70 million loan of May 21, 1976. Effective Date: October 15, 1976. Closing Date: December 31, 1980.

The project is now proceeding satisfactorily, but due to delays in civil works and procurement is expected to start production in mid-1980, eighteen months behind the appraisal schedule. Erection of machinery and equipment is expected to begin in early 1979 and trial runs about one year later.

Ln. No. 1265 Livestock III: US$21.5 million loan of May 26, 1976. Effective Date: February 25, 1977. Closing Date: March 31, 1982.

After a slower than anticipated start-up, project implementation is now satisfactory. Project area offices have been established and are virtually fully staffed, with all three consultants on post. Preparation of farm development plans has been slower than expected; however, substantial numbers of sub-loan applications have been approved and include a higher proportion than expected of small farmers.

Ln. No. 1310 South Antalya Tourism Infrastructure: US$26 million loan of July 9, 1976. Effective Date: March 1, 1978. Closing Date: December 31, 1982.

Implementation of most project components is satisfactory, with progress being made in preparation of specifications and project design work, although the pace of overall project implementation is somewhat slower than expected due to staffing constraints and difficulties in ensuring adequate inter-ministerial and inter-agency coordination. However, measures to strengthen the Project Unit and its consultants, the Tourism Bank, are being taken, and the project is still expected to be completed without major delays.

Ln. No. 1379 DYB (State Investment Bank of Turkey): US$70 million loan of March 23, 1977. Effective Date: July 21, 1977. Closing Date: March 31, 1981.

The loan has been fully committed. DYB has a new Director General but still has severe staff constraints, which it has in part overcome by recruitment of additional junior staff. It hopes improved contract terms will enable it to fill more senior positions as needed. The possibility of expanding its role in the SEE system is under active review.

Ln. No. 1430 TSKB XII (Industrial Development Bank of Turkey): US$74.0 million loan of June 3, 1977. Effective Date: August 29, 1977. Closing Date: June 30, 1981.

Progress is satisfactory and over two-thirds of the loan has been committed. TSKB has essentially reached its agreed targets for allocation of its resources to projects in less developed regions and small and medium-scale

labor-intensive enterprises. It has so far been unable to raise resources in international capital markets as expected because of Turkey's economic difficulties, but the interest of several financing sources is anticipated once conditions permit renewed efforts.

Ln. No. 1585 Northern Forestry: US$86.0 million loan of June 5, 1978. Effective Date: October 30, 1978. Closing Date: March 31, 1986.

Project implementation has begun and procurement is underway.

Ln. No. 1586 Livestock IV: US$24.0 million loan of June 5, 1978. Effective Date: October 31, 1978. Closing Date: June 30, 1985.

Recruitment of technical specialists for the project and selection of consultants for the milk industry study are underway.

Ln. No. 1606 Erdemir Stage II Steel: US$95.0 million loan of June 30, 1978. Effective Date: July 30, 1979. Closing Date: June 30, 1983.

Procurement action is underway.

Ln. No. 1627 Import Program: US$150.0 million of November 8, 1978. Effective Date: November 16, 1978. Closing Date: June 30, 1980.

In accordance with Schedule 1 of the Loan Agreement a satisfactory review of Turkey's export policies and performance was made by the Bank in April and a determination made to continue disbursements after April 30. As of July 18, disbursements totalled $89 million.

Ln. No. S-13 Bati Raman Engineering: US$2.5 million of November 30, 1978. Effective Date: February 27, 1979. Closing Date: February 29, 1980.

Consultants have been appointed for the comparative feasibility study, which is underway.

TURKEY - PRIVATE SECTOR TEXTILE PROJECT

SUPPLEMENTARY PROJECT DATA SHEET

Section I: Timetable of Key Events

(a)	Time to prepare project:	10 months
(b)	Agencies preparing project:	TSKB and SYKB with Government participation
(c)	First presentation to the Bank: First Bank mission:	May-June 1976 December 1976
(d)	Departure of appraisal mission:	October 3, 1978
(e)	Negotiations completed:	July 12, 1979
(f)	Loans effectiveness (planned):	December 1, 1979

Section II: Special Bank Implementation Actions

None.

Section III: Special Conditions

1. TSKB and SYKB to allocate their financing of equipment under this project to priority subsectors agreed between them and the Bank according to minimum targets (LAs 3.07(b). Projects to be selected according to agreed eligibility criteria appropriate to each segment of the textile industry (paras. 69 and 70; LAs 2.03 and Schedule 3, TSKB LA 3.10 and SYKB LA 3.09).

2. At least 30 percent of total equipment financing, and 80 percent of garments/making up and knitting financing, in the textile sector to be devoted to export-oriented projects (para. 72 and LAs 3.07(a)).

3. TSKB to launch extension service providing training and consultancy services (paras. 77-80 and TSKB LA 3.01(a)(iii)). Appointment of consultant to assist with start-up and first two resident consultants (Conditions of Effectiveness, para. 79 and TSKB LA 6.01(a)).

4. TSKB to administer loan fund for supplementary training, technical assistance and technology transfer (paras. 81-82 and TSKB LA 3.01(a)(ii)).

5. TSKB and SYKB to train their staff in export aspects of textiles, and TSKB to continue its textile research studies program (para. 66 and TSKB LA 3.01(a)(iv) and (v) and SYKB LA 3.01(a)(ii)).

6. TSKB and SYKB to enforce steps to control pollution from textile plants (para. 83 and LAs 3.02(a)(vi) and Schedule 3, Section 3 A(1) and (2)(d)).

7. TSKB and SYKB to sign a protocol on cooperation in the textile sector (Condition of Effectiveness, para. 62 and TSKB LA 6.01(b), TSKB LA 3.11 and SYKB LA 3.10).

8. SYKB loan effectiveness depends on TSKB loan effectiveness (para. 87 and SYKB LA 6.01).

ANNEX IV

TURKEY - PRIVATE SECTOR TEXTILE PROJECT

OTHER PROJECT FEATURES

1. Relending terms. Equipment subloans will typically be for eight to ten years with two years of grace. Both DFCs require sub-borrowers to bear the foreign exchange risk on both interest and principal (TSKB LA 4.08 and SYKB LA 4.07). They lend both foreign exchange and local currency at the basic rate for industry set by the government (20 percent since May 1, 1979), but with taxes and fees the effective cost to borrowers is around 26 percent from TSKB. SYKB has historically charged about 2 percent per annum more to cover the requirements of its shareholder banks, which provide it with large sums for relending. The Government provides borrowers with interest subsidies of 6 percent per annum for projects located in less developed regions or expected to export at least 50 percent of their output. Loans from the technology fund to be administered by TSKB (paras. 81-82) are expected to average $100,000, but will be subject to an agreed maximum of $250,000; terms are expected to average 3 to 5 years including 2 years of grace, but will be subject to an agreed maximum of 6 years (TSKB LA 3.08).

2. Free limits. The agreed free limits will be $4 million for TSKB, as under TSKB XIII, but $750,000 for SYKB reflecting the smaller expected size of its subprojects and the fact that it is borrowing for the first time from the Bank (LAs 2.02(b)). The average commitment is expected to be around $2 million, permitting 35-45 firms to be assisted.

3. Spread. Agreement will be reached that TSKB and SYKB will retain a net spread of 2.5 percent per annum on the proposed loans to them, plus--in the case of TSKB--1 percent per annum to finance the extension service, as well as the amounts required to service the $1.2 million of the proposed loan to TSKB used for this component. The balance will be paid to the Government as guarantee fees (TSKB LA 4.11 and SYKB LA 4.10).

4. Disbursements. These will be made against (i) 100 percent of c.i.f. foreign exchange expenditures for equipment; (ii) foreign exchange expenditures for technical assistance and for DFC training and research. Disbursements are expected to be completed during 1984, so the closing date for both loans will be December 31, 1984 (LAs 2.04).

5. Monitoring. Understandings will be reached on arrangements for Bank monitoring of the special features of the proposed project. The DFCs' semi-annually updated action plans for subproject financing will be submitted for Bank review and comment. To ensure sectoral balance in monitoring, they will translate ex post up to one-third of appraisals of equipment projects below the free limit selected by the Bank. TSKB will report semi-annually on the extension service and technology fund, and translate ex post up to one-third of reports on firms using the extension service and of technology fund appraisals selected by the Bank.

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