REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO THE

REPUBLIC OF TURKEY

FOR A

SUMERBANK COTTON TEXTILE

RATIONALIZATION PROJECT

April 30, 1980
TURKEY

CURRENCY EQUIVALENTS

<table>
<thead>
<tr>
<th>Currency Unit</th>
<th>Calendar 1978</th>
<th>July 1979</th>
<th>Jan. 1980/1</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollar 1</td>
<td>TL 24.28</td>
<td>TL 47.10</td>
<td>TL 70.00</td>
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<tr>
<td>TL 1</td>
<td>US$ 0.04</td>
<td>US$ 0.02</td>
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/1 Since January 1980 the rate is being adjusted for the differential inflation between Turkey and its major trading partners. TL70/$1 was used for this report.

/2 Except for imports of crude oil, petroleum products and fertilizer raw materials, and exports of agricultural products benefitting from official price supports, for which it was TL35 = US$1.00.

/3 Except for imports of fertilizers and insecticides/pesticides, as well as raw materials and inputs for their manufacture, for which the rate is TL55 = US$1.00.

FISCAL YEAR

Republic of Turkey		March 1 to February 28
Sumerbank		January 1 to December 31

ABBREVIATIONS

CTD Cotton Textile Division in Sumerbank
DYB State Investment Bank
EEC European Economic Community
LIBOR London Inter Bank Offer Rate
M & LT Medium and Long Term
PPF Project Preparation Facility
SEE State Economic Enterprise
SPO State Planning Organization
SYKB Industrial Investment and Credit Bank
TSKB Turkish Industrial Development Bank
UNIDO United Nations Industrial Development Organization
TURKEY - SUMERBANK COTTON TEXTILE RATIONALIZATION PROJECT

LOAN AND PROJECT SUMMARY

Borrower: Republic of Turkey

Beneficiary: Sumerbank

Amount: $83 million equivalent in various currencies.

Terms: Seventeen years including four years grace, at 8.25 percent per annum.

Relending Terms: Twelve years including four years grace, at 10.5 percent per annum. Beneficiary will bear the foreign exchange risk.

Project Description:
Rationalization and modernization of Sumerbank's cotton textile operations to increase annual production of yarn from 41,000 tons per year to 52,000 tons, of woven fabrics from 207 to 250 million m², finished fabrics from 152 to 207 million m², and of garments by 1.7 million pieces. Except for garments, the increases will come from better use of existing capacity.

The project includes: The provision or modernization of spinning, weaving, finishing and printing equipment, the equipping of a new garment plant, the general rehabilitation of existing factory facilities including ventilation, effluent disposal and lighting; about 45 man-years of training abroad; and about 460 man-months of technical assistance for improved management, operations, training, financial and budgeting systems.

The project will help meet the large domestic demand for textile products in Turkey and will yield net foreign earnings of about $5 million per year at full production. The principal risks include the possibilities of delayed price adjustments resulting in inadequate cash generation for the project, delays arising from the need to carefully coordinate relocation and rehabilitation in 19 widely dispersed plants and delayed improvement in Sumerbank's financial position resulting from better organization and management.
### Estimated Costs:

<table>
<thead>
<tr>
<th></th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Machinery and Equipment</td>
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<td>49.7</td>
<td>53.3</td>
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<tr>
<td>Freight and Insurance</td>
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<td>4.0</td>
<td>4.1</td>
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<tr>
<td>Civil Works, Engineering and Erection</td>
<td>8.1</td>
<td>3.0</td>
<td>11.1</td>
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<tr>
<td>Consultancy and Training</td>
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<td>6.8</td>
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<tr>
<td><strong>Base Cost Estimate</strong></td>
<td>13.5</td>
<td>63.5</td>
<td>77.0</td>
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**Contingencies:**

- **Physical**: 1.0, 3.7, 4.7
- **Price**: 3.5, 20.8, 24.3

**Total Project Cost (of which taxes)**:

- **Local**: 18.0
- **Foreign**: 88.0
- **Total**: 106.0

**Total Financing Required**: 44.5, 106.0, 150.5

### Financing Plan:

- **Bank**: 0.0, 83.0, 83.0
- **Suppliers Credits**: 0.0, 5.0, 5.0
- **Internally Generated Funds (Sumerbank)**: 26.5, 18.0, 44.5
- **New Equity Funds (Government)**: 18.0, 0.0, 18.0

**Total**: 44.5, 106.0, 150.5

### Estimated Disbursements:

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<tr>
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<tbody>
<tr>
<td>Annual</td>
<td>1.0</td>
<td>36.0</td>
<td>38.0</td>
<td>8.0</td>
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<tr>
<td>Cumulative</td>
<td>1.0</td>
<td>37.0</td>
<td>75.0</td>
<td>83.0</td>
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</table>

### Economic Rate of Return:

- 24 percent

### Appraisal Report:


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1/ Including $1 million of advances under the Project Preparation Facility (P-013/018-TU).
1. I submit the following report and recommendation on a proposed loan to the Republic of Turkey for the equivalent of US$83 million, to help finance a Sumerbank Cotton Textile Rationalization Project. The loan would have a term of 17 years including 4 years of grace with interest at 8.25 percent per annum. The proceeds of the loan will be on-lent to Sumerbank for 12 years with 4 years of grace, with interest at 10.5 percent per annum.

PART I - THE ECONOMY 1/

2. A Special Economic Mission visited Turkey in April/May 1979 to evaluate the Fourth Five-Year Plan (1979-83). Following discussion with the Government in mid October 1979, its report entitled "Turkey: Policies and Prospects for Growth" (No. 2657a-TU dated December 12, 1979), was distributed to the Executive Directors on December 26, 1979. A Postscript to the Special Economic Report was distributed to the Board on March 24, 1980. Their findings are reflected in this Part. Annex I contains the Basic Country Data.

Development Trends and Policies

3. As the result of a strong commitment to rapid growth and modernization, GDP increased at an average annual rate of 6.4 percent, 6.7 percent and 7.2 percent respectively during the First Plan (1963-67), Second Plan (1968-72), and Third Plan (1973-77) periods. This compares favorably with the experience of 55 "middle income" developing countries, whose GDP grew on an average 6.0 percent per annum between 1960-70 and 6.1 percent per annum between 1970-77. Moreover, the relatively high growth rate in Turkey was achieved without significant deposits of oil or other important natural resources.

4. Growth was accompanied by significant social changes. Although population grew at 2.5 percent per annum, rapid GDP growth nevertheless allowed substantial advances in per capita income. However, rising income levels were not accompanied by better income distribution and significant sectoral and regional inequalities in income exist, although basic needs have been satisfactorily met.

5. The public sector has played a key role in Turkey's development. Between 1963-77, its share in total fixed investment fluctuated around 50 percent, and its share of fixed investment in manufacturing increased from 21

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1/ This part is identical to Part I of the President's Report on the Karakaya Hydropower Project (P-2789-TU), dated April 25, 1980.
to nearly 49 percent. The public sector dominates basic industries. Never-
theless, the private sector has emerged as an increasingly important and
dynamic element in the economy and is beginning to shift its orientation from
consumer goods to intermediate and investment goods, and from the domestic
market to exports. Private sector investment increased at nearly 11.5 percent
per year in real terms during 1967-77 compared to an average annual increase
of only 4.8 percent between 1963 and 1967.

6. Turkish development between 1963-77, however, exhibited a number of
structural characteristics which are of considerable relevance for future
development policy. First, for a country of Turkey's size and per capita
income, it has a very low level of exports relative to GDP—about 4 percent
in 1977—as against a more or less "normal" import level of around 20 percent
for middle income countries; this highlights the vulnerability of the balance
of payments and the importance of export development to sustain the needed
inflow of foreign exchange resources. Second, while the level of investment
relative to GDP increased rapidly and compares favorably with other developing
countries, mobilization of domestic savings has lagged; the ratio of domestic
savings to GDP is well below the average for middle income countries; the
growing gap between domestic savings and investment led in the mid-70s to a
relatively high level of external borrowing, and domestic inflationary pres-
sures emanating from excess demand and deficit financing. Third, a relatively
high proportion of the labor force is still in agriculture, reflecting signif-
ificant disguised unemployment and the need for accelerated job creation in
non-agricultural activities; that in industry is low compared to other large
middle income countries; furthermore, the relatively inadequate generation of
additional employment has become more serious following the near cessation of
workers' migration to Europe since 1974. Fourth, despite the growing dynamism
of the private sector, the industrial scene is dominated by inefficient State
Economic Enterprises (SEEs) which have not been exposed to market forces and
serve not only economic but social goals; their growing deficits have imposed
an inflationary burden on the budget, while their ambitious investment programs
were financed through Central Bank borrowings, since their controlled prices
have, until recently, not enabled most of them to generate sufficient cash to
cover costs or investment expenditures. Fifth, due to the successes achieved
since the early sixties through economic planning, there has been an increas-
ing tendency to plan to a micro-level and seek to achieve changes through
administrative fiat; however, the economy has reached a stage where such
excessive reliance on this becomes counter productive; planning needs to be
increasingly geared towards setting a framework in which market forces
could secure the desired economic results in both the public and private
sectors.

The Economic Crisis and Stabilization Efforts up to Mid-1979

7. These economic, institutional and structural characteristics of
the economy made it particularly vulnerable to the sharp increase in import
prices (including oil) in 1974 and the simultaneous occurrence of recession,
inflation and rising unemployment in the industrial countries. These factors
played a key part in the deterioration of the Turkish economy. However, the politically weak governments, their policies in response to these factors and their efforts to pursue high growth policy despite the worsening international environment with increasing reliance on short-term external financing, together created forces that brought about the economic crisis that began in mid-1977 and still continues. The detailed analysis of the causes of this crisis and the government's attempts to stabilize the economy in the short-run up to mid-1979, is provided in the above-mentioned Special Economic Report and in paras. 8 through 15 of the President's Report (dated February 29, 1980) for the Structural Adjustment Loan approved by the Board on March 25, 1980.

8. The new IMF Standby, which replaced the one arranged in April 1978, was negotiated after the government took the following overdue measures in March/April 1979, to reverse the continuing adverse economic trends: (a) to improve the balance of payments, the TL was devalued in several steps until June, when a new buying rate of TL 47.10 per US$1 was established for most foreign trade and all invisibles; the new rate represented a depreciation in export-weighted terms of nearly 75 percent since the end of 1970, and more than offset the differential inflation rate during the course of 1978-79 between Turkey and its major trading partners; (b) to further stimulate exports of industrial and mining products, exporters were allowed to retain 50 percent (up from 25 percent) of their foreign exchange earnings to finance their imported inputs or those of their local suppliers; (c) to improve the financial position of SEEs, further substantial price increases (34 percent to 110 percent) were announced for a number of products, raising them above world prices at the new exchange rate; these increases were estimated to yield an additional TL 80 billion in FY1979, to help reduce the overall borrowing requirement of the public sector; and (d) to ensure more effective mobilization and allocation of resources, interest rates for deposits and loans were increased substantially, from up to a maximum of 16% p.a. to over 24% p.a.; repatriated savings of migrant workers were allowed an additional interest premium.

9. The July 1979 Standby covered a twelve month period, and foresaw total purchases of SDR 250.0 million in four tranches - SDR 70.0 million initially, and SDR 60 million each after November 1979, March 1980, and June 1980. It provided for a series of specific performance targets to strengthen the public finances, reduce inflation and improve the balance of payments situation in the short term. These measures were expected to prevent further deterioration in the balance of payments during 1979, with essential imports projected at $5.0 billion, about the same level as the previous year in real terms. A substantial increase in workers' remittances to a level of $1.2 billion was expected to compensate for the increasing interest payments on foreign debt. At the same time, disbursements of medium- and long-term foreign aid (including the Bank's Program Loan) were expected to increase markedly in 1979, thus reducing the need for renewed short-term borrowing.

10. In 1978, short-term debts continued to grow. However, 1979 witnessed the completion of a major Turkish effort to alleviate the primary
external debt issue through: (a) slowing the growth of short-term liabilities; (b) debt relief arrangements; and (c) efforts to pursue new sources of credits, especially M&LT credits. The first debt relief operation, arranged through the OECD Consortium for Turkey in May 1978, involved consolidation of $1.14 billion in arrears on guaranteed short-term and bilateral M&LT debt, as well as amounts due over the 13-month period May 21, 1978 to June 30, 1979. A second such major rescheduling took place in July 1979 involving about $1.02 billion of the official bilateral and private guaranteed credits due between July 1, 1979 and June 30, 1980. A third major arrangement, finalized in July and August 1979 with commercial banks, rescheduled convertible lira deposits ($2.3 billion), banker’s credits ($429 million) and third party reimbursement credits ($300 million). About $317 million in oil debt was also rescheduled. The total amount thus rescheduled was about $5.5 billion. This is perhaps the largest debt rescheduling operation anywhere.

11. Turkey also succeeded in 1978 and 1979, though to a limited extent, in diversifying the sources and increasing the level of M&LT commitments, including $250 million in project credits from the Saudi Fund. Perhaps the most important arrangement arrived at was the May 1979 OECD sponsored pledging of $1.45 billion in special assistance, including about $900 million in M&LT bilateral credits and export credits, besides $407 million of medium-term credits from commercial banks (finalized in September 1979). Agreements for all these funds were expected to be finalized before the end of 1979. By that time, about $750 million of this was estimated to be disbursed.

Economic Situation As Of End 1979

12. The economic crisis still continues. The measures taken in the context of the July 1979 Standby Arrangement have essentially succeeded in arresting further economic deterioration. Since it came into effect only in July 1979, it was recognized that the stabilization objectives which could be realized within one year were necessarily limited, and the progress towards them within the remaining six months of 1979 would also be quite modest.

13. After a surge up to mid 1979, worker remittances slowed down; nevertheless, they totalled about $1.7 billion, against $983 million in 1978 and the Standby’s target of $1.2 billion. Industrial exports rose quite strongly in the first half of 1979 in response to the changes in the parity value of the TL in April and June 1979; but they subsequently slowed down, presumably, partly due to severe shortages of imported inputs and partly due to the anticipation of further devaluation in the second half of that year. Overall, exports totalled about $2.3 billion in 1979, against the Standby’s target of $2.7 billion. As a result of higher prices and the necessity of purchasing oil on spot markets, the 1979 oil bill rose from the projected $1.7 billion to nearly $2.5 billion. While imports in 1979 were contained at $5.1 billion, marginally higher than the Standby’s target of $5.0 billion, the large oil bill necessitated more than anticipated reductions in essential imports. The problem was compounded by a much lower inflow of new capital than that envisaged in July 1979, because a significant part of the $900 million committed by bilaterals in May 1979 at the OECD meeting had not been made effective up to December 1979; besides, only a portion of what was made
effective was available to finance imports in 1979. Disbursements were also lower than expected against the $407 million of new commercial bank financing, because of its linkage with the November 1979 tranche of the Standby Arrangements which could not take place in time due to a change of government in Turkey in late 1979. Consequently, while the estimated current account deficit of $1.6 billion in 1979 was more or less in line with the target in the Standby Arrangements, the volume of imports declined by about 15 percent in 1979, following a decline of about 30 percent in 1978. Overall, GNP growth in 1979 was about 1.5 percent. Under the great pressure imposed by extremely limited supplies of vital imported inputs and products, including oil, the resulting shortfalls in export earnings, the shortages of a wide variety of consumer goods, and much stronger pressure on wages than anticipated at the time of the Standby, the rate of inflation reached 64 percent in 1979.

January 1980 Economic Program and Policy Objectives

14. Despite the difficult stabilization measures adopted since 1978 and those reflected in the July 1979 Standby Arrangements, the economic crisis persisted throughout 1979. Following elections in October 1979 a new government was formed. It obtained a vote of confidence in late November 1979. Bold and far-reaching measures to reverse the economic situation were announced on January 25, 1980. These are summarized in Annex II and more fully discussed in Part II of the President's Report (No. P-2725-TU) for the Structural Adjustment Loan approved by the Executive Directors on March 25, 1980. The announced economic policy objectives underlying these measures represent a basic departure from the past planning objectives. Turkey has undertaken, through this program, the essential first steps to initiate major structural and institutional changes in the key areas summarized in para 6, so as to foster medium-term economic development on a stable basis.

15. Following the announcement of this program, the IMF approved a modification of the terms of the July 1979 Standby Arrangements, and the release of a larger second tranche on February 21, 1980. On March 24, 1980, it approved the release of an increased third tranche. Thus, of the balance of SDR 180 million remaining in their July 1979 Standby, only SDR 20 million remains for release by end June 1980. In addition, compensatory financing of SDR 71.6 million has been provided on February 21, 1980 together with the modification of the Standby. Together, this results in the provision of $301 million (SDR 231.6 million) now with $26 million (SDR 20 million) to be provided in June 1980. In addition, Germany took the lead in organizing the provision of sizeable external assistance, as well as a further debt relief operation. Also, in meetings sponsored under OECD auspices on March 26 and April 15, $1.16 billion of bilateral aid was pledged. The success of the January 1980 measures is clearly dependent not on Turkey's own further efforts alone, but also on the willingness of the international economic and financial community to provide adequate and timely assistance in the period immediately ahead. The alternative for Turkey would be to cut back on imports, already pared to the bone; this, in turn, would postpone the possibility of economic recovery even further, jeopardize its efforts to curb inflation, and hamper the success of the bold structural changes it has initiated.
16. The new economic policy objectives underlying the Government's stated goal of "bringing about a major reorientation of the economy," can be summed up as follows:

(a) Greater reliance on market mechanisms and forces by both the public and private sectors, and lesser reliance than hitherto on planning up to micro-levels and on administrative fiats to realize planned targets and objectives.

(b) Reduction in the rate of inflation and improved management of balance of payments and external debts have the highest priority; in the process, Turkey may have to accept temporarily a lower GNP growth.

(c) Import substitution and protection oriented policies, on which Turkish development policy hitherto relied and which resulted in a bias favoring production for the domestic markets, must give way to policies encouraging the public and private sectors to be efficient and internationally competitive.

(d) In future, reliance must be placed on exports and foreign currency earning activities to finance Turkey's economic needs; the implementation of rational exchange rate policies and of measures encouraging exports are essential to achieve this objective.

(e) The SEE sector must be reformed, by exposing it to market forces, by allowing it to set its own prices and by improving its management; through such actions, it must generate its own resources to cover operating costs and investment expenditures.

(f) Domestic resource mobilization efforts, unlike the past, must be substantially augmented through increased tax efforts, the banking system, increased savings and the development of financial markets; the elimination of deficits of the public sector is an important objective of budgets from 1980 onwards.

(g) Investments aiming at fuller utilization of existing productive capacity and completion of those ongoing projects requiring modest inputs should have first priority; thereafter, the priority should be for new investments stressing exports and employment or those removing critical infrastructural bottlenecks; in any event, investments should be tailored to scarce resources.

(h) Conditions to stimulate foreign investments in oil, industry and agriculture must be created, in contrast to the past when such investments were not encouraged; prudent external debt management policies to create confidence in and flow of large external resources to Turkey should be followed.
17. These are radical departures from past Turkish economic policy. Considerable effort will be required to implement the new policies and complete the structural and institutional changes which Turkey has begun. The difficulty of the task should not be underestimated. The key policy areas are: (a) a rational exchange rate policy; (b) policies ensuring increased export earnings and encouraging foreign investments; (c) reform of the SEE sector, and the use of market forces to improve its efficiency and output as well as that of the private sector; (d) policies to improve domestic resource mobilization; and (e) formulation and pursuit of rational external debt management policies.

18. The actions taken by Turkey since 1978 in these areas, including measures in the January 1980 program and those planned for implementation in the medium-term, are summarized in the Table in Annex II. Progress in implementing them so as to foster economic recovery in the medium-term will be the focus of two reviews in July 1980 and December 1980, under the recently approved Structural Adjustment Loan. While all the issues listed in the Table are important, two of them merit further discussion: (a) external debt management and (b) public sector investment program.

19. Turkey’s external debt management policy has to grapple with several difficult issues. First, the large overhang of debt, and the relatively hard terms of the recent debt reschedulings, together raise a question regarding the need for further rescheduling in the near-term. A substantial improvement in the repayment profile of the rescheduled debts and the containment of Turkey’s short-term indebtedness over the medium-term to no more than the present level of about $3.8 billion is necessary to alleviate the heavy debt servicing burden over the next 5 years; a critical element here is the likely posture of commercial creditors, which cannot be easily anticipated. Second, it is important that Turkey obtains sizeable external credits on as long-term and concessional a basis as possible, to complete ongoing projects and undertake new ones in accordance with its stated investment criteria (para. 20). Recognizing the importance of these issues and the longer-term concerns regarding its creditworthiness that its creditors have, Turkey has been focussing its attention on evolving a balanced and prudent policy for external debt management. The Government has already initiated a comprehensive study of external debt, which it expects to complete before October 31, 1980. This study should help Turkey to further improve and refine its present external debt management policy; that should also assist Turkey in exercising greater control over the level and terms of new external financing it would seek from various external sources over the next five years.

20. As discussed earlier, the overall size and quality of the public investment programs until 1977 have contributed to the economic crisis. Actions taken over the last several months provide some evidence that given the severe domestic and foreign exchange constraints, public investment expenditures are being channelled towards projects meeting strict investment criteria. However, the January 1980 program and the policy announcements accompanying it go beyond that. They emphasize that since control of inflation is more important at present than the past Turkish strategy of concentrating only on higher growth, the projected level of annual investments
must be rigorously tailored to meet the availability of scarce resources each year. Investments in fiscal 1979 were lower in real terms than those in fiscal 1978. The Government proposes to continue that trend for fiscal 1980. Priority is to be accorded first to investments designed to utilize existing productive capacity more fully and to complete ongoing projects which can yield attractive returns with modest additional investments. Thereafter, the priority for new investments is for productive projects either contributing to exports or employment, or for those which remove critical infrastructural bottlenecks. A new Incentives and Investment Department has been established, whose purpose is to review which ongoing investments should be stopped, deferred or completed on an accelerated basis.

21. Successful implementation of the economic reorientation begun in January 1980 will take time, require persistence and courageous action on the part of the Government and call for substantial support from the international community. In the medium term, it will strengthen the basis for Turkey's creditworthiness and reestablish a path of stable economic growth.

Turkey's Medium-Term Economic Prospects

22. The Fourth Five-Year Plan (1979-83), approved by Parliament in November 1978, was in many essential ways an extension of the traditional Turkish development planning. It set out to complete the unfinished tasks of the Third Plan, and continued to emphasize a high growth rate, a large investment allocation for import substitution in basic and intermediate goods industries, and reliance on administrative controls rather than on market incentives. But it also attempted to address some development issues which came to the fore during the economic crisis, i.e. export growth and increased savings. Consequently, an export growth target of 18 percent p.a. in real terms and a marginal savings ratio of 34 percent were set, and priority was also accorded to export-oriented investments. But investment allocations provided mixed signals, favoring import substitution. In view of the continuation of the economic crisis, the unattainability of the targeted marginal savings ratio, and the difficulties that Turkey is facing currently, the Fourth Plan targets of investment and growth are clearly not going to be achieved.

23. Against this background, the Bank has made its own prognosis based on a general equilibrium model of the economy which permits quantification of alternative policies and a detailed and consistent examination of Turkey's medium-term prospects. Given the accumulation of economic problems of the last three years, the political difficulties besetting the country, the additional resources needed to cover the significantly increased cost of imports (including oil), and the limitations which Turkey is likely to encounter over the medium-term in significantly increasing the net inflow of capital, GDP growth in real terms may average around 4 percent p.a. with a real growth of exports about 12 percent p.a., during 1980-85. These growth rates appear attainable, assuming continuation of appropriate economic policies (including those announced in January 1980), and taking into account the low export base
and present underutilization of capacity. 1/ The international oil situation, following the recent substantial oil price increases at end-1979, has a major impact on future prospects. Even if Turkey allows only a marginal increase in oil imports during 1980-1985 to sustain a lower level of growth, the oil import bill is estimated to increase to $3.2 billion in 1980 and $6.1 billion by 1985, which as a percentage of merchandise exports and non-factor services reached 78.1 percent in 1979 and is likely to remain at a level of about 68 percent until 1985. The pressure this will exert on Turkey's already difficult balance of payments position is obvious. Although in constant dollars the ratio appears manageable, in current prices the projected current account deficit as a percent of GNP increases from 3 percent in 1979 to about 5.3 percent in 1980 and remains at a level of about 4 percent thereafter until 1984. Considering the limitation on the gross inflows of available external assistance and given the need for sound external debt management, Turkey can sustain an average annual current account deficit of the order of $2-2.2 billion annually over the next 5 years.

24. Taking into account international inflation and the growing obligations for debt amortization, this situation necessitates a large and sharply increasing gross annual average inflow of foreign capital, rising from the current relatively low levels to about $5.2 billion during the next five years, implying an annual average of about $2.3 billion of net capital inflow for the same period. Such major inflows of foreign capital can only be sustained on the basis of prudent external debt management. In any case, debt service obligations are likely to remain very high over the coming 5 years. In 1978, total debt service payments had risen to 26.7 percent of exports of goods, non-factor services and workers' remittances after making allowance for the rescheduled service payments. In 1980, the ratio is projected to reach close to 37 percent, and is likely to peak in 1985 at a high level of about 48 percent, before declining. This, however, should represent the culmination of the financial consequences of the present crisis and the debt burden should remain manageable, provided the new policies are successfully implemented and the export drive is sustained.

PART II - BANK GROUP OPERATIONS IN TURKEY

25. A large lending program for Turkey essentially began following the introduction of its 1970 Stabilization Program. To date, the Bank/IDA have lent $2,320 million through 56 projects. Agriculture accounts for 30 percent of funds lent, industry and DFCs for 34 percent, power for 14 percent and urban development, transportation, education and tourism for the rest. Annex III contains a summary statement of Bank loans, IDA credits and IFC investments as of March 31, 1980, with notes on the execution of ongoing projects.

26. Since mid-1975 the implementation of private sector projects has been satisfactory. Political uncertainty, limited coordination amongst ministries and staffing problems resulted in uneven and delayed project implementation in the public sector. Therefore, a system of joint project reviews between Turkey and the Bank was instituted in June 1975. This resulted in distinct, but modest, improvements up to end 1977. The situation was again reviewed with the Government in March 1978, and further discussed during my visit in April 1978. Subsequently, Turkey established a new high-level coordination team. This team set up procedures for monitoring and achieving realistic implementation and disbursement targets. As of December 1979 disbursements increased to 69 percent of appraisal estimates against 51 percent in June 1975. The last joint review was held in April 1979. The encouraging progress that is now manifest allows cautious optimism that performance will gradually improve further.

27. Bank lending is now aimed at supporting Turkey's efforts to improve its: (a) capacity to earn foreign exchange, through promotion of industrial and agro-industrial exports; (b) income distribution, employment opportunities and living standards, through rural and urban development projects; (c) lagging public sector savings, through the encouragement of improved management and financing of the investments of key SEEs; and (d) infrastructure posing critical bottlenecks for development. The Bank has begun discussions with the new government on how its lending can best contribute to the government's medium-term 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. We propose to maintain a close macroeconomic and sector dialogue with Turkey. The economic and sector work planned over the next few months includes an updating economic mission and completion of sector memoranda on industry and energy. In addition, the progress made in fostering the structural adjustments initiated by the Government through the January 1980 program will be discussed in the context of the disbursements of the Structural Adjustment Loan.

28. A thirteenth TSKB loan designed to stimulate investments in export projects of the private sector, loans for a Private Sector Textile Project and an engineering loan to assist the alleviation of air pollution in Ankara, were approved by the Board in the first four months of FY80. A loan for Structural Adjustment was approved on March 25, 1980. The Karakaya Hydropower and the Fifth Livestock Development Projects are scheduled for Board consideration this fiscal year. Projects being processed for future fiscal years include those for pilot enhanced oil recovery and oil exploration, fruit and vegetables, livestock products, rural development, fertilizer production, employment generation in selected cities, pulp manufacture, seed production and sewerage disposal in Istanbul.

29. The Bank Group's share of the estimated total external debt (including short-term obligations) was 5.9 percent in 1978, and is expected to grow to 10.0 percent by 1981 and to 12.5 percent by 1985. The Bank's share of
service payments is projected to fall slightly from its level of 7.7 percent in 1978 to 6.4 percent in 1981, thereafter increasing to 7.6 percent by 1985.

30. IFC has invested in 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 March 31, 1980, gross IFC commitments totalled about $208 million, of which $96 million were still held by IFC. New investment opportunities are being pursued.

PART III - THE TEXTILE INDUSTRY AND SUMERBANK

Background

31. Textiles has long been one of the most significant industrial sub-sectors in Turkey. Second only to food processing in value of production, it is the largest source of manufactured exports and the largest source of industrial employment providing over 300,000 jobs. It is built upon the firm basis of significant domestic cotton production, plentiful labor and a large domestic market.

32. Turkey is the world's sixth largest cotton grower, and the third largest cotton exporter. There is considerable scope for further domestic value-added through the development of the cotton textile industry, especially weaving, finishing and garment making. Wage levels, although above those in some developing countries, are well below those in the industrialized countries. Labor productivity is also low when compared with the latter. Nevertheless, some firms are internationally competitive. Over 90 percent of domestic cotton textile production, which reached 288 thousand tons of yarn and about 1.0 billion m² of fabric in 1978, goes to meet domestic demand. Domestic textile fiber consumption averaged 7.7 kg per capita in 1978, higher than most comparable developing countries, but lower than the industrialized countries. Textile exports were estimated at $352 million in 1979. Of this, about 80 percent went to the EEC, where Turkey's share ranged from 22 percent in cotton yarn to 1 percent in fabrics and garments.

33. The private sector now accounts for 80 to 85 percent of textile production. Sumerbank—the only public sector textile company—accounts for the remainder. The organized private sector includes some 1,400 establishments, in which some 200 large integrated plants provide 73 percent of employment. There are another 8,000 or so small establishments in the unorganized private sector. Sumerbank controls 26 large textile plants.

34. The textile industry faces many of the general problems of industry in Turkey: low capacity utilization, low productivity, power shortages, shortages of spare parts and materials due to constraints on foreign exchange and excessive orientation to the domestic market at the expense of exports. In addition, the textile industry suffers from bottlenecks—an estimated 60 percent of yarn can be absorbed by domestic looms—and a need for rationalization,
balancing, modernizing and increased efficiency. There are regional shortages of finishing capacity and a national shortage of dyeing capacity. A considerable portion of dyeing and printing and finishing equipment is obsolescent, and requires replacement. Garments, while a fast growing segment, is relatively undeveloped and most units are small and poorly organized.

35. In light of these factors, national planning emphasizes renewal and rehabilitation of existing facilities and expansion of capacity mainly to correct bottlenecks and balance the various segments in the industry. Investment in spinning capacity is to be discouraged, while investment in intermediate goods and auxiliary materials for garments and knitting is to be fostered. The overly domestic orientation of the textile industry has arisen from its protected position, the large and profitable domestic market, and trade restrictions imposed by Turkey's major trading partners. The economic policy packages of recent Turkish governments, including the January 1980 package described in Part I of this report, have begun to reorient the incentives provided to manufacturers toward export markets, and to encourage the domestic processing of raw cotton and yarn into finished products.

36. The Bank is supporting Turkey's initial efforts to modernize key selected segments of this industry and improve its efficiency through the Private Sector Textile Project (Lns. 1754 & 1755 for $80 million to TSKB and SYKB), approved by the Executive Directors in September 1979, and the proposed project. In the past, the Bank Group has supported the textile industry through loans by IFC (about $11 million total), textile subprojects under loans to TSKB (about $30 million total), and through SEE subprojects under loans to DYB (about $26 million). The Private Sector Textile Project, besides providing subloans for equipment, provides for technical assistance for an extension service providing training and consultancy services, establishes a fund for supplementary training, technical assistance and technology, and supports training in textile research, oriented towards improved export performance.

Markets and Marketing

37. Based on past trends, the Fourth Plan projects a 9 percent annual increase in the value of production and a tripling of textile exports. However, in view of recent economic developments, much lower expectations for per capita income growth and constraints on imports in the major trading partners, the Bank projections are more conservative. Production of yarn and woven fabrics are projected to increase at about 4 percent and 3 percent per annum respectively in volume through 1985, with most of the increased yarn production going to meet the domestic yarn requirements of weaving and knitting and most of the increased fabric production going to meet increases in domestic fabric demand. Because of trade restrictions, exports of yarn and woven fabrics are expected to grow only by 3 percent per annum. The main prospects for increasing exports lie in garments and made-up goods where exports are now expected to grow by 8 percent per annum during the 1980-85 period.
38. Marketing of fabrics in the private sector is generally carried out through large central wholesalers, mostly located in Istanbul, who sell in turn through regional wholesalers. These large wholesalers keep in touch with market trends and developments and provide guidance in production planning and product design to the mills. They often finance the working capital needs of the manufacturers. Exports are usually handled by agents; only a limited number of firms have their own overseas offices or representatives. Garment firms in particular are inexperienced in export marketing. The technical assistance provided under the Private Sector Textiles Project is focused on improvements in export marketing with special emphasis on the garments sector for which the extension service will provide export marketing assistance. The proposed project provides similar and complementary assistance for Sumerbank (para. 49).

Sumerbank

39. Sumerbank was founded in 1933 as one of the original conglomerate SEEs with operations in banking, manufacturing and retailing. Sumerbank has spawned a number of independent SEEs over the years and presently has operations in leather products, building materials, ceramics, chemicals and vegetable oil, as well as a small banking division. However, its main business is textiles, which account for about 80 percent of its total sales revenue (60 percent from cotton, 20 percent from wool). The cotton textile operations include ginning, spinning, weaving, finishing and garment manufacture in 19 plants employing 25,600 people and located throughout the country (Map IBRD 14575). Annual installed capacity is 79,800 tons of yarn (524,000 spindles), 315 million meters of woven fabric (7,800 looms), 215 million meters of finished fabric, 3,500 tons of yarn dyeing and 1.7 million pieces of garments. The company's retail division, which also sells some private firms' products, has 430 shops throughout Turkey, mostly in rural areas. Like other SEEs, Sumerbank's objectives go beyond profit making, and include the provision of mass consumption fabrics to the rural and urban poor throughout Turkey, stabilizing prices in the domestic market, generating employment in less developed regions and training textile industry personnel.

40. Sumerbank's operations are directed by a six member Executive Committee, or Board, comprising the General Director, two deputy directors and representatives each of the Ministries of Industry and Finance and a labor organization. Like other SEEs, Sumerbank has suffered from frequent management changes, inadequate compensation and incentive systems, overstaffing and overcentralization of operational and investment decision making at the senior management and board levels. Moreover, until recently, functional responsibility for cotton textile operations was scattered among a number of divisions, plants and subsidiaries. Coordination between headquarters, the production units and the retail division is weak. Operational efficiency is low, ranging from 48 percent of installed capacity in spinning, to 58 percent in weaving.

41. To provide a more cohesive organization with better coordination between units and a clearer understanding of responsibility and function, Sumerbank consultants (provided under the Project Preparation Facility, para. 46 below) recommended consolidating and reorganizing all the functions related
to cotton textile operations, except retail sales, under a single organization. Initially, consideration was given to forming a subsidiary company along private sector lines under a separate law. However, this would have required lengthy legislative changes. Sumerbank therefore, in March 1980, established a new Cotton Textile Division (CTD) within the company, responsible for administering, coordinating and directing all cotton textile operations, including the 19 existing plants. This is a major step towards improving the situation. An understanding has been reached on the main functions of CTD and the key principles for its operations. Detailed proposals, satisfactory to the Bank, covering these functions and responsibilities, the relations with the plants and other Sumerbank units, will be provided to the Bank by December 31, 1980 (Project Agreement, Section 3.02(c)). Amendment of Sumerbank's Statutes, or of the board decision establishing CTD or of the SEE laws in a way to adversely affect the project are conditions of suspension or cancellation (Loan Agreement, Section 5.01).

42. With the creation of CTD, the individual cotton textile plants retain their independent legal status as "establishments" to encourage their operation as profit centers. They are to be given additional autonomy in noncentralized areas, including increased freedom to hire staff. They will also propose their own production targets, costing and industrial engineering standards, pricing of their products and plans for rationalization and expansion of their capacity, which CTD would coordinate. An improved information system between the units will permit faster management decisions by CTD. Technical assistance, and action programs financed under the loan, will help foster these changes.

43. About 75 percent of CTD's production is currently sold to the semi-autonomous retail division of Sumerbank for sale primarily through its 430 retail outlets, and occasionally to private wholesalers. An additional 15 percent is sold directly to government institutions, 5 percent sold directly to the public, and 5 percent exported. Yarn is mostly used internally and up to 50 percent of garments are exported, the rest being sold through Sumerbank's retail division's stores. Under present practices, the retail division sells CTD's products on a consignment basis. This has been costly and inefficient since CTD carries the financial risk of the acceptability of the products, but has limited direct contact and feedback from the markets on the acceptability of various items, while the retail division has little incentive to ensure a proper product mix. This situation will be corrected in connection with the project (see paragraph 56).

Financial Performance

44. Sumerbank's total sales reached TL 29.6 billion in 1979, of which about 40 percent were intercompany sales. Net profit as a percent of sales, has fluctuated between 0 and 3.5 percent over the last five years for Sumerbank as a whole. The cotton textile operations showed losses prior to 1979, and a modest profit in that year, reflecting the burden of low production efficiency, low capacity utilization and prices lagging behind costs. The debt/equity ratio for the cotton textile operations had increased from 31/69 in 1975 to over 50:50 in mid 1979 and the current ratio was below 1; reflecting the increased recourse to debt financing from the Government and short-term borrowings from the Central Bank, mainly to finance raw cotton purchases.
To partly correct this situation, the Government recently increased the authorized capital of Sumerbank to TL 8 billion and converted approximately TL 4.6 billion of outstanding debt owed to the Treasury into paid-up capital. Sumerbank allocated TL 2.5 billion of this converted debt to CTD's plant. After the conversion, CTD's debt/equity ratio declined to 33/67 and the current ratio improved to 1.1. Past financial performance also suffered from government control of Sumerbank prices. Under the economic policy package introduced in January 1980, this situation has been liberalized and Sumerbank is now free to set its prices in accordance with market conditions. Immediately on the introduction of this change, Sumerbank's Board increased textile prices by 100 percent, which exceeded the inflation rate since the last increase in May 1979. Sumerbank prices, however, are still 10-15 percent below those of the private sector, partly because the latter peg their lower price items to Sumerbank's. Individual plants have now been authorized to make further increases of up to 20 percent if needed. Assurances were obtained from Sumerbank, that prices would be adjusted as needed in future, in order to meet competitive market conditions, production cost increases due to inflation and earn a reasonable return on capital (Project Agreement, Section 4.09). Assurances were obtained from Government that it would assist Sumerbank in meeting this requirement (Loan Agreement, Section 3.01(b)). However, these steps alone are not sufficient to restore the viability of the textile operations. What is needed is a phased rationalization and modernization of these operations, to ensure improved productivity, higher capacity utilization and increased financial viability. That is the essence of the proposed project.

PART IV - THE PROJECT

Project History

A Bank mission visited Sumerbank in April 1977 to review an investment program Sumerbank had prepared. The mission and Sumerbank concluded that investments in equipment alone could not bring about the needed improvement in its textile operations. In September 1978, the Government requested an advance of $400,000 under the Bank's Project Preparation Facility (PPF) to prepare a comprehensive project that would lay a basis for a phased modernization and rationalization of Sumerbank's cotton textile operations, including integration of operations and improved product mix as well as improvements in management, organization, marketing and other policies. Sumerbank completed the feasibility study in September 1979, with the assistance of the Swiss consulting firm, Cherzi. The project was appraised in November 1979. Implementation of the proposed institutional and technical improvements proposed under the said feasibility study has begun under a second PPF tranche of $600,000. Negotiations took place in April 1980 with a delegation headed by the Acting Economic Counselor, Turkish Embassy and representatives of the Treasury and Sumerbank.

Project Objectives and Description

The project is the first phase of a six year (1980-86) rationalization and modernization program. Phase I (1980-83) is a self contained project that addresses the immediate needs of Summerbank's textile operations, while
Phase II will address long term structural changes notably in finishing and garments. The main objective of the Phase I project is to increase the overall efficiency, capacity utilization and labor productivity in the plants operated by Sumerbank’s Cotton Textile Division (CTD) in order to achieve a significant increase in production volume, reduction of production costs, upgrading the product mix and improvement in the product quality. The project is designed to optimize the production from the existing spinning facilities through a relatively inexpensive modernization and rehabilitation program and to utilize practically all the yarn produced to manufacture fabrics (80 percent of which will be in the finished state), as well as to increase the production of garments in view of their better market prospects. It will also rationalize the production schedules within and between the plants so as to achieve a maximum utilization of the existing and new equipment. Equipment will be transferred between plants to increase standardization and economies of scale and permit better spare parts management. Maintenance will be restored to acceptable levels. The project will thus result in higher revenues and higher value added than at present. As part of the project, CTD will assume increased responsibility for marketing its production domestically and abroad, pricing its products, market research, product development, as well as coordination between production and marketing. In view of Turkey's severe domestic and foreign financial constraints, the project was scaled-down to the essential elements needed to achieve its objectives of balancing existing capacity to achieve the highest return. Civil works have been kept to a minimum and limited to rehabilitation and repair of floors and ceilings in existing mills, improvements to lighting, ventilation, humidification, steam delivery and effluent disposal systems.

48. The project will replace and rehabilitate equipment in CTD's 19 existing plants (Map IBRD 14575). It will result in increased production without increasing installed capacity, except for garments, as follows: (a) yarn from 41,000 tons per year to 52,000 tons per year with significantly higher overall quality; (b) woven fabric from 207 million m$^2$ to 250 million m$^2$ with overall improvements in quality, and increased volumes of wide fabric, color woven materials, blended materials and Terry fabrics; (c) finished fabrics from about 152 million m$^2$ to about 207 million m$^2$; and (d) garments by about 1.7 million pieces. Details of the project are provided below and in the Loan and Project Summary and the Staff Appraisal Report (No. 2887-TU dated April 30, 1980), distributed separately to the Executive Directors.

49. The project thus includes general improvements as well as the following specific items:

(i) **Spinning.** Modernization of about 50,000 spindles and 8 opening lines; provision of about 30 new drawing and 12 new combing units; installation of overhead cleaners in 8 plants and electronic yarn cleaners in 6 plants; provision of testing instruments; and the replacement of 72 drawing frames and modernization of 126 cards, 46 roving frames and 232 ring frames in 2 plants;

(ii) **Weaving.** Provision of about 800 new looms; rehabilitation or replacement of about 800 looms and auxiliary machinery;
(iii) **Finishing and Printing.** Modernization of equipment in 11 plants, and provision of new equipment at 7 plants including: 9 new machines for preparation, 9 machines for dyeing and 6 machines for fabric finishing;

(iv) **Garments.** Equipping of a new garment plant in the vacated spinning section of the Bakirkoy plant, with a capacity of 1.7 million pieces per year;

(v) **Engineering Facilities.** Providing new boilers in 4 plants, effluent treatment units in 9 plants and water softening facilities in 3 plants;

(vi) **Technical Assistance.** Provision of about 360 man-months of technical assistance in carrying out the project, reorganizing operations under CTD, and improving marketing (of which 60 man-months has been started under the second tranche of the PPF) and about 100 man-months of technical assistance for improved financial and budgeting systems. The first stage of the technical assistance program, 60 man-months, will focus on improvements in CTD's headquarters and general management, with operational assistance to two pilot plants. The second stage, 400 man-months, will focus on plant level improvements. UNIDO has provided an additional 20 man-months to initiate the financial technical assistance, for which consultants have been selected.

(vii) **Training.** About 45 manyears of training abroad for technical instructors, supervisory and management staff to backstop Sumenbank's existing staff and technician training facilities at Bursa.

**Project Costs and Financing**

50. The total cost of the proposed project (including an average 31 percent price and 6 percent physical contingency on base costs) is estimated at $106 million, including about $2.3 million of taxes. International escalation rates have been used for local costs, on the assumption that differences between local and international inflation will result in exchange rate adjustments in line with the Government's January 1980 economic package. The estimated foreign exchange cost is $88 million. These costs include $1 million to repay the abovementioned advances from the PPF. Costs of expatriate consultants are expected to be about $14,500 per man-month, including expenses and a man-month rate of about $10,800, which is reasonable in view of the kind of expertise required. In addition, about $25 million (of which $16 million is foreign exchange) is required for financial charges during construction and incremental working capital. Besides the project working capital requirements, another $20 million are required to restore working capital for existing textile operations to a reasonable level. Total requirements are thus about $151 million.

51. The proposed Bank loan of $83 million will finance 94 percent of the estimated foreign costs and 80 percent of the total project costs net of
taxes. The Bank loan will meet 56 percent of the total financing requirements, net of taxes, which include financial charges during construction and working capital requirements. The company intends to obtain the remaining $5 million of foreign exchange prior to December 31, 1981 either by seeking suppliers credits or by demonstrating to the Bank that its retained foreign exchange earnings will be sufficient to meet this need (Project Agreement, Section 3.04). The remaining foreign exchange requirements for working capital as well as the financial charges during construction ($18 million), will be met by Sumerbank from retained earnings.

52. The $45 million equivalent required for local costs, local interest during construction and the local component of working capital will be financed as follows: about $27 million equivalent will be provided by Sumerbank from internally generated funds; about TL 1.7 billion (about $18 million equivalent allowing for exchange rate adjustments in line with inflation) will be provided in the form of additional equity contributions by the Government. This cash equity is required, in addition to the TL 2.5 billion of debt recently converted into equity by Government, because of the need for outside funds early in project implementation when internal cash generation is low and to provide a cushion against the risk of delay in price increases. The initial cash equity contribution of TL 400 million is thus a condition of effectiveness (Loan Agreement, Section 6.01(b)). An understanding was obtained that an additional TL 800 million will be provided prior to December 31, 1981 and the remaining TL 500 million by December 31, 1982 (Loan Agreement, Section 3.02(ii)). Moreover, to ensure that sufficient funds are generated for the project, CTD will not make non-project investments costing more than $3 million equivalent per year unless the Bank shall agree (Project Agreement, Section 4.08).

53. The Bank loan will be to the Government for 17 years including 4 years of grace, and will be onlent to Sumerbank at 10.5 percent per annum for 12 years including 4 years of grace. Sumerbank will bear the foreign exchange risk. Exchange rate adjustments are expected to compensate for the difference between the rate of inflation in Turkey and that of its major trading partners. Inflation was 24 percent in 1977, 53 percent in 1978 and 64 percent in 1979. Because of uncertainties associated with changes in economic structure expected in response to government policy initiatives, it is difficult to forecast the rate of inflation. It is tentatively projected to decline to 50 percent in 1980, 45 percent in 1981 and 35 percent in 1982, if Government policies are effectively implemented. Interest rates charged by domestic lending institutions for broadly similar types of lending have fallen behind the rate of inflation and range from 16 to 22 percent, plus, in some cases, fees and taxes. However, when adjusted for interest rebates, differences in exchange risks, service charges, etc., the effective cost of domestic loans with terms and currencies similar to Bank financing is between 10 and 11 percent.

Project Execution and Operation

54. Sumerbank will implement the project through CTD, with the technical advice and assistance of qualified operational and financial consultants. Signing of the contract for the second stage of the operational technical
assistance is a condition of effectiveness (Loan Agreement, Section 6.01(c)). The financial consultants for the second stage will be employed prior to March 31, 1981 (Project Agreement, Section 2.02). CTD will be primarily responsible for marketing its products, planning its investments, production planning, financial planning, and centralized purchasing for Sumerbank's entire cotton textile operations. To ensure that sufficient qualified senior staff are provided, in view of low Government salaries for management positions, authority for 55 contractual positions (which can pay higher than official pay scales) have been provided to Sumerbank for CTD by Government. Assurances were obtained that these positions will be maintained until project completion (Loan Agreement, Section 3.01(b)). The Director of CTD has recently been appointed. Because of overstaffing at certain levels, an understanding was reached that the further growth of personnel in CTD beyond the levels approved in 1980 will be limited to positions needed for operating requirements. To encourage increased productivity with the new equipment provided by the project, Sumerbank will provide the Bank, prior to April 30, 1981, proposals for improvements in the existing workers' incentives based upon recommendations made by the consultants provided under the project (Project Agreement, Section 3.02(e)).

55. A project implementation unit within CTD, headed by a project manager and supported by 16 financial, technical, marketing and engineering employees, has been established and will be directly responsible for the project and work closely with the consultants. Because of the 19 plants involved and the planned relocation of existing equipment between plants, the project unit and the consultants will have a key role in coordinating procurement and installation of equipment with production and relocation schedules in order to minimize the interruption of production. After an initial period, staff of the project unit will be assigned to individual plants to assist plant level project managers to carry out the project with minimum disruption of production. Quarterly progress reports will be prepared at the plant level and assembled at the division level for Sumerbank management, with copies furnished to the Bank. In addition, each plant will prepare annually an action program covering the upcoming year's production, maintenance, technical assistance, training and investment programs (Project Agreement, Section 3.03).

56. A key project reform is to centralize primary responsibility for planning and contracting domestic and export sales of its products in CTD, and thus broaden its contact with the markets. Direct sales to private wholesalers would be sought in order to permit CTD and its individual plants more direct feedback on market trends. Export sales promotion will be provided by CTD through active participation in trade fairs, canvassing of export markets and use of the export promotion facilities provided under the Private Sector Textile Project. An understanding on the main features of the marketing arrangements was obtained during negotiations. Detailed proposals for implementing marketing arrangements satisfactory to the Bank will be provided to the Bank prior to December 31, 1980 (Project Agreement, Section 3.02(c)).

57. To ensure effective use of the equipment provided under the project, a detailed training and staffing program satisfactory to the Bank, the former utilizing Sumerbank's existing training center at Bursa, will be prepared by Sumerbank and its consultants prior to April 30, 1981 (Project Agreement, Section 3.02(d)). Initially, about 50 technical instructors will be sent.
abroad for training arranged by the consultants. On return, they will organize short training courses in the plants. It is expected that over 1,000 technical staff will be so trained. In addition, about 40 specialized staff will be sent abroad for special six-month training programs.

58. Existing environmental standards for industrial effluents in Turkey, issued in 1973, are generally less stringent than current Bank guidelines. Thus, agreement was reached that CTD's dyeing and finishing plants will meet acceptable environmental guidelines for textile plants (Project Agreement, Section 3.01(e)). In addition, the project provides for rehabilitation of ventilation and air conditioning equipment, the provision of exhaust systems and the improvement of lighting and fire protection systems.

Procurement and Disbursement

59. Machinery and equipment totalling about $52 million will be procured under international competitive bidding in accordance with Bank guidelines. Proprietary items (largely spare parts) required for compatibility with the existing equipment (about $17 million total) will be purchased under competitive procedures appropriate to the circumstances (Project Agreement, Schedule, para. C2). Items costing less than $100,000 equivalent, but not exceeding an aggregate amount of $4 million will be purchased through limited international tendering on the basis of suitability, availability and price considerations (Project Agreement, Schedule, para. C1). The lists of goods will be approved by the Bank before tendering. Domestic manufacturers will be allowed a preferential margin under international competitive bidding of 15 percent or the actual customs duty, whichever is lower. The Bank loan will be disbursed as follows: 100 percent of the foreign expenditure for imported equipment and spare parts, foreign consultants (including repayment of advances under the PPF) and training; and 100 percent of the ex-factory local costs of contracts won by local suppliers under international competitive bidding. Invitations to bid are expected to be issued in mid-1980 and the project completed by December 31, 1983.

Financial Analysis

60. Financial projections for CTD have been prepared assuming the production build-up will begin in 1982 and reach full capacity by 1986 and that regular price increases are made in line with inflation. These show that improved results may be expected as early as 1982, as spare parts, components and technical assistance begin to yield substantial improvements in efficiency. By 1983-84, sales, profits and internal cash generation are expected to be substantially improved. Given the high rate of inflation, the projections are very sensitive to pricing policy. Net profits after tax as a percentage of sales for CTD are projected at 1.4 percent in 1980 increasing to 3.0 percent in 1984 and 4.1 percent in 1986, in line with industry norms. More important, internal cash generation is expected to increase from about $11 million in 1980 to about $37 million in 1984, in current dollars. The total surplus cash flow in the 1980-83 period, after meeting payments on existing loans, is conservatively estimated at about $50 million, of which, about $45 million will be required to finance project related expenditures. CTD's other financial
ratios are expected to remain within acceptable limits throughout the imple-
mentation period. Assurances were obtained that CTD's consolidated debt/equity
ratio will not exceed 1.5, its current ratio will not fall below 1.2 after
1981, its debt service ratio will be above 1.5 before additional debt is
incurred, and, during project implementation, its current ratio will be above
1.5 before profits are transferred from CTD (Project Agreement, Sections 4.06
and 4.07). CTD will maintain separate consolidated accounts for its operations
and plants and have these audited annually (Project Agreement, Section 4.01
and 4.02).

61. Incremental financial projections, a better measure of the impact
of a rehabilitation project, show an incremental operating profit as a percent
of sales of about 34 percent after 1984. The incremental financial rate of
return before tax for the project is estimated at 25 percent. A 10 percent
increase in operating costs would reduce the return to 22 percent while a 10
percent decrease in sales revenue would drop it to 19 percent, underlining the
importance of technical assistance and regular price adjustments in an infla-
tionary environment. A one-year delay in project implementation would reduce
the return to 20 percent.

Benefits and Risks

62. The incremental economic rate of return is estimated at 24 percent,
which is due to the low capital investment and the low present state of main-
tenance of equipment. If operating costs increase 10 percent, the return
would drop to 20 percent; but if sales decrease by 10 percent, the return
would drop to 18 percent. The return is not very sensitive to changes in
capital costs or working capital requirements. When operating at full capac-
ity in 1986, the project is expected to yield net foreign exchange earnings of
$5 million per annum. After project completion, CTD's products are expected
to be cost competitive both in Turkey and internationally for the low and
medium quality items which it will produce.

63. Direct employment effects are small in relation to the investment
and total about 1,680 new jobs being provided in the garment sector, offset
by a possible attrition of about 940 redundant jobs in spinning, weaving and
processing, or a net gain of 740 jobs. However, this ignores the very large
amount of over-employment in the present facilities and the very low produc-
tivity of the present work force. The main anticipated benefit of the pro-
posed project is substantially increased production from the same labor force,
achieved through a careful balance of modernizing investments, better orga-
nization and management. In spinning, capacity utilization is expected to
increase from 47 to 78 percent and production to increase by 32 percent. In
weaving, the corresponding increases are from 67 to 74 percent in capacity
utilization and 21 percent in production, while in finishing they are from 51
to 78 percent and 36 percent respectively. Since these levels can be achieved
with less employees than at present, the productivity increase of the labor
force is expected to be even greater. Besides demonstrating how to organize
production and plant more efficiently, the project is expected to have a major
impact on the financial viability of the company, help meet substantial local
demand, particularly for low cost textile products, and lead to increased
exports and foreign exchange earnings.
64. The main technical risks arise from the need to carefully coordinate the relocation and rehabilitation of existing equipment in CTD's 19 widely dispersed plants, so as to minimize the disruption of current operations. The technical risks are acceptable, in view of: (a) the amount of expatriate technical assistance provided by the project; (b) the allowance already given for production losses due to dismantling, transport and erection of the equipment; (c) a special physical contingency provided for new machinery to replace existing equipment damaged during relocation or rehabilitation; and (d) the fact that production levels anticipated after completion of the project are estimated to be only marginally higher than those already achieved in 1973. The project's technical success will also depend on Sumerbank's management's ability to complete the reorganization of its cotton textile operations along the lines discussed earlier. Delays or problems in that direction, could delay implementation and benefits.

65. Risks also arise from the general economic situation, in particular: the severe inflation, which will require frequent price adjustments to maintain cash flow and provide the substantial internally generated funds required for financing and operating the project; the very tight budget position which could delay the provision of even the minimal cash equity funds required; and the possibility of power shortages disrupting production. The pricing risk has been mitigated by the new government policy of letting the SEEs set prices and the budget risk minimized by keeping the requirements for such funds at a minimum. In addition, there are the risks usually associated with the deficiencies of the SEE sector in Turkey, especially the lack of management continuity, inadequate management compensation and lack of incentives to produce efficiently. Again, the new government policy of exposing the SEEs to market forces is a step towards correcting some of these deficiencies and assurances have been sought in connection with the project to minimize the impact of others. The major risks are thus those related to common economic or SEE problems. While in aggregate, they are not insignificant, care has been taken to take all possible steps to minimize their effects.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

66. The draft Loan Agreement between the Republic of Turkey and the Bank, the draft Project Agreement between the Bank and Sumerbank and the report of the Committee provided for in Article III, Section 4(iii) of Articles of Agreement are being distributed to the Executive Directors separately. The special features of the Loan and Project Agreements are referred to in the text and listed in Section III of Annex IV.

67. Special conditions of loan effectiveness include: (i) execution of the Subsidiary Loan Agreement between the Republic of Turkey and Sumerbank; (ii) provision of the initial portion of cash equity of at least TL 400 million; and (iii) hiring of the operational consultants for the Stage II technical assistance (Loan Agreement, Section 6.01).

68. I am satisfied that the proposed loan would comply with the Articles of Agreement of Bank.
69. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President
By
Ernest Stern

Attachments
April 30, 1980
Washington, D.C.
### Annex I

#### Table 1A

<table>
<thead>
<tr>
<th>Area (thousand sq. km)</th>
<th>Turkey</th>
<th>Reference Group (Average)</th>
<th>— New Sector Estimate (a)</th>
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<tr>
<td>Total</td>
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<td></td>
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</tr>
<tr>
<td>AGRICULTURAL</td>
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**OFF PER CAPITA (TTL):**

- 1960: 290.0
- 1970: 520.0
- 1970 estimate: 1230.0
- 1990: 2504.3
- 1997: 1097.7
- 1997 estimate: 1942.6

**ENERGY CONSUMPTION PER CAPITA (kilotons of coal equivalent):**

- 1960: 240.0
- 1970: 479.0
- 1970 estimate: 743.0
- 1990: 2032.1
- 1997: 750.7
- 1997 estimate: 1646.7

**POPULATION AND VITAL STATISTICS:**

- Population, 1980 (millions): 27.3
- Urban population (percent of total): 29.7
- Population projections:
  - 1970: 28.4
  - 1970 estimate: 43.9
  - 1990: 56.3
  - 1997: 48.0
  - 1997 estimate: 31.2

**POPULATION DENSITY:**

- Per sq. km: 25.0
- Per sq. km, agricultural land: 31.0

**POPULATION AGE STRUCTURE (PERCENT):**

- 0-14 yrs: 41.3
- 15-64 yrs: 55.3
- 65 yrs. and above: 3.3

**POPULATION GROWTH RATE (PERCENT):**

- Total: 2.8
- Urban: 3.1
- Rural: 1.5

**DEATH RATES (PER THOUSAND):**

- Total: 6.3
- Infant mortality: 5.4

**ACCESS TO SAFE WATER (PERCENT):**

- Total: 73.0
- Urban: 78.0
- Rural: 60.0

**ACCESS TO EXCRETA DISPOSAL (PERCENT):**

- Total: 48.0
- Urban: 50.0
- Rural: 38.0

**OBEDIENCE:**

- Average size of household:
  - Total: 3.7
  - Urban: 3.9
  - Rural: 3.6

- Average number of persons per room:
  - Total: 2.0
  - Urban: 2.0
  - Rural: 2.0

**ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS):**

- Total: 50.0
- Urban: 90.0
- Rural: 13.0

---

**TABLE 1B**

<table>
<thead>
<tr>
<th>Turkey</th>
<th>Reference Group (Average)</th>
<th>— New Sector Estimate (a)</th>
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<tbody>
<tr>
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</tr>
</tbody>
</table>

**FOOD AND NUTRITION:**

- Index of food production per capita (1969-71=100): 91.3
- Per capita effect of calories (percent of requirements): 110.0
- Weight gain (crude per day): 78.0
- Weight gain (crude gains and losses): 22.0
- Child (0-4) mortality rate: 34.0

**HEALTH:**

- Life expectancy at birth (years): 51.0
- Infant mortality rate (per thousand): 15.0

---

**LIVING CONDITIONS:**

- Average number of rooms per household:
  - Total: 5.0
  - Urban: 5.0
  - Rural: 5.0

---

**ADMISSIONS PER HOSPITAL BED:**

- Total: 20.0
- Urban: 20.0
- Rural: 20.0

---

**WELFARE:**

- Minimum wage (TL): 8.0
- Average wage (TL): 28.0
- Average wage (TL): 50.0

---

**EDUCATION:**

- Literacy rate (percent): 65.0

---

**SOCIAL SECURITY:**

- Number of social security beneficiaries: 25,000
- Social security expenditure (TL): 1,000,000

---

**TRADE:**

- Total trade (TL): 2,000,000
- Urban trade (TL): 1,000,000
- Rural trade (TL): 1,000,000

---

**FINANCE:**

- Total finance (TL): 1,000,000
- Urban finance (TL): 500,000
- Rural finance (TL): 500,000
### Education

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
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<th>1970</th>
<th>Estimate</th>
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<th>Geographic Region</th>
<th>Income Group</th>
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<td>Adjusted Enrollment Ratios</td>
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<td>Primary:</td>
<td>Total</td>
<td>75.0</td>
<td>109.0</td>
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<td></td>
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<td>58.0</td>
<td>94.0</td>
<td>96.0</td>
<td>104.3</td>
<td>97.1</td>
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<td>Secondary:</td>
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<td>14.0</td>
<td>28.0</td>
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<td>65.9</td>
<td>33.5</td>
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<td>20.0</td>
<td>39.0</td>
<td>39.0</td>
<td>70.3</td>
<td>38.4</td>
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<td>8.0</td>
<td>16.0</td>
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<td>62.2</td>
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<td>Vocational Enrol. (% of Secondary)</td>
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<td>Pupil-Teacher Ratio</td>
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<tr>
<td>Primary</td>
<td>66.0</td>
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<td>26.7</td>
<td>35.8</td>
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<tr>
<td>Secondary</td>
<td>19.0</td>
<td>28.0</td>
<td>27.0</td>
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<tr>
<td>Adult Literacy Rate (% of Population)</td>
<td></td>
<td>36.0</td>
<td>35.9</td>
<td>60.0</td>
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<td>..</td>
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### Consumption

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<th>Estimate</th>
<th>Most Recent</th>
<th>Geographic Region</th>
<th>Income Group</th>
<th>Income Group</th>
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<tr>
<td>Passenger Cars per Thousand Population</td>
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<td>2.0</td>
<td>4.0</td>
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<td>105.3</td>
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<td>Radio Receivers per Thousand Population</td>
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<td>49.0</td>
<td>89.0</td>
<td>105.0</td>
<td>233.7</td>
<td>123.7</td>
<td>223.9</td>
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<tr>
<td>TV Receivers per Thousand Population</td>
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<td>..</td>
<td>3.0</td>
<td>12.0</td>
<td>148.0</td>
<td>38.3</td>
<td>102.6</td>
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<tr>
<td>Newspaper (&quot;Daily General Interest&quot;) Circulation per Thousand Population</td>
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<td>51.0</td>
<td>..</td>
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<td>..</td>
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<td>78.5</td>
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<tr>
<td>Cinema Annual Attendance per Capita</td>
<td></td>
<td>1.1</td>
<td>6.7</td>
<td>..</td>
<td>6.4</td>
<td>..</td>
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### Labor Force

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<th>1970</th>
<th>Estimate</th>
<th>Most Recent</th>
<th>Geographic Region</th>
<th>Income Group</th>
<th>Income Group</th>
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<tbody>
<tr>
<td>Total Labor Force (Thousands)</td>
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<td>13783.0</td>
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<tr>
<td>Female (% of Total)</td>
<td></td>
<td>40.2</td>
<td>37.2</td>
<td>37.3</td>
<td>32.3</td>
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<td>Agriculture (% of Total)</td>
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<td>67.7</td>
<td>62.0</td>
<td>25.8</td>
<td>43.5</td>
<td>28.9</td>
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<tr>
<td>Industry (% of Total)</td>
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<td>10.5</td>
<td>12.1</td>
<td>14.0</td>
<td>33.1</td>
<td>21.5</td>
<td>30.6</td>
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<tr>
<td>Participation Rate (% of Total)</td>
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<td>30.1</td>
<td>44.3</td>
<td>42.8</td>
<td>37.6</td>
<td>32.5</td>
<td>33.8</td>
<td></td>
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<tr>
<td>Male</td>
<td></td>
<td>58.7</td>
<td>54.9</td>
<td>53.2</td>
<td>37.0</td>
<td>48.0</td>
<td>51.3</td>
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<tr>
<td>Female</td>
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<td>41.2</td>
<td>35.4</td>
<td>32.1</td>
<td>28.0</td>
<td>16.8</td>
<td>16.3</td>
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<tr>
<td>Economic Dependency Ratio</td>
<td></td>
<td>0.9</td>
<td>1.0</td>
<td>1.1</td>
<td>1.0</td>
<td>1.4</td>
<td>1.3</td>
<td></td>
</tr>
</tbody>
</table>

### Income Distribution

| Percent of Private Income Received by | | | | | | | | |
| Highest 5 Percent of Households | | 33.0 | 32.8 | .. | .. | .. | 20.8 |
| Highest 20 Percent of Households | | 61.0 | 60.6 | 56.3 | 47.9 | 52.1 | 57.6 |
| Lowest 20 Percent of Households | | 4.2 | 4.7 | 3.4 | 3.0 | 3.9 | 3.4 |
| Lowest 40 Percent of Households | | 10.8 | 9.7 | 11.4 | 15.4 | 12.6 | 11.0 |

### Poverty Target Groups

| Estimated Absolute Poverty Income Level (US$ per Capita) | | | | | | | | |
| URBAN | | .. | 300.0 | .. | 270.0 | .. |
| RURAL | | .. | 162.0 | .. | 183.3 | .. |

| Estimated Relative Poverty Income Level (US$ per Capita) | | | | | | | | |
| URBAN | | .. | 385.0 | .. | 282.5 | 550.0 |
| RURAL | | .. | 367.0 | .. | 436.1 | 484.9 | 403.4 |

| Estimated Population Below Absolute Poverty Income Level (Percent) | | | | | | | | |
| URBAN | | .. | .. | .. | 20.5 | .. |
| RURAL | | .. | .. | .. | 35.3 | .. |
|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| GDP  | 272.3 | 876.1 | 1336.2 | 1172.1 | 1317.7 | 1320.9 | 1284.3 | 1366.7 | 1427.7 | 1340.2 | 1534.6 | 1912.3 | 6.7 | 5.7 | 4.1 |
| Projected | | | | | | | | | | | | | | | |
| GDP  | 272.3 | 876.1 | 1336.2 | 1172.1 | 1317.7 | 1320.9 | 1284.3 | 1366.7 | 1427.7 | 1340.2 | 1534.6 | 1912.3 | 6.7 | 5.7 | 4.1 |

**A. NATIONAL ACCOUNTS (TL Billion, 1978 Prices)**

1. Gross domestic product: 722.3
2. Exports (G x NF): 67.7
3. Imports (G x NF): 60.0
4. Investment: 120.0
5. Domestic savings: 129.5

**B. SECTOR OUTPUT**

1. Agriculture: 29.4
2. Industry: 27.1
3. Services: 43.2

**C. PRICE 1970 - 1980**

1. Consumer prices: 63.7
2. Import prices: 47.7
3. Terms of trade: 51.7
4. GDP deflator: 40.7
5. Exchange rate (TL) 11.0

**D. PUBLIC FINANCE**

1. Central government revenue: 22.4
2. Public sector deficit: -2.1

**E. SELECTED INDICATORS**

1. Inflation rate: 3.0
2. Unemployment: 13.6
3. Consumer price index: 12.1
4. Agriculture: 67.1
5. Industry: 12.3
6. Other: 19.6

**F. SELECTED INDICATORS**

1. Inflation rate: 3.0
2. Unemployment: 13.6
3. Consumer price index: 12.1
4. Agriculture: 67.1
5. Industry: 12.3
6. Other: 19.6

**G. SELECTED INDICATORS**

1. Inflation rate: 3.0
2. Unemployment: 13.6
3. Consumer price index: 12.1
4. Agriculture: 67.1
5. Industry: 12.3
6. Other: 19.6
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<tr>
<th>Category</th>
<th>Description</th>
<th>Value 1</th>
<th>Value 2</th>
<th>Value 3</th>
<th>Value 4</th>
<th>Value 5</th>
<th>Value 6</th>
<th>Value 7</th>
<th>Value 8</th>
<th>Value 9</th>
<th>Value 10</th>
<th>Value 11</th>
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<tbody>
<tr>
<td>A. Export of goods and services</td>
<td></td>
<td></td>
<td></td>
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</table>
**TURKEY - EXTERNAL DEBT AND CREDITWORTHINESS**

**ANNEX I**

Page 6 of 6

---

### A. OUTSTANDING DEBT (Million US Dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Public Medium and Long Term (M and LT) (Disbursed) 1/</td>
<td>1854</td>
<td>2969</td>
<td>3716</td>
<td>3919</td>
<td>4226</td>
<td>6100</td>
<td>10956</td>
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<tr>
<td>2. Private M and LT (Disbursed) 1/</td>
<td>42</td>
<td>115</td>
<td>160</td>
<td>253</td>
<td>479</td>
<td>552</td>
<td>650</td>
</tr>
<tr>
<td>3. Short Term 2/</td>
<td>- 279</td>
<td>1398</td>
<td>3441</td>
<td>6600</td>
<td>7466</td>
<td>3770</td>
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<tr>
<td>4. Total Outstanding Disbursed Debt</td>
<td>1896</td>
<td>3263</td>
<td>4734</td>
<td>7313</td>
<td>11405</td>
<td>14126</td>
<td>15376</td>
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<tr>
<td>5. Undisbursed Public M and LT 1/</td>
<td>840</td>
<td>1101</td>
<td>1641</td>
<td>2393</td>
<td>2804</td>
<td>3500</td>
<td>3800</td>
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### B. DEBT SERVICE (Million US Dollars)

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<tbody>
<tr>
<td>1. Interest on all Debt (net of relief) 3/</td>
<td>-47</td>
<td>-59</td>
<td>-150</td>
<td>-300</td>
<td>-570</td>
<td>-710</td>
<td>-930</td>
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<tr>
<td>2. Amortization of M and LT Debt (net of Relief)</td>
<td>-146</td>
<td>-72</td>
<td>-117</td>
<td>-119</td>
<td>-214</td>
<td>-380</td>
<td>-550</td>
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### C. DEBT BURDEN

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<tbody>
<tr>
<td>1. Debt Service Ratio 4/</td>
<td>18.8</td>
<td>4.4</td>
<td>7.7</td>
<td>11.2</td>
<td>22.2</td>
<td>26.7</td>
<td>30.2</td>
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<tr>
<td>2. Total Outstanding Disbursed Debt/GDP 5/</td>
<td>15.0</td>
<td>15.7</td>
<td>13.1</td>
<td>17.9</td>
<td>23.9</td>
<td>28.3</td>
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### D. EXPOSURE

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<tbody>
<tr>
<td>1. Bank Group DOD/Total Outstanding Disbursed Debt</td>
<td>7.2</td>
<td>7.8</td>
<td>9.1</td>
<td>6.1</td>
<td>6.0</td>
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<td>7.7</td>
</tr>
<tr>
<td>2. Bank Group Debt Service/Total Debt Service</td>
<td>3.2</td>
<td>14.9</td>
<td>12.2</td>
<td>10.8</td>
<td>8.3</td>
<td>7.7</td>
<td>6.9</td>
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### E. COMPOSITION OF TOTAL OUTSTANDING DISBURSED DEBT (Million US Dollars)

<table>
<thead>
<tr>
<th></th>
<th>1978 (Amount) (As % of Total)</th>
<th>1978 (Amount) (As % of Total)</th>
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<tbody>
<tr>
<td>1. Medium &amp; Long-Term Debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Public Medium and Long-Term</td>
<td>6657 47.1 11606 75.2</td>
<td>10956 21.3</td>
</tr>
<tr>
<td>(i) Bank Group</td>
<td>836 5.9</td>
<td>10956 21.3</td>
</tr>
<tr>
<td>(ii) Other Multilateral</td>
<td>612 4.3</td>
<td></td>
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<tr>
<td>(iii) Governments</td>
<td>3900 27.6</td>
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<tr>
<td>(iv) Suppliers</td>
<td>170 1.2</td>
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<tr>
<td>(v) Financial Institutions</td>
<td>345 3.9</td>
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<tr>
<td>(vi) Bonds</td>
<td>35 0.2</td>
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</tr>
<tr>
<td>b. Private Medium and Long-Term (Total)</td>
<td>552 3.9</td>
<td>650 4.2</td>
</tr>
<tr>
<td>2. Short Term</td>
<td>7469 52.9</td>
<td>3770 24.5</td>
</tr>
<tr>
<td>(i) Convertible Turkish Lira Deposits</td>
<td>2860 20.2</td>
<td></td>
</tr>
<tr>
<td>(ii) Suppliers' Credits/Commercial and Oil Arrears</td>
<td>1675 11.9</td>
<td></td>
</tr>
<tr>
<td>(iii) Acceptance Credits</td>
<td>862 6.1</td>
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<tr>
<td>(iv) Bankers Credits, Reimbursement Credits, Overdrafts</td>
<td>924 6.5</td>
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<tr>
<td>(v) Dresdner Bank</td>
<td>363 2.6</td>
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<tr>
<td>(vi) IMF</td>
<td>622 4.4</td>
<td></td>
</tr>
<tr>
<td>(vii) Other</td>
<td>163 1.2</td>
<td></td>
</tr>
<tr>
<td>3. Total Outstanding Disbursed Debt</td>
<td>14126 102.0</td>
<td>15376 100.0</td>
</tr>
</tbody>
</table>

1/ Bank DRS data.
2/ Based on Turkish Central Bank estimates.
3/ Based on Turkish Balance of Payments data, except for 1979.
4/ Total debt service (Line B3) divided by exports of goods and non-factor services plus workers' remittances.
5/ At market prices.
6/ Bank staff estimate.

---

EMENA CPIIA

February 1980
Economic Policy Package

On January 25, the Government announced, through several interlocking decrees, a rather comprehensive economic policy package. It is not only a strong stabilization program, but also one that lays the foundation for some structural economic changes and desirable modifications in medium-term economic policies. The detailed decrees are being translated. Meanwhile based on extensive explanations of what they contain, the principal elements are summarized below.

Exchange Rate Regime

(a) The Turkish Lira, whose parity value was TL35 = US$1.00 except for several commodities that had a premium fixed at TL47 = US$1.00, has been devalued by nearly 100 percent to TL70 = US$1.00. A lower multiple rate of TL55 = US$1.00, now applies only to the import of fertilizers, insecticides and inputs for both.

(b) In future, cross rates will be adjusted automatically by the Central Bank. The principle is also established that so will the exchange rate vis-a-vis the US$ (after discussion with a new Money and Credit Committee (para. q below)), generally determined by the differential rate of inflation in Turkey and its trading partner having the weakest currency.

(c) The temporary 20 percent stamp duty on imports is reduced to 1 percent, thus linking exports and imports directly to the exchange rate.

(d) The difference between TL earned from exports of key agricultural commodities and the prices fixed on a weight basis by the Government as those which provide sufficient incentives to the producers, are to be channelled into a Price Stabilization Fund now with the Central Bank. From this Fund, the Government will cover subsidies on fertilizers, provide export credits etc. to exporters and cover export risk insurance until institutional facilities in that regard are approved by Parliament.

Export/Foreign Investment Incentives

(e) Except for commodities covered by agriculture support prices, foreign exchange earned in exports totalling less than $50,000 can be retained abroad by the exporters. Over that, the exporter is allowed to retain 50 percent of export earnings to be applied towards the import of his inputs, provided he advises his bank handling the transaction within 6 months of export of his intention to do so.
(f) Commercial banks are now allowed to maintain accounts in which they will retain 80 percent of export earnings or worker remittances made by their clients (20 percent goes to the Central Bank). Once the importers get clearance from the technical ministry concerned for the import of commodities on the Restricted List, they get foreign exchange from these banks, out of such accounts, instead of from the Central Bank. This is a major structural change for liberalizing the export and import licensing regime.

(g) From the 50 percent legal reserve placed by commercial banks with the Central Bank, the commercial banks can provide export credits, term credits and working capital to exporters, as well as finance export investment proposals, at an interest rate of 11 percent only, with the discount rate of the Central Bank being 8 percent.

(h) Investments up to $50 million, in which foreign investors must have a minimum investment of $2 million and no more than a 49 percent share, are to be automatically approved by a new department created in the Prime Minister's office (para. r). Those over $50 million, will be reviewed on merit by that Office. Investments involving IFC or Islamic Bank have no limit on size or field of investment and will be automatically approved, provided the investor holds no more than 49 percent. Even this ceiling is not applicable to investments made by Arab OPEC countries, or for hotels with more than 400 beds, where 100 percent foreign ownership can be allowed. The repatriation of the sale of an investor's equity is also guaranteed, as IFC had been insisting.

(i) To encourage oil exploration/investments by foreign oil companies, the well-head price of oil is further increased over the sizeable increase made in April 1979. For oil found or produced by such companies after January 1, 1980, they can export 35 percent of oil produced, as their share of the profits.

(j) To resolve the problem of unguaranteed trade credit arrears of about $1.9 billion, foreign creditors must opt within 90 days between: (i) consolidation in US$, with repayment over 10 years including 4½ years grace, with 7 percent interest at the TL parity on January 25, 1980, or (ii) consolidate in TL with smaller amounts repaid in 18 months and larger ones with 24 to 30 months. Such TL amounts can be used by them to invest in Turkey, within the liberalized investment rules mentioned above.

SEE Reforms

(k) Substantial increases in prices of SEE products such as petroleum, cement, steel, sugar, coal, lignite and printing paper, as also in tariffs of service SEEs like railways, Soil Products Office and Maritime Bank (which collectively accounted for nearly 50 percent of budgetary deficits) have
been announced, to add about TL350 billion to 1980 gross revenues. In this the average tariff for bulk power has been increased from about 120 krs/kwh to an average of 280 krs/kwh.

(1) So far, the prices of several SEE products/services were arbitrarily constrained and could be increased only by Cabinet approval, since they were placed on "a list of basic items". All goods and services have now been removed from this "basic list", except for fertilizer, coal/lignite, the cargo tariffs of Railways, Maritime Bank and Turkish Cargo Lines, and electricity rates only for ferro chrome and aluminium production. In other words, the Board of Directors of the SEEs concerned will now set their own prices depending on market forces, so as to generate enough not only to cover their operating deficits, but cash for their investment programs. Through the price mechanism and improved management and efficiency in the SEEs themselves, the SEEs will have to meet all of this. Their operating deficits will no longer be met from the Budget. While their investment projects would in future be reviewed by the SPO from the viewpoint of whether they fall within the Plan objectives and are viable proposals, such projects will no longer be financed from the Budget. Nor will SEEs have any access to Central Bank borrowings, except seasonal credits for some of them. This is a major milestone in Turkish economic policy, which has been accomplished by decree under the existing SEE law, and does not require parliamentary approval.

Domestic Resource Mobilization

(m) Since continuing increases in SEE prices could price them out of the international market, revenues are instead to be augmented through a "significant tax package" being tabled to the Parliament soon. After study, new simple indirect taxes, like value added taxes, are proposed to be introduced in future, along with others, to raise resources on a continuing basis. This is another major shift in Turkish economic policy, since proposals for new taxes have rarely been proposed to the Parliament, nor has the Parliament passed any tax package for the last 8 years.

(n) All lending rates have been increased by 2 percent over those prevailing before January 25, 1980. In addition, interest rates for medium-term credits of beyond 5 years no longer have any ceiling and can be negotiated between the borrower and the banks concerned. This freeing of interest rates on loans beyond 5 years, is a major step towards gradually reducing the negativeness of the interest rate structure in Turkey.

(o) As part of the Government's objective to bring down inflation in 1980 to about 50 percent, and then continue to exercise a downward pressure on inflationary growth, legislation is being introduced in Parliament to contain wage increases in public and private sectors by allowing automatic rate adjustments of only half the rate of inflation in a given year, if the overall rate exceeds 40 percent.
Administrative Arrangements

(p) A small Coordination Committee under the Undersecretary in the Prime Ministry and having the Undersecretaries of SPO, Industry, Energy and Treasury, the Governor of the Central Bank and the Head of the Economic Department of SPO, will expedite formulation and implementation of economic policies, trade regimes and the coordination of external aid.

(q) A new Money and Credit Committee, again under the Undersecretary in the Prime Ministry, with the Undersecretaries of SPO, Treasury and Commerce as well as the Governor of the Central Bank, the Head of the Economic Department of SPO and the Head of Internal Revenue’s Economic Department, are to coordinate monetary and credit developments, solve financial bottlenecks, decide on pricing policies and quickly approve adjustments in cross rates and exchange rates.

(r) A new private Foreign Investment Department has been created under the Undersecretary in the Prime Minister’s Office. It alone will review and approve applications of foreign investors for investments in Turkey.

(s) An Incentives/Implementation Department has also been established under the Undersecretary in the Prime Minister’s Office. It will not only develop and deal with all export promotion incentives, measures and institutions in order to promote export and export oriented investments, but will also continuously review the ongoing investments in the country from the point of view of establishing which of them should be stopped, deferred or processed quickly, besides reviewing and proposing general investment incentives for investments considered desirable in the Turkish context.
<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>a. Balance of Payments</td>
<td>Current a/c deficit was $1.6 b. in '77, $1.8 b. in '78 and '79.</td>
<td>Administrative measures to prevent increase in deficit beyond '78 level.</td>
<td>Strengthen balance of payments; encourage exports and workers' remittances; eliminate excessive capital intensive investments.</td>
</tr>
<tr>
<td>b. Exchange Rate Policy</td>
<td>Overvaluation and inadequate adjustments encouraged imports and capital intensive investments; discouraged exports.</td>
<td>Adoption in June '79 of a realistic exchange rate to help alleviate adjustment, was followed up in Jan. '80 by a further dramatic devaluation fixing a rate of 75.70 = 1$, except for fertiliser and insecticide imports.</td>
<td>Continued export growth at at least 10% in real terms between '80 and '83. Actions should contribute to increase of non-traditional exports, improve capacity utilization, and increase employment.</td>
</tr>
<tr>
<td>c. Exports</td>
<td>Agricultural exports still dominate; export orientation is gradually increasing in the industrial sector. However, cumbersome export restrictions and licensing procedures and more lucrative domestic market discouraged exports.</td>
<td>Measures taken in '79/80 boosted exports by 15% as real terms in '78 and '79. Realistic exchange rate should help maintain growth trend. Preference to exporters or retain 50% of export earnings for export needs helped stimulate exports. Increase in May '79 and Jan. '80 have reduced procedural delays drastically; interest rate and liberalization of the exchange rate regime through allowing borrowers and banks to agree on rates for deposits beyond 4 years and lending beyond 5 years.</td>
<td>Gradual restoration of creditworthiness, to maintain visible growth and economic stability.</td>
</tr>
<tr>
<td>d. External Debt</td>
<td>Substantial accumulation of short-term liquidity imposed and inordinately heavy burden, in the medium-term, on balance of payments; short-term debt went up to '79 by another $2 b. because Turkey borrowed net short-term, and valuation adjustment of Gnp deficit, due to $ slipping against Euro-currents.</td>
<td>Guaranteed bilateral debts rescheduled up to June '79; IMF Standby Arrangement in July '79; commercial bank debts of S42 m. rescheduled and further rescheduling of $2.44 b. negotiated. Jan. '80 economic package included reasonable alternative proposals to settle about $1.9 b. of guaranteed export credits.</td>
<td>Gradual reduction in inflation in '80, slight decline in private consumption and some decline in private fixed investments.</td>
</tr>
<tr>
<td>e. Domestic Policies</td>
<td>Has encouraged consumption, discouraged savings and needed potential benefits from Government's stabilization policies. Budget deficits of $46 b. (6.7% Gnp) and overall public sector deficit of $51 b. (8.2% Gnp) in '79. Net public sector borrowing from Central Bank $16 b. in '79.</td>
<td>Effort to control public sector deficits and Central Bank borrowings in '79/80. Upward adjustment of interest rates in May '79 followed up in Jan. '80 with further 2 percentage point increases in all rates. Liberalization of the interest rate regime through allowing borrowers and banks to agree on rates for deposits beyond 4 years and lending beyond 5 years.</td>
<td>With the objective of reducing the rate of growth of inflation in '80: Limit net new Central Bank credits to public sector to 10% in '79/80. Continue policy of limiting wage increases. Reviewing Turkey's completed Financial Sector Study by Summer 1980, mid-80. Review resources to encourage increases in household savings and deposits as part of measures to improve resource mobilization/allocation. Restructuring of tax system to augment tax revenues to be done. Elimination of deficit financing of public sector, to be an important feature of 1980 and future budgets.</td>
</tr>
<tr>
<td>f. Price Policies of SEB</td>
<td>Domestic resource mobilization and total deficits have increased. Deficit of SEB $4.6 b. in '78 and $7.7 b. in '79. Unemployment of industrial goods produced or distributed by SEB, has resulted in substantial losses, met through the budget and Central Bank borrowings. Has aggravated inflation and the economic crisis.</td>
<td>Systematic increases in prices during '79/80, followed up in Jan. '80 by increases of between 30 to 100% in products and services of SEB, to net $7.9 b. in '80. This should help alleviate situation. Importantly, except for coal, sugar, rice, and fertilizers, SEB has been asked to fix their own prices depending on market prices. Through prices and improved efficiency, they are to cover most of the cesses for the cost of coal and sugar, but the government, to speed up the process of reform in the economy, to rely on the market and the Central Bank for all purposes. Demand has been adjusted and is expected to continue in the future.</td>
<td>Continue policy of encouraging SEB to improve productivity and management, and generate their resources to cover their investment programs.</td>
</tr>
<tr>
<td>g. Public Sector Investment Program</td>
<td>A new investment program, extensive in the light of available resources, and emphasis on large projects with long gestation period and marginal returns, has increased country's debt burden and fueled inflation.</td>
<td>Top priority accorded to completion of ongoing projects which can give good returns with modest investments, and those that can utilize existing productive capacity fully. New investments, targeted on available resources, to be made mainly on priority projects for removing infrastructural bottlenecks, or promoting exports and employment.</td>
<td>Strengthen public sector finances. Improve resource allocation.</td>
</tr>
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<td>h. Economic Policies</td>
<td>An investment program, extensive in the light of available resources, and emphasis on large projects with long gestation period and marginal returns, has increased country's debt burden and fueled inflation.</td>
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<td>Strengthen public sector finances. Improve resource allocation.</td>
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## STATUS OF BANK GROUP OPERATIONS IN TURKEY

### STATEMENT OF BANK LOANS AND IDA CREDIT

(As of March 31, 1980)

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<tr>
<th>Loan and Credit Number</th>
<th>Year</th>
<th>Borrower</th>
<th>Purpose</th>
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Total

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Total of which has been repaid

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Total of which has been repaid

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Total now outstanding

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Total now held by Bank and IDA

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<thead>
<tr>
<th>Loan and Credit Number</th>
<th>Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>Bank</th>
<th>IDA</th>
<th>Undisbursed</th>
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<tr>
<td></td>
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<td>(Less Cancellations US$M)</td>
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<tr>
<td>Nineteen loans and twelve credits fully disbursed</td>
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Total undisbursed

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<th>Purpose</th>
<th>Bank</th>
<th>IDA</th>
<th>Undisbursed</th>
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<tr>
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<td>(Less Cancellations US$M)</td>
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<tr>
<td>Nineteen loans and twelve credits fully disbursed</td>
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<td>815.0</td>
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/a Prior to exchange adjustments.
/b Excluding loans not yet effective.
## STATUS OF BANK GROUP OPERATIONS IN TURKEY

### STATEMENT OF IFC INVESTMENTS

(As of March 31, 1980)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Obligor</th>
<th>Type of Business</th>
<th>Amount in US$ Million</th>
<th>Loan</th>
<th>Equity</th>
<th>Total</th>
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<td>Akdeniz</td>
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<td>1979</td>
<td>Ege Mosan</td>
<td>Engines for Mopeds</td>
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Total Gross Commitments 186.86 21.65 207.51
Less Cancellations, Terminations, Exchange Adjustments, Repayments and Sales 109.48 2.43 111.91
Total Commitments now held by IFC 77.38 18.22 95.60
Total Undisbursed 10.84 6.12 16.96
C. PROJECTS IN EXECUTION 1/


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.


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. Tariff increases have been implemented recently, and a reorganization of the management, accounting and financial systems is under consideration.


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.

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.

The fattening subproject has been completed. All unspent funds have been reallocated to the village livestock development subproject, which is expected to be completed on schedule.


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. Progress in 1979 was disappointing because of the difficulties that the contractors encountered in obtaining sufficient fuel, construction steel and cement; the supply situation has eased recently. 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 40 percent of the land leveling, 25 percent of the surface drainage, and 35 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, but the Government is taking steps to hire the latter.


The project has been delayed by about four years mainly by slow procurement action; however, this is now almost completed. Both local and foreign costs have increased substantially over appraisal estimates. Consultant studies of the Istanbul power market and of the proposed reorganization of the company's electricity, transport and gas services have been completed. IETT's tariffs have been raised substantially in the recent past, and additional increases as a result of the Government's January 1980 economic package should help cover the increased project costs and revitalize the company's finances.


After initial delays, physical progress, including track renewals, rolling stock, and locomotive production, the latter financed by the European Investment Bank, is satisfactory. Over 90 percent of the loan has been disbursed and procurement action has been or is in the process of being completed for use of the remaining loan funds. Despite several 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 170 percent, which became effective in January 1980, 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.


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 well advanced. Local currency payments for the Akdeniz establishment are also now being made. Price increases of 127-345 percent in January 1980 should enable the company to meet part of the local currency requirements.


Project implementation had 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 recently resulted in significant improvement of project execution. The Government's expected continued provision of adequate local funds for this high priority project, and early arrangements to finalize plans to meet the substantial foreign exchange gap, are likely to maintain project momentum in future. The Government is reviewing possible action to overcome remaining implementation problems.


The loan was fully committed in February 1977, with eleven sub-projects approved by the Bank. Project implementation is satisfactory and disbursements are nearly complete.

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.


The project is progressing satisfactorily. Corum dam has been completed and the works to divert run-off from 5 nearby watersheds have been completed. Kumbaba pumping station is ready. Diversion tunnels for Alaca and Guldercek dams are more than 90 percent completed. Designs for the irrigation systems of the Guldercek and Alaca areas have been completed and tendering is beginning in April 1980. The project extension service and credit components are operating successfully. The Government is taking steps to replace two of the three extension consultants who resigned for personal reasons. 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.


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. Improvements are expected to continue in overall project implementation and the rate of disbursement.


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. After considerable delay, consultants will shortly begin to carry out the study of TCZB's structure and procedures. 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.

The project is proceeding slowly due to delays in civil works and procurement caused by insufficient local funds. Recent price increases of 130-345 percent are likely to correct this situation and the project is expected to start production in early 1981, 2 years behind the appraisal schedule. Erection of machinery and equipment began in early 1979 and trial runs are expected to begin in 1980.


After a slower than anticipated start-up, project implementation is now satisfactory. Project area offices have been established and are fully staffed. Preparation of farm development plans has been slower than expected but is now satisfactory. A higher than expected proportion of subloans has been made to small farmers.


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.


The loan has been fully committed. DYB 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.


Progress is satisfactory and 83 percent 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.


Industrial wood production for 1979 will be close to forecasts but there will be significant shortfalls in some other targets, principally as a result of Government budget cuts. Foreign procurement for 1979 is effectively up to date but local state enterprises have been unable to supply much of the locally produced equipment (principally vehicles to replace existing stocks). Most technical problems have been resolved.


The supervised credit program for farm development has not yet been initiated, mainly because of difficulties being encountered in recruiting veterinarians and agronomists to serve in eastern Turkey. The final draft of the milk industry study is expected shortly. International recruitment of technical specialists is underway.


Procurement for the phenol treatment plant, the raw material handling system and the hot rolled shear line are underway. Following technical review by the company's consultants, the fourth blast stove and the third down coiler have been deferred until a later date. Prices have been substantially increased in January 1980. Production from existing facilities however, have been restricted because of the lack of raw materials due to the limited availability of foreign exchange.


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 1979 and a determination made to continue disbursements after April 30. The loan is almost fully disbursed.


The engineering study has been completed and detailed design of a pilot project to test the chosen technology has begun.

The project coordinating committees are in place and functioning effectively. Preparation of equipment specifications and tender documents is making good progress. UNDP has appointed a project manager to implement the project related training programs. The port sector planning studies have been delayed by lack of staff, but steps are being taken to correct this.


Project implementation has begun. Tender documents to be sent to an approved short list of consultants are under review.


TSKB and ITC finalized in November the technical assistance program for training and export development. Project screening is now underway.


Consultants have prepared the preliminary program for local training. The additional consultants for technical services and for the extension services are being recruited. Revised Action Plans are being prepared.


Consultants being selected for project studies.


The loan has just become effective.
TURKEY - SUMERBANK COTTON TEXTILE RATIONALIZATION PROJECT

SUPPLEMENTARY PROJECT DATA SHEET

Section I: Timetable of Key Events

(a) Time taken by Sumerbank to prepare project: 2-1/2 years (April 1977-September 1979)

(b) Agency which prepared project: Sumerbank assisted by Gherzi consultants financed by PPF

(c) First presentation to the Bank: September 1979

(d) Departure of pre-appraisal mission: October 1979

(e) Departure of appraisal mission: November 1979

(f) Negotiations completed: April 1980

(g) Planned date of effectiveness: September 1980

Section II: Special Bank Implementation Actions

None.

Section III: Special Conditions

A. Special Conditions of Effectiveness:

(i) Provision of the initial portion of new cash equity of at least TL 400 million (para. 52);

(ii) The operational consultants for the second stage of the technical assistance have been employed (para. 54); and

(iii) Execution of a Subsidiary Loan Agreement between the Republic of Turkey and Sumerbank (para. 67).

B. Other Main Conditions:

(i) Prior to December 31, 1981, Government to provide an additional TL 800 million of cash equity for the Cotton Textile Division (CTD) and prior to December 31, 1982 another TL 500 million (para. 52);
(ii) Sumerbank not to divert profits from CTD to other operations until the needs of the project have been met and CTD to limit other investments in cotton textiles during project execution to $3 million per year (paras. 53 and 60);

(iii) CTD to prepare consolidated financial statements and to maintain appropriate financial ratios (para. 60);

(iv) Sumerbank and CTD to review cotton textile prices frequently and adjust as necessary (para. 45);

(v) Sumerbank to submit proposals satisfactory to the Bank on the detailed responsibilities and functions of the units of CTD and its marketing arrangements to the Bank prior to December 31, 1980 (paras. 41 and 56);

(v) CTD to prepare annual staffing and training requirements and submit the first program to the Bank prior to April 30, 1981 (para 57); and

(vii) Government and Sumerbank to maintain 55 contractual positions for CTD and the project unit until project completion (paras. 54 and 55).