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Folder 2 of 2

~~Folder 4~~

REFERENCE MATERIAL

G

CURRENT LENDING PROGRAM

ANNEX G (i)

CONFIDENTIAL
CPP (Final Version)
August 20, 1976



COUNTRY PROGRAM PAPER

TURKEY

| | | IBRD/IDA Lending Program[b] ($ Million) FY69-73 | FY74-78 | FY78-82 |
|---|---|---|---|---|
| 1975 Population: 40.1[a] million | | | | |
| 1975 per capita GNP $864 a/ | IBRD(TW) | 450.0 | 1146.5 | 1300.0 |
| | IDA | 97.8 | - | - |
| | Total | 547.8 | 1146.5 | 1300.0 |
| Current population growth rate: 2.5% p.a. | | | | |
| No. of Loans/Credits | | 21 | 18 | 25 |
| No. of Loans/Credits per mln. popl | | 0.52 | 0.45 | 0.63 |

Current Exchange Rate:

TL 16.0 = US$1.00

| | Average Lending Per Capita Per Annum Current $ (Const. FY76$) | | |
|---|---|---|---|
| IBRD/IDA | 2.73(3.97) | 5.72(5.70) | 6.48(5.30) |
| IDA | 0.49(0.70) | - ( - ) | - ( - ) |

Last CPP: May 5, 1975
Basic Economic Report (Grey Cover): April 22, 1974
Updating Economic Report (Grey Cover): June 9, 1975

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a/ World Bank Atlas, 1976.
b/ The FY76-80 lending program proposed in this CPP compares with the program for the same period approved at the last CPP review (May 1975) as follows:

| | FY76-80 Lending Program Approved | Proposed | Percentage Change Proposed/Approved |
|---|---|---|---|
| No. of loans and credits | 25 | 22 | -12.0 |
| Current $ Million | 1200.0 | 1260.5 | 5.0 |
| Constant FY76 $ Million | 1089.0 | 1135.2 | 4.2 |
| Per capita per annum (constant FY76 $) | 5.43 | 5.66 | 4.2 |

## A. INTRODUCTION

1. Since the last CPP Management Review in May 1975, the domestic political situation has remained stalemated. Because of significant differences of view among the four parties in Mr. Demirel's coalitian government, its marginal majority over a united parliamentary opposition, and its eye towards elections due not later than October 1977 under the Constitution, there is a partial political paralysis preventing the taking or implementing of a variety of key decisions. The 1977 elections may well result in a prolongation of the stalemate, since the last few years have witnessed a sharp polarization of opinion between and even within the majority political parties. Even if either Mr. Demirel or Mr. Ecevit obtains a clear parliamentary majority, the aforementioned developments may force compromises and steering clear of unpopular fiscal or developmental decisions. The political polarization has already led to student violence on a relatively large scale. Internationally, Turkey remains isolated as a result of differences with the US over Cyprus and military bases, with Greece over Cyprus and the Aegean, and with the EEC over the future of migrant labor and other terms of its Association Agreement. As a counterbalance, Turkey has expanded its relations with the Eastern bloc and tried to move closer to the Islamic world; but no major realignment is likely with the present domestic political stalemate.

2. Despite this situation, GDP grew in 1975 by an enviable 9% in real terms. Inflation was significantly reduced and the budgetary position improved. This creditable performance was marred by two factors. The financial results of the State Economic Enterprises (SEEs) deteriorated and necessitated heavy borrowing from the Central Bank. Under the impact of world commodity price increases, European recession with its consequent adverse impact on export earnings and workers' remittances, and increased defense spending, the balance of payments worsened significantly. Despite a large increase in short-term borrowings and use of various IMF facilities, reserves have been drawn down to the equivalent of two and a half months' imports to maintain rapid growth. Nevertheless, the growth performance and potential of the economy portends well for the future, but Turkey will have to continue to rely heavily on external borrowing and will experience a difficult balance of payments situation.

3. Despite the potential for growth and the likely balance of payments difficulties, both of which would suggest an increase in lending, and despite gradual improvements in project performance, this CPP proposes essentially no change in the level of lending approved at the last Review. However, taking into account Turkey's need to increase its capacity to earn/save foreign exchange, provide increasing employment and improve the lot of its rural and urban poor, this CPP proposes a significant "phasing down" of the Bank's previous heavy involvement in infrastructure projects, and greater support in the priority areas of agriculture/rural development, industry/DFCs, and urban development. This emphasis could also help soften, but not eliminate, some of the conflicts on major policy issues between Turkey and the Bank in recent years. The Bank should continue to maintain its flexible stance of seeking

realistic solutions to such present and future problems, within the ambit of Bank policies and the constraints of the Turkish political situation. With a lending program of this magnitude, the Bank's share in Turkey's debt service will remain below 25 percent in 1985, the limit approved at previous CPP Reviews.

## B. COUNTRY OBJECTIVES AND PERFORMANCE

### Political Background and Recent Developments

4. Since the 1950s, the Turkish political scene has been dominated by two major parties: the Republican Peoples Party (RPP) of Ataturk, which gave Turkey its basic institutions, nationalist reformist platform and economic structure (including SEEs with multiple economic and social goals), and which has gradually turned into a left of center party headed by Mr. Ecevit since 1972; and the Justice Party (JP), successor to the Democratic Party, representing conservative business and farming interests and espousing protective industrial investment and agricultural price support policies; this party is headed by Mr. Demirel, the present Prime Minister. The 1960s witnessed the emergence of other rightist parties, and particularly of Mr. Erbakan's National Salvation Party (NSP), a religious oriented group with conservative social and political, but extremely nationalistic and allegedly populist economic views. Recent years have further witnessed sharp splintering of opinions and platforms even within the major parties.

5. Such splintering, and manifestations of left and right extremism, led to the resignation of Mr. Demirel's JP Government in 1971 at the behest of the Army. Thereafter, the Army attempted to curb such activities, while three ineffective, technocratic governments ran day to day matters for two and a half years balancing the Army's pressure for a modicum of reforms and the do nothing preferences of a conservative parliament. The Army withdrew from politics in 1973 without achieving major reforms, and the October 1973 elections brought Mr. Ecevit to power, but only in a strained coalition with the NSP. The sharp differences of views between the coalition partners stalemated some key reforms which Mr. Ecevit might otherwise have introduced. The coalition fell apart in September 1974 after the Cyprus crisis when Mr. Ecevit resigned, banking on being reelected with a clear majority. Instead the uncompromising attitude of other parties led to caretaker governments until April 1975, when Mr. Demirel succeeded in forming a coalition government with the NSP and two other right wing parties, based on a slender majority over the RPP.

6. The coalition partners have widely divergent views on domestic and foreign policies. Despite the RPP's strong showing in the partial Senate elections of October 1975, Mr. Demirel's stature has increased as a result of the considerable improvement also in votes won by the JP at those elections, successful negotiations on US bases, and the thwarting of a determined opposition bid to oust his government during the Budget debate in February 1976. Mr. Demirel is determined to remain in office until the 1977 elections at any cost. The support of his coalition partners, particularly the NSP, has therefore become even more critical. The NSP has been using this leverage to stalemate several important policy decisions make by Mr. Demirel, but which

are unacceptable to it. This factor as well as the pre-election atmosphere, explain the government's reluctance to take or implement major decisions required to manage the economy from a long-term perspective but having major social and political implications. The Government is also trying to contend with the recent violent clashes on university campuses. Though these reportedly involve only small groups of extremists, they have led to scores of deaths and political violence at a level not witnessed since 1971. However, despite the Government's partial paralysis and the climate of violence, informed observers do not believe that the Army will intervene.

7. This state of affairs is unlikely to change until the 1977 elections. Moreover, even if either Mr. Demirel or Mr. Ecevit emerges with a majority government, he will find it necessary to make concessions to bridge severe intra- and inter-party splits, whatever his own ideological predilection on economic and fiscal measures might be. These concessions might well include avoiding major fiscal or institutional actions that would affect the common man, the farmer, or the industrialist.

8. The running crisis with Greece over Cyprus and the Aegean mineral resources, remains the central issue of external relations. It is also a dominant and highly emotional theme domestically. Turkey has yet to recover from the shock of finding herself so isolated after the 1974 Cyprus invasion. It is doubtful whether the present government is strong enough, particularly in the face of NSP's strong views, to make the compromises necessary for a Cyprus settlement. The Aegean issue has recently become the more dangerous one, and could lead to a continuing defense build-up, if not hostilities.

9. The serious strains in Turkey's relations with the U.S. caused by the Cyprus crisis, including a temporary ban on U.S. military assistance and closure of U.S. bases, have increased pressures for a re-evaluation of relations with both the U.S. and NATO. Successful negotiations over U.S. bases have led to a tentative improvement, but U.S. Congressional approval of the agreement is uncertain.

10. Relations with the EEC, already strained by European criticism of Turkey over Cyprus, have been further complicated by the Community's decision to admit Greece as a full member, as well as its reluctance to fulfil its Association Agreement with Turkey, especially in regard to labor migration. Turkey also sees the agreement between EEC and other Mediterranean countries giving preferential treatment to the latters' agricultural exports, without corresponding concessions to Turkey, as a further sign of discrimination. It has therefore not accepted the volume of EEC aid tentatively offered for the next five-year period.

11. In this context, Turkey has tried to diversify its foreign and aid ties. There is a growing feeling in the government, reinforced by NSP's Islamic philosophy and the energy crisis, that relations with the Middle East need to be cultivated more seriously. Turkey became a member of the Islamic

Development Bank and hosted the Islamic Conference recently in Istanbul. The contacts have been too recent to have resulted in tangible gains, although some cooperation agreements have been signed with Saudi Arabia and Libya, and some construction contracts won in Libya. Efforts to secure Turkey's growing energy requirements, have led to an agreement with Iraq on an oil pipeline to the Mediterranean, and discussions with Iran on a gas pipeline. Iran has also agreed, in principle, to provide $1,200 million in credits, primarily to improve Turkish transit routes to Iran, and to participate in major joint investments (paper mill, agro-industries, locomotives). Recently, however, Turkish-Iranian relations have come under strain as Turkey raised its levy on international transit traffic; this may affect the progress of the aid program.

12. Finally, Turkey has also successfully improved political and economic relationships with the Soviet Union and other East European countries, to counterbalance its strained relationships with the U.S. and OECD countries. Under a frame agreement, the Soviet Union agreed to lend $700 million for public sector projects in steel, aluminum, lignite and petro chemicals.

Development Objectives

13. The 1974 CPP summarized the socio-economic objectives of the Third Plan (1973-77), prepared when economic prospects abroad looked more favorable. Briefly, this Plan calls for an ambitious 8 percent annual growth in GNP (3.7 percent in agriculture, 11.2 percent in industry) based on an import-substitution strategy emphasizing relatively capital-intensive industrial investment, and financed by rapidly increasing domestic (particularly public) savings. Projected workers' remittances were expected to essentially offset a modestly widening resource gap, implying an almost two-thirds reduction in required capital inflows from Second Plan levels. The Plan provides for continued social reforms.

14. No fundamental change has occurred in these long-term objectives. However, the Government has long since realized that the Plan seriously underestimated external capital requirements. Developments in 1974/75, primarily the increase in oil prices and the recession in Europe, have underscored the vulnerability of Turkey's external trade and payments position. Furthermore, the continuing political stalemate, and its impact on public financial administration, particularly of the SEEs, are limiting the public sector's ability to realize its savings targets as well as to resolve conflicts inherent in the Plan, e.g. between the desired rate and pattern of economic growth and the employment and social objectives, and between the continued emphasis on industrial protection and attainment of competitiveness with Europe.

Recent Economic Developments and Performances

15. The last country economic memorandum was finalized on June 9, 1975. An updating economic mission visited Turkey in April 1976. Its report, prepared concurrently with this CPP, is scheduled to be sent to the Government for comment before the end of August 1976 and to be finalized by October. The mission's findings are reflected in this CPP.

16. Despite the continuing political statement which limited the Government's capacity to decide on and implement pressing policy changes needed to remedy increasingly serious strains in the economy, growth continued to be remarkable, the rate of inflation was reduced and the budgetary situation improved.

17. In 1975, GDP grew 9 percent in real terms, similar to 1974 and in sharp contrast with the recession-stricken developed countries and most developing countries. This was the outcome principally of increased agricultural production (9 percent), resulting from favorable weather conditions and policy-induced stimulation of fertilizer use, industrial growth (9 percent), and a strong revival of construction. Despite substantial increases in investment in recent years, the investment rate has averaged 22 percent of GNP, against the 23 percent Plan target. National savings averaged only 19 percent of GNP, considerably below the Plan target of 23 percent.

18. Price increases slowed markedly from 1974 to 1975 as measured by both the wholesale price index (from 30 to 10 percent) and the GDP deflator (from 27 to 16 percent). Even though consumer price rises did not slow down and officially controlled prices are included in the wholesale price index, there was undoubtedly a significant containment of inflation. In addition, the Government eliminated shortages, by allowing imports of scarce items.

19. The consolidated budget position also improved in 1975. Revenues were TL 105 billion, 5 percent over the budget estimate. Total expenditures were only TL 112 billion, compared to TL 134 billion approved, because of both restraint of public consumption and inability to spend investment budgets. Central Bank borrowings on account of the budget proper were TL 4 billion. The Treasury's net asset position also improved considerably.

20. On the other hand, the financial position of the SEEs deteriorated further. They suffered an overall net loss of TL 2.9 billion in 1975 (compared to a small profit in 1974) primarily as a result of the losses of four SEEs, viz., the Soil Products Office (the grain purchase agency), the Railways, and the Coal and Electricity Enterprises (TKI and TEK), offsetting profits of several other SEEs. The investments of SEEs rose from TL 25 billion in 1974 to over TL 34 billion, partly because of continued high stock accumulation. However, their total gross savings fell from 38 percent of their investments in 1973, to 23 percent in 1974 and a meagre 6 percent in 1975. Despite larger transfers from the budget and from the public sector investment bank (DYB), Central Bank lending to SEEs rose steeply. SEEs' debts to the Treasury were consolidated and a large part transferred to the Central Bank as Treasury-guaranteed bonds. Central Bank credit to the consolidated public sector rose by TL 25 billion in 1975, compared to TL 15 billion in 1974.

21. The major weakness of an otherwise creditable economic performance, was the continuous deterioration in the balance of payments. Exports in 1975 ($1.4 billion) were slightly lower than in 1974, on account of the recession in Europe and difficulties in exporting cotton. Imports, however, rose 25 percent to $4.7 billion in 1975, under the combined impact of high aggregate

demand, higher prices for oil and other commodities, speculative stockbuilding fed by persistent rumors of devaluation, and presumably larger defense imports. Workers' remittances declined in 1975 for the first time in many years, by 8 percent to $1.3 billion, again due to the recession in Europe and speculation about devaluation. The current account deficit increased from $0.7 billion to $1.9 billion.

22. There was a modest increase in gross official capital inflows to $322 million and a significant rise in private inflows, mainly for the Iraq-Turkey pipeline. The large residual gap was financed partly by a drawdown of reserves ($417 million) and borrowings from the IMF ($301 million), but more importantly through a $900 million increase in convertible lira accounts (CLAs) to finance private imports and credit needs; according to the Central Bank, 30 percent of CLAs have a maturity of less than one year and 20 percent one of one to two years. Gross official reserves were $1,058 million at the end of 1975, equivalent to 2-1/2 months' merchandise imports.

Policy Performance

23. Turkey has consistently pursued a mixed etatist-and-private development strategy aimed at rapidly modernizing the country. The government has maintained high levels of public expenditure and investment which have contributed directly to increased production and employment and wider regional development, although there have often been shortfalls in public investment. At the same time, this public spending has increased the demand for private sector output, and together with subsidized inputs from SEEs into private sector production, tax incentives and protection, has given a powerful stimulus to private sector investments based on import-substitution and relatively capitalintensive technology. The strategy has failed to expand jobs in line with the increase in the labor force and its location, leading to rapid rural-urban migration and rising overt unemployment in the cities, only mitigated by the now-diminished opportunity for large-scale migration of workers to the EEC in the last ten years.

24. Recent governments can be given credit for substantial import liberalization, including a rise in the import/GNP ratio from 7.6 percent in 1970 to 13.6 percent in 1975 and a substantial increase in imports under liberalized rules; relatively flexible exchange rate practices; restraint in public consumption; increased domestic borrowing from sources other than the Central Bank to finance budget deficits; and containment of inflation in 1975. While there have been shortfalls in tax revenue and generally in domestic resource mobilization for the public sector, tax administration is being gradually improved and Turkey's fiscal effort is respectable. On the other hand, the deteriorating SEE financial position has been met in large part by borrowing from the Central Bank, with consequent adverse impact on prices, income distribution and recently the balance of payments.

25. To redress the shortage of investment resources and reduce the public sector's (especially the SEEs') dependence on Central Bank credit, action is required on three fronts: increase in tax revenues above the present level of 18 percent of GNP through additional taxation of agricultural income and of real property, and further improvement in tax administration;

reduction of subsidies and restraint on other current government expenditures; and increase in the revenues from SEEs through both increased operating efficiency and higher prices. While these problems have existed for some time, they have become considerably more acute since 1974. Although the present government has acted on all three fronts, it has gone only as far as was necessary to restrain deficit financing to manageable proportions.

26. Resource allocation in Turkey is affected more by the control of the volume of credit channeled through specialized institutions, than by interest rates. The latter have been raised somewhat since 1974, and inflation has been better controlled. As a result, the effective cost of most types of credit is positive in real terms. To establish a sound factual and analytical basis for a more responsive system, the Government has initiated a broad study of the financial sector with Bank assistance (paragraph 44).

27. The Government has taken steps to arrest the deterioration in the balance of payments - to stimulate exports (by increasing tax rebates, simplifying procedures and reducing restrictions on exporters) and restrain import growth (by delaying approvals for opening letters of credit and the granting of import licenses for certain commodities). More importantly, it adjusted the exchange rate in small steps five times in 1975 and twice more earlier this year, effectively depreciating the lira relative to the US dollar by 14.3 percent since April 1975. Finally, since further expansion of the high-cost short-maturity CLAs could limit Turkey's future ability to borrow other funds, the Government has recently launched a scheme to attract emigrant workers' savings directly on terms similar to CLAs (exchange guarantee and an interest rate higher than those paid by German banks presently holding these savings) through the Central Bank's correspondent bank in Germany.

Prospects

28. The Government projects GDP growth in 1976 at 7.5 percent. It seems physically attainable, especially in view of the prospects for a good harvest. Aggregate investment is projected to rise by 16 percent and public investment by 12 percent in real terms; both are plausible when measured by past performance. The main areas of concern are the difficulty of maintaining high growth in public sector expenditures without vigorous efforts to mobilize additional domestic resources, the large increase in Central Bank credit to the public sector, and the deterioration in the balance of payments. The Government is aware of these problems, but has been unable in the present political situation to detail the policies and measures it will implement to remedy the weaknesses in the economy.

29. The consolidated 1976 budget projects revenues at TL 141 billion and expenditures at TL 153 billion, with an overall deficit of TL 12 billion (TL 7 billion in 1975). The Government has already introduced certain new resource mobilization measures. Even so, a 35 percent rise in revenues in 1976, after a similar rise in 1975, seems unlikely since import growth is projected to decelerate sharply. Wage increases and tighter tax administration contributed

much of the increase in personal tax revenues during 1975. The 1976 budget, however, assumes a wage freeze for government employees, which seems unrealistic in a year when several SEE and private sector wage contracts will come up for renegotiation with the trade unions.

30. Even if the Government holds the budget deficit within estimated limits and further taps the domestic capital market, the financing of the proposed SEE programs will present a serious problem in 1976. The Government has increased some SEE prices (cement, tea, meat, textiles, electricity) in 1976. Even so, SEEs' combined losses are projected to be substantially above last year's level because of continuing cost increases. Further major price adjustments are unlikely in the face of strong political resistance from within the Government coalition and the opposition, especially in a pre-election year. At the same time, SEEs' gross investment is programmed at TL 38 billion in 1976, assuming substantial destocking including exports of grain. A large financing gap remains, even assuming liberal external inflows (next paragraph), domestic bond sales and bank finance. The likely additional borrowing from the Central Bank will contribute to the continuing inflationary pressures, which are inevitable as a consequence of such high growth as the Turkish economy has continued to achieve.

31. The 1976 balance of payments projections assume continued rapid growth in output and investment. They assume increases of 50 percent in merchandise export receipts and only 6 percent in merchandise import payments. This may be attainable due to the existence of large stocks of imported products and exportables, good weather and the European economic recovery. Export earnings almost doubled during the first half of 1976 over the same period last year, while import levels have remained constant. However, the pressure to increase imports is mounting. Also, an unexplained decline in workers' remittances is a matter of concern. Even if they recover to last year's level, the current account deficit will be $1.5 billion. With normal net capital inflows projected at $450 million and IMF compensatory financing and 1975 oil facility drawings of $150 million, Turkey faces an external financing gap of $800 million in 1976. The Government has just raised a $150 million 5-year loan for DYB in the US. The Government expects the new workers' savings scheme and some further increase in CLAs to meet the remaining gap. The impact of the new scheme is likely to be greatest in its first year. The situation could however become critical, if CLAs maturing this year are redeemed rather than rolled over. The Government has informed the IMF of its intention to limit the decline in net foreign assets during 1976 to $650 million. Reserves had fallen by some $150 million by June 1976 even after the IMF drawings of $150 million.

32. The Government's Fourth Five-Year Plan (1978-82) is expected to be ready early next year. The Plan will probably continue Turkey's basic development strategy aimed at modernizing the country in a system of mixed economy, with the main emphasis on rapid industrialization and self-sufficiency. The feasible growth rate may be an issue (though not in Government thinking) for

the first time in several years in view of likely constraints on both domestic resource mobilization and external resource availability. While tax revenues may be increased somewhat, private savings are already relatively high. Improvement in SEEs' finances is difficult, unless Turkey alters its established policy of using them to achieve a variety of economic and social objectives without explicit accounting of the costs and benefits. Balance of payments prospects are conditioned by several factors: whether Turkey's economic relations with the EEC develop, or it turns to Middle Eastern markets; the levelling-off in migration; Turkey's international commitment to a relatively liberal import policy; and external capital availability.

33. To explore the implications of continued rapid growth which Turkey seems determined to maintain, Table A presents macro-economic projections to 1980 assuming a 7.6 percent per year average growth in GNP and a marginal capital/output ratio of 2.9. The assumptions are of a partial return to the conditions of the 1960s-rapid growth, with a tight balance of payments. The volume of exports is assumed to jump 28 percent in 1976 and then resume the growth trends of the early 1970s, with agricultural exports growing at 5 percent per year, minerals at 10 percent, and manufactures at 15 percent. The volume of imports is projected to remain constant in 1976, then grow 6.5 percent annually. This assumes an overall import elasticity of 0.83, much lower than the early 1970s' figures which followed years of import restrictions, and based on the high import levels resulting from the unusual growth of imports (including unusually high defense imports) in 1974 and 1975. Although the recession and more restrictive policies in Europe make a large migration unlikely, workers' remittances should grow moderately in real terms, as the constant stock of workers enjoys continuing wage increases and some additional workers move to the oil rich Middle Eastern countries.

34. The Government expects inflows of private capital to increase moderately. However, despite some relaxation of administrative procedures, there are no specific indications that the Government will change Turkey's long-standing arms-length posture which has kept foreign direct investment very low. Increased official assistance is assumed, rising from about \$300 million in 1976 to about \$600 million in 1980 from traditional donors (excluding the Bank) and from a substantial increase (even on conservative disbursement assumptions) from new sources such as the oil rich Middle Eastern countries and the Soviet Union. In addition, the projections assume \$250 million per annum under Turkish-US defense agreements assuming approval by the U.S. Congress. It is also assumed that, besides an increase in the use of surplus credit, Turkish workers' savings will accumulate under the new scheme, unlike the CLAs whose probability of redemption rather than rolling-over seems somewhat higher (estimates of such savings in Germany range between \$2 and \$6 billion).

Table A: ECONOMIC AND SOCIAL OBJECTIVES (1980)
(in 1974 prices)

| | Unit | Current Level 1975 | Plan Target Growth 1972-74 | Bank Projection Growth Absolute 1980 | Bank Projection Growth Rate 1975-80 |
|---|---|---|---|---|---|
| GNP /1 | $m | 32,640 | 7.9 | 47,024 | 7.6 |
| Population /1 | m | 40.1 | 2.5 | 45.5 | 2.5 |
| GNP Per Capita /1 | $ | 814 | 5.4 | 1,034 | 5.0 |
| Investment | $m | 7,086 | 12.7 | 10,154 | 7.5 |
| Domestic Saving | $m | 5,549 | 13.6 | 10,400 | 13.4 |
| Exports (GNFS) | $m | 2,161 | 9.4 | 4,008 | 9.7 /2 |
| Imports (GNFS) | $m | 5,205 | 7.1 | 6,696 | 6.5 /2 |
| Net Capital Inflow (current dollars) | $m | 578 | | 1,292 | |
| Debt Service Ratio | | | | | |
| as % of Exports (GNFS) | % | 12.5 | | 16.2 | |
| as % of Exports (GNFS) & workers' remittances | % | 9.2 | | 11.9 | |
| Employment (% of Labor Force) | % | 87 | | | |
| Per Capita Calorie Supply (% Requirements) | % | 110 | | | |
| Adult Literacy Rate | % | 55 | | | |

/1 The 1975 GNP per capita is at 1974 prices, and is therefore different from the figure on page 1, which is based on the current Atlas methodology.
/2 1976-80 (see paragraph 33).

35. The analysis suggests that the Government's expected GDP growth rate is feasible in the medium term, but only on strong assumptions. These include fairly substantial effort to encourage further import substitution and, more important, promote exports; slower growth of defense expenditures after the recent surge; and a sufficient restraint of aggregate demand, particularly consumption, to permit restraint of imports to projected levels. GNP per capita (at 1974 prices) could rise from $814 in 1975 to $1,034 in 1980. With the poor overall prospects for net external worker migration, and rural-urban migration expected to continue, urban unemployment could rise from the already high level of 13 percent in 1975.

36. At the same time, Turkey will need to borrow large additional amounts in the coming five years. The current account deficit is projected to increase from $1.4 billion in 1976 to $2.0 billion in 1980, much higher than the $700

million per year expected at the time of the last CPP. Turkey will need to borrow amounts rising from $240 million in 1978 to $900 million by 1980, from sources other than those whose contributions are already built into the projections (paragraph 34). Disbursements from past Bank Group loans and the program proposed in this CPP will yield Turkey an average of a little over $200 million per annum, filling around one-third of the cumulative gap through 1980. Turkey hopes to find the remainder in the form of medium-term borrowing from European banks, but at about 10 percent per annum interest. There is however some uncertainty that Turkey will in fact be able to raise such large amounts, or raise them on such terms, from commercial banks. One hitherto untapped source could be the sale of government bonds in the Eurodollar market and even in the Middle East. However, gross reserves are low and net official reserves negative; the balance of payments outlook remains difficult; and the political situation is not such as to encourage lenders to believe that needed measures will in fact be taken soon. Turkey may need to become more active in revamping or stimulating the Turkey aid consortium run by OECD.

37. However, on balance, Turkey's resource base, its continued impressive overall economic growth despite unfavorable political and economic circumstances, and the vitality of its rapidly diversifying economy, warrant a favorable long-term outlook. However, if the assumptions made above are not entirely fulfilled, or if the Government's scheme to attract workers' savings does not perform as expected, or if other capital inflows do not materialize, shortage of foreign exchange may become a constraint on the maintenance of the high growth rates of the past. However, reasonably rapid growth could still be maintained, although a tight balance of payments situation could become a medium-term feature of the economy.

## C. EXTERNAL ASSISTANCE

38. At the end of 1975, Turkey's medium- and long-term external debt outstanding and disbursed amounted to $3.3 billion ($4.6 bilion including undisbursed), 94 percent of which was public or publicly guaranteed debt. About 58 percent of this debt was held by governments and about 33 percent by international organizations. The Bank Group's share was 13 percent (and 22 percent including undisbursed debt), with an undisbursed pipeline of $588 million at that time. Debt terms have been hardening somewhat. Service payments amounted to an estimated $270 million in 1975, equivalent to 12.5 percent of exports of goods and non-factor services. The Bank Group's share of the debt service was 12 percent.

39. Gross official public capital inflows were $322 million in 1975, while outstanding suppliers' credits declined to $32 million. However, Eurodollar credits for the Turkish-Iraqi pipeline amounted to $150 million.

40. Turkey borrowed $301 million from the IMF oil and compensatory financing facilities in 1975, and an additional $150 million in spring 1976. No future net drawings are assumed.

41. The Bank would remain the major lender to Turkey in the 1970s if the proposed lending program is implemented. Turkey's debt service ratio is expected to rise to 16 percent by 1980. The Bank Group's share in total debt outstanding and disbursed is projected to increase to 18 percent, and in total debt service payments to 14 percent. Its exposure through 1990 will very much depend on the amounts and types of credits Turkey obtains in the next few years; this should become clearer during FY77/78. Somewhat increased recourse to suppliers' credits is likely and justified in the medium-term. On present assumptions, Turkey's debt service ratio is projected to reach 21 percent by 1985 before declining. If the expected grants to Turkey (paragraph 34) do not materialize, the ratio would be 3 or 4 points higher, but still be manageable. The Bank Group's shares in total debt outstanding and disbursed and in total debt service payments would both drop through 1990, thus remaining well within the 25 percent limit stipulated at the last two CPP reviews.

## D. PROGRESS TOWARD PRIOR YEAR GOALS

42. The Bank's goals, pursued without major change since 1971, can be summarized as follows: (a) financial and management reform of selected SEE's to improve public sector resource mobilization and reduce budget deficits; (b) rural development and urban planning to support balanced geographic development, create alternatives to rural-urban migration, and deal with problems of the rural and urban poor; and (c) increasing Turkey's capacity to earn foreign exchange. An evaluation of progress in FY76 must be made against a background of three critical factors: the policy paralysis of the Demirel coalition government, the economic situation, and some improvement in project implementation. As a consequence of Mr. McNamara's spring 1975 meeting with Mr. Demirel, the government instituted arrangements, based in the Treasury, for coordinating the preparation and implementation of Bank-financed projects. These included quarterly project implementation reviews with Turkey (commenced since early July 1975) which have resulted in improvements in less politically sensitive areas within the discretionary authority of the government, such as training, staffing, and hiring of consultants, besides breaking stalemates on projects such as Istanbul Urban Studies, IETT, Railways and the tariff issue in the Elbistan Project. While they are only partial indications of project performance, commitments and disbursements of Bank funds have also increased significantly, so that Turkey now compares reasonably with other large Bank borrowers (see Attachments 6A and 6B). An interim progress report from the Regional Vice President to Mr. McNamara (October 13, 1975) resulted in a confirmation of the level of lending conditionally agreed at the May 1975 CPP Review.

43. Projects with industrial and DFC borrowers mostly continued with relative success. However, other ongoing projects including Elbistan Power, Erdemir Steel, and irrigation projects among others, faced major problems of organization, management, cost recovery and financing. The long struggle between the Bank and the Government for Elbistan effectiveness was probably also successful because over $400 million in foreign resources was tied up at a time of balance of payments strain and the repeated dialogue at the project reviews that a continued deadlock might affect overall Bank lending.

44. The continuing problems of public sector pricing policy and management also affected new loans negotiated in FY76. The extreme Turkish sensitivity to any hint of Bank interference was quickly apparent and explicit, especially in the case of the TCZB loan for agricultural credit. In reluctant response to the advice of the Financial Policy Unit, the Region sought to link the Government's own financial sector study, launched in late 1975 after considerable Bank cajoling, to a review of subloan interest rates under this loan. Out of suspicion of Bank motives, the Government totally rejected any such link and was fully prepared to delay or even give up the $63 million loan if the Bank insisted, and possibly to jettison the financial sector study as well. The review was finally accepted, but only without linkage and with grave misgivings. A major management reform study program by consultants was also relentlessly resisted; only high level Bank representations in Ankara produced a compromise role for consultants in some of TCZB's problem areas. However, despite such difficulties, resistance and the Elbistan tariff issue, one of the largest programs yet to Turkey was delivered in FY76.

45. In recent years, Turkey has been steadfastly refusing to accept any sector missions. However, after this hiatus, it was persuaded to accept an industrial sector mission in late FY76 and to agree to agricultural, energy and urban sector missions in FY77. In view of this encouraging breakthrough, and to provide the much needed sector underpinning to the Bank's activities, it is critical that every possible effort be made not only to mount all of the agreed FY77 sector missions at the times agreed with the Government, but to continue this effort in the fiscal years thereafter through the economic and sector work program summarized in Attachment 5.

46. Our experience shows that achieving reform is a slow process requiring flexibility, persistence and understanding. These have resulted in a breakthrough, or at any rate some advance e.g. on power tariffs and the Euphrates riparian issue (Karakaya). However, we must continue to expect long periods of frustration in present political conditions, particularly on issues such as public sector management and pricing.

## E. BANK LENDING STRATEGY

47. As discussed in Sections B and C above, the Turkish economy is capable of rapid growth. To achieve this and keep pace with employment needs will require vast investments which will be difficult to finance, given the

constraints on public savings, without a substantially increasing transfer of external resources over the medium term. There is a strong economic case for increased Bank lending, given that the only other official Western aid sources are Germany and the European Investment Bank, besides IBRD. Turkey is furthermore creditworthy for such increased lending. However, the political difficulties, which may not be significantly altered after the 1977 elections, underlying weak government and public sector management seem too deep rooted and persistent to permit successful implementation of a substantially expanded Bank program in the immediate years. Furthermore, a substantial increase under present conditions could bring Bank exposure near a prudent ceiling, particularly if Turkey failed to raise the borrowings projected above.

48. Under the circumstances, this CPP recommends a continuation of lending at an average level of about $260 million a year through 5 projects for the time being. Should decisive and favorable changes occur after the 1977 elections, the question of increased lending can always be considered at the appropriate time. In real terms, the proposed level would represent little change from that approved at the last CPP review.

49. The sectoral composition of lending proposed rests mainly on economic and, to a lesser extent, on project performance grounds. Turkey's worsening balance of payments position requires greater emphasis on projects directly earning or saving foreign exchange at the expense of infrastructure projects like power or railways and slow-gestative ones like irrigation. The Bank has already made a considerable investment in such projects so far, and bilateral or supplier credit financing should be available for them in future. In addition, the Government is showing a new concern to solve the problems of the rural and urban poor. Taking these considerations into account, a gradual phase-down of infrastructure projects is proposed, with increased emphasis on productive or foreign exchange earning/saving projects in agriculture as well as in industry and rural/urban development projects, in the next five years.

50. This approach is also consistent with the strategy approved at last year's CPP Review, to persevere in obtaining needed and realistically achievable economic, social and institutional benefits in the sectors assisted by the Bank, to redeploy Bank efforts to sectors where substantial results can be achieved without facing intractable major constraints, to cut out those where little progress appears possible, and to explore promising new activities where Government support and existing legislation provides a reasonable chance of success. This CPP recommends no change in this strategy. For the sectors of concentration, whenever important policy measures are necessary and feasible now, the Bank would make them project conditions. Where this is not possible, the Bank would defer lending until the Government can implement them. It would nevertheless be naive to expect complete avoidance of further confrontations with the Turks, over institutions, finance and prices, and personnel issues, in the proposed areas of concentration in the next five years.

51. In essence, the lending program should include (a) foreign exchange earning/saving industrial projects or those which are most labor intensive or support SSIs, either by direct lending or through existing DFCs including TSKB and DYB; (b) lower-cost agricultural projects, including those for integrated rural development, livestock, credit and newer, less classical but equally needed areas; (c) urban development; and (d) projects in any of the above areas with a significant built-in urban poverty element.

52. Attention to project implementation remains of high priority. The joint implementation reviews will continue (somewhat less frequently) for a time, pending a review of whether normal supervision would suffice again.

53. The Bank should continue where appropriate to help Turkey obtain joint or parallel financing with multilateral and bilateral donors. However, it cannot substitute for Government efforts to secure additional financing. It should also maintain close coordination with UNDP and sister agencies on project studies. The role of the OECD Consortium is diminishing. The Bank should continue to participate in a low key, so long as the Government and OECD choose to maintain the forum in its present form; but efforts are recommended to bring in new members interested in extending assistance to Turkey, perhaps after the 1977 elections, if the new government is responsive.

## F. BANK GROUP PROGRAM

54. The FY78-82 program based on the strategy proposed above is summarized in the following table, which compares it to the Bank's past involvement in various sectors in Turkey and to the program approved at the last CPP review.

Table B: SECTORAL ALLOCATIONS IN LENDING PROGRAMS
(Number of Projects; US$ million)

| Sector | FY69-76 (Actual) | FY76-80 /1 (Approved in last CPP) | FY78-82 (Proposed) |
|---|---|---|---|
| Agriculture & Rural Dev. | 10 (322) | 10 (500) | 8 (425) |
| Industry/DFC's | 9 (438) | 7 (360) | 7 (440) |
| Urban Development /2 | 3 ( 53) | 6 (200) | 5 (210) |
| Power | 6 (272) | 3 (200) | - |
| Transport | 1 ( 47) | 2 (110) | 3 (170) |
| Tourism | - | 2 ( 50) | 1 ( 25) |
| Education | 1 ( 13) | - | - |
| Population | - | - | 1 ( 30) |
| Total | 30 (1145) | 30 (1420) | 25 (1300) |

/1 This is the approved operations program.
/2 Includes past and future water/sewerage, power and similar projects in urban areas.

Agriculture and Rural Development

55. Agriculture contributed 27 percent to GNP, employed 63 percent of the labor force and provided just over half of merchandise exports in 1974. Turkish agriculture is largely rainfed. The coastal regions are the most productive, growing fruit and vegetables and the main industrial crops (tobacco, cotton, sugar beet and oil seeds). The high, semi-arid central Anatolian plateau and eastern highlands, where most of the rural poor farm small holdings, produce mainly rainfed cereals and livestock. Agricultural value-added grew 4 percent per annum from 1969 to 1974 as a result of increased fertilizer use, mechanization, and a few major irrigation investments. Overall, agriculture received about 11 percent of total investment, far less than industry. The Third Plan (1973-77) aims at average annual growth of 3.7 percent, based on projects with short gestation periods and low capital-output ratios; a price policy balanced between incentives for farmers and protection for consumers; strengthened agricultural services; and adequate credit. Overall growth is, however, likely to be only 3 percent per annum over the Plan period. Despite this growth, agricultural development is impeded by an unbalanced allocation of resources and institutional bottlenecks. Industrial/export crops have dominated, with insufficient attention paid to increasing food and livestock production. Investment and credit allocations and agricultural services have favored the coastal areas. Institutional constraints include a poor extension service, inadequate coordination among irrigation agencies, and the limited effectiveness of the Agriculture Bank (TCZB), the Government's major instrument for stimulating agricultural development. These constraints have manifested themselves in Bank activities in this sector. The preparation and progress of ongoing projects has been slow. Problems encountered include limited inter-agency coordination, initial ineffectiveness of project units, reluctance to accept consultants, inadequate salaries and slow decision-making. However, noticeable improvements have occurred over the last year.

56. The fact that the proposed FY78-82 program averages 33 percent of proposed Bank lending in this sector, despite the elimination of irrigation projects proposed in the last CPP, reflects the economic importance of, agriculture and the need to improve the conditions of the rural poor. To provide a better knowledge of the sector and its problems, the proposed economic work program includes the FY77 agricultural sector mission, already agreed to by the Government. The lending program aims at (a) extending a multisectoral approach to rural development in dryland areas; (b) revitalizing TCZB; and (c) breaking production bottlenecks affecting small dairy and meat farmers. These aims match the priorities of the Minister of Agriculture (deputy leader of NSP) for rural development and relatively low-investment quick-yielding projects.

57. Most proposed projects are necessarily complex. Rural development in particular requires cooperation among a considerable number of agencies whose mandates frequently overlap and conflict. A second large rural development project in eastern Turkey (Erzurum) is being prepared as a FY78S project and a third is proposed for FY81. A second agricultural credit project with

TCZB is also planned for FY79, and a third for FY82S. The momentum achieved in livestock development would be sustained through two further projects in FY79S and 82. The CPP proposes new projects focusing on key bottlenecks, grain storage (FY78 and 82R) and pest control or seed production (FY80). The Karababa (Lower Firat) multipurpose power/irrigation project (FY81R) could be considered for Bank financing, esentially because it has the potential for making a major contribution to a Euphrates riparian settlement (though this may emerge beforehand), but would probably have to be an exception regarding cost recovery. Despite past experience of considerable slippage in this sector, the program can be delivered given the good momentum achieved with both rural development and livestock projects.

Industry and DFCs

58. Industrial value added has grown at an average annual rate above 9 percent for the last 15 years and the sector now accounts for about 23 percent of GDP. Previous 5-year plans have aimed at rapid industrialization, to achieve sustained economic growth with self-sufficiency and absorb surplus manpower, with main emphasis on import substitution using advanced technology, and a secondary role for exports. The long-term aim is to achieve full EEC membership by the 'nineties. Turkey is a mixed economy. SEEs have developed basic industries exploiting Turkey's considerable natural resources in many regions, and account for about 40 percent of manufacturing value-added. While their primary purpose is production, SEEs have also been charged with social goals, such as development of backward regions, employment and maintenance of price stability, which have contributed to their generally poor financial performance. The private sector, stimulated by substantial incentives and financed in part by the private Industrial Development Bank of Turkey (TSKB), is concentrated mainly in Istanbul/Izmit, Izmir and Adana. Private investment is found mainly in consumer goods and durables; recently it has entered intermediate goods production. It focuses mainly on the large protected domestic market. Nevertheless, substantial exports of textiles, clothing and leather products have been achieved, although the crucial EEC test lies ahead and will require larger, more efficient and better managed units. In addition, the lucrative nearby Middle East market for textiles and garments should also be available to Turkey. Turkey has a considerable comparative advantage in many labor intensive export industries. Small scale enterprises (SSI) with fixed assets under $250,000 account for about 30 percent of industrial production, but are hampered by limited access to technology, markets and finance.

59. Past Bank lending has (a) promoted private sector development, including export industries and recently decentralization, indirectly through TSKB and (b) supported public sector enterprises, directly through lending in steel, pulp and paper, newsprint and fertilizers and indirectly through DYB. TSKB is an efficient and responsive instrument for achieving wider Bank development objectives in the private sector. It no longer needs building up as a conventional dfc, but still needs strengthening in lending for smaller scale industries and in mobilizing external capital. Our involvement with the public sector investment bank DYB is an experiment whose results are not yet in. DYB has helped certain SEEs achieve greater efficiency through relatively

capital-intensive investments, an acceptable trade-off. DYB is potentially an important instrument for bringing some discipline to the anarchic investment decisions of the public sector. Thus, DYB should be further encouraged and assisted to strengthen its appraisal and supervision, play a broader part in state investment decisions, and possibly to raise additional resources abroad, although obstacles cannot be minimized.

60. The proposed program supports investments which (a) exploit domestic resources for import substitution or export lines in which Turkey has or can develop a competitive advantage, (b) give substantial direct or indirect employment, (c) promote regional development, (d) improve resource allocation, or (e) will improve productivity and reduce domestic costs and prices. The Bank will thus further certain aspects of Turkish industrial policy while offsetting other less desirable features, such as its emphasis on relatively high capital-intensity. The program reflects the findings of the May 1976 sector mission.

61. The TSKB loan in FY77 will continue support for private export and regional development, while initiating the Bank's involvement in support of larger SSIs. The effort is expected to be continued through specific follow-up SSI projects in FY81S and 82R. Two loans to DYB (FY77 and 80S) will support medium scale public investments and attempt to widen DYB's impact. Export industry subsector loans will be mounted for leather goods and textiles in FY78, 79 and 82S. The possible association of TSKB with these operations would involve a new relationship with TSKB based on agreed subsector objectives. Despite competition from other countries, Turkey should benefit from its association with the EEC in developing these exports. New direct investment is also proposed, including a SEKA project being identified under UNDP financing (FY80S) to upgrade forest utilization in north Turkey, and tractor manufacturing (FY 81) to help bring ordered development of the industry out of the various proposals now being aired and increased agricultural benefits.

Urban Development

62. Turkey's rapid population growth and economic development and its chosen development strategy (paragraph 24), have increased the urban population from 4 million in 1950 to 17 million (42 percent of total population) in 1975, mostly through rural-to-urban migration. Secondary cities have recently accounted for a higher share of the increase than the three largest cities, Istanbul, Ankara and Izmir. Rapid, unplanned, and uncontrolled growth has generated large rural-urban and urban income imbalances; costly urban congestion; land speculation and widespread squatter settlements; inadequate services; and rising unemployment. Integrated economic planning for urban areas is relatively new. Moreover, 80 percent of investment (at least in Istanbul) is undertaken by central government sectoral agencies with little local participation or coordination at the center. Municipalities have inadequate financial resources derived largely from central government. Legal changes to regulate urban development and promote decentralized municipalities have been slow or unsuccessful. At the same time, city dwellers need employment and adequate

services. Effective urban development will require policy changes: creation of firmly self-reliant municipalities, levying of adequate user charges, and creation of metropolitan institutions with the required authority and financial resources.

63. The Istanbul metropolitan area, which was the subject of the Bank's first urban studies and projects, shares many problems with other cities; much of its rapidly-growing population, now 4 million, has inadequate services, and one-third lives in illegal and substandard settlements. In addition, responsibility for local services is diffused among many agencies of the central and provincial governments and 32 municipalities, uncoordinated by metropolitan authorities. However, the Government has drafted legislation to create an Istanbul metropolitan service union and water and sewerage authority, providing for some decentralization and changes in user charges, which should greatly improve coordination of Istanbul's development. Bank lending in Istanbul has pursued two aims in parallel. For the short run, it is financing projects alleviating the most urgent problems in a manner consistent with whatever overall urban development strategy is chosen. For the longer run, it is assisting the formulation of an integrated metropolitan development strategy, together with an improvement in planning and implementation capabilities. Besides this project, the Bank financed two high priority infrastructure projects, for water supply and power distribution. All the executing agencies have managerial weaknesses; the water and power agencies have been slow to change. These agencies have long had requests for tariff increases (together covering most Istanbul services) awaiting Government approval. However, there has also been progress. Water production has tripled and the worst shortages have been overcome. The procurement of power distribution equipment is at last underway. The urban studies have produced a recommended strategy for Istanbul's development. The Government should now formally adopt a definite strategy and ensure it is followed by all agencies.

64. Urban problems are complex in any country, and the relative political paralysis and institutional structure in Turkey make progress difficult. Recognizing the difficulties, this CPP proposes an incremental approach to urban lending. Processing of each project will depend as appropriate on achieving realistic reform targets previously agreed. If progress is steady and sufficient, five urban development, including water/sewerage, projects will be implemented in FY78-82 to have an appropriate direct impact on the living conditions of 40 percent of Turkey's people. The program would retain sufficient initial emphasis on Istanbul to round off Bank assistance for infrastructure and institutional change there. However, it would broaden Bank knowledge and operations to other cities, starting with a FY77 sector mission agreed in principle by the Government. There is some change in program composition from last year. The previously proposed Istanbul traffic engineering and public transport (bus) project has been dropped for lack of progress under present political conditions. It is still of high priority, and should the Government again show interest, it could be revived. The second phase of the Istanbul studies project will involve preparation of a FY79S project for lower-income sites and services and upgrading on the rapidly-expanding European-side urban perimeter. This will provide an institutional

and legal model which, suitably adapted, will serve for two follow-up projects in FY80 and 81, in a city or cities to be chosen through the sector mission. Infrastructure projects for Istanbul are also proposed. A sewerage project (FY78) prepared under the Istanbul studies project will be followed by a water/sewerage operation in FY80. Urban lending would focus on the urban poor target group.

Power

65. The Government's aims in the power sector are to overcome present shortages and meet rapidly growing demand, and maximize the use of indigenous energy resources through balanced hydro and thermal (coal/lignite) generation. Installed capacity is inadequate and delays in generation and transmission projects are already causing power shortages. Though capacity is planned to triple by 1980, including through the Bank-financed Elbistan and proposed Karakaya projects, the system will be strained until then. TEK is adding steadily to the one-sixth of villages presently electrified. It has primary responsibility for the sector, although small private utilities (notably Cukurova and Kepez) also exist and distribution is normally done by municipalities. TEK is subject to the low-emolument SEE personnel regime and has been unable to attract and retain competent staff in adequate numbers. Turkey needs to foster improved system planning and inter-agency coordination.

66. The Bank has met with great difficulty in its attempt to strengthen TEK's coordinating role and improve its finances. Recent wage increases and contract hiring arrangements should meet TEK's short-term staffing needs, and a study in connection with the latest (transmission) loan will specify future manpower needs. Tariff revision has been proved possible, but only after a traumatic struggle to fulfil the conditions of effectiveness for the Elbistan project two years after loan signing. It would be naive to think that agreed future tariff revisions warranted by increasing costs could easily be secured under present political conditions, even though TEK is now undertaking a nationwide study of the adequacy and structure of power tariffs.

67. While the Bank could foster better sector planning and coordination, and help meet rapidly growing power demand, it has already invested heavily in this traditional infrastructure sector. Past lending has helped make Cukurova strong and relatively autonomous. Lending to TEK has pushed tariff/financial autonomy and staffing questions as far as possible in present conditions. The experience with Istanbul suggests caution in tackling municipal distribution undertakings. Rural electrification is best integrated with production in the proposed rural development projects. The Bank should now phase-down power lending, except for Karakaya (FY77), because of its potential contribution to a Euphrates settlement, besides keeping a final loan to Cukurova in reserve (FY78R) to introduce Cukurova to international sources of financing. We would also help Turkey, by providing a service to it by study of wider isues of energy policy and coordination, through a power/energy sector mission in FY77 to which the Government has agreed in principle. This would survey the wider field of energy development and policy, far transcending the limited

purpose of supporting Bank lending only to the power sub-sector. It will also make an important contribution to the FY78 basic economic report and provide significant technical assistance to the Government. As for the Karakaya project, substantial progress on the Euphrates riparian issue appears to have been achieved this year with the acceptance, at least by Turkey and Iraq, of a formula for its filling and operation until any of the riparians starts a new large consumptive project in the river basin. Turkey has also agreed to take steps to initiate tripartite talks on the long-term division of Euphrates (and Tigris) waters, possibly involving a continuation of Bank technical studies, with a view to reaching a settlement before any new consumptive project is started.

Transport

68. All transport modes in Turkey need rehabilitation and modernization in varying degrees. Economic growth and increases in transit traffic between Europe and the Middle East have strained many transport links and made Turkey increasingly a bottleneck for transit traffic. The railways still handle bulk movements, but road transport now caters to three-quarters of freight traffic and nearly all passengers. The sector faces serious constraints, including substandard roads and urban highway congestion; circuitous railway routes conforming poorly to present traffic flows, neglected track maintenance, overage rolling stock, overstaffing; and tariffs below service costs leading to the largest deficit in the public sector; and inefficient and inadequate port facilities. A Transport Coordination Agency (TCA) receiving UNDP-financed technical assistance with the Bank as executing agency, is playing an increasingly important role in policy makingand the preparation of a five-year transport development plan. Priorities will become clearer once this is completed in 1977.

69. Bank involvement has focused on transport coordination and on railways. Progress on the FY73 Railways project has been mixed. There has been some physical progress; tariffs have been increased twice already, but additional significant increases will be needed in future. However, the railways face mounting deficits from featherbedding and existing uneconomic lines, and have fallen short of softened performance targets.

70. We face major institutional issues in railways, which are unlikely to be resolved in the short-term. To follow-up on the effort initiated under the FY73 project, only one more railway operation is proposed as a FY78S project. We would also provide further support to TCA and possibly study transit traffic needs through this project. There appears to be little need for Bank support for highways on either institution building or financial grounds. Turkey built up a reasonably well-managed Highway Department with USAID assistance. Turkey believes that neighboring countries generating or receiving transit traffic could finance the needed upgrading and additional facilities to facilitate this rapidly growing traffic--in fact Iran has already offered substantial financing. Finally, the development of farm-to-market roads is best handled through the integrated rural development projects in the program.

71. There does, however, appear to be considerable scope and need for Bank assistance in ports through fostering interagency coordination, improved efficiency and determining the most appropriate locations for future port development. Two port projects are proposed for FY79 and 82. The first may be in Istanbul, the most critically congested port city.

Tourism

72. Despite Turkey's impressive assets--a long coastline with unspoiled beaches, mountain scenery, a pleasant climate, remarkable archeological sites, and easy access from Europe--tourism has been neglected in Turkish development strategy until recently. Even so, over a million tourists spent $194 million, equivalent to 13 percent of exports of goods and non-factor services, in 1974. Recently tourism has been accorded high priority, to help increase significantly both foreign exchange earnings and employment. The Government emphasizes financing of needed infrastructure and planning and land use regulation within the priority zone on the Aegean coast, supporting continuing private investment in hotels and other facilities. It also provides various incentives in line with those offered in other Mediterranean countries. It has agreed to study the program and its administration with a view to possible improvements, Turkey could double its market share by 1985 and increase tourism its earnings by some 20 percent per annum.

73. A long Bank involvement in this sector led to the South Antalya tourism infrastructure project, approved by the Board in July 1976, Turkey's first integrated planned tourism project. It will provide basic infrastructure to support private hotel and vacation village investment to cater to the European mass tourism market. A second tourism project is included in the lending program (FY81S).

Population

74. The absolute size of Turkey's population started decades ago to press against the country's relatively fixed resources, and population growth remains high (though slackening slightly) at 2.5 percent per annum. Although certain political parties, particularly the coalition NSP, oppose population planning out of strong religious sentiments, the Health and Population Ministry wishes to promote purposeful activities in this much-needed area. Some four years ago adopted a strategy to be implemented through mother and child health services, and in 1974 signed a $10 million agreement with UNFPA for support including extensive projects and training. No formal request for Bank assistance has been made, although discussions with the Ministry of Finance have been consistently pursued over the last 15 months. Recently, this Ministry has extended the Government's invitation to the Bank to send an observer with a UNFPA review mission scheduled for fall 1976. Despite the political sensitivity, and the difficult institutional decisions required to implement population programs effectively, the Bank will attempt to develop this apparent opportunity into a project (FY80S).

IFC

75. Because of the very active private sector and as a result of various promotional missions, IFC's activities in Turkey have been increasing steadily. IFC has now made investments in TSKB and in 12 productive industrial and tourism enterprises totalling about $158 million. IFC has introduced TSKB to other international sources of financing through three syndications in which several commercial banks participated with a total of $45 million. IFC's close involvement with the metals and vehicle subsectors provides a basis for supporting any Bank operations in these areas, either directly through joint operations or indirectly through IFC information to and guidance of the Bank. IFC expects to continue to assist the Turkish private sector to identify and put together viable and sound projects which further Turkey's national development goals, and to organize the financing for them.

## G. CONCLUSIONS AND RECOMMENDATIONS

76. The principal conclusions are as follows:

(a) the domestic political scene is stalemated, because of conflicting views of the coalition partners, the Government's slender majority and the 1977 elections. Major decisions have not been taken or have been shelved. Prospects for a change in this situation after the elections are at best unpredictable;

(b) despite this, the economy grew by 9 percent in 1975, the private sector remains buoyant, the budgetary situation has improved and inflation has been significantly reduced. On the negative side, public sector reliance on the Central Bank because of the deterioration of some SEEs' financial performance has increased sharply, the balance of payments situation continues to be tight and the resource gap is widening;

(c) medium-term prospects are for the continuation of a reasonbly rapid rate of growth compared to other LDCs. Even if Turkey succeeds in obtaining sufficient external resources, the balance of payments position can be expected to remain tight. Turkey's debt service ratio is likely to rise to a still manageable 21 percent by 1985;

(d) as a result of efforts by both Turkey and the Bank following discussions between Mr. McNamara and Mr. Demirel in April 1975 and the initiation of joint project reviews, there has been a slow but encouraging improvement in project performance and a better understanding of the Bank's development role and objectives. However, despite these improvements and the resolution of the long struggle over the Elbistan power tariff issue, the political stalemate has precluded the taking of other basic fiscal and institutional actions agreed under Bank projects; considerable work on this is still needed and should be facilitated by the continuation of the project reviews;

(e) the Government's readiness to undertake a financial sector study and accept some sector missions, after resisting such Bank involvement in recent years, is another encouraging development which must be followed up.

77. Taking these factors into account, this CPP recommends the maintenance of lending essentially only at the level approved at the last CPP Review. The proposed FY78-82 program is for $1,300 million through 25 projects. With this program, the Bank Group's share of Turkey's debt service would remain well within the 25 percent limit set at previous CPP Reviews. Turkey remains creditworthy for the proposed level of lending. The CPP recommends a phase-down of past heavy involvement in infrastructure projects and greater concentration on productive, foreign exchange saving/earning projects in agriculture and industry, as also rural/urban development projects.

TURKEY: ACTUAL AND PROPOSED LENDING THROUGH FY82
(US$ Million)

Population: 40.1 million (mid-1975)
Per Capita GNP: $864 (1975)
Area: [illegible] sq. km.
Literacy rate: [illegible]% adult population (1970)

| | | Through | Actual | | | | | Current | Program | | | | | Total | Total | Total | Total | Reserve |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY71 | FY72 | FY73 | FY74 | FY75 | FY76 | FY77 | FY78 | FY79 | FY80 | FY81 | FY82 | FY[illegible] | FY[illegible] | FY[illegible] | FY[illegible] | Projects |
| Agricultural Credit I (incl. Agro-Ind) | IBRD | | | | | | 65.0 | | | | | | | | | | | |
| Agricultural Credit II (incl. Fisheries) | IBRD | | | | | | | | | 70.0 | | | | | | | | |
| Agricultural Credit III | IBRD | | | | | | | | | | | | 70.0* | | | | | |
| Agriculture (unidentified) | IBRD | | | | | | | | | | | | | | | | | |
| Agricultural Pest Control/Seed Production | IBRD | | | | | | | | | | 45.0* | | | | | | | 40 (FY82) |
| Fruit-Vegetable I | IDA | 15.0 | | | | | | | | | | | | | | | | |
| | IBRD | 10.0 | | | | | | | | | | | | | | | | |
| Irrigation Seyhan I | IDA | 20.0 | | | | | | | | | | | | | | | | |
| Irrigation Seyhan II | IDA | 12.0 | | | | | | | | | | | | | | | | |
| | IBRD | 12.0 | | | | | | | | | | | | | | | | |
| Irrigation Rehabilitation | IDA | | 18.0 | | | | | | | | | | | | | | | |
| Ceyhan Aslantas | IDA | | | 30.0 | | | | | | | | | | | | | | |
| | IBRD | | | 64.0 | | | | | | | | | | | | | | |
| Lower Firat (Karababa) multi-purpose | IBRD | | | | | | | | | | | | | | | | | 75 (FY81) |
| Livestock I (Dairy) | IDA | 4.5 | | | | | | | | | | | | | | | | |
| Livestock II (Village Development) | IDA | | 16.0 | | | | | | | | | | | | | | | |
| Livestock III (Dairy) | IBRD | | | | | | 21.5 | | | | | | | | | | | |
| Livestock IV | IBRD | | | | | | | | | 50.0* | | | | | | | | |
| Livestock V | IBRD | | | | | | | | | | | | 30.0 | | | | | |
| Grain Silos | IBRD | 3.9 | | | | | | | | | | | | | | | | |
| Grain Storage I | IBRD | | | | | | | | 50.0 | | | | | | | | | |
| Grain Storage II | IBRD | | | | | | | | | | | | | | | | | 60 (FY82) |
| Rural Development I (Corum Cankiri) | IBRD | | | | | 75.0 | | | | | | | | | | | | |
| Rural Development II (Erzurum) | IBRD | | | | | | | | 50.0* | | | | | | | | | |
| Rural Development III (unidentified) | IBRD | | | | | | | | | | | 80.0* | | | | | | |
| Education | IBRD | 13.5 | | | | | | | | | | | | | | | | |
| DFCs - TSKB I to VI | IDA | 35.0 | | | | | | | | | | | | | | | | |
| DFCs - TSKB I to IX | IBRD | 93.0 | | | | | | | | | | | | | | | | |
| DFCs - TSKB X | IBRD | | | 40.0 | | | | | | | | | | | | | | |
| DFCs - TSKB XI | IBRD | | | | | 65.0 | | | | | | | | | | | | |
| DFCs - TSKB XII (incl. SSI) | IBRD | | | | | | | 74.0 | | | | | | | | | | |
| DFCs - DYB I | IBRD | | | | 40.0 | | | | | | | | | | | | | |
| DFCs - DYB II | IBRD | | | | | | | 70.0 | | | | | | | | | | |
| DFCs - DYB III | IBRD | | | | | | | | | | 70.0* | | | | | | | |
| DFCs - SSI I | IBRD | | | | | | | | | | | 30.0* | | | | | | |
| DFCs - SSI II | IBRD | | | | | | | | | | | | | | | | | 37 (FY8[illegible]) |
| ICSAS Fertilizer I | IBRD | | 24.0 | | | | | | | | | | | | | | | |
| ICSAS Expansion II | IBRD | | | | | 18.0 | | | | | | | | | | | | |
| Fertilizer III (unidentified) | IBRD | | | | | | | | | | | | | | | | | 50 (FY8[illegible]) |
| Eregli Steel | IBRD | | 76.0 | | | | | | | | | | | | | | | |
| SEKA Akcoiz Forestry and Paper | IBRD | | | | 40.0 | | | | | | | | | | | | | |
| SEKA Balikesir Pulp and Paper | IBRD | | | | | | 70.0 | | | | | | | | | | | |
| SEKA III (North) | IBRD | | | | | | | | | | 75.0 | | | | | | | |
| Export Industries I (Leather) | IBRD | | | | | | | | 50.0 | | | | | | | | | |
| Export Industries II (Textiles/Leather) | IBRD | | | | | | | | | 70.0 | | | | | | | | |
| Export Industries III (Textiles) | IBRD | | | | | | | | | | | | 70.0* | | | | | |
| Tractors | IBRD | | | | | | | | | | | 75.0 | | | | | | |
| Population | IBRD | | | | | | | | | | 30.0* | | | | | | | |
| Power - Seyhan | IBRD | 25.2 | | | | | | | | | | | | | | | | |
| Power - Keban Transmission | IBRD | 25.0 | | | | | | | | | | | | | | | | |
| Power - TEK I | IBRD | 24.0 | | | | | | | | | | | | | | | | |
| Power - TEK II | IBRD | | | | | | 56.0 | | | | | | | | | | | |
| Power - Elbistan | IBRD | | | | 148.0 | | | | | | | | | | | | | |
| Power - Karakaya | IBRD | | | | | | | 100.0 | | | | | | | | | | |
| Power - Cukurova I | IDA | 25.7 | | | | | | | | | | | | | | | | |
| Power - Cukurova II to IV | IBRD | 27.5 | | | | | | | | | | | | | | | | |
| Power - Cukurova V | IBRD | | | | | | | | | | | | | | | | | 70 (FY78) |
| Tourism I | IBRD | | | | | | | 26.0 | | | | | | | | | | |
| Tourism II | IBRD | | | | | | | | | | | 25.0 | | | | | | |
| Ports I and II | IBRD | 16.3 | | | | | | | | | | | | | | | | |
| Ports III (poss. Istanbul) | IBRD | | | | | | | | | 50.0* | | | | | | | | |
| Ports IV (Unidentified) | IBRD | | | | | | | | | | | | 50.0* | | | | | |
| Railways I | IBRD | | | 47.0 | | | | | | | | | | | | | | |
| Railways II (incl. TCA) | IBRD | | | | | | | | 70.0* | | | | | | | | | |
| Urban - Istanbul Studies | IDA | | 2.3 | | | | | | | | | | | | | | | |
| Urban - Istanbul Water | IBRD | | 37.0 | | | | | | | | | | | | | | | |
| Urban - Istanbul Sewerage | IBRD | | | | | | | | 60.0 | | | | | | | | | |
| Urban - Istanbul Water/Sewerage II | IBRD | | | | | | | | | | | 60.0* | | | | | | |
| Urban - Istanbul Power Distribution (IETT) | IBRD | | | 14.0 | | | | | | | | | | | | | | |
| Urban - Urban I (Istanbul Expansion) | IBRD | | | | | | | | | 30.0* | | | | | | | | |
| Urban - Urban II (unidentified) | IBRD | | | | | | | | | | 30.0 | | | | | | | |
| Urban - Urban III (unidentified) | IBRD | | | | | | | | | | | | 30.0 | | | | | |
| Lending Program | IBRD | 250.4 | 94.5 | 137.0 | 145.0 | 228.0 | 158.0 | 210.5 | 270.0 | 280.0 | 250.0 | 250.0 | 270.0 | 250.0 | 450.0 | 1146.5 | 1310.0 | 1300.0 |
| | IDA | 112.2 | 19.5 | 36.[illegible] | 30.0 | - | - | - | - | - | - | - | - | - | 97.[illegible] | - | - | - |
| | Total | 362.6 | 114.0 | 173.3 | 175.0 | 228.0 | 158.0 | 210.5 | 270.0 | 280.0 | 250.0 | 250.0 | 270.0 | 250.0 | 547.[illegible] | 1146.5 | 1310.0 | 1300.0 |
| | No. | 26 | [illegible] | [illegible] | 4 | 3 | 3 | 4 | 4 | [illegible] | 5 | 5 | [illegible] | [illegible] | 21 | 19 | 24 | [illegible] |
| Of Which: | IDA | (10) | (2) | (3) | (1) | (-) | (-) | (-) | (-) | (-) | (-) | (-) | (-) | (-) | (7) | (-) | (-) | (-) |
| Lending Program in Constant FY76$ | | 664.0 | 176.5 | 237.7 | 215.0 | 258.2 | 167.7 | 210.5 | 255.4 | 251.8 | 215.9 | 205.6 | 209.5 | 184.6 | 11[illegible].7 | 1143.6 | 1126.4 | 1063.0 |
| Deflator (FY76 = 100) | | 64.6 | 64.6 | 72.9 | 81.4 | 88.5 | 94.2 | 100.0 | 105.7 | 111.2 | 116.9 | 122.[illegible] | 12[illegible].9 | 13[illegible].4 | | | | |
| Standby Projects | IBRD | | | | | | | | 120.0 | 110.0 | 150.0 | 170.0 | 190.0 | - | | | | |
| | IDA | | | | | | | | - | - | - | - | - | - | | | | |
| | Total | | | | | | | | 120.0 | 110.0 | 150.0 | 170.0 | 190.0 | - | | | | |
| | No. | | | | | | | | 2 | 3 | 3 | 3 | 3 | - | | | | |

* Standby Projects

Country Programs Department II
Europe, Middle East and North Africa Region
August [illegible], 1976

($ Million)

| | Through FY71 | Actual FY72 | Actual FY73 | Actual FY74 | Actual FY75 | Actual FY76 | Current FY77 | Program FY78 | Program FY79 | Program FY80 | Program FY81 | Program FY82 | Total FY69-73 | Total [illegible] | Total [illegible] | Total [illegible] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] incl. undisb. | 191.7 | 330.3 2/ | 486.5 3/ | 700.3 4/ | 857.6 5/ | 1042.3 6/ | 1290.9 | 1541.9 | 1758.4 | 1963.4 | 2177.8 | 2355.3 | | | | |
| excl. undisb. | 67.7 | 86.7 2/ | 136.5 3/ | 191.7 4/ | 273.9 5/ | 360.7 6/ | 524.5 | 718.0 | 927.5 | 1119.8 | 1288.2 | 1457.5 | | | | |
| [illegible] Gross Disbursements | 114.7 | 17.5 | 38.7 | 69.4 | 82.7 | 112.7 | 185.2 | 222.5 | 243.0 | 237.3 | 224.0 | 241.8 | 102.6 | 672.5 | [illegible] | [illegible] |
| Less: Amortization | 46.9 | 4.6 | 6.4 | 8.6 | 9.0 | 13.6 | 21.4 | 29.0 | 33.5 | 45.0 | 55.6 | 72.5 | 19.8 | 81.6 | [illegible] | [illegible] |
| Equals: Net Disbursements | 67.8 | 12.9 | 32.3 | 60.8 | 73.7 | 99.1 | 163.8 | 193.5 | 209.5 | 192.3 | 168.4 | 169.3 | 82.8 | [illegible] | [illegible] | [illegible] |
| Less: Interest & Charges | 34.5 | 5.0 | 7.7 | 12.3 | 17.0 | 27.9 | 37.3 | 51.7 | 68.2 | 85.2 | 101.0 | 116.8 | 19.9 | 146.2 | [illegible] | [illegible] |
| Equals: Net Transfer | 33.3 | 7.9 | 24.6 | 48.5 | 56.7 | 71.2 | 126.5 | 141.8 | 141.3 | 107.1 | 67.4 | 52.5 | 62.9 | 444.7 | [illegible] | [illegible] |
| [illegible] | | | | | | | | | | | | | | | | |
| Gross Disbursements | 200.1 | 21.8 | 41.3 | 81.3 | 96.2 | 128.9 | 201.8 | 233.2 | 249.7 | 241.2 | 226.1 | 242.8 | 134.3 | 741.4 | [illegible] | [illegible] |
| Less: Amortization | 46.9 | 4.6 | 6.5 | 8.9 | 9.7 | 14.5 | 22.3 | 29.9 | 34.5 | 46.1 | 56.8 | 73.9 | 19.9 | 85.3 | [illegible] | [illegible] |
| Equals: Net Disbursements | 153.2 | 17.2 | 34.8 | 72.4 | 86.5 | 114.4 | 179.5 | 203.3 | 215.2 | 195.1 | 169.3 | 168.9 | 114.4 | [illegible] | 982.4 | [illegible] |
| Less: Interests & Charges | 37.2 | 5.7 | 8.9 | 13.2 | 17.9 | 29.0 | 38.4 | 52.9 | 69.5 | 86.5 | 102.4 | 118.2 | 23.5 | 151.4 | [illegible] | [illegible] |
| Equals: Net Transfer | 116.0 | 11.5 | 25.9 | 59.2 | 68.6 | 85.4 | 141.1 | 150.4 | 145.7 | 108.6 | 66.9 | 50.7 | 90.9 | [illegible] | 612.7 | [illegible] |
| Commitments from Other Sources [illegible]: | | | | | | | | | | | | | | | | |
| Other Multilateral | | | | | | | | | | | | | | | | |
| EIB | 173.4 | 1.8 | 79.9 | 127.6 | 11.0 | (100.0) | (110.0) | (120.0) | (130.0) | (140.0) | (150.0) | (156.0) | 255.1 | 468.6 | [illegible] | [illegible] |
| Bilateral of which | | | | | | | | | | | | | | | | |
| [illegible] | 348.2 | 50.1 | 60.0 | 50.5 | 49.0 | (40.0) | (35.0) | (35.0) | (50.0) | (50.0) | (53.5) | (56.2) | 459.3 | 209.5 | 223.5 | 244.7 |
| [illegible] | 141.4 | - | - | 2.7 | - | (10.0) | (10.0) | (10.0) | (5.0) | (5.0) | (5.0) | (5.0) | 141.4 | 32.7 | 35.0 | [illegible] |
| [illegible] | 895.7 | 76.6 | 72.9 | 26.2 | 25.0 | (75.0) | (75.0) | (75.0) | (80.0) | (90.0) | (96.3) | (103.0) | 1045.2 | 276.2 | [illegible] | [illegible] |
| [illegible] | 315.1 | - | 3.0 | - | - | (50.0) | (50.0) | (75.0) | (100.0) | (150.0) | (175.0) | (187.3) | 318.1 | 175.0 | [illegible] | [illegible] |
| Oil Producing Countries | - | - | - | - | 41.9 | (50.0) | (75.0) | (100.0) | (150.0) | (175.0) | (200.0) | (214.0) | - | 266.9 | [illegible] | [illegible] |
| Commercial Borrowing | | | | | | | | | | | | | | | | |
| Suppliers' Credit | 187.3 | 23.9 | 13.5 | 1.6 | 27.9 | (200.0) | (200.0) | (250.0) | (250.0) | (250.0) | (300.0) | (322.5) | 224.7 | 679.5 | [illegible] | [illegible] |
| Private Bank Credit | 77.3 | 3.0 | 25.0 | 26.0 | 169.2 | - | - | - | - | - | - | - | 105.3 | - | - | - |

Country Programs Department [illegible]
Europe, Middle East and North Africa Region
[illegible]

As of the end of fiscal year.
The exchange adjustment of $ 6.1 million, as of June 1972, has been included in these figures.
The exchange adjustment of $23.6 million, as of June 1973, has been included in these figures, with an increase of $17.5 million since FY1972.
The exchange adjustment of $18.0 million, as of June 1974, has been included in these figures, with a decrease of $ 5.6 million since FY1973.
The exchange adjustment of $26.5 million, as of June 1975, has been included in these figures, with an increase of $ 8.5 million since FY1974.
The exchange adjustment of $14.2 million, as of June 1976, has been included in these figures, with a decrease of $ 12.3million since FY1975.
Public Debt.
Grants not included.

TURKEY: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON LOANS AND CREDITS

($ millions)

as of June 30, 1976

| Project & No. | Amount: - Original - Cancelled - Net | Date: - Approved - Signed - Effective | | Closing Date | Forecast Date | FY'75 | FY'76 | | | | FY'77 | | | | FY'78 | FY'79 | FY'80 | FY'81 | FY'82 | FY'83 | FY'84 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | | | | | | | |
| Seyhan | 12.0 | 2/25/69 | Orig: | 6/30/75 | 9/30/70 (1st) | 7.5* | - | - | - | - | - | - | - | - | | | | | | | |
| Irrigation II | - | 2/28/69 | Rev: | 12/31/77 | 9/18/74 | 9.0 | 9.6 | 10.3 | 10.9 | 11.5 | 11.6 | 11.8 | 11.9 | 12.0 | - | - | - | - | - | - | - |
| IBRD 587 | 12.0 | 6/17/69 | Act: | - | - | 8.6 | 8.8 | 9.8 | 10.2 | 10.7 | | | | | | | | | | | |
| Ninth | 40.0 | 11/24/70 | Orig: | 12/31/74 | 11/ 6/70 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| DFC | .1 | 11/27/70 | Rev: | 6/30/75 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 713 | 39.9 | 2/ 9/71 | Act: | - | - | 39.9 | 39.9 | 39.9 | 39.9 | 39.9 | | | | | | | | | | | |
| Intensive | 4.5 | 2/16/71 | Orig: | 6/30/75 | 1/26/71 | - | - | - | - | - | | | | | | | | | | | |
| Dairy Production | - | 2/22/71 | Rev: | 12/31/76 | 1/ 8/75 | 2.4 | 3.0 | 3.2 | 3.4 | 3.6 | 4.4 | 4.5 | - | - | - | - | - | - | - | - | - |
| IDA 236 | 4.5 | 12/23/71 | Act: | - | - | 1.9 | 2.3 | 2.3 | 2.4 | 3.2 | | | | | | | | | | | |
| Education | 13.5 | 5/20/71 | Orig: | 9/30/76 | 5/10/71 | 13.5 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Project | - | 6/ 9/71 | Rev: | - | 9/30/75 | - | - | - | - | 6.4 | 8.9 | 11.4 | 12.0 | 12.5 | 13.5 | - | - | - | - | - | - |
| IBRD 748 | 13.5 | 9/29/71 | Act: | - | - | .6 | 2.0 | 3.6 | 5.2 | 5.6 | | | | | | | | | | | |
| Fruit and | 15.0 | 6/10/71 | Orig: | 6/30/76 | 5/26/71 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vegetable | - | 6/22/71 | Rev: | 6/30/77 | 5/31/74 | 9.9 | 12.9 | 15.0 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IDA 257 | 15.0 | 5/19/72 | Act: | - | - | 8.0 | 8.1 | 8.2 | 8.4 | 8.4 | | | | | | | | | | | |
| Fruit and | 10.0 | 6/10/71 | Orig: | 6/30/76 | 5/26/71 | 9.9 | 10.0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vegetable | - | 6/22/71 | Rev: | 6/30/77 | 5/31/74 | - | - | 2.1 | 3.1 | 4.9 | 6.0 | 6.4 | 7.2 | 7.9 | 10.0 | - | - | - | - | - | - |
| IBRD 762 1/ | 10.0 | 5/19/72 | Act: | - | - | - | - | - | - | - | | | | | | | | | | | |
| Power | 24.0 | 6/15/71 | Orig: | 3/31/75 | 5/28/71 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transmission | - | 6/22/71 | Rev: | 6/30/76 | 9/30/71 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 763 | 24.0 | 10/ 4/71 | Act: | - | - | 20.8 | 22.5 | 23.0 | 23.0 | 23.8 | | | | | | | | | | | |
| Irrigation | 18.0 | 1/18/72 | Orig: | 6/30/77 | 1/ 4/72 | 13.8 | 14.6 | 15.0 | 15.5 | 16.0 | 16.4 | 16.9 | 17.4 | 18.0 | - | - | - | - | - | - | - |
| Rehabilitation | - | 1/25/72 | Rev: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IDA 281 | 18.0 | 4/27/72 | Act: | - | - | 5.4 | 5.5 | 9.6 | 9.9 | 11.4 | | | | | | | | | | | |
| Steel Plant | 76.0 | 3/14/72 | Orig: | 12/31/76 | 2/ 4/72 | 68.2 | 71.5 | 73.2 | 75.0 | 76.0 | - | - | - | - | - | - | - | - | - | - | - |
| Expansion | - | 4/28/72 | Rev: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 817 | 76.0 | 8/ 4/72 | Act: | - | - | 39.1 | 42.6 | 45.0 | 51.9 | 60.2 | | | | | | | | | | | |
| Istanbul Urban | 2.3 | 6/27/72 | Orig: | 6/30/77 | 6/ 5/72 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Development | - | 6/30/72 | Rev: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IDA 324 | 2.3 | 1/ 4/73 | Act: | - | - | 1.0 | 1.1 | 1.2 | 1.3 | 1.4 | | | | | | | | | | | |
| Istanbul | 37.0 | 6/27/72 | Orig: | 6/30/77 | 6/14/72 | 20.5 | 23.2 | 25.7 | 28.0 | 30.7 | 33.4 | 35.8 | 36.4 | 37.0 | - | - | - | - | - | - | - |
| Water Supply | - | 6/30/70 | Rev: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 844 | 37.0 | 1/ 4/73 | Act: | - | - | 5.9 | 6.3 | 7.7 | 7.9 | 8.4 | | | | | | | | | | | |
| Ammonia-Urea | 42.0 | 5/16/72 | Orig: | 6/30/76 | 4/12/72 | 23.5 | 24.0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Manufacturing | - | 3/ | Rev: | - | 12/26/72 | 23.5 | 24.0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 845 | 42.0 | 4/ | Act: | - | - | 9.9 | 13.5 | 22.0 | 29.6 | 32.6 | | | | | | | | | | | |
| Second | 16.0 | 4/ 4/72 | Orig: | 12/31/76 | 3/15/72 | 12.7 | 13.8 | 14.6 | 15.1 | 15.6 | 15.8 | 16.0 | - | - | - | - | - | - | - | - | - |
| Livestock | - | 9/28/72 | Rev: | - | 1/ 8/75 | .8 | 1.0 | 2.0 | 3.5 | 5.0 | 6.5 | 9.0 | 10.0 | 12.5 | 16.0 | - | - | - | - | - | - |
| IDA 330 | 16.0 | 1/ 5/73 | Act: | - | - | .1 | .1 | 2.6 | 4.0 | 4.0 | | | | | | | | | | | |
| Tenth | 40.0 | 12/21/72 | Orig: | 12/31/76 | 12/ 7/72 | 18.0 | 21.5 | 25.0 | 29.5 | 34.0 | 37.0 | 40.0 | - | - | - | - | - | - | - | - | - |
| DFC | - | 12/28/72 | Rev: | 3/31/77 | 11/ 7/75 | - | 36.8 | 37.7 | 38.4 | 39.0 | 39.5 | 40.0 | - | - | - | - | - | - | - | - | - |
| IBRD 873 | 40.0 | 3/21/73 | Act: | - | - | 35.3 | 36.8 | 36.9 | 37.9 | 39.0 | | | | | | | | | | | |
| Multipurpose | 30.0 | 2/13/73 | Orig: | 12/31/81 | 1/31/73 | 10.0 | 12.0 | 14.0 | 16.0 | 18.3 | 20.8 | 23.3 | 25.8 | 28.4 | 30.0 | - | - | - | - | - | - |
| Irrigation | - | 3/22/73 | Rev: | - | 6/30/76 | - | - | - | - | - | - | 19.4 | 22.3 | 25.3 | 30.0 | - | - | - | - | - | - |
| IDA 360 | 30.0 | 3/20/74 | Act: | - | - | 9.1 | 9.6 | 10.2 | 10.9 | 13.2 | | | | | | | | | | | |
| Multipurpose | 44.0 | 2/13/73 | Orig: | 12/31/81 | 1/31/73 | - | - | - | - | - | - | - | - | - | 9.8 | 22.4 | 37.4 | 44.0 | - | - | - |
| Irrigation | - | 3/22/73 | Rev: | - | 6/30/76 | - | - | - | - | - | - | - | - | - | 11.9 | 26.9 | 42.2 | 44.0 | - | - | - |
| IBRD 883 2/ | 44.0 | 3/20/74 | Act: | - | - | - | - | - | - | - | | | | | | | | | | | |
| Istanbul | 14.0 | 4/24/73 | Orig: | 12/31/76 | 4/ 6/73 | 12.7 | 13.5 | 13.5 | 13.5 | 13.8 | 14.0 | - | - | - | - | - | - | - | - | - | - |
| Power | - | 5/25/73 | Rev: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 892 | 14.0 | 9/28/73 | Act: | - | - | .4 | .4 | .5 | .5 | .6 | | | | | | | | | | | |
| Railway | 47.0 | 4/24/73 | Orig: | 9/30/76 | 4/ 6/73 | 47.0 | - | - | - | - | - | - | | | | | | | | | |
| Project | - | 5/25/73 | Rev: | - | 9/ 2/75 | 21.1 | 24.0 | 29.0 | 34.0 | 39.0 | 44.0 | 47.0 | - | - | - | - | - | - | - | - | - |
| IBRD 893 | 47.0 | 8/28/73 | Act: | - | - | 21.1 | 25.6 | 26.8 | 28.7 | 30.2 | | | | | | | | | | | |
| Antalya Forest | 40.0 | 1/15/74 | Orig: | 12/31/78 | 1/ 2/74 | 9.9 | 12.2 | 14.4 | 16.7 | 18.9 | 22.4 | 25.9 | 29.4 | 32.9 | 40.0 | - | - | - | - | - | - |
| Utilization | - | 1/28/74 | Rev: | 6/30/82 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 957 | 40.0 | 5/26/76 | Act: | - | - | - | - | - | - | 15.6 | | | | | | | | | | | |
| [illegible] | [illegible] | 6/27/74 | Orig: | 6/30/82 | 6/13/74 | - | - | 4.8 | 10.1 | 10.1 | 28.3 | 28.3 | 40.6 | 40.6 | 91.5 | 105.1 | 114.6 | [illegible] | - | - | - |
| Project | - | 6/28/74 | Rev: | - | 4/30/76 | - | - | - | - | - | 3.9 | 7.9 | 20.9 | 34.3 | 71.9 | [illegible] | [illegible] | [illegible] | - | - | - |
| [illegible] | [illegible] | 6/ 1/76 | Act: | - | - | - | - | - | - | - | | | | | | | | | | | |

TURKEY: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON LOANS AND CREDITS

($ millions)

as of June 30, 1976

| Project & No. | Amount: - Original - Cancelled - Net | Date: - Approved - Signed - Effective | | Closing Date | Forecast Date | FY'75 | FY'76 1 | 2 | 3 | 4 | FY'77 1 | 2 | 3 | 4 | FY'78 | FY'79 | FY'80 | FY'81 | FY'82 | FY'83 | FY'84 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Elbistan | 25.0 | 6/27/74 | Orig: | 6/30/82 | 6/13/74 | - | - | 1.5 | 3.5 | 3.5 | 7.5 | 7.5 | 12.3 | 12.3 | 19.8 | 23.5 | 24.5 | 25.0 | - | - | - |
| Project | - | 6/28/74 | Rev: | - | 4/30/76 | - | - | - | - | - | 1.0 | 1.6 | 2.7 | 3.8 | 15.0 | 24.1 | 24.7 | 25.0 | - | - | - |
| IBRD 1028-2 | 25.0 | 6/ 1/76 | Act: | - | - | - | - | - | - | - | | | | | | | | | | | |
| DYB | 40.0 | 6/20/74 | Orig: | 12/31/78 | 6/10/74 | 6.0 | 9.0 | 12.0 | 15.5 | 19.0 | 23.0 | 27.0 | 31.0 | 34.0 | 39.0 | 40.0 | - | - | - | - | - |
| Project | - | 6/28/74 | Rev: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 1034 | 40.0 | 9/30/74 | Act: | - | - | 1.0 | 1.8 | 5.7 | 9.6 | 11.5 | | | | | | | | | | | |
| Eleventh | 65.0 | 1/ 7/75 | Orig: | 12/31/78 | 12/20/74 | 3.4 | 7.0 | 12.1 | 18.2 | 25.1 | 32.7 | 40.9 | 47.8 | 57.5 | 46.5 | 65.0 | - | - | - | - | - |
| DFC | - | 1/22/75 | Rev: | - | 11/ 7/75 | - | 4.8 | 10.0 | 17.5 | 25.0 | 31.0 | 37.0 | 44.5 | 52.0 | 65.0 | - | - | - | - | - | - |
| IBRD 1078 | 65.0 | 4/24/75 | Act: | - | - | 1.3 | 4.8 | 9.5 | 12.8 | 17.7 | | | | | | | | | | | |
| Rural | 75.0 | 6/17/75 | Orig: | 12/31/81 | 5/19/75 | - | - | - | 2.9 | 5.2 | 7.6 | 9.9 | 14.4 | 19.0 | 37.9 | 55.7 | 67.4 | 75.0 | 75.0 | - | - |
| Development | - | 6/23/75 | Rev: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 1130 | 75.0 | 1/22/76 | Act: | - | - | - | - | - | - | .6 | | | | | | | | | | | |
| Second | 56.0 | 11/18/75 | Orig: | 12/31/79 | 11/ 4/75 | - | - | - | - | - | - | 4.8 | 7.9 | 10.9 | 30.7 | 52.6 | 56.0 | - | - | - | - |
| TEK Power | - | 6/14/76 | Rev: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 1194 | 56.0 | N.E. | Act: | - | - | - | - | - | - | - | | | | | | | | | | | |
| Agricultural | 63.0 | 4/27/76 | Orig: | 9/30/81 | 4/12/76 | - | - | - | - | - | - | 6.9 | 8.1 | 9.6 | 18.8 | 39.6 | 54.3 | 63.0 | - | - | - |
| Credit | - | 5/ 5/76 | Rev: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 1248 | 63.0 | N.E. | Act: | - | - | - | - | - | - | - | | | | | | | | | | | |
| Balikesir | 70.0 | 5/18/76 | Orig: | 12/31/80 | 5/ 4/76 | - | - | - | - | - | - | 6.7 | 13.3 | 20.0 | 44.0 | 67.0 | 70.0 | - | - | - | - |
| Newsprint | - | 5/21/76 | Rev: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 1258 | 70.0 | N.E. | Act: | - | - | - | - | - | - | - | | | | | | | | | | | |
| Third | 21.5 | 5/25/76 | Orig: | 3/31/82 | 5/10/76 | - | - | - | - | - | - | 1.5 | 2.3 | 3.1 | 7.1 | 11.4 | 16.7 | 21.5 | - | - | - |
| Livestock | - | 5/26/76 | Rev: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IBRD 1265 | 21.5 | N.E. | Act: | - | - | - | - | - | - | - | | | | | | | | | | | |

* Balance indeterminate
1 To be disbursed after Credit 257 TU
2 To be disbursed after Credit 360 TU
3 24.0 million signed 6/30/72, 18.0 million signed 4/18/75.
4 24.0 million effective 10/6/72, 18.0 million effective 8/28/75.

3A

# TURKEY - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOU KM2)

TOTAL 780.6
AGRIC. 543.3

| | TURKEY 1960 | TURKEY 1970 | TURKEY MOST RECENT ESTIMATE | REFERENCE COUNTRIES (1970) COLOMBIA | IRAN | ITALY** |
|---|---|---|---|---|---|---|
| GNP PER CAPITA (US$) | 260.0 | 480.0 | 860.0 /a | 340.0 | 690.0 | 2000.0 |
| **POPULATION AND VITAL STATISTICS** | | | | | | |
| POPULATION (MID-YR, MILLION) | 27.8 | 35.7 | 40.1 /a | 20.6 | 29.1 | 53.7 |
| POPULATION DENSITY | | | | | | |
| PER SQUARE KM. | 35.0 | 46.0 | 51.0 /a | 18.0 | 18.0 | 178.0 |
| PER SQUARE KM. AGRIC. LAND | .. | 67.0 | 74.0 | 92.0 | 107.0 | 295.0 |
| VITAL STATISTICS | | | | | | |
| CRUDE BIRTH RATE PER THOUSAND | 44.8 | 40.6 | 39.4 | 44.3 | 45.9 | 18.6 |
| CRUDE DEATH RATE PER THOUSAND | 16.9 | 14.4 | 12.5 | 11.0 | 18.2 | 9.7 |
| INFANT MORTALITY RATE (/THOU) | 187.0 /a,b,c | 145.0 | .. | 70.0/a | 140.0 | 29.6 |
| LIFE EXPECTANCY AT BIRTH (YRS) | 49.3 | 54.4 | 56.9 | 58.5 | 48.8 | 70.9 |
| GROSS REPRODUCTION RATE | 2.9 | 2.6 /a,b | .. | 3.2 | 3.4 | 1.3 |
| POPULATION GROWTH RATE (%) | | | | | | |
| TOTAL | 3.0 | 2.5 | 2.4 /b | 2.9 | 3.1 | 0.8 |
| URBAN | 5.5 | 4.2 | 5.5 | 5.5/b | 5.0 | 0.8 |
| URBAN POPULATION (% OF TOTAL) | 32.0 | 31.2 | 39.0 | 60.0 | 41.0 | 51.5 |
| AGE STRUCTURE (PERCENT) | | | | | | |
| 0 TO 14 YEARS | 41.3 | 41.8 | .. | 47.0 | 46.0/a | 24.4 |
| 15 TO 64 YEARS | 55.2 | 53.9 | .. | 50.4 | 50.0/a | 65.2 |
| 65 YEARS AND OVER | 3.5 | 4.3 | .. | 3.0 | 4.0/a | 10.4 |
| AGE DEPENDENCY RATIO | 0.8 | 0.9 | .. | 1.0 | 1.0/a | 0.5 |
| ECONOMIC DEPENDENCY RATIO | 1.0 | 1.1 /c | .. | 1.7 /c | 1.9/a | 0.9 /a |
| FAMILY PLANNING- | | | | | | |
| ACCEPTORS (CUMULATIVE, THOU) | 0.0 | | .. | 306.9 | 662.4 | .. |
| USERS (% OF MARRIED WOMEN) | 5.3 | 8.2 | .. | .. | 10.0 | .. |
| **EMPLOYMENT** | | | | | | |
| TOTAL LABOR FORCE (THOUSANDS) | 13000.0 /c | 14500.0 /d | 15000.0 /c | 6200.0 | 8700.0 | 19600.0 |
| LABOR FORCE IN AGRICULTURE (%) | 71.0 | 67.0 | 60.0 | 39.0 | 43.0 | 19.0 |
| UNEMPLOYED (% OF LABOR FORCE) | 2.0 /f | 4.0 /d | .. | 7.0 | 2.0 | 3.1 |
| **INCOME DISTRIBUTION** | | | | | | |
| % OF PRIVATE INCOME REC'D BY- | | | | | | |
| HIGHEST 5% OF HOUSEHOLDS | 33.0 /d,g | 32.8 /f | .. | 31.9 /d | 29.7/b | .. |
| HIGHEST 20% OF HOUSEHOLDS | 61.0 /d,g | 60.6 /f | .. | 60.1 /d | 54.4/b | .. |
| LOWEST 20% OF HOUSEHOLDS | 4.0 /d,g | 2.9 /f | .. | 3.5 /d | 4.0/b | .. |
| LOWEST 40% OF HOUSEHOLDS | 11.0 /d,g | 9.4 /f | .. | 10.1 /d | 12.7/b | .. |
| **DISTRIBUTION OF LAND OWNERSHIP** | | | | | | |
| % OWNED BY TOP 10% OF OWNERS | .. | 53.0 | .. | .. | .. | .. |
| % OWNED BY SMALLEST 10% OWNERS | .. | 0.9 | .. | .. | .. | .. |
| **HEALTH AND NUTRITION** | | | | | | |
| POPULATION PER PHYSICIAN | 3220.0 /f | 2220.0 | 2130.0 | 2160.0 | 3300.0 | 550.0 |
| POPULATION PER NURSING PERSON | 3260.0 /h | 1880.0 /g | 1240.0 /d | .. | 3230.0 | 470.0/b |
| POPULATION PER HOSPITAL BED | 650.0 | 490.0 | 490.0 | 450.0 | 780.0 | 90.0/c |
| PER CAPITA SUPPLY OF - | | | | | | |
| CALORIES (% OF REQUIREMENTS) | 110.0 | 110.0 | 129.0 | 97.0 | 86.0 | 126.0 |
| PROTEIN (GRAMS PER DAY) | 78.0 | 78.0 | 91.0 | 51.0 | 53.0 | 100.0 |
| -OF WHICH ANIMAL AND PULSE | .. | 22.0 /h | .. | 29.0 /e | 14.0/c | 42.0 |
| DEATH RATE (/THOU) AGES 1-4 | 16.0 /d | 15.0/b | .. | 8.4 | .. | 1.0 |
| **EDUCATION** | | | | | | |
| ADJUSTED ENROLLMENT RATIO | | | | | | |
| PRIMARY SCHOOL | 75.0 | 111.0 | 105.0 | 102.0 | 83.0 | 107.0 |
| SECONDARY SCHOOL | 14.0 | 28.0 | 32.0 | 23.0 | 26.0 | 59.0 |
| YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL) | 11.0 | 11.0 | 11.0 | 11.0 | 12.0 | 13.0 |
| VOCATIONAL ENROLLMENT (% OF SECONDARY) | 18.0 | 14.0 | 14.0 | 25.0 /f | 3.0 | 28.0 |
| ADULT LITERACY RATE (%) | 40.0 /i | 55.0 /i | .. | 73.0 | .. | 97.0 |
| **HOUSING** | | | | | | |
| PERSONS PER ROOM (AVERAGE) | 2.0 | 1.9 | .. | .. | 2.2/a,d | .. |
| OCCUPIED DWELLINGS WITHOUT PIPED WATER | 81.0 | 64.0 | .. | .. | 87.0/a,e | .. |
| ACCESS TO ELECTRICITY (% OF ALL DWELLINGS) | 29.0 | 41.0 | .. | .. | 25.0/a | .. |
| RURAL DWELLINGS CONNECTED TO ELECTRICITY (%) | 2.0 | 18.0 | .. | .. | 4.0/a | .. |
| **CONSUMPTION** | | | | | | |
| RADIO RECEIVERS (PER THOU POP) | 49.0 | 89.0 | 106.0 | 105.0 | 93.0 | 218.0 |
| PASSENGER CARS (PER THOU POP) | 2.0 | 4.0 | 6.0 | 11.0 | 10.0 | 190.0 |
| ELECTRICITY (KWH/YR PER CAP) | 102.0 | 247.0 | 304.0 | 414.0 | 246.0 | 2266.0 |
| NEWSPRINT (KG/YR PER CAP) | 0.8 | 0.7 | 1.7 | 2.8 | 0.4 | 5.3 |

SEE NOTES AND DEFINITIONS ON REVERSE

## NOTES

Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961, for 1970 between 1968 and 1970, and for Most Recent Estimate between 1971 and 1973.

** The long-term strategy of Turkish planning currently gives the 1970 level of Italy as its objectives.

**TURKEY**

1960 /a 1955-60; /b Derived from sample survey estimates (9,700 households); /c Might be underestimated; /d 1963; /e 15 years and over; /f 1962; /g Disposable income; /h Including assistant nurses and midwives; /i Persons six years and over who tell the census takers that they can read and write.

1970 /a Excludes 17 eastern provinces; /b 1965-67; /c Ratio of population under 15 and 65 and over to labor force 15 years and over; /d 15 years and over, excludes unemployed; /e Registered only; /f Disposable income; /g Including assistant nurses and midwives; /h 1964-66; /i Persons six years and over who tell the census takers that they can read and write.

MOST RECENT ESTIMATE: /a 1975; /b 1970-75; /c 15 years and over, excludes unemployed; /d Including assistant nurses and midwives.

**COLOMBIA**

1970 /a Rate based on burial permits; /b 1964-70; /c Ratio of population under 15 and 65 years and over to total labor force; /d Economically active population; /e 1964-66; /f Total secondary includes teacher training at the third level.

**IRAN**

1970 /a 1966; /b Households, (urban); /c 1964-66; /d Excludes nomadic tribes; /e Inside only.

**ITALY**

1970 /a Ratio of population under 15 and 65 years and over to total labor force; /b Hospital personnel; /c Including rural hospitals and medical centers.

RIO, July 19, 1976

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## DEFINITIONS OF SOCIAL INDICATORS

**Land Area (thou km$^2$)**
Total - Total surface area comprising land area and inland waters.
Agric. - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market & kitchen gardens or to lie fallow.

GNP per capita (US$) - GNP per capita estimates at market prices, calculated by same conversion method as World Bank Atlas (1973-75 basis); 1960, 1970 and 1975 data.

**Population and vital statistics**
Population (mid-yr. million) - As of July first: if not available, average of two end-year estimates; 1960, 1970 and 1975 data.

Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.
Population density - per square km of agric. land - Computed as above for agricultural land only.

**Vital statistics**
Crude birth rate per thousand - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.
Crude death rate per thousand - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.
Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.
Life expectancy at birth (yrs) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.
Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.
Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70 and 1970-75.
Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.
Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.
Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.
Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.
Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.
Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.
Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

**Employment**
Total labor force (thousand) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc.; definitions in various countries are not comparable.
Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.
Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of households.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

**Health and Nutrition**
Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.
Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.
Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.
Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day; available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution; requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.
Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day; net supply of food is defined as above; requirements for all countries established by USDA Economic Research Services provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein; these standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.
Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.
Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of malnutrition.

**Education**
Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.
Adjusted enrollment ratio - secondary school - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded.
Years of schooling provided (first and second levels) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.
Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.
Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

**Housing**
Persons per room (average) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.
Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.
Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.
Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

**Consumption**
Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.
Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.
Electricity (kwh/yr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita, generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.
Newsprint (kg/yr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newsprint.

ATTACHMENT 3B

ECONOMIC DEVELOPMENT DATA SHEET

| | ACTUAL 1968 | 1972 | 1973 | 1974 | EST. 1975 | PROJECTION 1976 | 1980 | 1985 | GROWTH RATES 68-73 | 73-75 | 75-80 | 80-85 | 1974 Share of GDP At Current Prices |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **A. NATIONAL ACCOUNTS[1/]** (TL Billion, 1974 Prices) | | | | | | | | | | | | | |
| 1. GDP | 277.0 | 357.1 | 371.1 | 403.5 | 439.9 | 474.3 | 643.1 | 951.3 | 6.0 | 8.8 | 7.9 | 8.1 | 100.0 |
| 2. Gains from Terms of Trade | - 1.7 | - 1.0 | - 2.5 | 0.0 | - 1.8 | - 1.9 | - 2.7 | - 3.3 | - | - | - | - | - |
| 3. GDY | 275.3 | 356.1 | 368.6 | 403.5 | 438.0 | 472.4 | 640.4 | 948.0 | - | - | 7.9 | 8.2 | 100.0 |
| 4. Imports | 25.1 | 40.0 | 44.2 | 58.2 | 67.0 | 66.7 | 86.0 | 119.5 | 12.0 | 23.0 | 5.1 | 6.8 | 14.4 |
| 5. Exports | - 17.1 | - 26.1 | - 28.7 | - 29.9 | - 29.6 | - 38.0 | - 55.0 | - 90.3 | 10.9 | 1.6 | 13.2 | 10.4 | 7.4 |
| 6. Exports TT. Adj. | - 15.4 | - 25.1 | - 26.2 | - 29.9 | - 27.8 | - 36.1 | - 52.3 | - 87.0 | 11.2 | 3.0 | 13.5 | 10.9 | 7.4 |
| 7. Resource Gap TT. Adj. | 9.7 | 14.9 | 18.0 | 28.2 | 39.2 | 30.6 | 33.7 | 32.6 | 13.2 | 29.0 | 2.7 | - 0.7 | 7.0 |
| 8. Total Consumption | 236.8 | 307.1 | 318.5 | 347.2 | 375.4 | 394.6 | 526.8 | 762.2 | 6.1 | 8.5 | 7.0 | 7.7 | 86.0 |
| 9. Investment | 53.3 | 65.5 | 71.4 | 84.6 | 101.7 | 108.4 | 147.3 | 218.4 | 6.0 | 19.3 | 7.7 | 8.2 | 21.0 |
| 10. Resources Available | 277.7 | 372.6 | 389.9 | 431.7 | 477.2 | 503.0 | 674.1 | 980.6 | 7.0 | 10.6 | 7.2 | 7.8 | 107.0 |
| 11. GDS | 40.2 | 50.0 | 52.6 | 56.3 | 62.6 | 77.8 | 113.6 | 185.9 | 5.5 | 9.1 | 12.6 | 10.3 | 14.0 |
| 12. Factor Service Income | 4.1 | 15.5 | 19.0 | 17.1 | 13.9 | 12.8 | 11.6 | 10.3 | 36.0 | - 12.6 | - 3.1 | - 2.2 | 4.2 |
| 13. Net Current Transfer | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 8.4 | 0.0 | 0.0 | 4.6 | - |
| 14. GNS | 44.5 | 65.7 | 71.9 | 73.7 | 76.7 | 90.9 | 125.5 | 196.5 | 5.6 | 5.2 | 10.3 | 9.4 | 18.3 |
| 15. GNP | 281.3 | 372.8 | 389.4 | 420.9 | 453.8 | 487.1 | 654.7 | 961.6 | 6.7 | 7.4 | 7.6 | 8.0 | 104.0 |
| 16. GNY | 279.6 | 371.8 | 386.9 | 420.9 | 451.9 | 485.2 | 652.0 | 958.3 | 6.7 | 8.1 | 7.6 | 8.0 | 104.0 |
| 17. GDP at Current TL | 112.2 | 228.9 | 293.5 | 403.5 | 512.0 | - | - | - | 21.0 | 32.0 | - | - | - |
| | SHARE OF G. D. P. | | | | | | | | GROWTH RATES | | | | |
| **B. SECTOR OUTPUT** (at constant 1974 prices) | | | | | | | | | | | | | |
| 1. Industry | 24.0 | 25.6 | 27.6 | 27.6 | 27.5 | 27.6 | 29.8 | 32.4 | 8.3 | 8.8 | 9.7 | 10.0 | - |
| 2. Agriculture | 36.0 | 33.0 | 29.1 | 29.6 | 29.6 | 29.0 | 25.0 | 20.6 | 1.2 | 9.6 | 4.4 | 4.0 | - |
| 3. Services | 40.0 | 41.4 | 43.3 | 42.8 | 42.9 | 43.4 | 45.2 | 48.0 | 7.6 | 8.4 | 9.0 | 9.0 | - |
| **C. PRICES** (In dollars, 1974 = 100) | | | | | | | | | | | | | |
| 1. Export Price Index | 38.2 | 59.5 | 65.6 | 100.0 | 105.5 | 114.1 | 153.9 | 219.0 | 3.2 | 27.0 | 7.8 | 7.3 | - |
| 2. Import Price Index | 59.1 | 64.6 | 77.2 | 100.0 | 112.5 | 120.1 | 161.8 | 227.3 | 5.3 | 21.0 | 7.5 | 7.0 | - |
| 3. Terms of Trade Index | 64.6 | 92.1 | 85.0 | 100.0 | 93.8 | 95.0 | 95.1 | 96.3 | 5.8 | 4.7 | 0.3 | 0.2 | - |
| 4. Average Exchange Rate | 0.111 | 0.071 | 0.071 | 0.072 | 0.069 | 0.063 | - | - | - | - | - | - | - |

**D. SELECTED INDICATORS**

| | 1968-73 | 1973-75 | 1975-80 | 1980-85 |
|---|---|---|---|---|
| 1. ICOR | 3.1 | 3.4 | 2.9 [2/] | 2.8 |
| 2. Import Elasticity | 1.8 | 1.5 | 0.8 | 0.9 |
| 3. Average National Saving Rate | 18.4 | 20.4 | 18.5 | 20.1 |
| 4. Marginal National Saving Rate | 24.8 | 32.3 | 21.0 | 23.0 |
| 5. Imports / GDP | 7.8 | 9.7 | 13.5 | 12.7 |
| 6. Investment / GDP | 19.4 | 21.9 | 22.9 | 23.0 |
| 7. Resource Gap / GDP | 3.6 | 6.6 | 5.8 | 4.3 |

**E. LABOR FORCE (Million)**

| | 1965 | 1970 | 1975 |
|---|---|---|---|
| 1. Civilian Labor Force | 12.9 | 13.7 | 15.6 |
| 2. Civilian Employment | 12.5 | 13.1 | 14.3 |
| 3. Unemployment (% of E.1) | 3.1 | 4.6 | 8.2 |
| Percent Shares: | | | |
| 3.1 Agriculture | 74.3 | 67.1 | 60.8 |
| 3.2 Industry | 11.2 | 13.8 | 16.1 |
| 3.3 Services | 14.5 | 19.1 | 22.5 |

**F. PUBLIC FINANCE[3/]** (as % of A. 17)

| | 1965 | 1970 | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|---|
| 1. Current Revenue | 17.6 | 22.4 | 20.1 | 19.9 | 17.6 | 20.4 |
| - Tax Revenue | 14.3 | 16.5 | 17.4 | 17.5 | 16.1 | 18.2 |
| 2. Current Expenditure | 15.0 | 17.7 | 19.1 | 18.2 | 15.4 | n.a. |
| - Defence Expenditure | 4.1 | 3.4 | 3.5 | 3.4 | 3.4 | n.a. |
| 3. Savings | 2.6 | 4.7 | 1.8 | 1.7 | 2.2 | n.a. |
| 4. Capital Expenditure | 4.7 | 5.0 | 3.8 | 3.9 | 4.3 | n.a. |
| - Public Sector Fixed Capital Formation | 8.0 | 10.0 | 8.8 | 8.8 | 8.7 | 10.1 |

1/ Components may not add up due to rounding.
2/ 1976-1980
3/ Central Government except where otherwise noted.

## ATTACHMENT 3C

## IMPORT DETAIL

| | 1968 | 1972 | 1973 | 1974 | 1975 | 1976 | 1980 | 1985 |
|---|---|---|---|---|---|---|---|---|
| **A. CONSTANT 1974 PRICES (Millions of Dollars)** | | | | | | | | |
| 1. Food | 11.6 | 44.5 | 66.0 | 276.4 | 195.1 | 183.8 | 166.6 | 167.2 |
| 2. Other Consumer Goods | 24.7 | 291.9 | 206.1 | 422.9 | 489.8 | 471.9 | 488.9 | 581.8 |
| 3. Petroleum | 267.8 | 481.1 | 552.6 | 762.9 | 744.8 | 761.7 | 932.0 | 1374.3 |
| 4. Intermediate Goods | 379.7 | 690.1 | 848.5 | 1151.8 | 1309.7 | 1323.0 | 1607.5 | 2386.1 |
| 5. Capital Goods | 607.0 | 959.6 | 1044.0 | 1163.6 | 1484.5 | 1471.3 | 1697.3 | 2327.6 |
| 6. Total Goods (c.i.f.) | 1290.8 | 2467.2 | 2717.1 | 3777.6 | 4223.9 | 4211.7 | 4892.3 | 6837.0 |
| 7. Non-Factor Services | 231.8 | 303.3 | 104.4 | 400.0 | 404.8 | 415.8 | 472.5 | 634.1 |
| 8. Total Goods & NFS | 1522.6 | 2770.5 | 2821.5 | 4177.6 | 4628.7 | 4627.5 | 5364.8 | 7471.1 |
| **B. PRICE INDICES 1974 = 100** | | | | | | | | |
| 1. Food | 60.2 | 56.6 | 69.9 | 100.0 | 83.0 | 87.0 | 113.0 | 153.0 |
| 2. Other Consumer Goods | 79.4 | 72.2 | 106.3 | 100.0 | 114.5 | 121.9 | 164.2 | 230.3 |
| 3. Petroleum | 23.9 | 32.2 | 40.1 | 100.0 | 109.2 | 118.4 | 159.1 | 223.2 |
| 4. Intermediate Goods | 83.3 | 64.2 | 79.2 | 100.0 | 111.9 | 119.2 | 160.5 | 225.1 |
| 5. Capital Goods | 58.8 | 75.9 | 88.8 | 100.0 | 117.2 | 124.8 | 168.1 | 235.7 |
| 6. Total Goods (c.i.f.) | 59.2 | 63.3 | 76.8 | 100.0 | 112.3 | 119.5 | 161.6 | 226.2 |
| 7. Non-Factor Services | 58.8 | 74.9 | 88.8 | 100.0 | 114.5 | 121.9 | 164.2 | 230.3 |
| 8. Total Goods & NFS | 59.1 | 64.6 | 77.2 | 100.0 | 112.5 | 120.1 | 161.8 | 227.3 |
| **C. CURRENT VALUES (Millions of Dollars)** | | | | | | | | |
| 1. Food | 6.9 | 25.2 | 46.1 | 276.4 | 161.9 | 159.9 | 188.3 | 255.8 |
| 2. Other Consumer Goods | 19.6 | 210.8 | 219.1 | 422.9 | 560.9 | 575.2 | 802.8 | 1339.9 |
| 3. Petroleum | 64.0 | 154.9 | 221.6 | 762.9 | 813.3 | 901.9 | 1482.8 | 3067.5 |
| 4. Intermediate Goods | 316.3 | 443.5 | 672.3 | 1151.8 | 1465.6 | 1557.7 | 2580.1 | 5317.1 |
| 5. Capital Goods | 356.9 | 728.3 | 927.1 | 1163.6 | 1739.8 | 1836.2 | 2853.2 | 5486.1 |
| 6. Total Goods (c.i.f.) | 763.7 | 1562.7 | 2086.3 | 3777.6 | 4741.4 | 5030.9 | 7907.2 | 15466.4 |
| 7. Non-Factor Services | 136.3 | 227.3 | 92.7 | 400.0 | 463.5 | 506.9 | 775.8 | 1460.4 |
| 8. Total Goods & NFS | 900.0 | 1790.0 | 2179.0 | 4177.6 | 5204.9 | 5537.8 | 8683.0 | 16926.8 |

Country Programs Department II
Europe, Middle East and North Africa Region
August 25, 1976

ATTACHMENT 3D

EXPORT DETAIL

| | | 1968 | 1972 | 1973 | 1974 | 1975 | 1976 | 1980 | 1985 |
|---|---|---|---|---|---|---|---|---|---|
| A. | CONSTANT 1974 PRICES (Millions of Dollars) | | | | | | | | |
| 1. 1. | Cotton | 641.0 | 495.6 | 698.2 | 235.3 | 376.0 | 511.0 | 561.5 | 717.1 |
| 2. | Tobacco | 231.2 | 221.5 | 198.4 | 204.5 | 130.9 | 193.8 | 212.9 | 271.7 |
| 3. | Hazelnuts (Filberts) | 142.1 | 146.0 | 134.3 | 173.2 | 138.8 | 191.8 | 210.8 | 269.1 |
| 4. | Raisins | 42.3 | 69.2 | 113.2 | 53.9 | 56.6 | 75.8 | 83.3 | 106.3 |
| 5. | Mining and Quarry Products | 60.1 | 45.2 | 47.6 | 79.0 | 70.3 | 94.2 | 124.8 | 201.0 |
| 2. | Manufactured Goods | 135.8 | 402.0 | 642.4 | 601.3 | 445.8 | 601.7 | 951.7 | 1913.9 |
| 3. | All Other Goods | 120.9 | 185.9 | 260.2 | 185.0 | 163.1 | 236.6 | 374.0 | 752.2 |
| 4. | Total Goods (f.o.b.) | 1373.4 | 1565.4 | 2094.3 | 1532.2 | 1381.5 | 1904.9 | 2519.0 | 4231.3 |
| 5. | Non-Factor Services | 130.2 | 297.1 | 279.4 | 590.8 | 665.2 | 718.7 | 916.9 | 1410.8 |
| 6. | Total Goods and NFS | 1503.6 | 1862.5 | 2373.7 | 2123.0 | 2046.7 | 2623.6 | 3435.9 | 5642.1 |
| B. | PRICE INDICES (1974 = 100) | | | | | | | | |
| 1. 1. | Cotton | 21.7 | 38.6 | 43.8 | 100.0 | 60.0 | 75.7 | 94.1 | 131.9 |
| 2. | Tobacco | 41.0 | 59.1 | 67.0 | 100.0 | 140.0 | 147.7 | 196.0 | 274.9 |
| 3. | Hazelnuts | 53.5 | 79.8 | 90.6 | 100.0 | 110.0 | 117.2 | 157.8 | 221.3 |
| 4. | Raisins | 53.4 | 44.1 | 50.1 | 100.0 | 80.0 | 85.2 | 114.7 | 160.9 |
| 5. | Mining and Quarry Products | 43.4 | 77.2 | 87.6 | 100.0 | 150.0 | 159.8 | 215.1 | 301.7 |
| 2. | Manufactured Goods | 46.9 | 59.0 | 67.0 | 100.0 | 111.9 | 119.2 | 160.5 | 225.1 |
| 3. | All Other Goods | 61.3 | 77.2 | 87.6 | 100.0 | 114.5 | 121.9 | 164.2 | 230.3 |
| 4. | Total Goods (f.o.b.) | 36.1 | 56.5 | 62.9 | 100.0 | 101.3 | 111.2 | 150.2 | 215.2 |
| 5. | Non-Factor Services | 59.9 | 75.4 | 85.5 | 100.0 | 114.5 | 121.9 | 164.2 | 230.3 |
| 6. | Total Goods and NFS | 38.2 | 59.5 | 65.6 | 100.0 | 105.5 | 114.1 | 153.9 | 219.0 |
| C. | CURRENT VALUES (Millions of Dollars) | | | | | | | | |
| 1. | Cotton | 139.1 | 191.3 | 305.8 | 235.3 | 225.6 | 386.8 | 528.4 | 945.9 |
| 2. | Tobacco | 94.8 | 130.9 | 132.9 | 204.5 | 183.3 | 286.2 | 417.3 | 747.0 |
| 3. | Hazelnuts | 76.0 | 116.5 | 121.7 | 173.2 | 154.1 | 224.8 | 332.7 | 595.6 |
| 4. | Raisins | 22.6 | 30.5 | 56.7 | 53.9 | 45.3 | 64.6 | 95.6 | 171.1 |
| 5. | Mining and Quarry Products | 26.1 | 35.1 | 41.7 | 79.0 | 105.5 | 150.6 | 268.5 | 606.4 |
| 2. | Manufactured Goods | 63.7 | 237.2 | 430.4 | 601.3 | 498.8 | 717.2 | 1527.2 | 4308.2 |
| 3. | All Other Goods | 74.1 | 143.5 | 227.9 | 185.0 | 186.7 | 288.4 | 614.1 | 1732.3 |
| 4. | Total Goods (f.o.b.) | 496.4 | 885.0 | 1317.1 | 1532.2 | 1399.3 | 2118.6 | 3783.7 | 9106.5 |
| 5. | Non-Factor Services | 78.0 | 224.0 | 238.9 | 590.8 | 761.7 | 876.1 | 1505.6 | 3249.1 |
| 6. | Total Goods and NFS | 574.4 | 1109.0 | 1556.0 | 2123.0 | 2161.0 | 2994.7 | 5289.3 | 12355.6 |

Country Programs Department II
Europe, Middle East and North Africa Region
August 25, 1976

ATTACHMENT 4A

BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE

| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1985 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | ACTUAL | | | EST. | | | PROJECTED | | | |
| **SUMMARY OF BALANCE OF PAYMENTS** | | | | | | | | | | | | |
| 1. EXPORTS (INCLUDING NFS) | 760.0 | 851.0 | 1109.0 | 1556.0 | 2123.0 | 2161.0 | 2994.7 | 3204.7 | 3787.6 | 4480.0 | 5289.3 | 12355.6 |
| 2. IMPORTS (INCLUDING NFS) | 1132.0 | 1354.0 | 1790.0 | 2179.0 | 4176.0 | 5205.0 | 5537.8 | 5779.2 | 6644.7 | 7611.1 | 8683.0 | 16926.9 |
| 3. RESOURCE BALANCE | -372.0 | -503.0 | -681.0 | -623.0 | -2053.0 | -3044.0 | -2543.1 | -2574.5 | -2857.0 | -3131.1 | -3393.7 | -4571.3 |
| 4. NET FACTOR SERVICE INCOME | 193.0 | 375.0 | 643.0 | 1089.0 | 1308.0 | 1144.0 | 1118.1 | 1167.0 | 1241.1 | 1310.8 | 1370.5 | 1716.8 |
| .1 NET INTEREST PAYMENTS | -47.0 | -60.0 | -62.0 | -59.0 | -102.0 | -124.0 | -124.9 | -263.0 | -331.9 | -419.5 | -532.8 | -1348.5 |
| OF WHICH ON PUB M&LT LOANS | -42.4 | -51.5 | -64.6 | -83.5 | -93.8 | -104.9 | -90.5 | -156.5 | -189.3 | -240.9 | -339.0 | -1122.8 |
| .2 DIRECT INVESTMENT INCOME | -33.0 | -36.0 | -35.0 | -35.0 | 55.0 | -9.0 | .0 | .0 | .0 | .0 | .0 | .0 |
| .3 WORKERS REMITTANCES (NET) | 273.0 | 471.0 | 740.0 | 1183.0 | 1426.0 | 1312.0 | 1300.0 | 1430.0 | 1573.0 | 1730.3 | 1903.3 | 3065.3 |
| 5. CURRENT TRANSFERS (NET) | 8.0 | 6.0 | 30.0 | 19.0 | 27.0 | 22.0 | 25.0 | 27.5 | 30.3 | 33.3 | 36.6 | 58.9 |
| 6. BALANCE ON CURRENT ACCOUNT | -171.0 | -122.0 | -8.0 | 485.0 | -718.0 | -1878.0 | -1400.0 | -1380.0 | -1585.7 | -1787.1 | -1986.6 | -2795.5 |
| 7. PRIVATE DIRECT INVESTMENT | 58.0 | 45.0 | 43.0 | 27.0 | 88.0 | 153.0 | 150.0 | 162.0 | 175.0 | 189.0 | 204.1 | 299.9 |
| 8. GRANTS & GRANT-LIKE FLOWS | 117.0 | 82.0 | 55.0 | 50.0 | 58.0 | 98.0 | 100.0 | 375.0 | 375.0 | 375.0 | 375.0 | 375.0 |
| PUBLIC M&LT LOANS | | | | | | | | | | | | |
| 9. DISBURSEMENTS | 321.3 | 408.9 | 377.0 | 399.5 | 314.0 | 312.3 | 335.0 | 702.4 | 980.4 | 1525.3 | 1844.9 | 3739.9 |
| 10. AMORTIZATION | -128.8 | -110.7 | -161.1 | -124.7 | -139.2 | -144.7 | -135.0 | -232.5 | -344.7 | -433.8 | -517.6 | -1482.7 |
| 11. NET DISBURSEMENTS | 192.5 | 298.2 | 216.0 | 274.7 | 174.8 | 167.5 | 200.0 | 469.9 | 635.7 | 1091.5 | 1327.2 | 2257.2 |
| OTHER M&LT LOANS | | | | | | | | | | | | |
| 12. DISBURSEMENTS | 1.0 | 9.5 | 17.6 | 26.8 | 22.6 | 22.7 | .0 | .0 | .0 | .0 | .0 | .0 |
| 13. AMORTIZATION | -3.2 | -3.0 | -1.2 | -2.1 | -6.1 | -12.4 | .0 | .0 | .0 | .0 | .0 | .0 |
| 14. NET DISBURSEMENTS | -2.2 | 6.5 | 16.4 | 24.7 | 16.5 | 10.3 | .0 | .0 | .0 | .0 | .0 | .0 |
| 15. USE OF IMF RESOURCES | 48.0 | -12.1 | -98.0 | -11.4 | .0 | 298.0 | 150.0 | .0 | .0 | .0 | .0 | .0 |
| 16. SHORT-TERM CAPITAL TRANSACTIONS | 18.0 | 61.0 | 332.0 | -224.0 | 60.0 | 608.0 | 800.0 | 500.0 | 400.0 | 300.0 | 300.0 | 300.0 |
| 17. CAPITAL TRANSACTIONS NEI | -74.3 | -21.7 | 9.8 | 101.5 | -110.3 | 123.2 | .0 | .0 | .0 | .0 | .0 | .0 |
| 18. CHANGE IN RESERVES (- = INCREASE) | -186.0 | -336.9 | -566.0 | -727.6 | 431.0 | 420.0 | .0 | -126.9 | .0 | -168.4 | -219.7 | -436.6 |
| 19. NET FOREIGN EXCHANGE (1) RESERVES (END OF PERIOD) | 431.0 | 761.0 | 1401.0 | 2120.0 | 1861.0 | 1064.0 | 1265.0 | 1391.9 | 1391.9 | 1560.3 | 1780.0 | 3470.0 |
| **GRANT AND LOANS COMMITMENTS** | | | | | | | | | | | | |
| 1. OFFICIAL GRANTS | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 250.0 | 250.0 | 250.0 | 250.0 | 250.0 |
| 2. TOTAL PUBLIC M&LT LOANS | 487.4 | 284.6 | 453.0 | 453.9 | 533.1 | 588.7 | 775.0 | 805.0 | 1112.1 | 1704.3 | 2036.6 | 3848.3 |
| .1 IBRD | 40.0 | 54.5 | 177.0 | 105.0 | 228.0 | 158.0 | 250.0 | 250.0 | 250.0 | 250.0 | 250.0 | 250.0 |
| .2 IDA | .0 | 19.5 | 36.3 | 30.0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 |
| .3 OTHER MULTILATERAL | 131.8 | 26.0 | 29.0 | 84.4 | 127.6 | 31.1 | 100.0 | 110.0 | 120.0 | 130.0 | 140.0 | 175.5 |
| .4 GOVERNMENTS | 268.4 | 154.5 | 183.9 | 196.0 | 149.9 | 180.5 | 225.0 | 245.0 | 295.0 | 385.0 | 470.0 | 687.9 |
| .5 OF WHICH CENTRALLY PLANNED ECONOMIES (2) | 113.7 | 2.7 | 8.5 | 3.0 | .0 | 2.8 | 50.0 | 50.0 | 75.0 | 100.0 | 150.0 | 229.4 |
| .6 SUPPLIERS | 47.2 | 20.7 | 23.9 | 13.5 | 1.6 | 27.9 | 200.0 | 200.0 | 250.0 | 250.0 | 250.0 | 400.6 |
| .7 FINANCIAL INSTITUTIONS | .0 | 9.5 | 3.0 | 24.9 | 26.0 | 191.2 | .0 | .0 | .0 | .0 | .0 | .0 |
| .8 BONDS | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 |
| .9 PUBLIC LOANS NEI | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 197.1 | 689.3 | 926.6 | 2334.3 |
| 3. OTHER M&LT LOANS (WHERE AVAILABLE) | 17.8 | 4.7 | 34.2 | 19.1 | 8.7 | 34.8 | .0 | .0 | .0 | .0 | .0 | .0 |
| **MEMORANDUM ITEMS** | | | | | | | | | | | | |
| 1. GRANT ELEMENT OF TOTAL COMMITMENTS | 40.200 | 43.600 | 34.700 | 38.800 | 31.700 | 14.900 | 19.670 | 41.115 | 32.980 | 24.076 | 21.842 | 14.249 |
| 2. AVERAGE INTEREST (PERCENT) | .033 | .038 | .048 | .046 | .055 | .074 | .068 | .068 | .073 | .080 | .080 | .055 |
| 3. AVERAGE MATURITY (YEARS) | 19.100 | 26.200 | 21.600 | 24.800 | 23.700 | 14.000 | 16.090 | 16.298 | 14.918 | 13.770 | 13.587 | 12.299 |

1/ NET FOREIGN ASSETS: US$ EQUIVALENT OF LINE 31.

2/ INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA, NORTH KOREA, NORTH VIETNAM.

DATE OF LATEST UPDATE 08/18/76

TURKEY

ATTACHMENT 4B

## DEBT AND CREDITWORTHINESS

| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1985 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | ACTUAL | | | EST. | | | PROJECTED | | | |
| **MEDIUM AND LONG TERM DEBT (DISBURSED ONLY)** | | | | | | | | | | | | |
| TOTAL DEBT OUTSTANDING (DOD END OF PERIOD) | 1882,5 | 2272,5 | 2513,2 | 2927,1 | 3202,3 | 3296,5 | 3539,1 | 4009,0 | 4644,7 | 5736,2 | 7063,4 | 16746,7 |
| INCLUDING UNDISBURSED | 2754,5 | 3035,8 | 3370,2 | 3851,0 | 4342,4 | 4704,0 | 5271,8 | 5844,3 | 6611,7 | 7882,2 | 9401,2 | 19716,7 |
| PUBLIC DEBT SERVICE | -171,2 | -162,2 | -225,6 | -208,3 | -233,1 | -249,6 | -225,5 | -389,0 | -534,0 | -674,7 | -856,6 | -2605,5 |
| INTEREST | -42,4 | -51,5 | -64,6 | -83,5 | -93,8 | -104,9 | -90,5 | -156,5 | -189,3 | -240,9 | -339,0 | -1122,8 |
| OTHER M&LT DEBT SERVICE | -5,5 | -5,8 | -4,1 | -5,6 | -12,4 | -21,0 | ,0 | ,0 | ,0 | ,0 | ,0 | ,0 |
| TOTAL DEBT SERVICE | -176,7 | -168,0 | -229,7 | -213,9 | -245,5 | -270,6 | -225,5 | -389,0 | -534,0 | -674,7 | -856,6 | -2605,5 |
| **DEBT BURDEN** | | | | | | | | | | | | |
| DEBT SERVICE RATIO | 23,2 | 19,7 | 20,7 | 13,7 | 12,9 | 12.5 | 7,5 | 12,1 | 14,1 | 15,1 | 16,2 | 21,1 |
| DEBT SERVICE RATIO (1) | 27,6 | 24,0 | 23,9 | 16,0 | 15,7 | 12.1 | 7,5 | 12,1 | 14,1 | 15,1 | 16,2 | 21,1 |
| DEBT SERVICE/GDP | 1,4 | 1,3 | 1,4 | 1,0 | ,8 | 0.9 | ,6 | ,9 | 1,1 | 1,2 | 1,3 | 1,9 |
| PUB. DEBT SERVICE/GOV. REVENUE | 5,7 | 5,5 | 6,7 | 5,0 | 4.6 | 3.5 | 2,5 | 4,1 | 4,8 | 5,2 | 5,7 | 8,4 |
| **TERMS** | | | | | | | | | | | | |
| INT. ON TOTAL DOD/TOTAL DOD | 2,3 | 2,3 | 2,6 | 2,9 | 3,0 | 3,3 | 2,6 | 3,9 | 4,1 | 4,2 | 4,8 | 6,7 |
| TOTAL DEBT SERVICE/TOTAL DOD | 9,3 | 7,3 | 9,2 | 7,3 | 7,5 | 7,9 | 6,4 | 9,7 | 11,5 | 11,8 | 12,1 | 15,6 |
| **DEPENDENCY RATIOS FOR M&LT DEBT** | | | | | | | | | | | | |
| GROSS DISB./IMPORTS (INCL.NFS) | 28,5 | 30,9 | 22,0 | 19,6 | 8,6 | ,0 | 6,0 | 12,2 | 14,8 | 20,0 | 21,2 | 22,1 |
| NET TRANSFER/IMPORTS(INCL.NFS) | 12,9 | 18,5 | 9,2 | 9,7 | 2,3 | ,0 | 2,0 | 5,4 | 6,7 | 11,2 | 11,4 | 6,7 |
| NET TRANSFER/GROSS DISB. | 45,2 | 59,9 | 41,8 | 49,8 | 27,1 | 19,2 | 32,7 | 44,6 | 45,5 | 55,8 | 53,6 | 30,3 |
| **EXPOSURE** | | | | | | | | | | | | |
| IBRD DISB./GROSS TOTAL DISB. | 5,4 | 5,4 | 6,4 | 13,4 | 22,3 | 27,1 | 38,6 | 25,0 | 19,7 | 13,5 | 11,8 | 6,7 |
| BANK GROUP DISB./GROSS TOTAL DISBURSEMENTS | 7,7 | 6,6 | 7,3 | 14,2 | 26,4 | 32,4 | 44,5 | 26,9 | 20,5 | 13,9 | 12,0 | 6,7 |
| IBRD DOD/TOTAL DOD | 2,8 | 3,2 | 3,7 | 4,8 | 6,5 | 8,7 | 11,5 | 13,9 | 15,7 | 15,7 | 15,2 | 10,7 |
| BANK GROUP DOD/TOTAL DOD | 7,3 | 7,0 | 7,6 | 8,7 | 10,5 | 13,1 | 16,1 | 18,3 | 19,6 | 19,0 | 17,8 | 11,8 |
| IBRD DEBT SERVICE/TOTAL DEBT SERVICE | 3,2 | 4,8 | 5,0 | 8,4 | 9,1 | 11,3 | 15,7 | 13,6 | 12,3 | 12,8 | 14,0 | 10,9 |
| BANK GROUP DEBT SERVICE/TOTAL DEBT SERVICE | 3,5 | 5,2 | 5,4 | 9,1 | 9,7 | 12,0 | 16,5 | 14,2 | 12,7 | 13,1 | 14,2 | 11,1 |

| EXTERNAL DEBT (DISBURSED ONLY) | OUTSTANDING DEC. 31, 1974 AMOUNT | OUTSTANDING DEC. 31, 1974 PERCENT | OUTSTANDING DEC. 31, 1985 AMOUNT | OUTSTANDING DEC. 31, 1985 PERCENT |
|---|---|---|---|---|
| IBRD | 208,1 | 6,7 | 1793,2 | 10,7 |
| BANK GROUP | 334,9 | 10,8 | 1971,2 | 11,8 |
| OTHER MULTILATERAL | 263,5 | 8,5 | 1333,7 | 8,0 |
| GOVERNMENTS | 2296,1 | 74,2 | 3912,4 | 23,4 |
| OF WHICH CENTRALLY PLANNED ECONOMIES (2) | 274,5 | 8,9 | 929,1 | 5,5 |
| SUPPLIERS | 112,9 | 3,6 | 1097,6 | 6,6 |
| FINANCIAL INSTITUTIONS | 70,0 | 2,3 | 8,9 | ,1 |
| BONDS | 17,5 | ,6 | 4,4 | ,0 |
| PUBLIC DEBT NEI | ,0 | ,0 | 8418,4 | 50,3 |
| TOTAL PUBLIC M&LT DEBT | 3094,9 | 100,0 | 16746,7 | 100,0 |
| OTHER PUBLIC M&LT DEBT | 107,4 | 3,5 | ,0 | ,0 |
| OTHER M&LT DEBT | 119,7 | 3,9 | ,0 | ,0 |
| TOTAL PUBLIC DEBT (INCLUDING UNDISBURSED) | 4222,7 | 136,4 | 19716,7 | 117,7 |
| TOTAL M & LT DEBT (INCLUDING UNDISBURSED) | 4342,4 | 140,3 | 19716,7 | 117,7 |

1/INCLUDING NET DIRECT INVESTMENT INCOME
2/INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA, NORTH KOREA, NORTH VIETNAM.

TURKEY

Country Economic and Sector Work Program

FY77 - FY81

The first basic economic mission visited Turkey in April-May 1973. Since then there have been updating missions, but no substantial sector work until May 1976 because of Government resistance. In FY76, an updating economic mission visited Turkey and its report is now under preparation. In addition to its regular updating activities, the mission looked into agricultural price support policies, employment, wages and external migration trends. The industrial sector mission (FY76) focused on small scale and export oriented industries to identify projects suitable for Bank financing. During FY77, the work program will primarily aim to provide a firm foundation for the next basic economic mission, scheduled for FY78. It includes new sector missions in agriculture, power/energy and urbanization. The basic economic mission will review macro-economic trends and economic policy directions, analyze sectoral developments building on the work of the earlier sector missions, and study trends in population, manpower and employment, industry and transport, as well as review the achievements of the Third Five-Year Plan and evaluate the proposed Fourth Five-Year Plan (1978-82).

After the basic mission, there will be annual updating missions to support operational work and CPPs. Sector work will be related to upcoming operations. In FY79, a special study will review urban water supply problems and policies. In FY80, two sector reviews in agriculture and tourism will be undertaken. In FY81, a new review of industrial issues and prospects will be needed.

| Fiscal Year and Description | Responsible Department | Total Manweeks Required |
|---|---|---|
| FY76 | | |
| Country Economic Memorandum<br>Update economic information and prepare special reviews of recent developments in (a) fiscal and monetary policies; (b) price, credit and incentive policies re agriculture; (c) manpower, especially migrant workers. Mission returned; report being prepared. | EM2 | 75 |
| Industrial Sector Mission<br>Sub-sector review focused on export and small-scale industries. Mission returned; report being prepared. | NDP | 40 |
| FY77 | | |
| Country Economic Memorandum<br>Update economic information and identify fundamental issues for examination by basic economic mission. | EM2 | 49 |
| Agricultural Sector Mission<br>To review rural development policies and programs; to identify prospects for rural development, particularly through rainfed farming and livestock production; and, subject to Government approval, to review agricultural price and incentive policies. | EMP<br>DPS | 75 |
| Urbanization Sector Mission<br>To review urbanization trends, policies, target groups and investment priorities to reach urban poor in Istanbul and elsewhere. | CPS)<br>DPS)<br>EM2) | 29 |
| Power/Energy Sector Review<br>Broad sector review in preparation for basic economic mission. | EMP | 42 |
| FY78 | | |
| Basic Economic Memorandum<br>Review macro-economic trends and economic policy directions, prepare analysis of all sectors covering agriculture, industry, transport, urbanization, energy; special review of population/manpower/employment, and special review of Third Plan and evaluation of Fourth Plan (1978-82). | EM2 | 100 |

| Fiscal Year and Description | Responsible Department | Total Manweeks Required |
|---|---|---|
| Transport<br>Support for basic economic mission. | EMP | 20 |
| Industry<br>Support for basic economic mission. | EMP | 10 |
| FY79 | | |
| Country Economic Memorandum<br>Update economic information. | EM2 | 30 |
| Special Water Supply Study<br>Review urban water supply problems and policies. | EMP | 30 |
| FY80 | | |
| Country Economic Memorandum<br>Updating economic information. | EM2 | 30 |
| Agriculture<br>Support for country economic memorandum. | EMP | 12 |
| Tourism Sector Review<br>Updating sector information. | TMP | 16 |
| FY81 | | |
| Country Economic Memorandum<br>Updating economic information. | EM2 | 30 |
| Industrial Sector Review | NDP | 20 |

Attachment 6A

EXPECTED AND ACTUAL DISBURSEMENTS FOR

PROJECTS UNDER EXECUTION - EMENA REGION 1/

(As of March 31, 1976)
(US $ Millions)

| Country | No. of 2/ Proj. under Execution | Total 3/ Amount Committed | Expected 4/ to be Disbursed | Actual Disbursements | % Actual to Expected |
|---|---|---|---|---|---|
| AFGHANISTAN | 8 | 67.0 | 27.1 | 12.5 | 46 |
| ALGERIA | 9 | 323.0 | 94.1 | 48.2 | 51 |
| CYPRUS | 6 | 44.5 | 33.8 | 23.3 | 69 |
| EGYPT | 13 | 402.5 | 250.4 | 121.1 | 48 |
| GREECE | 8 | 217.3 | 76.8 | 31.4 | 41 |
| IRAN | 20 | 837.0 | 694.5 | 516.9 | 74 |
| IRAQ | 4 | 120.4 | 61.8 | 22.8 | 37 |
| ISRAEL | 5 | 155.0 | 98.8 | 65.1 | 66 |
| JORDAN | 8 | 49.8 | 33.3 | 22.3 | 67 |
| LEBANON | 2 | 39.6 | 32.4 | 5.4 | 16 |
| MOROCCO | 16 | 440.0 | 271.7 | 206.8 | 76 |
| OMAN | 2 | 8.4 | 2.8 | 0.1 | 04 |
| ROMANIA | 7 | 349.1 | 98.9 | 39.4 | 40 |
| SPAIN | 4 | 185.7 | 140.2 | 102.0 | 73 |
| SYRIA | 5 | 207.4 | 43.8 | 7.0 | 16 |
| TUNISIA | 20 | 293.2 | 166.2 | 96.2 | 58 |
| TURKEY | 21 | 853.3 | 464.9 | 294.1 | 63 |
| YEMEN (YAR) | 9 | 73.2 | 28.4 | 11.1 | 39 |
| YEMEN (PDRY) | 4 | 29.2 | 10.8 | 3.0 | 28 |
| YUGOSLAVIA | 21 | 775.4 | 449.8 | 292.0 | 65 |
| TOTAL (Excluding Part I countries) | | 5471.0 | 3080.5 | 1920.7 | 62 |
| Part I Countr | | | | | |
| IRELAND | 7 | 138.0 | 80.6 | 63.8 | 79 |
| FINLAND | 2 | 40.0 | 20.9 | 19.4 | 93 |
| ICELAND | 2 | 17.0 | 14.4 | 12.4 | 86 |
| GRAND TOTAL | | 5666.0 | 3196.4 | 2016.3 | 63 |

1/ Based on Cumulative Estimated and Actual Disbursement Tables as of March 31, 1976 for loans and credits not fully disbursed.
2/ Actual number of lending operations is higher as both loans and credits were provided for some projects.
3/ Less cancellations
4/ Based on original appraisal estimates

Attachment 6B

EXPECTED AND ACTUAL DISBURSEMENTS OF BANK GROUP

LOANS AND CREDITS FOR MAJOR BORROWERS[1]

(As of March 31, 1976)
(US $ Millions)

| Country | No. of Projects Under Execution[2] | Total Amount Committed[3] | Expected to be Disbursed[4] | Actual Disbursements | % Actual to Expected | % Actual to Expected (As of Dec. 31, 1974) |
|---|---|---|---|---|---|---|
| BRAZIL | 35 | 1906.2 | 1044.1 | 755.4 | 72 | 68 |
| INDIA | 50 | 2464.2 | 1031.9 | 644.3 | 62 | 81 |
| IRAN | 20 | 837.0 | 694.6 | 516.9 | 74 | 63 |
| KOREA | 24 | 996.8 | 415.9 | 327.7 | 79 | 88 |
| MEXICO | 18 | 1122.8 | 472.9 | 269.6 | 57 | 70 |
| NIGERIA | 18 | 477.6 | 225.4 | 142.0 | 63 | 56 |
| PHILIPPINES | 21 | 600.2 | 233.7 | 162.2 | 69 | 56 |
| THAILAND | 15 | 430.5 | 181.1 | 106.0 | 59 | 66 |
| TURKEY | 21 | 853.3 | 464.9 | 294.1 | 63 | 51 |
| YUGOSLAVIA | 21 | 775.4 | 449.8 | 292.0 | 65 | 60 |
| TOTAL | | 10464.0 | 5214.3 | 3510.2 | 67 | 69 |

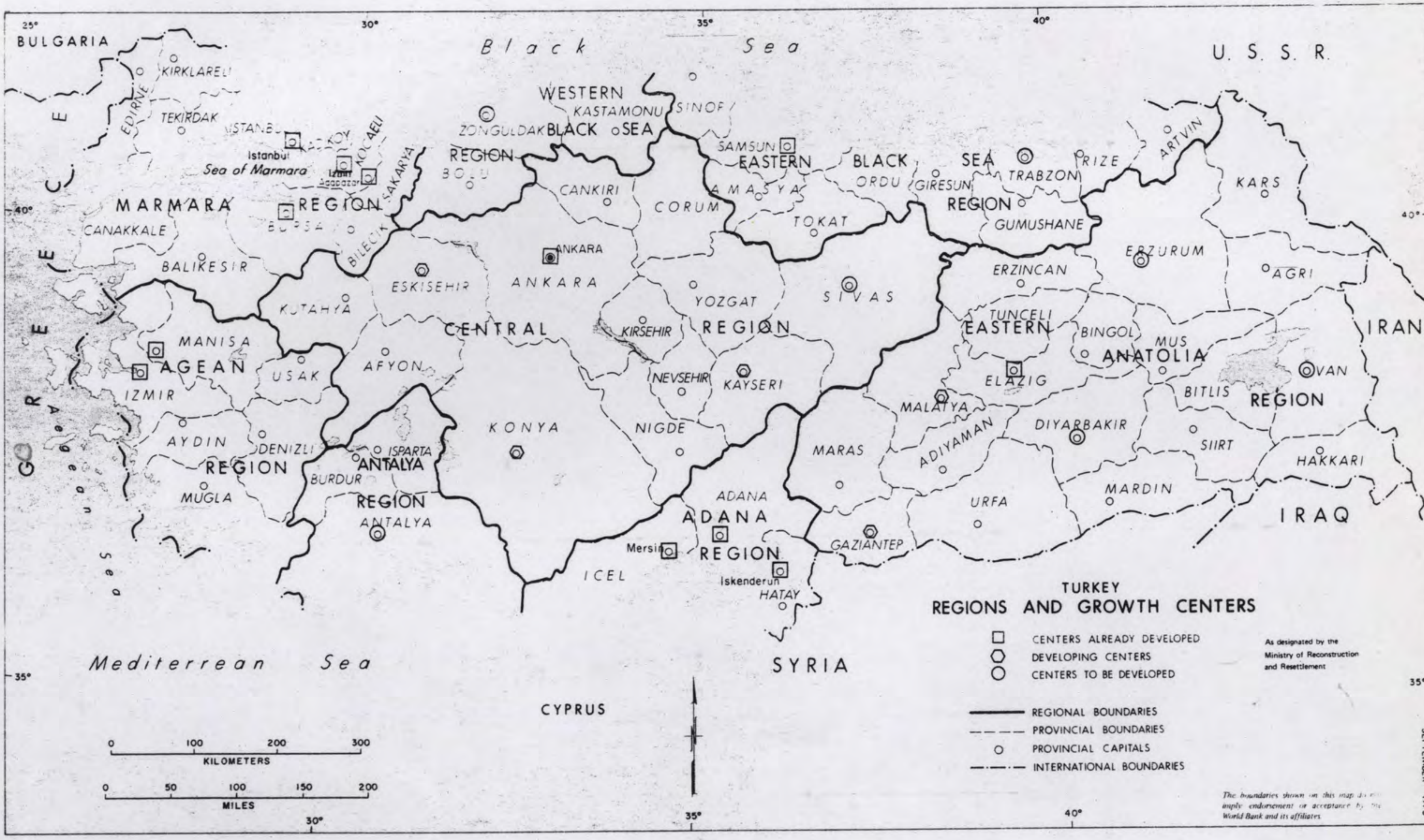
---

1/ Loans and Credits not fully disbursed.
Based on Cumulative Estimated and Actual Disbursement Tables as of March 31, 1976

2/ Actual number of lending operations is higher as both loans and credits provided for some projects.

3/ Less cancellations

4/ Original appraisal estimates



TURKEY
REGIONS AND GROWTH CENTERS
CENTERS ALREADY DEVELOPED
DEVELOPING CENTERS
CENTERS TO BE DEVELOPED
REGIONAL BOUNDARIES
PROVINCIAL BOUNDARIES
PROVINCIAL CAPITALS
INTERNATIONAL BOUNDARIES
As designated by the Ministry of Reconstruction and Resettlement
Black Sea
Mediterrean Sea
Aegean Sea
Sea of Marmara
BULGARIA
GREECE
U. S. S. R.
IRAN
IRAQ
SYRIA
CYPRUS
MARMARA REGION
AGEAN REGION
ANTALYA REGION
CENTRAL REGION
WESTERN BLACK SEA REGION
EASTERN BLACK SEA REGION
EASTERN ANATOLIA REGION
ADANA REGION
KIRKLARELI
EDIRNE
TEKIRDAK
ISTANBUL
Istanbul
KOCAELI
Izmit
SAKARYA
CANAKKALE
BURSA
BILECIK
BALIKESIR
MANISA
IZMIR
AYDIN
DENIZLI
MUGLA
USAK
KUTAHYA
AFYON
ISPARTA
BURDUR
ANTALYA
ZONGULDAK
KASTAMONU
SINOP
BOLU
CANKIRI
CORUM
ANKARA
ESKISEHIR
KIRSEHIR
YOZGAT
NEVSEHIR
KAYSERI
NIGDE
KONYA
SAMSUN
AMASYA
TOKAT
ORDU
GIRESUN
TRABZON
RIZE
ARTVIN
GUMUSHANE
SIVAS
KARS
ERZURUM
ERZINCAN
AGRI
TUNCELI
BINGOL
MUS
ELAZIG
MALATYA
VAN
BITLIS
SIIRT
HAKKARI
DIYARBAKIR
ADIYAMAN
MARAS
URFA
MARDIN
GAZIANTEP
ADANA
ICEL
Mersin
Iskenderun
HATAY
KILOMETERS
0 100 200 300
MILES
0 50 100 150 200
25°
30°
35°
40°
IBRD 10672
SEPTEMBER 1973

CONFIDENTIAL



TURKEY - COUNTRY PROGRAM PAPER

Postscript

78. This paper was reviewed at a meeting chaired by Mr. McNamara on September 16, 1976. The five-year lending program and the economic and sector work programs proposed in the CPP were approved.

79. The main concern expressed at the meeting was Turkey's ability to raise sufficient external resources to achieve its target of a high growth rate, and whether in doing so, it might not have to accept terms endangering its financial position. The Region pointed out that the macroeconomic projections assumed continuation of the Government's objective of 8 - 9 percent growth, and that a moderate but still reasonably rapid growth rate, would significantly reduce the foreign exchange requirements, although it would imply an increase in the Bank exposure if the proposed lending program were to be approved. At the same time there clearly were financing avenues which the Government had been slow to explore and whose vigorous pursuit, coupled with prudent debt management, could help achieve the external resource mobilization necessary to attain the high growth rate. These included tapping Middle Eastern sources of aid, Middle Eastern capital markets, bond and loan markets in Europe and the US, increased use of suppliers' credit and possibly a more dynamic approach to the OECD Consortium. The changed structure of the economy since the 1960s implied a non-reversal of the import liberalization trend, and a tight balance of payments as a concomitant to rapid growth. Mr. McNamara stated that Turkey was both a high risk and a high opportunity country for the Bank, and that if the Government gained sufficient political power after the 1977 elections and addressed the major economic weaknesses, particularly export performance, there might be scope for increased Bank lending at that time.

80. The thrust and composition of the proposed lending and sector programs, and essentially the general shift away from infrastructure lending, were commended at the meeting. Mr. McNamara hoped that the program would permit relief from the recent policy controversies encountered under the ongoing projects. At the same time, he emphasized that lending to Turkey must be underpinned by adequate sector knowledge, and hence the need to ensure the implementation of the sector work program. While

recognizing the recent breakthrough with the Government on initiating considerable sector work in Turkey, he indicated that in the event of future noncooperation with the Bank for sector work, he would be prepared to consider a reduction not only in lending for the sector concerned, but also in the total Turkish program.

81. The approved lending program is attached as Annex I.

EMENA Region
October 20, 1976

**TURKEY: ACTUAL AND PROPOSED LENDING THROUGH FY82**
(US$ Million)

Population: 40.1 million (mid 1975)
Per Capita GNP: $864 (1975)
Area: [illegible] sq. km.
Literacy rate: [illegible] adult population (1970)

| | | | Through | Actual | | | | | Current | Program | | | | | Total | Total | Total | Total | Reserve |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | FY71 | FY72 | FY73 | FY74 | FY75 | FY76 | FY77 | FY78 | FY79 | FY80 | FY81 | FY82 | FY69-73 | FY74-78 | FY77-81 | FY78-82 | Projects |
| Agricultural Credit I (incl. Agro-Ind) | IBRD | | | | | | | 65.0 | | | | | | | | | | | |
| Agricultural Credit II (incl. Fisheries) | IBRD | | | | | | | | | | 70.0 | | | | | | | | |
| Agricultural Credit III | IBRD | | | | | | | | | | | | | 70.0* | | | | | |
| Agriculture (unidentified) | IBRD | | | | | | | | | | | | | | | | | | 40 (FY82) |
| Agricultural Pest Control/Seed Production | IBRD | | | | | | | | | | | 45.0* | | | | | | | |
| Fruit-Vegetable I | IDA | | 15.0 | | | | | | | | | | | | | | | | |
| " | IBRD | | 10.0 | | | | | | | | | | | | | | | | |
| Irrigation Seyhan I | IDA | | 20.0 | | | | | | | | | | | | | | | | |
| Irrigation Seyhan II | IDA | | 12.0 | | | | | | | | | | | | | | | | |
| " | IBRD | | 12.0 | | | | | | | | | | | | | | | | |
| Irrigation Rehabilitation | IDA | | | 18.0 | | | | | | | | | | | | | | | |
| Ceyhan Aslantas | IDA | | | | 30.0 | | | | | | | | | | | | | | |
| " | IBRD | | | | 44.0 | | | | | | | | | | | | | | |
| Lower Firat (Karababa) multi-purpose | IBRD | | | | | | | | | | | | | | | | | | 75 (FY81) |
| Livestock I (Dairy) | IDA | | 4.5 | | | | | | | | | | | | | | | | |
| Livestock II (Village Development) | IDA | | | 16.0 | | | | | | | | | | | | | | | |
| Livestock III (Dairy) | IBRD | | | | | | | 21.5 | | | | | | | | | | | |
| Livestock IV | IBRD | | | | | | | | | | 30.0* | | | | | | | | |
| Livestock V | IBRD | | | | | | | | | | | | | 30.0 | | | | | |
| Grain Silos | IBRD | | 3.9 | | | | | | | | | | | | | | | | |
| Grain Storage I | IBRD | | | | | | | | | 50.0 | | | | | | | | | |
| Grain Storage II | IBRD | | | | | | | | | | | | | | | | | | 60 (FY82) |
| Rural Development I (Corum Cankiri) | IBRD | | | | | | 75.0 | | | | | | | | | | | | |
| Rural Development II (Erzurum) | IBRD | | | | | | | | | 50.0 | | | | | | | | | |
| Rural Development III (unidentified) | IBRD | | | | | | | | | | | | 80.0* | | | | | | |
| Education | IBRD | | 13.5 | | | | | | | | | | | | | | | | |
| DFCs - TSKB I to VI | IDA | | 35.0 | | | | | | | | | | | | | | | | |
| DFCs - TSKB I to IX | IBRD | | 93.0 | | | | | | | | | | | | | | | | |
| DFCs - TSKB X | IBRD | | | | 40.0 | | | | | | | | | | | | | | |
| DFCs - TSKB XI | IBRD | | | | | | 65.0 | | | | | | | | | | | | |
| DFCs - TSKB XII (incl. SSI) | IBRD | | | | | | | | 74.0 | | | | | | | | | | |
| DFCs - DYB I | IBRD | | | | | 40.0 | | | | | | | | | | | | | |
| DFCs - DYB II | IBRD | | | | | | | | 70.0 | | | | | | | | | | |
| DFCs - DYB III | IBRD | | | | | | | | | | | 70.0* | | | | | | | |
| DFCs - SSI I | IBRD | | | | | | | | | | | | 30.0* | | | | | | |
| DFCs - SSI II | IBRD | | | | | | | | | | | | | | | | | | 30 (FY82) |
| ICSAS Fertilizer I | IBRD | | | 24.0 | | | | | | | | | | | | | | | |
| IGSAS Expansion II | IBRD | | | | | | 18.0 | | | | | | | | | | | | |
| Fertilizer III (unidentified) | IBRD | | | | | | | | | | | | | | | | | | 50 (FY79) |
| Erdemir Steel | IBRD | | | 76.0 | | | | | | | | | | | | | | | |
| SEKA Akdeniz Forestry and Paper | IBRD | | | | | 40.0 | | | | | | | | | | | | | |
| SEKA Balikesir Pulp and Paper | IBRD | | | | | | | 70.0 | | | | | | | | | | | |
| SEKA III (North) | IBRD | | | | | | | | | | | 75.0 | | | | | | | |
| Export Industries I (Leather | IBRD | | | | | | | | | 40.0 | | | | | | | | | |
| Export Industries II (Textiles/Leather) | IBRD | | | | | | | | | | 70.0 | | | | | | | | |
| Export Industries III (Textiles) | IBRD | | | | | | | | | | | | | 70.0* | | | | | |
| Tractors | IBRD | | | | | | | | | | | | 75.0 | | | | | | |
| Population | IBRD | | | | | | | | | | | 30.0* | | | | | | | |
| Power - Seyhan | IBRD | | 25.2 | | | | | | | | | | | | | | | | |
| Power - Keban Transmission | IBRD | | 25.0 | | | | | | | | | | | | | | | | |
| Power - TEK I | IBRD | | 24.0 | | | | | | | | | | | | | | | | |
| Power - TEK II | IBRD | | | | | | | 56.0 | | | | | | | | | | | |
| Power - Elbistan | IBRD | | | | | 148.0 | | | | | | | | | | | | | |
| Power - Karakaya | IBRD | | | | | | | | 100.0 | | | | | | | | | | |
| Power - Cukurova I | IDA | | 25.7 | | | | | | | | | | | | | | | | |
| Power - Cukurova II to IV | IBRD | | 27.5 | | | | | | | | | | | | | | | | |
| Power - Cukurova V | IBRD | | | | | | | | | | | | | | | | | | 70 (FY78) |
| Tourism I | IBRD | | | | | | | | 26.0 | | | | | | | | | | |
| Tourism II | IBRD | | | | | | | | | | | | 25.0 | | | | | | |
| Ports I and II | IBRD | | 16.3 | | | | | | | | | | | | | | | | |
| Ports III (poss. Istanbul) | IBRD | | | | | | | | | | 50.0* | | | | | | | | |
| Ports IV (Unidentified) | IBRD | | | | | | | | | | | | | 50.0* | | | | | |
| Railways I | IBRD | | | | 47.0 | | | | | | | | | | | | | | |
| Railways II (incl. TCA) | IBRD | | | | | | | | | 70.0 | | | | | | | | | |
| Urban - Istanbul Studies | IDA | | | 2.5 | | | | | | | | | | | | | | | |
| Urban - Istanbul Water | IBRD | | | 37.0 | | | | | | | | | | | | | | | |
| Urban - Istanbul Sewerage | IBRD | | | | | | | | | 60.0 | | | | | | | | | |
| Urban - Istanbul Water / Sewerage II | IBRD | | | | | | | | | | | | 60.0* | | | | | | |
| Urban - Istanbul Power Distribution (IETT) | IBRD | | | | 14.0 | | | | | | | | | | | | | | |
| Urban - Urban I (Istanbul Expansion) | IBRD | | | | | | | | | | 30.0* | | | | | | | | |
| Urban - Urban II (unidentified) | IBRD | | | | | | | | | | | 30.0 | | | | | | | |
| Urban - Urban III (unidentified) | IBRD | | | | | | | | | | | | | 30.0 | | | | | |
| Lending Program | IBRD | 250.4 | 94.5 | 137.0 | 145.0 | 228.0 | 158.0 | 210.5 | 270.0 | 280.0 | 250.0 | 250.0 | 270.0 | 250.0 | 450.0 | 1146.5 | 1370.0 | 1300.0 | |
| | IDA | 112.2 | 19.5 | 36.5 | 30.0 | - | - | - | - | - | - | - | - | - | 97.[illegible] | - | - | - | |
| | Total | 362.6 | 114.0 | 173.5 | 175.0 | 228.0 | 158.0 | 210.5 | 270.0 | 280.0 | 250.0 | 250.0 | 270.0 | 250.0 | [illegible] | 1146.5 | 1370.0 | 1300.0 | |
| | No. | 26 | 6 | 7 | 4 | 3 | 3 | 4 | 4 | [illegible] | 5 | [illegible] | [illegible] | [illegible] | 21 | 19 | 24 | [illegible] | |
| Of Which: | IDA | (10) | (2) | (3) | (1) | (-) | (-) | (-) | (-) | (-) | (-) | (-) | (-) | (-) | (7) | (-) | (-) | (-) | |
| Lending Program in Constant FY76$ | | 664.0 | 176.5 | 257.7 | 215.0 | 258.2 | 167.7 | 210.5 | 255.4 | 251.8 | 213.9 | 203.6 | 209.5 | 184.6 | 11[illegible].7 | 1143.6 | 1126.4 | 1063.0 | |
| Deflator (FY76 = 100) | | 64.6 | 64.6 | 72.9 | 81.4 | 88.3 | 94.2 | 100.0 | 105.7 | 111.2 | 116.9 | 122.8 | 12[illegible].9 | 13[illegible].4 | | | | | |
| Standby Projects | IBRD | | | | | | | | - | 110.0 | 150.0 | 170.0 | 190.0 | - | | | | | |
| | IDA | | | | | | | | - | - | - | - | - | - | | | | | |
| | Total | | | | | | | | - | 110.0 | 150.0 | 170.0 | 190.0 | - | | | | | |
| | No. | | | | | | | | - | 3 | 3 | 3 | 3 | - | | | | | |

* Standby Projects

Country Programs Department II
Europe, Middle East and North Africa Region
October [illegible], 1976

CURRENT LENDING PROGRAM

(11)

# TURKEY

## Tentative 5-Year Lending Program Reflecting Lending Totals Approved up to FY82 and Regional Management Decisions as of March 24, 1978

| FY78 | $m |
|---|---|
| Karakaya | 100 |
| Erdemir II | 50 |
| Forestry Development | 30 |
| Unallocated[1] | 110 |
| Approved Total | 290 |

| FY79 | |
|---|---|
| Livestock IV | 20 |
| IGSAS II | 50 |
| Ports III | 50 |
| Rural Development II | 50 |
| Sumerbank | 50 |
| Unallocated | 35 |
| Approved Total | 255 |

| FY80 | |
|---|---|
| Seed Production (from FY80S) | 40 |
| Export Industry (from FY80S) (private sector text.mod.) | 70 |
| Highways (Phase I Trans-Europe Highway) | 70 |
| SEKA III (Karadeniz) | 70 |
| TCZB II (or Fruit & Veg.II) | 75 |
| DYBIII(ess. medium scale and employment gener. units) | 75 |
| Industry Unidentified (poss. tractors) | 65 |
| Overallocated | -60 |
| Total | 405 |

| FY79S | $m |
|---|---|
| Livestock IV | 20 |

| FY80S | |
|---|---|
| Seed Production | 40 |
| Export Industries (private sector textile modern.) | 70 |

| FY79R | |
|---|---|
| Grain Storage | 50 |
| Istanbul Urban | 30 |
| Telecom. I | 50 |
| Bati Raman (engineering) | 5 |

| FY81S | |
|---|---|
| Istanbul Sewerage I | 70 |
| Industry (poss. minerals) | 100 |
| Urban (low-income housing mortgage bank) | 50 |

| FY80R | |
|---|---|
| Population | 40 |

---

1/ Unallocated amount could be used to reduce existing financing gaps in the three FY78 projects.

**FY81**

| | $m |
|---|---|
| Istanbul Sewerage I (from FY81S) | 70 |
| Industry (poss. minerals) (from FY81S) | 100 |
| Export Ind. (integ. leather development) | 60 |
| Urban (low-income housing mtg. bank) (from FY81S) | 50 |
| Rural Development III | 60 |
| Gas Unident. (poss.Bati Raman) | 60 |
| Total | 400 |

**FY82**

| | |
|---|---|
| Marmara Port (from FY82S) | 100 |
| Small-scale Ind.Estate (from FY82S) | 60 |
| Livestock V (from FY82S) | 25 |
| Forestry Development III (from FY82S) | 70 |
| Telecom II | 50 |
| DYB IV (ess. medium-scale & employment generating units) | 90 |
| Ind. (uniden., poss.cement) | 70 |
| Total | 465 |

**FY83**

| | |
|---|---|
| TCZB III (from FY83S) | 100 |
| Istanbul Water II (from FY83S) | 80 |
| Export Ind. (Phase II, priv. sector textile rehab.) | 100 |
| Rural Development IV | 70 |
| Urban Development (unident.) | 50 |
| Ind. (minerals 2) | 100 |
| Total | 500 |

TOTAL: FY78-82 1815

**FY82S**

| | $m |
|---|---|
| Marmara Port | 100 |
| Small-scale Ind. Estates | 60 |
| Livestock V | 25 |
| Forestry Development II | 70 |

**FY81R**

| | |
|---|---|
| Lower Firat | 100 |
| Urban Power Distribution | 60 |

**FY83S**

| | |
|---|---|
| TCZB III | 100 |
| Istanbul Water II | 80 |
| Export Ind. (possibly Phase II private sector textile modern.) | 100 |

**FY82R**

| | |
|---|---|
| Gas/Oil Develop. | 100 |

**FY84S**

| | |
|---|---|
| Istanbul Sewerage II | 100 |
| Small-scale Ind. Estate II | 60 |
| Seed Production II | 50 |
| Ind. (unident.) | 100 |

FY79-83: 2025

EMENA CPIIA
March 24 1978

ECONOMIC MANAGEMENT MATTERS

## (iii)(a) COUNTRY DATA SHEET

BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE

(In Current US$ Millions)

| | Actual 1970 | Actual 1972 | Actual 1974 | Actual 1975 | Actual 1976 | Est. 1977 |
|---|---|---|---|---|---|---|
| **A. SUMMARY OF BALANCE OF PAYMENTS** | | | | | | |
| 1. Exports and NFS | 760 | 1100 | 2123 | 2139 | 2835 | 2534 |
| 2. Imports and NFS | 1132 | 1790 | 4121 | 5191 | 5657 | 6487 |
| 3. Resource Balance | -372 | -681 | -1998 | -3052 | -2822 | -3953 |
| 4. Net Factor Service Income | 193 | 643 | 1253 | 1152 | 691 | 546 |
| a. Interest (net) | -47 | -62 | -102 | -124 | -217 | -320 |
| b. Workers' Remittances | 273 | 740 | 1426 | 1312 | 983 | 982 |
| c. Profits | -33 | -35 | -71 | -36 | -75 | -116 |
| 5. Transfers (net) | 8 | 30 | 27 | 20 | 30 | 12 |
| 6. Balance on Current Account | -171 | -8 | -718 | -1880 | -2101 | -3395 |
| 7. Private Direct Investment | 58 | 43 | 88 | 153 | 27 | 67 |
| 8. Grant and Grantlike Flows /1 | 117 | 55 | 58 | 98 | 133 | 76 |
| 9. Public M&LT (gross) | 337 | 304 | 269 | 322 | 362 | 313 |
| 10. Amortization on Public M&LT | 197 | 127 | 156 | 147 | 182 | 188 |
| 11. Public M&LT (net) | 140 | 177 | 113 | 175 | 180 | 125 |
| 12. Short-term Capital (net) | 18 | 332 | 60 | 840 | 1443 | 2795 |
| 13. IMF | 48 | -98 | - | 197 | 149 | - |
| 14. Gapfill (net) /2 | - | - | - | - | - | - |
| 15. Capital n.i.e. | -24 | 65 | -32 | - | 55 | 21 |
| 16. Changes in Reserves (- = increase) /3 | -186 | -566 | 431 | 417 | 114 | 311 |
| **B. LOAN COMMITMENTS** | | | | | | |
| Total Public M&LT | 487 | 453 | 533 | 589 | 1206 | |
| a. IBRD | 40 | 177 | 228 | 158 | 237 | |
| b. Other Multilateral | 132 | 29 | - | 3 | 54 | |
| c. Governments | 268 | 184 | 149 | 180 | 574 | |
| d. Suppliers and Financial Institutions | 47 | 27 | 28 | 219 | 316 | |
| e. Others | - | 36 | 68 | 29 | 26 | |
| **C. M&LT EXTERNAL DEBT** | | | | | | |
| 1. Total Debt Outstanding (end of the period, DO&D) | 1840 | 2448 | 3097 | 3180 | 3536 | 4221 |
| 2. Interest | 42 | 64 | 93 | 104 | 123 | 162 |
| 3. Amortization | 135 | 166 | 141 | 145 | 151 | 188 |
| 4. Total Debt Service on M&LT Debt | 177 | 230 | 234 | 249 | 274 | 350 |
| 5. Debt Service Ratio /4 | | | | | | |
| a. Debt Service/Exports NFS | 23.2 | 20.7 | 11.0 | 11.6 | 9.7 | 13.8 |
| b. Debt Service/Exports NFS and Workers' Remittances | 17.1 | 12.4 | 6.6 | 7.2 | 7.2 | 10.0 |
| 6. Terms: | | | | | | |
| Interest DO&D/Total DO&D | 2.3 | 2.6 | 3.0 | 3.0 | 3.5 | 3.8 |
| Debt Service/Total DO&D | 9.3 | 9.2 | 6.0 | 7.8 | 7.7 | 8.3 |
| 7. IBRD DO&D/Total DO&D | 2.8 | 3.7 | 6.5 | 9.0 | 15.7 | 18.1 |
| IBRD Debt Service/Total DO&D Debt Service | 3.2 | 5.0 | 9.1 | 12.4 | 14.8 | 20.5 |

| PUBLIC EXTERNAL DEBT (Disbursed Only) | Outstanding Dec. 31, 1977 Amount | Outstanding Dec. 31, 1977 Percent |
|---|---|---|
| IBRD and IDA | 766 | 18.1 |
| Other Multilateral | 553 | 13.1 |
| Governments | 2426 | 57.5 |
| Financial Institutions | 320 | 7.6 |
| Suppliers' Credits | 105 | 2.5 |
| Others | 51 | 1.2 |
| TOTAL M&LT DEBT | 4221 | 100.0 |

/1 Mostly imports with waivers.
/2 Relevant only to projections of capital flows, and should be regarded as a residual.
/3 As reported by country sources and is different from IFS (IMF) figures.
/4 Represent debt service obligations only on M&LT DO&D, excludinjg debt service on short-term obligations.

March 21, 1978
A.W.

ANNEX G(iii)(a)

## ECONOMIC DEVELOPMENT DATA SHEET 1/

| | Actual 1970 | 1974 | 1975 | 1976 | Estimated 1977 | Growth Rates 70-77 | Share of GDP 1976 |
|---|---|---|---|---|---|---|---|
| **A. NATIONAL ACCOUNTS** (TL Billion, 1976 Prices) | | | | | | | |
| Gross Domestic Product | 423.5 | 557.8 | 607.7 | 659.0 | 695.0 | 7.3 | 100.0 |
| Gain from Terms of Trade | -2.3 | 1.5 | -0.4 | 0.0 | -0.3 | | |
| Gross Domestic Income | 421.2 | 559.3 | 607.3 | 659.0 | 694.7 | 7.4 | 100.0 |
| Exports (g + nfs) | 21.8 | 34.5 | 29.6 | 36.1 | 32.0 | 5.6 | 5.5 |
| Imports (g + nfs) | 31.4 | 71.5 | 81.2 | 85.0 | 96.7 | 17.4 | 12.9 |
| Resource Balance | -9.6 | -37.0 | -51.6 | -48.9 | -64.7 | | 7.4 |
| Investment | 79.5 | 118.3 | 145.8 | 156.0 | 165.7 | 11.1 | 23.7 |
| Consumption | 353.6 | 476.5 | 513.5 | 552.0 | 593.9 | 7.7 | 83.8 |
| Domestic Savings | 67.6 | 82.8 | 93.8 | 107.0 | 104.6 | 6.4 | 16.2 |
| National Savings | 73.8 | 104.7 | 114.0 | 118.0 | 113.7 | 6.4 | 17.9 |
| **B. SECTOR OUTPUT** | Share of GDP (factor cost) | | | | | | |
| Agriculture | 30.0 | 27.4 | 27.9 | 28.5 | 25.5 | 4.4 | |
| Industry | 26.9 | 28.1 | 27.7 | 27.1 | 27.9 | 10.7 | |
| Services | 43.1 | 44.5 | 44.4 | 44.4 | 46.6 | 9.0 | |
| **C. PRICES** (1976 = 100) | | | | | | | |
| Export Prices (in dollars) | 44.1 | 87.6 | 92.5 | 100.0 | 107.4 | 13.6 | |
| Import Prices (in dollars) | 51.1 | 83.3 | 93.7 | 100.0 | 108.3 | 11.3 | |
| Terms of Trade | 86.3 | 105.2 | 98.7 | 100.0 | 99.1 | | |
| GDP Deflator | 34.4 | 73.4 | 85.4 | 100.0 | 125.0 | 20.2 | |
| Av. Exchange Rate ($1.00 = TL) | 11.5 | 13.9 | 14.4 | 16.1 | 18.0 | | |
| **D. PUBLIC FINANCE** | As percent of GDP | | | | | | |
| Central Govt. Revenue | 19.9 | 17.1 | 20.3 | 20.7 | 22.6 | | |
| Central Govt. Expenditures | 22.5 | 18.6 | 21.7 | 22.4 | 26.6 | | |
| Public Sector Deficit 2/ | na | 3.7 | 5.4 | 5.8 | 6.6 | | |

| E. SELECTED INDICATORS | 1970-77 |
|---|---|
| ICOR | 3.19 |
| Import Elasticity | 2.38 |
| Average National Saving Rate | 0.18 |
| Marginal National Saving Rate | 0.16 |
| Investment/GDP | 0.22 |
| Imports/GDP | 0.11 |
| Resource Balance/GDP | 0.05 |

| F. LABOR FORCE | 1965 | 1970 | 1975 | Est. 1977 |
|---|---|---|---|---|
| Civilian Labor Force (million) | 12.9 | 13.8 | 15.6 | 16.4 |
| Unemployment & Underemployment (% of CLF) | 9.7 | 11.9 | 13.0 | 13.3 |
| Civilian Employment (million) | 12.5 | 13.1 | 14.3 | 14.9 |
| Of which (%): | | | | |
| Agriculture | 74.3 | 67.1 | 60.8 | 57.7 |
| Industry | 11.2 | 13.7 | 16.1 | 17.5 |
| Services | 14.5 | 19.2 | 23.1 | 24.8 |

1/ Totals may not add up because of rounding.
2/ Borrowing requirement of central government plus State Economic Enterprises and other public authorities.

March 21, 1978
A.n.

## (iii)(b) ECONOMIC BACKGROUND: CURRENT SITUATION AND FUTURE PROSPECTS

# ECONOMIC BACKGROUND, CURRENT SITUATION AND FUTURE PROSPECTS

## Introduction

1. The record of Turkish economic development over the last two decades is in most respects very good. A strong commitment to rapid growth and modernization (and also to democracy and popular participation) has enabled real output to grow, on average, by more than 6 percent per annum, and has led to great strides towards meeting the basic needs of the large (41 million) population in such areas as education, water supply and health care. This impressive progress, however, has been punctuated (in 1958, 1970 and 1977) by severe balance of payments crises. These crises have in part been caused by extraneous factors; but they have also in part been a product of Turkish development strategy, which has paid insufficient attention to the structural weaknesses of the economy, and has perhaps exacerbated some of them.

## Structure and Structural Problems

2. Since its inception, the Turkish Republic has laid great stress on industrialization. The rise in the share of the industrial sector in total output from about 15 percent in 1955 to about 28 percent in 1977 is largely a reflection of the priority which it has been given in the allocation of investible resources. Agricultural development, on the other hand, has been relatively neglected. Agriculture still contributes about a quarter of total output; but inappropriate subsidy and pricing policies have led to misallocation of land use (away from grazing to crops, and among different crops), to overmechanization, and to insufficient improvement of dryland farming, which is the main type of agricultural activity in the interior of the country. Production has also been constrained by inadequate implementation of irrigation schemes and ineffective extension services. As a result, and although the modern subsector of agriculture in irrigated regions and coastal zones is reasonably efficient, agricultural labor productivity is on average only about one fifth of that in industry.

3. Turkish industry, moreover, is itself on average not especially efficient by international standards. One reason for this is that a strong emphasis has been placed, especially in recent years, on large-scale capital-intensive investment projects. This has been viewed as the best way to accomplish a rapid transfer of sophisticated technology; but it has resulted in high-cost production in certain sectors, which have had to be heavily protected from foreign competition by quotas and tariffs; and it has aggravated a growing surplus of labor. Some parts of Turkish industry, by contrast, are efficient, and many have the potential to become efficient. But the rather unselective way in which protection has been applied has tended to limit the evolution of sectors beyond the infant industry stage, and more generally has inhibited the development of an industrial structure well suited to Turkey's comparative advantages in terms of location, natural resources, and labor availability. Stress to FM & PM

4. Turkey has a mixed economy. There is a large and flourishing private sector, officially encouraged by a variety of investment incentives. However, a leading role in implementing the heavy industry strategy has been played by State Economic Enterprises (SEEs), which dominate the transport and power sectors, and account for half the output of mining and manufacturing. The SEEs are expected to pursue social as well as economic objectives, especially in regard to pricing, investment and employment decisions. This has led to poor financial performance, which in turn has been a major contributor to large public sector deficits in recent years. The efficiency of the SEEs has been impaired also by shortages of managerial and technical staff as a result of uncompetitive remuneration.

5. It is tentatively envisaged that Turkey will join the European Economic Community in the 1990s. To date, however, Turkish foreign trade policy has emphasized self-reliance and import-substitution, first in consumer goods and subsequently in basic industries. One important consequence of this, as well as of the pattern of industrialization outlined above, has been that Turkey has failed to develop a large industrial export base. Instead, it has relied mainly on its traditional agricultural exports (supplemented by workers' remittances) to finance the imports of machinery and materials necessary to accomplish its industrial transformation. This pattern of trade, in combination with the neglect of agricultural development (including the development of agricultural exports), has been a fundamental cause of the difficulty which Turkey has experienced in reconciling rapid growth with a viable external payments position.

## The Third Plan: Targets and Performance

6. The somewhat checkered record of Turkish economic development is well exemplified by the events of the past five years (1973-77), which coincide with the period of the Third Plan. The Plan envisaged growth of GDP at 8 percent (compared with under 7 percent achieved in the Second Plan period); the share of investment in GDP was projected to rise from 19 to 23 percent; the current account balance was expected to improve as a result of faster growth of exports and increased workers' remittances; and hence there was to be a reduction in the inflow of foreign capital, which was to be matched by a rise in domestic savings, especially in the public sector. Unemployment was expected to increase somewhat; but inflation was to be held to moderate levels.

7. As regards growth and investment, the achievements of the Third Plan period were fairly close to these targets. The average annual increase in real GDP was over 7 percent; and the average share of fixed investment in GDP was above 20 percent. But in most other respects, Plan targets were not met. The public sector, instead of saving more, went progressively further into deficit; the rate of inflation rose to over 30 percent; and the current account deficit, rather than declining, increased enormously, which precipitated an acute foreign exchange crisis in 1977.

8. In succeeding paragraphs, economic developments in Turkey since 1970 are analyzed in greater detail. An assessment is also attempted of the future prospects of the economy, with particular regard to (a) the measures recently taken by the government, and (b) other measures needed to achieve and sustain an improvement in performance.

Production, Investment and Employment

9. The most conspicuous feature of the recent growth of production in Turkey, unlike almost every other country, is that it accelerated during the world recession. The average annual real rate of GDP growth in the period 1970-73 was under 7 percent; in the period 1973-77, it rose to nearly 8 percent.

10. Part of the explanation for this is to be found on the demand side. Reduced exports and the increased outflow of payments for oil both tended to dampen demand for domestic output after 1973; but this was more than offset in Turkey by the expansionary effect of a rising public sector deficit. As a result, the growth of output was not, as in many countries, constrained by lack of demand, but was determined by supply side considerations.

11. Of these, the most important (in terms of explaining the increase in the growth rate after 1973) was a marked improvement in the performance of agriculture, as a result of favorable weather and good harvests in 1975 and 1976. Thus agricultural output, which had grown at an average annual rate of 2 percent in real terms during the period 1970-73, grew at an average annual rate of 7 percent in the period 1973-77, despite zero growth in 1977.

12. Industrial output grew no faster after 1973. But it maintained the average real growth rate of around 10 percent which it had achieved up to 1973, principally as a result of the sustained high level of prior industrial investment. The pace of investment in Turkey, moreover, did not slacken during the world recession. On the contrary, from 1975 onwards, as may be seen in the public fixed investment figures in table 1 below, the government intensified its industrialization drive (although the rate of realization of investment plans declined). This increase in public investment was paralleled by higher investment in the private sector in response to buoyant demand, easy credit and generous tax incentives.

Table 1: RESOURCES AND EXPENDITURE
(Percentages of GDP) /1

| | 1970 | 1973 | 1974 | 1975 | 1976 | Est. 1977 |
|---|---|---|---|---|---|---|
| GDP | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Imports (g + nfs) | 7.4 | 9.8 | 12.8 | 13.4 | 12.9 | 13.9 |
| Total Resources | 107.4 | 109.8 | 112.8 | 113.4 | 112.9 | 113.9 |
| Gross Fixed Investment | 17.6 | 18.1 | 18.5 | 21.0 | 22.1 | 22.6 |
| Public | 9.3 | 8.9 | 8.8 | 10.4 | 11.4 | 12.1 |
| Private | 8.3 | 9.2 | 9.6 | 10.6 | 10.7 | 10.6 |
| Stock Changes | 1.2 | 0.8 | 2.7 | 3.0 | 1.5 | 1.2 |
| Consumption | 83.5 | 83.7 | 85.4 | 84.5 | 83.8 | 85.5 |
| Public | 12.0 | 14.1 | 13.5 | 12.7 | 12.8 | 14.6 |
| Private | 71.5 | 69.5 | 71.9 | 71.8 | 70.9 | 70.8 |
| (Gross Domestic Savings | 16.5 | 16.3 | 14.6 | 15.5 | 16.2 | 14.5) |
| Exports (g + nfs) | 5.1 | 7.2 | 6.2 | 4.9 | 5.5 | 4.6 |
| (Resource Gap | 2.3 | 2.6 | 6.6 | 8.5 | 7.4 | 9.3) |

/1 Totals may not add up because of rounding.

13. In 1977 itself, the growth rate of real GDP declined, to about 5 percent. This was in part a reflection of the zero growth rate of agricultural output. In addition, the growth of non-agricultural output was adversely affected by a decline in the rate of capacity utilization as a result of (a) shortages of electricity caused by malfunctions in the already overstretched generation and transmission system, (b) a prolonged strike in the metal-working industries, and (c) ad hoc import restrictions imposed by the government in response to the foreign exchange crisis, which led to shortages of imported inputs.

14. The favorable performance of Turkish production during the 1970's was not matched by employment. While Turkish labor statistics are far from good, it would appear that urban and rural unemployment and underemployment stood at a high level (12 percent of the civilian labor force) in 1970, and have since risen somewhat further, to over 13 percent in 1977. This increase is in part attributable to the world recession, which caused the annual rate of emigration from Turkey to drop from over 100,000 in 1973 to less than 10,000 in 1975. The main causes of the high level of unemployment in Turkey, however, antedate the world recession. They are:

(i) A rapidly growing labor force, reflecting a rising participation rate and a rate of population growth (2.5 percent per annum) which, while similar to that in other countries with Turkey's level of per capita income, is high by comparison with other Southern European countries.

(ii) The adoption of relatively capital-intensive methods of production both in agriculture and in industry, largely as a result of government policy, expressed in public sector investment plans and private sector investment incentives.

External Trade

15. The most notable feature of the crisis of 1977 was the large resource gap, which amounted to almost $4 billion. But this did not arise overnight; Turkey's trading position, as may be seen in table 1, had been worsening for several years. From 1970 to 1973 the resource gap fluctuated around an average of about 3 percent of GDP. But it rose to over 6 percent in 1974; it averaged about 8 percent in 1975 and 1976, and it was over 9 percent in 1977.

16. Part of the reason for this deterioration was an increase in the Turkish economy's propensity to import. The ratio of imports to GDP, as is shown in table 1, rose steadily from about 7 percent in 1970 to about 10 percent in 1973. In 1974 it jumped to 13 percent, and by 1977 it had reached 14 percent. The sharp rise in 1974 was caused mainly by the increase in the price of oil, which alone has added between 2 and 3 percentage points to the import propensity. The remainder of the rise in the import propensity is attributable to (a) the increasing relative importance of the industrial sector, which relies quite heavily on imported inputs, (b) the investment drive of recent years, which has increased the share of fixed investment (much of which involves imports) in total expenditure, and (c) a general liberalization of import restrictions.

17. The increased import propensity accounts for roughly half the deterioration of the resource balance since 1973. The remainder is attributable to poor export performance. Up to 1973, the rising propensity to import was more or less offset by an increase in the ratio of exports (of goods and non-factor services) to GDP. Subsequently, however, the growth rate of GDP increased somewhat, while the growth rate of exports declined sharply. In dollar terms, Turkish exports grew during the period 1970-73 at an average annual rate of 31 percent; during the period 1973-77, the average annual growth rate was only 10 percent; and in 1977 the absolute value of exports actually fell.

18. Year to year movements in Turkish exports are inherently erratic, given the high share of agricultural products, with their climatically dependent supply. But the weak performance of Turkish exports over the whole period 1973-77, which was manifested in industrial as well as agricultural products, had other causes:

(a) One was the unsatisfactory character of the agricultural price support policy, whereby prices, which are announced after the harvest, bear little relation to world prices and do not provide rational economic incentives to farmers. This long-standing problem was compounded during this period with exceptionally ineffective administration of agricultural export sales.

(b) Another important factor was the world recession. This not only affected Turkey's industrial exports; it also depressed Turkish agricultural exports, which consist mainly not of staple foods but of luxury foods (nuts and fruits) and industrial raw materials (cotton and tobacco).

(c) Industrial exports in particular were also adversely affected by a more rapid inflation of production costs in Turkey than in its trading partners, which was not fully compensated for by exchange rate adjustments. As a result, Turkish producers were obliged either to raise their prices in export markets, thus reducing the demand for their products, or to accept a cut in their profit margins, thus reducing the attractions of production for export as compared with domestic sale.

(d) This tendency for potential exports to be diverted to the domestic market was probably exacerbated to a significant degree, especially in 1976 and 1977, by aggregate excess demand in the domestic economy.

Current Account, Overall Balance, and External Borrowing

19. The widening resource gap after 1973 was more than fully reflected in the current account deficit (which rose from $0.7 billion in 1974 to $3.4 billion in 1977), as a result of a decline in workers' remittances.

Table 2: SUMMARY BALANCE OF PAYMENTS
(US$ Millions)

| | 1970 | 1973 | 1974 | 1975 | 1976 | Est. 1977 |
|---|---|---|---|---|---|---|
| Exports (g + nfs) | 760 | 1725 | 2123 | 2139 | 2835 | 2534 |
| Imports (g + nfs) | 1132 | 2348 | 4121 | 5191 | 5657 | 6487 |
| Resource Balance | -372 | -623 | -1998 | -3052 | -2822 | -3953 |
| Workers' Remittances | 273 | 1183 | 1426 | 1312 | 983 | 982 |
| Other FSI and Transfers | -72 | -75 | -146 | -140 | -262 | -424 |
| Current Account Balance | -171 | 485 | -718 | -1880 | -2101 | -3395 |
| Private Direct Investment | 58 | 27 | 88 | 153 | 27 | 67 |
| Gross Public M&LT | 337 | 411 | 269 | 322 | 362 | 313 |
| Amortization on Public M&LT | 197 | 107 | 156 | 147 | 182 | 188 |
| Other M&LT (net) | 117 | 102 | 58 | 250 | 133 | 76 |
| Overall Balance | 144 | 918 | -459 | -1302 | -1761 | -3127 |
| Financed by: | | | | | | |
| Reserve Changes | -186 | -728 | 431 | 417 | 114 | 311 |
| Convertible Lira Accounts | 42 | -237 | 60 | 975 | 787 | 198 |
| Other /1 | | 47 | -32 | -90 | 860 | 2618 |

/1 Includes errors and omissions.

20. About 600,000 Turks (4 percent of the labor force) ~~work abroad~~, mainly in West Germany. Between 1970 and 1974, as may be seen in table 2, their remittances increased in money terms by a factor of five. Subsequently, though, remittances have tended to fall significantly, and in 1977 were at only two-thirds of their 1974 level. One important cause of this decline has been the restrictions imposed on immigration by Western European countries in the face of growing unemployment caused by the world recession, which has reduced the number of Turkish workers abroad. But the rate at which foreign earnings are remitted has also fallen substantially, despite various efforts to increase the attractiveness of making remittances (including an exchange rate premium, an interest rate incentive and import privileges). This fall is believed to be partly a reflection of hedging against devaluation of the Turkish lira, and partly a result of remittances being diverted into the black market in response to overvaluation of the lira. It may also reflect the increasing proportion of migrant workers who have been allowed to bring their families to join them, and the declining proportion of relatively recent migrants, a category who might be expected to have a relatively high propensity to remit.

21. The decline in workers' remittances in money terms was the more significant because it occurred in a period of rapid world inflation, and at

a period when the Turkish economy was expanding rapidly. In 1973 workers remittances financed 50 percent of the import bill; by 1977 this figure had dropped to 15 percent.

22. The rapidly rising current account deficit was not matched by an increased inflow of medium and long-term external capital. As a result of a strong desire for economic independence, Turkey has deliberately kept foreign private investment to a minimum, and official borrowing has been the main source of medium and long-term external finance. But as may be seen from table 2, the level of official borrowing in gross money terms has exhibited little or no trend during the 1970's, and has been on average about $350 million per annum. This, given the great increases in world prices and in the level of investment and production in the Turkish economy, has meant a large decline in the relative contribution of official borrowing to Turkish foreign exchange needs. In 1970, official long-term borrowing financed 30 percent of imports; by 1977 this figure had dropped to 5 percent.

23. This stagnation of official medium and long-term borrowing is partly attributable to failure to foresee the growing need for it, which in turn is attributable to the Third Plan's optimistic forecasts concerning exports and workers' remittances. But it also reflects, especially in the latter part of the period (when the need for more external finance was all too apparent), the government's inability to obtain more long-term credit. Since the early 1970's, Turkey has relied heavily on three official sources of external capital - Germany, the European Investment Bank, and the World Bank. Until recently, it has taken little initiative in seeking other official sources of finance (including the Arab states); and its comparative inexperience in the open market has hampered its limited efforts to tap commercial sources of medium and long-term funds. Since 1975, the level of medium and long-term loan commitments, especially from Russia and Eastern Europe, has increased substantially. But most of these commitments have been tied to specific projects, whose implementation has been slow, and thus the rate of disbursement from official sources has not risen appreciably.

Press to FM + PM

24. The upshot of these changes in the relative importance of workers' remittances and official borrowing, in conjunction with the widening resource gap, has been (as may be seen in table 2) a rapid deterioration of the overall balance of payments since 1974. Between 1970 and 1973, the overall balance had been in surplus, and the reserves had risen very substantially, mainly as a result of the rapid growth of workers' remittances. In 1974, the overall balance went into deficit; by 1977 the deficit had risen to $3.1 billion; and the cumulative deficit from 1974 to 1977 amounted to $6.6 billion. This payments deficit was financed in part from the reserves accumulated prior to 1974. Between 1974 and 1977, the reserves declined by a total of $1.3 billion. At the end of 1977, they stood at a level of $0.6 billion, equivalent to only one month's imports. The remainder of the cumulative payments deficit, amounting to some $5.3 billion, was financed by short-term borrowing of one sort and another.

25. The single most important source of short-term credit was the convertible lira accounts (CLAs), which provided a total of nearly $2 billion, mainly during 1975 and 1976. These are deposits with Turkish banks by foreigners and non-resident Turks, which are guaranteed against exchange rate risk by the Central Bank, and which offer an interest rate (latterly a spectrum of interest rates according to maturity) set at a significant premium over LIBOR. Various other types of short-term loan were also obtained. But by 1977 foreign lenders, apprehensive of such extensive short-term financing of long-term investment, and doubtful of Turkey's ability to meet its foreign exchange commitments, became reluctant to roll over the outstanding stock of short-term debt, and even more reluctant to make further substantial loans. The Central Bank was thus driven to delaying payment for imports on a large scale (arrears rose by about $1.5 billion in 1977), which of course made it even harder to obtain credit by more conventional means.

Public Finance

26. The enlargement of the public sector deficit, as noted earlier, was instrumental in maintaining the rate of growth (and thus widening the resource gap) in the period after 1973. In assessing the reasons for this, it is not sufficient to consider the activities of the central government alone. It is necessary instead, especially since the financial deficits and surpluses of State Economic Enterprises are entangled with the consolidated budget of the central government, to consider the public sector as a whole. The relevant data are set out in table 3 below. Since 1972, the excess of public sector investment over public sector savings has increased in money terms by a factor of ten. In relative terms, as the table shows, the public sector deficit has risen steadily from about 2 percent of GDP in 1972-73 to about 6 percent of GDP in 1976-77.

27. This increase in the public sector deficit is attributable mainly to a deterioration in the financial position of the SEEs, and in particular of the operational (as distinct from the financial) SEEs. Successive governments, in an effort to slow inflation and avoid unpopularity, have held SEE price increases below the rate at which SEE costs were rising. They have also increased agricultural support prices at such a rate that the Soil Products Office (the operational SEE mainly concerned with implementing the price support policy) has been unable to cover its costs. These policies have caused operational SEEs to make heavy losses, and the SEE sector as a whole to make virtually zero gross profits since 1975. In addition, the government has greatly escalated the level of SEE investment. The net effect has been a very rapid widening of the gap between SEE savings and investment. As a result, and although the non-SEE-related elements of the consolidated budget have contributed a modest surplus (partly as the result of a determined effort to improve the efficiency of tax collection), the size of the public sector deficit in relation to GDP has tripled in the past four years.

Table 3: PUBLIC FINANCE
(TL Billions: fiscal years)

| | 1972 | 1973 | 1974 | 1975 | 1976 | Est. 1977 |
|---|---|---|---|---|---|---|
| CONSOLIDATED BUDGET | | | | | | |
| Tax Revenues | 39.9 | 51.4 | 65.0 | 94.1 | 121.1 | 164.6 |
| Other Revenue | 7.9 | 6.9 | 5.1 | 11.2 | 15.0 | 18.3 |
| Total Revenue | 47.8 | 58.3 | 70.1 | 105.3 | 136.1 | 182.9 |
| Current Expenditure | 24.2 | 28.7 | 40.0 | 56.6 | 78.6 | 108.0 |
| Investment Expenditure | 8.8 | 11.6 | 18.0 | 25.8 | 33.6 | 52.3 |
| Transfer Expenditure /1 | 19.5 | 24.6 | 18.3 | 30.2 | 35.6 | 54.8 |
| Total Expenditure | 52.5 | 64.9 | 76.3 | 112.7 | 147.8 | 215.1 |
| Surplus/Deficit /2 | -4.7 | -6.6 | -6.2 | -7.4 | -11.7 | -32.2 |
| STATE ECONOMIC ENTERPRISES | | | | | | |
| Gross Profit | 6.8 | 9.1 | 11.5 | 8.0 | 0.4 | 0.0 |
| Fixed Investment | 10.7 | 12.1 | 15.3 | 25.9 | 35.0 | 40.5 |
| TOTAL PUBLIC SECTOR | | | | | | |
| Surplus/Deficit /2 /3 | -5.2 | -6.8 | -15.3 | -27.9 | -38.1 | -53.4 |
| (Deficit as % GDP) /4 | (2.2) | (2.3) | (3.7) | (5.4) | (5.8) | (6.6) |
| Financed by: | | | | | | |
| Foreign Borrowing (net) /3 | 2.6 | 3.0 | 3.4 | 6.3 | 6.4 | 2.7 |
| Central Bank /3 | 1.3 | 0.2 | 8.8 | 26.8 | 32.9 | 48.3 |
| Other Domestic Borrowing (net) /3 | 1.3 | 3.6 | 3.1 | -5.2 | -1.2 | 2.4 |

Stress to FM & PM

/1 Current and capital transfers, including transfers to SEEs.
/2 Borrowing requirement.
/3 Figures for 1975 and earlier years are staff estimates based on incomplete data.
/4 GDP for calendar year.

## Money and Credit

28. On average in recent years, the Turkish Government has financed only a small part of the public sector deficit by the issue of bonds--one important reason for this being a ceiling on interest rates, which has made it hard to attract lenders. Most of the deficit, as may be seen in table 3, has been financed by borrowing from the Central Bank, which has raised the money supply

both directly and (by increasing the reserves of the banking system) indirectly. The decline since 1974 in foreign exchange reserves has had a damping effect on the money supply. Nonetheless, as may be seen in table 4 below, the large

Table 4: MONEY AND CREDIT /1
(TL Billions: end-year)

| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|---|---|---|---|---|---|
| LIABILITIES OF THE BANKING SYSTEM | | | | | | September |
| Money, of which: | 53.6 | 71.2 | 90.5 | 119.1 | 152.5 | 190.0 |
| Currency in circulation | 16.0 | 20.7 | 26.2 | 32.9 | 42.5 | 63.2 |
| Demand Deposits | 37.6 | 50.5 | 64.3 | 86.2 | 110.0 | 126.8 |
| Quasi-Money | 18.3 | 20.8 | 25.0 | 30.4 | 34.2 | 37.1 |
| Other Items (net) | 25.5 | 31.7 | 36.7 | 59.3 | 102.0 | 125.2 |
| Total Liabilities | 97.4 | 123.7 | 152.2 | 208.8 | 288.7 | 352.3 |
| ASSETS OF THE BANKING SYSTEM | | | | | | |
| Foreign Assets (net) | 21.4 | 31.5 | 24.8 | 13.1 | 15.0 | 4.2 |
| Domestic Assets, of which: | 76.0 | 92.2 | 127.4 | 195.7 | 273.6 | 348.1 |
| Credit to Public Sector | 20.3 | 20.0 | 28.7 | 56.7 | 91.1 | 139.8 |
| Credit to Private Sector | 55.7 | 72.2 | 98.7 | 139.0 | 182.5 | 208.3 |
| Total Assets | 97.4 | 123.7 | 152.2 | 208.8 | 288.6 | 352.3 |
| CENTRAL BANK | | | | | | December |
| Credit to Public Sector | 19.9 | 20.1 | 28.9 | 55.7 | 84.3 | 149.1 |

/1 Totals may not add up because of rounding.

public sector deficits have caused the money supply to grow at an average annual rate of about 30 percent between 1974 and 1977. The rate of credit expansion by the banking system to the private sector has also been high, but is estimated to have declined from 41 percent in 1975 and 31 percent in 1976 to 20 percent in 1977, which may reflect the decline in the real rate of growth of output in 1977.

## Inflation

29. Of the several imperfect Turkish price indices, the best is probably the general index of wholesale prices. This reveals that Turkey, like other countries, experienced a rising rate of inflation up to 1974, when the index rose by 30 percent. In 1975 the rate of inflation fell to 10 percent, but subsequently (and in this respect the experience of Turkey has differed from that of other countries) it rose steeply, to 25 percent in 1976 and 35 percent in 1977.

30. Excess aggregate demand has been the main cause of the acceleration of inflation in the last two years. For the rise in the public sector deficit, in conjunction with the increase in private investment which it stimulated (in part by expanding the availability of credit), caused an increase in aggregate demand well beyond the amount needed to offset the damping effect of reduced exports and an increased import propensity. The consequent upward pressure on the price level was aggravated in 1977 by import restrictions, which reduced the output of goods requiring imported inputs, and diverted demand to domestically produced goods that were already in short supply.

31. Taking a somewhat longer view of inflation in Turkey, one should not overlook three important sources of cost-push. One is increases in the legally prescribed minimum wage. A second is the union movement, which now covers more than half of all non-agricultural workers, and which has aggressively and successfully fought for large money wage increases in recent years. The third is the agricultural price support policy, by which the government, in an explicit effort to maintain the relative level of farm incomes, has in recent years decreed very large increases in the prices of agricultural products (although an effort to check the speed of these increases was made in 1977).

32. On the other hand, however, inflation in Turkey after 1974 cannot be attributed to the cost-push influence of import price rises. For the world rate of inflation has been well below the Turkish rate, and (as mentioned earlier) the Turkish exchange rate has not fallen by enough to close the gap; as a result, import prices have risen more slowly than domestic prices and have thus tended to damp down the rate of inflation in Turkey.

Summary of the Causes of the Present Crisis

33. One important cause of the crisis of 1977 was the fourfold rise in the price of oil in 1974, which raised the Turkish propensity to import. Another external cause was the world recession, which directly reduced the growth rate of Turkish exports and indirectly reduced the flow of workers' remittances. But Turkey's trading position was already structurally weak; and the external pressures on it were compounded by inadequate management of agricultural export sales and an inappropriate exchange rate policy. In addition, the crisis was aggravated by the failure of the Turkish authorities to develop and tap fresh sources of medium and long-term external finance.

34. But the other main cause of the crisis was that, despite the world recession, the growth rate of the Turkish economy did not fall, and indeed rose, after 1974. As a result, the increased propensity to import was reflected in a more than commensurate increase in the absolute level of imports. In this respect Turkey behaved in a different fashion from most other countries, whose governments, faced with the same problems of an increased import propensity and sluggish exports, caused (or allowed) their growth rates to fall in order to keep down the level of imports, thus alleviating the deterioration of their trade balances. The reasons why the Turkish economy continued to grow, while others did not, were partly fortuitous, in the form of good harvests. But they also reflect the basic Turkish

commitment to rapid growth. This was most strikingly visible in the increased scale of public fixed investment from 1975 onwards, which stemmed largely from the desire of an ineffective coalition government to maintain its popular support by accelerating the pace of economic development. This intensification of the public investment effort, because of increased gestation lags and a decline in the rate of capacity utilization, had little direct effect on the growth of output. But because it was not matched by an increase in public savings, it caused a great expansion of aggregate demand.

35. These several causes have combined to produce an extremely difficult economic situation. The current account deficit in 1977 was $3.4 billion, and the overall balance of payments deficit was not much smaller. There is a desperate scarcity of foreign exchange; the reserves in February 1978 were down to $0.5 billion, while short-term external liabilities (including about $ 1.8 billion of arrears) amounted to $5.2 billion. Prices are rising at more than 30 percent per annum, while the rate of capacity utilization and the level of employment are falling.

Short-Term Policy Measures

thrust FM & PM

36. To alleviate the present foreign exchange shortage without extreme disruption of the economy, short-term external financial assistance will clearly be vital. In addition it will be essential to reduce the current account deficit. Measures to boost exports and to restrict imports will be necessary to accomplish this; but they will not be sufficient. It will also be necessary to restrain consumption and/or investment; and this will require a reduction of the public sector deficit, which should also serve to moderate the pace of inflation.

37. Certain preliminary steps in the direction of a stabilization policy were taken by the coalition government of Mr. Demirel in the course of 1977. Applications for licenses for non-essential imports were refused and other applications were delayed. Import deposits were raised by up to 20 percentage points, depending on the type of import. The lira was devalued by 10 percent in September, and by a further 5 percent in December. Large increases were made in September in monopoly prices and in a number of SEE tariffs and prices, which, it is estimated, will yield additional revenues of about TL 26 billion annually (equivalent to 3 percent of 1977 GDP). In addition, negotiations were entered into with the IMF, but no agreement had been reached before the government resigned on December 31.

38. The new government, formed by Mr. Ecevit, has implemented certain further measures. The lira was devalued in March by an additional 30 percent, to a rate of TL 25 per US dollar (although the effect of this adjustment on exports will be offset to some degree by a substantial lowering of tax rebates on most exported commodities). The stamp duty on imports has been increased, which is expected to discourage imports and to increase public revenues by about TL 20 billion per annum. Most non-agricultural interest

rates have been raised by about 2 percentage points; import licenses and travel allowances have been further restricted, as have imports with waiver and imports financed by acceptance credits; the exchange rate guarantee on future (though not existing) CLAs has been abandoned; and the minimum term of future CLAs has been raised to one year. Further substantial tax and SEE price increases are expected.

39. As regards investment and growth, the government's stated short-term intention is to cut back on new investment projects, except in the energy sector, and to concentrate on completion of existing projects, while endeavoring to increase output mainly by fuller use of existing capacity. The Annual Program for 1978 envisages that real GDP and real investment will both grow by about 6 percent, while real aggregate consumption will grow by about 2 percent. The consolidated budget for FY1978, approved at the end of February, envisages government expenditure of TL 265 billion, which is expected to be about the same in real terms as in FY1977, though about 20 percent higher in money terms. The Annual Program assumes that imports of goods will be reduced from $5.8 billion in 1977 to $5.0 billion in 1978; exports of goods are expected to rise from $1.8 billion to $2.6 billion, partly through sales of existing stocks of cotton and wheat. It is also assumed that workers' remittances will rise from $1.0 billion to $1.3 billion, and thus that the 1978 current account deficit will be reduced to $1.5 billion.

40. Despite the determination of the government to tackle the economic crisis, it would appear that some of the targets of the 1978 Annual Program are not entirely realistic. In particular, it is not clear that the planned volumes of output, investment and consumption can be achieved, given the programmed cut of about 20 percent in the volume of imports. And even this reduced level of imports will be possible only on relatively optimistic assumptions about the availability of external finance, especially in view of the very large stock of outstanding short-term external financial liabilities.

## Longer-Term Problems and Prospects

41. Even after a Standby Agreement is concluded with the IMF, management of the external payments position in 1978 is likely to prove difficult. The key objectives should be to reduce the backlog of arrears, to roll over many of the other short-term obligations as they fall due, and to begin gradually to convert the bulk of the short-term debt into medium and long-term debt. To accomplish this restructuring, while at the same time running a substantial current account deficit and increasing the reserves from their present inadequate level, it will be essential, from 1978 onwards, for Turkey actively to pursue all available external sources of medium and long-term funds, and (by improving project implementation) to accelerate the pace at which loan commitments are translated into disbursements.

42. Given a determined effort to raise new medium and long-term foreign capital, it should be possible to finance a current account deficit of about $1.5 billion in the early 1980s. This, given the likely behavior of workers' remittances, would permit a resource gap of about $2.5 billion. However, if a resource gap of this size is to be reconciled with the resumption of growth at the past trend rate, and thus future external payments crises are to be avoided, it will be necessary to bring about certain structural changes in the economy, and to avoid repetition of certain past patterns of policy. Considerations of this sort, some of which are outlined below, should be given considerable weight in the formulation of the Fourth Plan, which (having been postponed by a year in view of the current situation) is now scheduled to come into effect from 1979 onwards.

Exports and Imports

43. It is of the utmost importance to improve the performance of Turkish exports, both agricultural and, more especially, industrial. Yes! A necessary condition for sustained rapid growth of industrial exports is a competitive exchange rate, which will require, in addition to the recent devaluation of Yes the lira, further regular adjustments sufficient to compensate for any significant excess of the Turkish inflation rate over the rate of inflation in Turkey's principal trading partners. It will also be necessary to change the balance of industrial investment in such a way as to give rather less weight to basic industries and a greater weight to more export-oriented industries Yes such as textiles, clothing, food processing, leather products, wood products, and light engineering. Export-oriented investments by the private sector will be encouraged by a competitive exchange rate, but they should be further encouraged through the allocation of import licenses and credit, and by governmental support of export insurance, promotion and technical assistance schemes. Industrial exporting, moreover, need not be confined to the private sector; the government should divert a proportion of public investment into this type of activity.

44. Steps should also be taken to increase agricultural exports, within the context of rather greater emphasis than hitherto on agricultural development in general. Among the measures needed to raise agricultural productivity are completion of existing irrigation projects, an increase in the resources devoted to farmer support services, and better coordination among the public agencies concerned with agriculture. Agricultural exports in particular would benefit from revision of the price support policy in such a way as to provide stronger incentives to increase the production of exportable commodities, and reform of agricultural export sales procedures. On a different front, greater effort should be made to increase foreign exchange earnings through development of the tourist industry which, despite a tremendous potential, has been given insufficient attention to date.

45. To reconcile reasonably rapid growth with a viable external payments position through improved export performance will be easier if the world economy recovers quickly from its recession and the present spread of protectionism

is checked. But in any event this reconciliation can be assisted by measures to keep down the Turkish economy's propensity to import. A large reduction cannot be expected, given that Turkish imports consist overwhelmingly of oil, materials, and capital goods. But greater recognition of the scarcity of foreign exchange in the selection of investment projects should have a beneficial effect, as should maintenance of a competitive exchange rate, continued restrictions on inessential imports, and increased attention to more efficient methods of import substitution.

Resource Mobilization and Demand Management

46. In 1978 and 1979, the measures necessary to recover from the present crisis will probably cause the annual growth rate of real GDP to fall, on average, to around 3 or 4 percent, but for the remainder of the Fourth Plan period growth at around 6 percent should be possible. Exports and (in the latter period) investment will need to grow faster than GDP, while imports must be restrained, and thus consumption will have to grow more slowly than GDP, at about 5 percent per annum during 1979-83 (implying a rise in consumption per capita of about 2.5 percent per annum). This will entail a significant increase in the domestic savings ratio.

47. It is unlikely that much of this increase can be brought about by a rise in private savings, although the allocation and use of private savings could be improved by increased interest rates and other measures to channel private savings into the financial system. The remainder of the increase in the aggregate domestic savings ratio will have to be accomplished by a rise in the relative level of public savings. This in turn, since the social development strategy of the Turkish government will probably preclude more than a small reduction in the growth rate of public consumption, will require an increase in the growth rate of public sector revenues. Among the means by which this might be accomplished, apart from increasing and maintaining the operating profitability of the SEEs, are a widening of the coverage of the agricultural income tax, a tightening of business tax exemptions, the introduction of a value added tax, and an increase in municipal rates and user charges. Such measures to keep down the public sector deficit will not only restrain consumption to a level consistent with external equilibrium; they will also restrain aggregate demand to a level consistent with a moderate rate of inflation, although to achieve this it will be necessary to contain the various domestic cost-push pressures noted earlier, possibly by some form of social contract or incomes policy.

Unemployment and Income Distribution

48. Apart from the external payments position, the main problem of Turkish economic development in the medium and long term is the high and rising level of unemployment and underemployment. In the long run some reduction in unemployment can be expected from a decline in the population growth rate. But in the next two decades, since emigration on the scale of the early 1970s is unlikely to be resumed, the level of unemployment will depend crucially on the rate at which new jobs are created in Turkey, which

makes it desirable to maintain a high aggregate growth rate. It should also be possible to increase the level of employment through somewhat greater emphasis on less capital-intensive commodities and techniques of production. In this regard, the accelerated development of export-oriented industries, which tend to be comparatively labor-intensive, will be beneficial. In addition, it would be advantageous more generally to modify investment and subsidy policies in industry and agriculture in such a way as to reduce their bias towards capital-intensive technology.

49. While basic needs are largely met, the distribution of income in Turkey, by comparison with other developing countries, appears rather unequal (although it seems to have improved somewhat since the late 1960s). One of the principal causes of this inequality is the very large gap, on average, between agricultural and non-agricultural incomes, which reflects the very large gap between agricultural and non-agricultural labor productivity. Greater emphasis on agricultural development should therefore improve income distribution. Political constraints will make it difficult to bring about greater equality of agricultural land ownership. But the difference in income between rich and poor farmers, which is the other principal cause of inequality in Turkey, could be reduced by changes in subsidy and price support policies, and by increased attention to the development of the relatively backward dry-farming sub-sector. Likewise, the need to increase public sector revenues in the next few years should not be incompatible with a restructuring of the tax system in such a way as to make it more progressive, while the government's policy of providing for basic needs through public expenditure should continue to reduce the inequality of living standards relative to the inequality of incomes.

External Debt and Creditworthiness

50. The extensive short-term borrowing of the past three years has greatly increased Turkey's external debt, has given it an unattractive maturity structure, and has caused a sharp rise in debt service payments. At the end of 1977, the country's total external indebtedness amounted to approximately $9.4 billion, of which about $5.2 billion was short-term. The remaining $4.2 billion was mainly public and publicly guaranteed medium and long term debt. Of this, about one third was held by international organizations, mainly the World Bank ($0.8 billion, plus $0.7 billion committed but undisbursed) and the European Investment Bank; and about one half by foreign governments and government agencies, notably those of the United States, West Germany, Canada and Russia. In 1977, debt service payments (including interest on short-term debt) amounted to 14.4 percent of exports of goods and non-factor services plus workers' remittances.

51. A prudent debt management policy and a determined medium and long-term borrowing effort during the next few years should restore a satisfactory balance between short and longer-term debt. But there will be a substantial further increase in debt service payments. These will initially grow faster than exports, and hence the debt service ratio is likely to rise to about 24

percent in 1978 and to nearly 30 percent in 1980. In subsequent years, however, as the financial consequences of the recent crisis are digested and the export drive comes to full fruition, the debt service ratio will stabilize, and should fall from about 1983 onwards. Thus, subject to the resolution of its short-term debt problems (para. 41), Turkey continues to have a decent borrowing capacity for medium and long-term funds, and remains creditworthy for Bank financing.

(iii)(c) BACKGROUND OF IMF'S LATEST POSITION ON TURKEY

BACKGROUND ON IMF AND LATEST POSITION ON TURKEY

Background:

1. After receiving its vote of confidence in mid-January 1978, the new Ecevit Government went about formulating its own economic stabilization package as the basis of a Standby Agreement with the IMF. After the Parliament approved its 1978 package, the Government entered into negotiations with the IMF in early March. These were completed in the week of March 20, and the Standby Agreement was initialed by the Government.

The Outline of the Agreement:

2. Though the details of the Agreement have not been released as yet, the broad outline of the Agreement is summarized below:

(i) Balance of Payments. Based as it was on the IMF's earlier negotiations, the Government's program in 1978 for the balance of payments was largely acceptable to the IMF. It provides for $5.0 billion of imports in 1978, compared to $5.8 billion in 1977; $2.55 billion of exports; a current account deficit of $1.45 billion; and a reduction in short-term liabilities of about $1.2 billion through M&LT borrowings from the commercial banks. This would still leave about $1 billion in new money to be raised, after allowing for normal M&LT and project assistance flows. As discussed below in detail, assistance from the IMF's own resources in 1978 is likely to amount to $233 million; this will still leave about $770 million to be raised in new monies, to fulfill the import program target of $5.0 billion; otherwise cuts will be needed. Earlier, the Government on its own had announced a 30 percent devaluation, raising the rate from TL 19.25 = $1.00 to TL 25 = $1.00, a reduction in export rebates, a significant increase in import (stamp) duty, restrictions on travel, and the suspension of the exchange rate guarantee on future CLAs. All these elements were subsumed under the program agreed with the IMF. The Standby Agreement also reflects an understanding that Turkey will adjust its currency further, as and when needed.

(ii) Public Finance. The Government's program for 1978, as presented to the IMF, envisaged consolidated budget revenues of TL 251 billion, consolidated budget expenditures of TL 265 billion, total public sector investment of TL 138 billion (of which 64 billion was allotted to SEEs), and a total public sector borrowing requirement of TL 7 billion (as compared with TL 53 billion in 1977). The IMF considered these revenue and expenditure figures, and this figure for the public sector borrowing requirement, to be underestimated. The Government proposes shortly to introduce new tax measures into Parliament, which should yield an extra TL 10 billion; in addition, it has agreed with the IMF that SEE prices will be further increased in the coming months by sufficient to add about TL 20 billion to public sector revenues. In this way, it is expected that the increase in public sector borrowing from the Central Bank in 1978 can be held below the agreed ceiling of TL 38 billion.

(iii) Interest Rate Policy. The Government has recently increased many non-agricultural lending and deposit rates, by up to 4.5 percentage points. The general rate for long-term bank credits, for example, was increased from 14 to 16 percent. The IMF regarded these increases as inadequate, and felt that the general level of interest rates should have been around 30 percent. At the same time it recognized that this would not be feasible. Therefore, in the Standby Agreement, the IMF has not pursued this issue further, and has accepted the package of increases in interest rates already announced by the Government.

(iv) The full details of the ceilings on credit and money supply increases and other monetary aspects of the Agreement are not yet available.

Assistance from the IMF

3. The Agreement provides for withdrawal of SDRs 74 million (about US$88.8 million) in compensatory drawings within two to three weeks of signing the Standby Agreement. In addition, since the Witteveen Facility is not in operation, Turkey would be eligible for drawings up to 150 percent of its quota, amounting to SDRs 300 million (US$360 million) under the Exceptional Circumstances Clause. This would entitle Turkey to withdraw SDRs 145 million (about US$174 million) in its first two tranches as follows: SDRs 50 million in May 1978, SDRs 40 million in August, SDRs 30 million in November, and SDRs 25 million in February 1979. The IMF would review the economy and the progress of the stabilization measures in January 1979. Following that, Turkey would be entitled to withdraw another SDRs 155 million(US$186 million) over a one-year period. Thus, in calendar 1978, Turkey can withdraw a maximum of SDRs 194 million (US$233 million). As mentioned above, this amounts to roughly one-quarter of its anticipated external financing needs during this year.

Other Areas of Concern

4. The IMF wished to go further on future exchange rate adjustments, and tried to persuade the Government to accept the principle of some sort of automaticity, by linking the rate to the differential between domestic and international price increases. The Government did not accept this; nor did it agree to adopting a similar approach for increases in SEE prices. Further, the economic program in the IMF Agreement does not go beyond 1978 except in very general terms. Most importantly, it does not cover the critical area of debt management policy.

(iii)(d) NOTES ON RECENT COMMITMENTS OF M&LT BILATERAL AND MULTILATERAL FUNDS

# NOTES ON RECENT COMMITMENTS OF M&LT BILATERAL AND MULTILATERAL FUNDS

## General

1. Over the past decade, there have been several significant shifts in the pattern of Turkey's external long-term financing. With the phase-out of USAID assistance, bilateral aid on concessionary terms declined sharply in the late sixties. Despite the existence of an OECD Consortium for Turkey with currently 22 members,the level of assistance forthcoming from its bilateral members has been rather low, except Germany, which is now the largest Western bilateral aid donor for Turkey. Pari passu, European Investment Bank (EIB) and Bank lending increased sharply. As a result, Turkey today has only three major sources of bilateral and multilateral aid from the West, namely Germany, EIB and the Bank. Islamic Development Bank is a new and small source of multilateral aid, which began in mid 1977 with a loan of $10 million. Despite statements by both the Demirel and Ecevit governments about closer ties with Arab countries, and the interest of agencies like the Kuwait Fund and Saudi Fund in helping Turkey if officially and seriously approached, little has so far been done to cultivate or tap these potential new sources.

2. In the last three years, Turkey has however attempted to expand bilateral borrowing relations with Russia, Eastern Europe, and to a limited extent, with Middle-East countries such as Iran and Libya. Detailed information is not available regarding the specifics of most of these non-western bilateral funds, though it is known that these funds are invariably tied to specific projects in Turkey. For example, the Iranians were to have financed projects to upgrade Turkish highways, to improve the transportation of Iranian imports. These negotiations with the Iranians fell through. The future, however, may see an increasing tendency for the Turks to turn to Third World and Eastern European sources, and a reduction in the past heavy reliance on the West alone.

3. The attached table summarizes recent commitments of official aid.

COMMITMENTS OF M&LT FUNDS FOR TURKEY BY SOURCES
(US$ millions)

| | 1975 | 1976 | 1977 |
|---|---|---|---|
| Total Commitments | 1575.9 | 1231.2 | 1723.9 |
| A. Bilateral | 1144.3 | 573.5 | 1275.5 |
| United States | 24.9 | 64.3 | 18.0 |
| Germany | - | 154.5 | 58.5 |
| Canada | 46.1 | 1.4 | 136.4 |
| Japan | 8.2 | 49.3 | n.a. |
| Hungary | - | 35.2 | n.a. |
| Poland | - | 95.3 | ~~n.a.~~ |
| Russia | (1000.0)1/ | 96.0 | (1000.0)1/ |
| Others | 65.1 | 77.5 | ~~62.5~~ |
| B. Multilateral | 194.1 | 290.7 | 144.0 |
| IBRD | 158.0 | 236.5 | 144.0 |
| EIB | 16.0 | 6.2 | - |
| Others | 20.1 | 48.0 2/ | - |
| C. Private Banks | 169.2 | 218.6 | 233.6 |
| D. Suppliers' Credits | 46.2 | 96.6 | 43.6 |
| E. Others | 22.1 | 26.2 | 15.2 |
| F. OPEC Countries | - | 25.6 1/ | 12.0 1/ |

1/ Estimates, not recorded with Bank's DRS data.
2/ Mainly European Relief Fund.

Germany

4. Germany is almost the only active bilateral donor in the OECD Consortium. It channels aid through Kreditanstalt ur Wiederaufbau (KFW). As shown in the table, the level of commitments in the past two years has been around DM 100-120 million. In recent years, Germany has contributed to the financing of the Elbistan Lignite and Thermal Power Project, besides encouraging KFW to channel its or other German banks' export or supplier credit financing, with the guarantee of Hermes, for contracts won by German suppliers. It might however be noted that, although Germany's 1976 loan was negotiated and signed to finance procurement for the Elbistan Project, in addition to the funds Germany committed for it in 1974, this 1976 financing is not being declared effective because of KFW's insistence on further improvements in implementing Elbistan, than what EIB and the Bank consider adequate. The aid allocation for 1978 is slightly higher than last year's, at DM 130 million; of this, DM 96 million is to be used for the Oymapinar Power Project, near Antalya, DM 24 million for small and medium-scale industrial investments through TSKB, and the remainder for some minor investment projects.

EIB

5. EIB has provided aid to Turkey under two financial protocols, both now fully committed. A Supplemental Protocol in 1977 for u.a. 47 million ($56 million) has been signed and ratified by all EEC members, but not by the Turkish Parliament. It is however expected that this will occur within a few weeks and the Protocol can become operative. The money would be provided for 30 years, including 8 years grace, at interest rates of 2.5 percent for infrastructure projects and 4.5 percent for industrial projects. The Third Protocol has been negotiated, and ratified so far only by France and Denmark. Other EEC countries are believed to be reluctant to act on this new Protocol until Turkey has ratified the abovementioned Supplementary one. The Third Protocol would provide u.a. 90 million ($108 million), as soon as it is ratified, in ordinary loans from EIB's own resources at terms depending upon the projects to be financed and which are likely to be between 7-12 years including a grace period covering construction and at an interest rate possibly around 9 percent. Under this Protocol, another u.a. 220 million ($262 million) would be provided from the budget of the EEC, in the next two years. These loans would have a term of 40 years, including 10 years grace, and an interest rate of 2.5 percent. Although Turkey has recently informed the EIB that it will be ready to discuss new projects in April 1978, it will put the Third Protocol for ratification by the Turkish Parliament, only if Turkey's overall demands on the EEC can be resolved to mutual satisfaction. The Government therefore expects that it may be some months before a stage is reached when the Third Protocol can be utilized by Turkey.

USSR

6. Under the terms of a 1975 agreement, the Soviet Union had agreed to finance 6 or 7 specific projects in Turkey. No monetary value was placed on this commitment at that time, and a start has been made in implementing only one of the projects (expansion of the previously Russian-financed Iskenderun steel works). In the summer of 1977, within the framework of the 1975 agreement, the number of projects to be financed was increased to 15 or 16. Again, no monetary value was placed on the commitment, but it is estimated that if all 15 projects were completed, the enlarged commitment would be worth $2 to 2.5 billion in total. Disbursements from Soviet bilateral loans amounted to $10 million in 1976, and are estimated to have been $67 million in 1977.

NOTE ON POLITICAL BACKGROUND
AND CURRENT SITUATION

# NOTE ON THE POLITICAL BACKGROUND AND CURRENT SITUATION

## Historical Perspective

1. During the first half of the Republic's 50-year life, the Republican People's Party (RPP) of Kamal Ataturk gave Turkey its political institutions, its nationalist reformist platform, its very basic physical infrastructure, and its economic institutions (including the State Economic Enterprises with multiple economic and social goals). This party, gradually turned into a left of center party over the last decade. The Democratic Party and its successor, the Justice Party (JP), representing conservative business and farming interests which dominated Turkey's political scene between 1950-1971 (except for a brief interval between 1960 and 1965), substantially enlarged the infrastructure and provided the superstructure giving rise to a greatly extended private industrial sector and a highly prosperous agricultural middle class. Their emergence was accomplished respectively through strong protectionist-oriented investments and agriculture price supports.

2. The period since 1950, was also marked by two shortlived interventions by the Army in Turkey's political life, i.e. 1960-1961 and 1971-1973, whose net effect has been to put something of a brake on the conservative parties' readiness to allow Ataturk's doctrines to wither away, but has otherwise not changed much. Nevertheless, the Army's presence in the background, and the possibility that it might intervene again if the political situation gets out of hand, has continued to have a somewhat pervasive, and perhaps beneficial, effect on current Turkish politics.

3. During the early life of the Republic, Turkey was a poor country with a relatively efficient civil service, running a relatively egalitarian society. The economy was unsophisticated. Industry was very limited. With the advent of private enterprise and growth-oriented governments, inequalities in income distribution increasingly accompanied the growth of the middle and wealthy classes, as did unemployment and a land squeeze. In the more permissive political climate, made possible by the liberal constitution of 1961, two types of left wing movements developed: The first was a democratic trend which gradually turned the RPP from a centrist, to a left of center, party; however, this trend was not quite credible while Mr. Inonu headed the party, and only came strongly into its own when Mr. Ecevit took it over in 1972. Second, a revolutionary trend with which Mr. Demirel's laissez-faire government in the late sixties was unable to cope, and which led to his resignation in 1971 at the Army's insistence.

4. The 1960's also witnessed the emergence of other rightist parties. The major ones were: the National Salvation Party (NSP) headed by Mr. Erbakan, a religious-oriented group with conservative social and political, but extremely nationalistic and allegedly populist, economic views; and the National Movement Party (NMP) headed by Mr. Turkes, which is popularly held responsible for the violence, student strikes and killings which have characterized Turkey's political scene in the last 5 years. The last few years have witnessed further splinterings within the RPP, including an extreme leftist group headed by the present Energy Minister Mr. Baykal and smaller groups with different leftist shades. Similar fissiparous tendencies have also been manifested in the JP.

5. Such splintering and manifestations of left and right extremisms, continued even after the Army forced the Demirel government to resign in 1971. In the 2½ year period thereafter, the Army proceeded to eliminate the guerilla groups, while three ineffective non-political prime ministers ran the country, trying to keep a balance between Army pressures for a modicum of reforms and the do-nothing preferences of a conservative parliament. In the end, there were no meaningful reforms. The Army seemingly withdrew from politics, although it retains one of its influential members, Mr. Koruturk, as Turkey's President.

Developments since 1973.

6. Free elections then took place in October 1973. They brought Mr. Ecevit to power, in an extremely tenuous coalition with NSP. The coalition was a lame one from the start; sharp differences between the coalition partners, effectively stalemated some of the key reforms which Mr. Ecevit tried to introduce. It was kept alive only by the outburst of popular patriotic feelings following the Cyprus crisis in July 1974. It fell apart in September 1974, when Mr. Ecevit resigned, banking on being re-elected with a clear majority because of the popularity he personally aroused as a result of his stand in Cyprus. Instead, his party did not receive a clear majority in the elections. The uncompromising attitude of other parties did not enable him to form a government. After two months, during which none of the major parties were able to form a government, a new Cabinet headed by a neutral prime minister (Mr. Irmak) and consisting largely of technicians and non-party senators, was formed. It however failed to win Parliamentary backing and remained a caretaker regime. The Army meanwhile exercised remarkable restraint, considering the prestige it had attained as a result of the confrontation with Cyprus and Greece, although its chiefs voiced concern about the political crisis and tacitly suggested intervention if the deadlock continued. In this background, Mr. Demirel emerging from practical political oblivion, succeeded in March 1975, in finally forming a "nationalist front" with three right wing parties, including NSP and NMP.

7. The new coalition partners together commanded a marginal parliamentary majority, and held widely differing views on domestic and foreign policies. The running thread which seemed to bind them together, was their determination to remain in power at all costs, and their ability to successfully exploit the strong Turkish nationalistic sentiment through initiation of massive industrial and infrastructural investments and provision of liberal agricultural support prices, which the country's resources could ill-support. The Government's standing was further boosted, when playing on this nationalist sentiment, Mr. Demirel took a strong stand with the US on the question of its Turkish bases. The NSP, recognizing that its support was critical to the coalition's life, stalemated several important economic policy decisions crying for acceptance. Because this government included the militant NMP, it essentially paid lip service to the need to curb violent clashes which increased on university campuses and in other parts of Turkey. These clashes, although reportedly involving only small groups and extremists, led to scores of deaths. Political violence prevailed at a level not witnessed in Turkey since 1960-61. Mr. Demirel's coalition was therefore marked by an inability to restore internal security, an excessive and misplaced quest for economic growth without having sufficient resources to do so and that too in an environment of international recession, and

an inability to push even the simplest of necessary reforms.

8. Nevertheless, Mr. Demirel, banking on the sentiment created by his position on the US bases (following the discontinuation of US military aid) and high growth rate achieved in 1975/76, decided to hold early elections in June 1977. He pressed on with this decision, despite the strong opposition of his coalition partners and the fact that NSP even challenged the decision in the Supreme Court. To an extent, his strategy paid off. The results of the June election were again indecisive. Although Mr. Ecevit won the largest number of seats, the JP also increased its share substantially. Mr. Ecevit, recalling the experience of his 1973/74 coalition with NSP, decided to form a minority government. It lasted a month.

9. Thereafter in August, Mr. Demirel once again put together a Government with the support of his previous coalition partners, the NSP and the NMP. However, by this time, the realisation was gradually dawning on several members of Mr. Demirel's own party, that unless critical and politically painful decisions were taken, the country was on the verge of economic bankruptcy, despite its immense development potential. Hamstrung by his coalition partners, Mr. Demirel tried to cope with a critical economic situation through a bold, but unfocussed, package of measures consisting primarily of substantial increases in the prices of products and services of SEEs. When the coalition parties lost significant ground in the nationwide municipal and mayoralty elections in mid December, unhappiness of some of his party members reached a point when about 12 JP parliamentarians crossed over to the opposition.

Current Situation

10. With this crossover, and the support of 6 members of parties other than the NSP and NMP, Mr. Ecevit was able to form a government in January, 1978 , with a small, but workable parliamentary majority of about 12 votes. It obtained a vote of confidence in mid-January . Offers of high office have often been effective lures in the past, to bring down Turkish governments. However, as Mr. Ecevit astutely offered ministerial posts to most of the dissident JP members as also those from the other parties who joined him, there are very little additional lures which Mr. Demirel can now offer to attract these persons back to his fold. The new Ecevit government can therefore be expected to have an adequate majority to secure approval for and implement effective economic policies to restore Turkey's creditworthiness in the international community. If pari passu, it brings internal violence under control and develops a foreign policy leading to a resolution of the Cyprus problem and Turkey's confrontation with Greece and USA, there are prospects for a pause in the recent drift and uncertainty in Turkish policies and politics. Whether the present Government will maintain sufficient parliamentary support to press ahead with structural reforms is however a matter of conjecture.

A Possible Prognosis

11. While the immediate causes of Turkey's present political difficulties stem from the indecisive results of the October 1973 and June 1977 elections, the reasons for the present state of affairs are more deep-seated. The conservative groups ruling Turkey between 1950-1971, and which favored a strong emphasis on the private sector and a more conservative and gradual approach to social change, now feel seriously threatened by the growing strength of the Turkish

left, which attaches as much importance to the fair distribution of the benefits of growth as to the growth process itself. Successful economic development in the past decade, has accelerated substantial structural changes in the society, increased social and economic mobility, provided greater economic opportunities, and resulted in the emergence of new economic and social forces. It has however been accompanied by social and economic inequalities, increased unemployment, migration from rural areas to cities and abroad, rapid inflation and growing demands for a more equitable share in the fruits of Turkey's development.

12. The lack of a strong government since 1971, has severely restricted actions needed to resolve these conflicting and pressing economic and social pressures, besides engendering growing public disenchantment with party politics and procrastination, as well as with political violence and the fear of a return to the violence of the late sixties. At the same time, different splinter groups within each party, are pressing for solutions, through their own political philosophies. Proportional representation in elections to the National Assembly has compounded these trends by preventing swings in the electorate to be translated in a strong majority for a single party. The major, and extremely powerful leftist trade unions, are also exercising immense pressures on both major parties in an effort to get for labor, what they believe to be a more equitable share of Turkey's prosperity and are thereby contributing further to inflationary pressures and instability. Amidst all this, Turkey's political parties are still haltingly, and perhaps imperfectly, trying to accommodate these conflicting pressures in a democratic manner. However, the extremely strong sense of national identity and the widespread support for the democratic system which the Turkish populace has, could provide a sound basis for evolving new national attitudes and fundamental policies.

13. If Mr. Ecevit's government, with its small but working majority, can harness this, by implementing sound policies for exploiting Turkey's immense economic potential, and by winning the support of a larger slice of public opinion, one can expect to see a resurgence in a not too distant future , of a strong and viable economy. Even if the divisiveness and the obstinacy of the various splinter groups and political parties prevent the government from leading and organizing such a change, it is however probable that the body politic will continue its slow, sometimes awkward and agonizing, but uninterrupted advance towards social progress, fulfillment of a significant portion of its basic needs and economic growth, all of which commenced with the advent of Ataturk and the creation of the Republic.

14. The new government shows clear signs of its very serious intentions to cope effectively with Turkey's pressing domestic, external and economic problems. The Cabinet includes not only leading RPP politicians, but also those who are respected technocrats. The slow, but deliberate, speed with which senior civil service appointments are being made, reflects the care with which the new government wants to fill these with persons of good calibre. Consequently, some of these appointments are still in the process of being filled, and the operative policies of the concerned ministries and agencies will therefore take some time to get shaped properly and implemented satisfactorily. In the context of the urgency with which many economic, besides Bank, issues need to be tackled, this slowness could be mistakenly construed as not

reflecting the new government's sense of urgency. In the longer-run however, it is much better to get first class personnel capable of dealing with the serious problems, rather than filling posts merely from the viewpoint of doing so.

15. Despite the dedication and seriousness of the new government, it must also be recognized that the RPP has never held office entirely on its own, without the support of a coalition, and now of a small but critical group of independents. To that extent, it may initially encounter difficulties, despite its working parliamentary majority, in translating its serious, and ostensibly sensible policies into effective actions, because of the rather stolid and slow-moving administrative bureaucracy. This bureaucracy will take some time to get sensitized to the new precepts and policy directions of the new ministers. The new government's lack of previous experience of governing, may also result in a slower initial speed in the formulation of action programs, or hesitation in forcing the pace on their implementation.

16. Besides, the melange of idealistic technocrats and political party groupings within the Cabinet itself, will inevitably lead to some unavoidable personal conflicts and perhaps unsatisfactory compromises. Present indications however are, that these potential conflicts are likely to be subsumed in light of the gravity of the nation's problems and the strong and astute leadership of Mr. Ecevit. His political astuteness is perhaps also demonstrated by his recent successful efforts in reaching agreement with Mr. Erbakan, for NSP's selective support in the Parliament (24 additional votes) for the new government's budget and fiscal measures in 1978. He obtained this, by getting a special bill passed, to allow leaders of religious parties like Mr. Erbakan to make religious references in political campaigns, and without which, Mr. Erbakan would have been prosecuted for the breach of Turkey's election laws. Nevertheless, the future course of the Government's success will very much depend on how Mr. Ecevit is able to balance the forces within his own Cabinet and more so, within the country at large. At present, available evidence suggests that the prospects of doing so are reasonable, and that the dedication of his party - which has, after years of effort ultimately assumed office in command - to tackle Turkey's problems with seriousness and sincerity, will gain ascendancy over a mundane desire to merely hang on in office at any cost, as the last two do-nothing coalition governments of Mr. Demirel did.

PROJECT PORTFOLIO PROBLEMS

## Regional Distribution of TSKB Lending

| Regions | 1970-1973 Cumulative (TL Million) | % | Number of Projects | 1974-1977 Cumulative (TL Million) | % | Number of Projects |
|---|---|---|---|---|---|---|
| Northwest Anatolia | 1.821 | 68 | 240 | 2.034 | 29 | 112 |
| Southwest Anatolia | 345 | 13 | 43 | 1.727 | 24 | 78 |
| Central Anatolia | 484 | 18; 32 | 51; 107 | 1.814 | 26; 71 | 96; 267 |
| Eastern Anatolia | 41 | 1 | 13 | 1.449 | 21 | 93 |
| Total | 2.691 | 100 | 347 | 7.024 | 100 | 379 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Northwest+Southwest | 2.166 | 81 | 283 | 3.761 | 53 | 190 |
| Central+Eastern Anatolia | 525 | 19 | 64 | 3.263 | 47 | 189 |
| Total | 2.691 | 100 | 347 | 7.024 | 100 | 379 |

TSKB Lending to the Projects of New Entrepreneur Groups

| Years | Total Number of Projects | Projects of New Entrepreneurs | Total Loans (TL.Million) | Loans to New Entrepreneurs (TL.Million) |
|---|---|---|---|---|
| 1975 | 96 | 75 | 1.518 | 1.089 |
| 1976 | 87 | 54 | 1.985 | 1.161 |
| 1977 | 114 | 57 | 2.532 | 1.290 |
| Total | 297 | 186 | 6.035 | 3.540 |

During 1975-1977 out of the 297 projects approved 186 pertained to the entrepreneurs who were requesting loans from TSKB for the first time and 59 percent of the total loans was allocated to these projects.

**Distribution of New Registered Capital in Terms of Social Groups (1975-1977)**

| | Registered Capital (TL.Million) | % |
|---|---|---|
| Banks (incl. TSKB 450 m) | 986 | 10 |
| State Enterprises | 597 | 6 |
| Small Savers | 3.316 | 35 |
| Private Industrial Enterprises | 1.635 | 17 |
| Business Community | 3.025 | 32 |
| | 9.559 | 100 |

TSKB Lending to Companies Having 50 or more Shareholders

| Years | Number of Firms | Number of Shareholders | Total Investment (TL.Million) | TSKB Lending (TL.Million) |
|---|---|---|---|---|
| 1974 | 26 | 26.600 | 2.340 | 611 |
| 1975 | 48 | 39.200 | 4.869 | 1.292 |
| 1976 | 38 | 19.700 | 4.183 | 1.447 |
| 1977 | 34 | 27.300 | 5.556 | 1.419 |
| | 146 | 112.800 | 16.948 | 4.769 |

TSKB Lending to Companies Initiated by Turkish Workers Abroad

| Years | Number of Firms | Number of Worker Shareholders | Total Investment (TL.Million) | TSKB Lending (TL.Million) |
|---|---|---|---|---|
| 1974-1977 | 37 | 54.000 | 2.974 | 1.067 |

## Economic + Financial Returns of TSKB Lending

| | 1975 | 1976 | 1977 |
|---|---|---|---|
| Weighted Average Economic Rate of Return (%) 1/ | 21 | 17 | 23 |
| Weighted Average Financial Rate of Return (%) 2/ | 25 | 25 | 28 |

1/ ERR's represent almost 60 % of total lending

2/ FRR's represent almost 100 % of total lending

## Financing of Small-Medium Scale Labor Intensive Industries

| Year | Number of Projects | TSKB Finance Foreign Exchange ($ Million) | Local (TL.Million) | Total (TL.Million) |
|---|---|---|---|---|
| 1977 | 54 | 21 | 295 | 705 |

In 1977 the ratio of SMLI* finance to total TSKB finance has been around 26 %.

* Total assets $3 m or less
$17 investment per job limit
are $14-15M per job -

## (v)(a) SUMMARY OF BANK GROUP OPERATIONS

# STATUS OF BANK GROUP OPERATIONS IN TURKEY

## STATEMENT OF BANK LOANS AND IDA CREDITS
(As of February 24, 1978)

| Loan and Credit Number | | | | (Less Cancellations US$M) Bank | IDA | Undisbursed |
|---|---|---|---|---|---|---|
| Fifteen loans and eight credits fully disbursed | | | | 255.1 | 92.3 | |
| 236-TU | 1971 | Republic of Turkey | Livestock I | | 4.5 | 0.2 |
| 748-TU | 1971 | Republic of Turkey | Education | 13.5 | | 4.7 |
| 762-TU | 1971 | Republic of Turkey | Fruit and Vegetable | 10.0 | | 3.5 |
| 257-TU | 1971 | Republic of Turkey | Fruit and Vegetable | | 15.0 | 0.2 |
| 281-TU | 1972 | Republic of Turkey | Irrigation Rehab. | - | 18.0 | 1.6 |
| 817-TU | 1972 | Republic of Turkey | Steel Mill Expansion | 76.0 | | 6.8 |
| 844-TU | 1972 | Republic of Turkey | Istanbul Water Supply | 37.0 | | 14.6 |
| 324-TU | 1972 | Republic of Turkey | Istanbul Urban Dev. | | 2.3 | 0.7 |
| 845-TU/a | 1972 | IGSAS | Fertilizer Industry | 42.0 | | 1.6 |
| 330-TU | 1972 | Republic of Turkey | Livestock II | | 16.0 | 6.5 |
| 883-TU | 1973 | Republic of Turkey | Ceyhan Aslantas | 44.0 | | 41.6 |
| 360-TU | 1973 | Republic of Turkey | Ceyhan Aslantas | | 30.0 | 0.8 |
| 892-TU | 1973 | Republic of Turkey | Istanbul Power Dist. | 14.0 | | 5.1 |
| 893-TU | 1973 | Turkish State Railway | Railway Project | 46.7 | | 13.2 |
| 957-TU | 1974 | Republic of Turkey | Antalya Forestry | 40.0 | | 9.1 |
| 1023-TU | 1974 | TEK/TKI | Elbistan Power | 148.0 | | 103.9 |
| 1024-TU | 1974 | DYB | Industry | 40.0 | | 8.9 |
| 1078-TU | 1975 | TSKB | Industry | 65.0 | | 15.7 |
| 1130-TU | 1975 | Republic of Turkey | Rural Development | 75.0 | | 66.8 |
| 1248-TU | 1976 | Agriculture Bank of Turkey (TCZB) | Agriculture Credit | 54.2 | | 45.0 |
| 1258-TU | 1976 | State Pulp and Paper Industry (SEKA) | Newsprint | 70.0 | | 44.8 |
| 1265-TU | 1976 | Republic of Turkey | Livestock III | 21.5 | | 21.4 |
| 1194-TU | 1976 | TEK | Power Transmission II | 56.0 | | 56.0 |
| 1310-TU | 1976 | Republic of Turkey | Tourism | 26.0 | | 26.0 |
| 1379-TU | 1977 | DYB | Industry | 70.0 | | 70.0 |
| 1430-TU | 1977 | TSKB | Industry | 74.0 | | 73.2 |
| | | Total | | 1278.0 | 178.0 | 641.9 |
| | | of which has been repaid | | 118.0 | 3.5 | |
| | | Total now outstanding | | 1160.0 | 174.6 | |
| | | Amount sold | 3.6 | | | |
| | | of which has been repaid | 3.1 | 3.1 | - | |
| | | Total now held by Bank and IDA /b | | 1156.9 | 174.6 | |
| | | Total undisbursed | | 631.9 | 10.0 | 641.9 |

/a Includes $18.0 million approved on April 15, 1976

/b Prior to exchange adjustments

## SUMMARY OF BANK GROUP OPERATIONS

Ln. No. 748 Education Project: US$13.5 million loan of June 9, 1971. Effective Date: September 29, 1971. Closing Date: September 30, 1978.

The project is about two years behind schedule, due mainly to initial difficulties in providing the project unit with adequate qualified staff and authority commensurate with its responsibilities. However, implementation is now proceeding well, with equipment procurement progressing satisfactorily. Training of teachers for technician schools, adult training centers and practical trade schools has made considerable progress. The Management Training Institute has been established on an interim basis pending passage of legislation formally establishing it, and its instructors are undergoing training. Sixty-seven local advisory committees for vocational and technical education have been established, one in each province.

Ln. and Cr. Nos. 762/257 Fruit and Vegetable Export Project: US$10 million loan and US$15 million credit of June 22, 1971. Effective Date: May 19, 1972. Closing Date: June 30, 1978.

The project is nearing completion, with three of its four components, including refrigerated trailer and towing units, marketing facilities and a roll-on roll-off ferryship, fully implemented. A fourth component, comprising credit and technical assistance for citrus development, underwent initial start-up delays, but is now well established and being implemented satisfactorily.

Cr. No. 281 Irrigation Rehabilitation Project: US$18 million credit of January 25, 1972. Effective Date: April 27, 1972. Closing Date: December 31, 1978.

Construction of irrigation and drainage channels and on-farm works at Silifke and Tokat is nearly complete, but on-farm works are still behind schedule at Koprucay because of the extremely short annual work season. Arrangements to ensure use of remaining loan funds before the revised closing date are being finalized by the implementing agencies, and project works not completed by the closing date would be carried out using Government funds.

Ln. No. 817 Steel Mill Expansion Project: US$76 million loan of April 28, 1972. Effective Date: August 4, 1972. Closing Date: December 31, 1978.

The project is expected to be completed in the second half of 1978, three years behind the original schedule, due to delays in beginning procurement stemming largely from inefficient management. An additional $3.6 million in foreign exchange is required for project completion, and the Government is being requested to transfer that portion not already arranged.

Ln. No. 844 Istanbul Water Supply Project: US$37 million loan of June 30, 1972. Effective Date: January 4, 1973. Closing Date: December 31, 1979.

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 are expected to be completed by mid-1978. Substantial improvements to the distribution system are required, however, to enable full utilization to be made of the new water sources. Although a tariff increase was implemented in September 1977, this was insufficient to enable ISI to generate sufficient funds for future ongoing investment in the distribution system, and the Government has been requested to explore ways to resolve the continued lack of adequate local currency.

Cr. No. 324 Istanbul Urban Development Project: US$2.3 million credit of June 30, 1972. Effective Date: January 4, 1973. Closing Date: December 31, 1978.

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. Plans for Phase II are currently being prepared.

Ln. No. 845 IGSAS (Istanbul Fertilizer Company) Project: US$42 million loan of June 30, 1972 as amended April 18, 1975. Effective Date: October 6, 1972. Closing Date: October 31, 1978.

The project has been physically completed at a cost of $146 million, some $16 million above the original estimate, with the overrun being met by the Government, the State Investment Bank, and shareholders. Production commenced in April 1977, but soon after severe technical problems were encountered, resulting in lengthy shutdowns which prevented steady commercial operation being achieved until December 1977, some 15 months behind schedule. Final performance testing of the plant is expected by mid-1978.

Cr. No. 330 Second Livestock Project: US$16 million credit of September 28, 1972. Effective Date: January 5, 1973. Closing Date: December 31, 1978.

The fattening subproject is progressing satisfactorily and all funds have been committed. The Village Livestock Development (VSD) subproject, after a slow start resulting from initial difficulties in recruitment of technicians and technical specialists, which have been overcome through application of suitable incentives, and after gaining the confidence of farmers in the program, is now progressing rapidly, with 90 percent of the funds committed. The project is expected to be completed in late summer 1978.

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

Construction of diversion tunnels has met with difficult rock conditions and several cave-ins, but as a result of revised tunnelling methods, the diversion is now expected to be completed before the 1978-79 flood season, which is about one year behind the contract date and two years behind the appraisal estimate. After some initial delays, progress in construction of the irrigation works is satisfactory and by the end of 1977 the system was ready to deliver water to about 36,500 ha or about 65 percent of the appraisal estimate for 1977. However, on-farm works are behind the appraisal schedule, with 55 percent and 29 percent of 1977 targets completed respectively for land levelling and surface drainage. Construction of feeder roads has progressed faster than initially estimated, with 156 percent of the 1977 target completed or 59 percent of project total. A permanent director and one of the two extension consultants have been appointed. Full-time subject matter specialists have been hired and recruitment of field staff is continuing.

Ln. No. 892 Istanbul Power Distribution Project: US$14.0 million loan of May 25, 1973. Effective Date: September 28, 1973. Closing Date: December 31, 1978.

The project has been delayed by about four years mainly by slow procurement action; however, this is now almost completed. Costs have increased by nearly 300 percent over appraisal estimates, primarily reflecting very high local cost increases. Consultant studies of the Istanbul power market and of the proposed reorganization of the company's electricity and transport services have been completed; a study of its gas operations is under review. IETT's tariffs were raised following the countrywide tariff adjustments made in September 1977 and additional steps are planned by the Government to help cover the increased project costs and revitalize the company's finances.

Ln. No. 893 Turkish State Railways: US$47 million loan of May 25, 1973. Effective Date: August 28, 1973. Closing Date: September 30, 1978.

In physical terms, including track renewals, rolling stock, and locomotive production, the latter financed by the European Investment Bank, the project is substantially completed. Nearly 75 percent of the loan has been disbursed and procurement actions have been or are in the process of being completed for use of the remaining loan funds. Although tariffs have been raised twice since the loan was made, the Borrower continues to fall short of meeting the financial targets in the revised Plan of Action agreed with the Bank in mid-1975, and further tariff adjustments have not yet been approved by Government. While the dieselization program is making satisfactory progress, other measures to improve operational efficiency, such as appropriate manpower planning have not been given sufficient attention.

Ln. No. 957 Antalya/Akdeniz Forest Utilization Project: US$40 million loan of January 28, 1974. Effective Date: May 26, 1976. Closing Date: December 31, 1978.

Following the approval by the Executive Directors of needed changes in the agreements arising from relocation of the site of the pulp and paper mill, the loan was declared effective. Construction has begun at the new site, and the project is expected to be completed by the beginning of 1981, 1-1/2 years behind the revised schedule. The cost overruns are being met by the Government and the State Investment Bank. Some cases of sub-standard civil works constructions have occurred, and as a corrective program has produced only temporary improvement, SEKA has been asked to further strengthen its supervision. The Government has been unable to authorize the foreign exchange transfers needed to permit continued procurement for the industrial part of the project.

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

Engineering and contracting are proceeding, but project implementation has been delayed as a result of critical problems, including insufficient staff, inefficient management, inadequate coordination among various agencies and unsatisfactory performance of civil contractors. After the Bank and the co-lenders reviewed the situation in January and April 1977 with the Turkish authorities, the remedial measures initiated by Turkey have had quite encouraging results in improving project coordination and in the physical aspects of project implementation.

Ln. No. 1024 DYB (State Investment Bank of Turkey): US$40 million loan of June 28, 1974. Effective Date: September 30, 1974. Closing Date: December 31, 1978.

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

Ln. No. 1078 TSKB (Industrial Development Bank of Turkey): US$65 million loan of January 22, 1974. Effective Date: April 24, 1975. Closing Date: December 31, 1978.

The loan is fully committed and project implementation is satisfactory, although disbursements are somewhat behind original appraisal estimates, as a result of the current difficulties in Turkey's investment climate.

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

The project is progressing satisfactorily. The project extension service is operating successfully and consultants are being engaged. Corum dam is nearing completion and the associated irrigation works are expected to be completed during the summer of 1978. Kumbaba pumping station and the associated irrigation networks are nearly completed. Construction of the remaining village centers will be delayed until 1979 while a plan for the use and maintenance of the centers already built is being drawn up. Other civil works are well underway.

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

The original effectiveness date of September 14, 1976 has been postponed for the sixth time to April 28, 1978 to permit the Government and TEK to meet fully, before effectiveness, certain financial and institutional requirements under their agreements with the Bank.

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

Project implementation is satisfactory. Under the agroindustries component, the responsible Project Unit is actively preparing sub-projects for marketing and processing facilities. The supervised credit component, an on-going program of the Agriculture Bank, which is being expanded with Bank assistance, is also proceeding well. 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. At the Borrower's request, a cattle-fattening component of the Project, and US$7.7 million of the original Loan amount of $63 million, allocated for this purpose, were cancelled on May 5, 1977. Also, as provided for in the Loan Agreement, $1.04 million for training was cancelled on December 22, 1977, following approval of UNDP funds for this purpose.

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

Project implementation is about six months behind schedule but quality of work is satisfactory.

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

After a slower than anticipated start-up, project implementation is now satisfactory. Project offices have been established and are virtually fully staffed, with all three consultants on post. Preparation of farm development plans has been slower than expected; however, a substantial number of sub-loan applications have been approved or are in the process of preparation.

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

After considerable delay due to difficulties in finalizing appointment of a permanent Project Director and in Government acquisition of privately owned land in the Project Area, the loan was made effective on March 1, 1978. Despite this, implementation of most project components is satisfactory, with progress being made in preparation of specifications and project design work. Staffing of the Project Unit is expected to be accelerated now that the Director has been appointed.

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

Loan commitments and disbursements have not started yet, mainly due to changes in Government which led to delays in formulating the 1978 Annual Program. However, DYB has recently discussed with the Bank a pipeline sufficient to fully commit the loan by the terminal date of March 31, 1979. DYB is currently experiencing severe staff constraints, which it is trying to overcome by new recruitment on improved contract terms.

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

Progress is satisfactory and as of February 28, 1978 about $23 million had been committed. In 1977, TSKB essentially reached an agreed target by allocating 38 percent of its resources to projects in less developed regions, and exceeded another in its assistance to small and medium-scale labor-intensive enterprises. TSKB 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.

(v)(b) STATEMENT OF ESTIMATED AND ACTUAL (FEBRUARY 28,1978) DISBURSEMENTS/COMMITMENTS

TURKEY - DISBURSEMENTS

(Expected and Actual Disbursements for on-going projects not fully disbursed)

| | Loan or Credit No. | Amount $ Mil. | Agreement In FY | Disbursements (US$ Million) As at January 31, 1977 Expected[1] | Actual | Percent (Actual to Expected) | As of February 28,1978 Expected[1] | Actual | Percent (Actual to Expected) |
|---|---|---|---|---|---|---|---|---|---|
| A. PUBLIC SECTOR | | | | | | | | | |
| 1. Agriculture (Irrigation) | | | | | | | | | |
| Irrigation Rehab. | Cr. 281 | 18.0 | 1972 | 17.1 | 13.5 | 79 | 18.0 | 16.4 | 91 |
| Ceyhan Aslantas | Ln. 883/360 | 74.0 | 1973 | 24.1 | 19.1 | 79 | 35.9 | 33.1 | 92 |
| Total Irrigation | | 92.0 | | 41.2 | 32.6 | 79 | 53.9 | 49.5 | 92 |
| (Other Agriculture) | | | | | | | | | |
| Fruit and Vegetable I | Ln. 762/257 | 25.0 | 1971 | 25.0 | 17.8 | 71 | 25.0 | 21.3 | 85 |
| Livestock II (Village Dev.) | Cr. 330 | 16.0 | 1972 | 16.0 | 5.2 | 32 | 16.0 | 9.5 | 59 |
| Livestock III | Ln. 1265 | 21.5 | 1976 | 1.8 | 0.0 | -- | 5.6 | 0.0 | -- |
| Corum Cankiri Rural Dev. | Ln. 1130 | 75.0 | 1975 | 11.4 | 1.1 | 10 | 31.3 [3] | 8.9 | 28 |
| Agrocredit & Agroindustries | Ln. 1248 | 54.2[2] | 1976 | 7.3 | 0.0 | -- | 12.5 | 9.3 | 74 |
| Total Other Agriculture | | 191.7 | | 61.5 | 24.1 | 39 | 90.4 | 49.0 | 54 |
| Sub-Total - Agriculture | | 283.7 | | 102.7 | 56.7 | 55 | 144.3 | 98.5 | 68 |
| 2. Power | | | | | | | | | |
| IETT | Ln. 892 | 14.0 | 1973 | 14.0 | 1.1 | 08 | 14.0 | 8.9 | 64 |
| Elbistan | Ln. 1023 | 148.0 | 1974 | 35.4 | 13.2 | 37 | 105.6 | 44.5 | 42 |
| TEK II | Ln. 1194[4] | 56.0 | 1976 | 5.8 | 0.0 | -- | 23.9 | 0.0 | -- |
| Sub-Total - Power | | 218.0 | | 55.2 | 14.3 | 26 | 143.5 | 53.4 | 37 |
| 3. Industry | | | | | | | | | |
| IGSAS | Ln. 845-1-2[5] | 42.0 | 1972/1975 | 42.0[6] | 35.2 | 84 | 42.0[6] | 40.5 | 96 |
| Erdemir Steel | Ln. 817 | 76.0 | 1972 | 76.0 | 63.5 | 83 | 76.0 | 69.7 | 92 |
| DYB (DFC) | Ln. 1024 | 40.0 | 1974 | 28.3 | 18.8 | 66 | 37.6 | 31.2 | 83 |
| Antalya Forestry | Ln. 957 | 40.0 | 1974 | 27.1 | 25.2 | 93 | 40.0 | 30.9 | 77 |
| Balikesir Newsprint | Ln. 1258 | 70.0 | 1976 | 11.6 | 5.2 | 45 | 36.0 | 25.2 | 70 |
| Sub-Total - Industry | | 268.0 | | 185.0 | 147.9 | 80 | 231.6 | 197.5 | 85 |
| 4. Urban Projects | | | | | | | | | |
| Istanbul Water Supply | Ln. 844 | 37.0 | 1972 | 36.0 | 12.6 | 35 | 37.0 | 22.4 | 61 |
| Istanbul Studies | Cr. 324 | 2.3 | 1972 | 2.3 | 1.5 | 65 | 2.3 | 1.6 | |
| Sub-Total - Urban | | 39.3 | | 38.3 | 14.1 | 37 | 39.3 | 24.0 | 61 |
| 5. Transport | | | | | | | | | |
| Railways I | Ln. 893 | 46.7[7] | 1973 | 47.0 | 31.6 | 67 | 46.7[7] | 33.6 | 72 |
| 6. Education | | | | | | | | | |
| Vocational | Ln. 748 | 13.5 | 1971 | 13.5 | 6.2 | 46 | 13.5 | 8.8 | 65 |
| 7. Tourism | | | | | | | | | |
| Antalya Tourism | Ln. 1310[8] | 26.0 | 1977 | 1.0 | 0.0 | | 3.5 | 0.0 | -- |
| Sub-Total - Public Sector | | 895.2 | | 442.7 | 270.8 | 61 | 622.4 | 415.8 | 67 |
| B. PRIVATE SECTOR | | | | | | | | | |
| TSKB XI | Ln. 1078 | 65.0 | 1975 | 43.2 | 25.2 | 58 | 62.6 | 49.9 | 80 |
| C. LOANS SIGNED SINCE JANUARY 31, 1977 | | | | | | | | | |
| DYB (DFC) II | Ln. 1379 | 70.0 | 1977 | | | | 10.6 | 0.0 | -- |
| TSKB XII | Ln. 1430 | 74.0 | 1977 | | | | 6.9 | 0.8 | 12 |
| Sub-Total | | 144.0 | | | | | 17.5 | 0.8 | 05 |
| COMBINED TOTAL ( A + B + C ) | | 1104.0[9] | | 485.9 | 296.0 | 61 | 702.5 | 466.5 | 66 |

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1/ Based on original forecasts in Appraisal Report unless otherwise indicated.
2/ Loan amount reduced from US$63 million to $54.2 million with cancellation of fattening and training components.
3/ Based on revised disbursement schedule for smaller project.
4/ Loan signed June 14, 1976, but not yet effective.
5/ Includes Supplemental loan of US$18 million for expanded project.
6/ Based on revised disbursement schedule for expanded project.
7/ Loan amount reduced to US$46.7 million as result of cancellation of US$300,000 due to award of contract to other than lowest bidder.
8/ Loan made effective March 1, 1978.
9/ Twenty-five Loan/Credit Operations fully disbursed totalling $351.9 million. Total lending to Turkey equals $1456.1

TURKEY - COMMITMENTS

(Expected and Actual Commitments
for on-going projects not fully disbursed)

| | Loan or Credit No. | Amount $ Mil. | Agreement in FY | Commitments (US$ Million) As of January 31, 1977 Expected[1/] | Actual[2/] | Percent (Actual to Expected) | As of February 28, 1978 Expected[1/] | Actual[2/] | Percent (Actual to Expected) |
|---|---|---|---|---|---|---|---|---|---|
| **A. PUBLIC SECTOR** | | | | | | | | | |
| **1. Agriculture** Irrigation | | | | | | | | | |
| Irrigation Rehab. | Cr. 281 | 18.0 | 1972 | 18.0 | 17.6 | 98 | 18.0 | 18.0 | 100 |
| Ceyhan Aslantas | Ln. 883/360 | 74.0 | 1973 | 50.0 | 60.0 | 120 | 74.0 | 64.0 | 86 |
| Total Irrigation | | 92.0 | | 68.0 | 77.6 | 114 | 92.0 | 82.0 | 89 |
| (Other Agriculture) | | | | | | | | | |
| Fruit and Vegetable I | Ln. 762/257 | 25.0 | 1971 | 25.0 | 24.2 | 97 | 25.0 | 23.8 | 92 |
| Livestock II (Village Dev.) | Cr. 330 | 16.0 | 1972 | 16.0 | 12.5 | 78 | 16.0 | 15.5 | 97 |
| Livestock III | Ln. 1265 | 21.5 | 1976 | 3.0 | 0.0 | - | 5.0 | 0.1 | 0.2 |
| Corum Cankiri Rural Dev. | Ln. 1130 | 75.0 | 1975 | 19.7 | 5.8 | 29 | 44.4 | 20.8 | 47 |
| Agrocredit & Agroindustries | Ln. 1248 | 54.2[3/] | 1976 | 9.1[4/] | 6.9 | 76 | 17.6 | 11.0 | 62 |
| Total Other Agriculture | | 191.7 | | 72.8 | 49.4 | 68 | 108.0 | 55.7 | 52 |
| Sub-Total - Agriculture | | 283.7 | | 140.8 | 127.0 | 90 | 200.0 | 137.7 | 69 |
| **2. Power** | | | | | | | | | |
| IETT | Ln. 892 | 14.0 | 1973 | 14.0 | 13.6 | 97 | 14.0 | 14.0 | 100 |
| Elbistan | Ln. 1023 | 148.0 | 1974 | 148.0 | 80.2 | 54 | 148.0 | 82.1 | 55 |
| TEK II | Ln. 1194 | 56.0[5/] | 1976 | 10.0 | 5.0 | 50 | 56.0 | 19.2 | 34 |
| Sub-Total - Power | | 218.0 | | 172.0 | 98.8 | 57 | 218.0 | 115.3 | 53 |
| **3. Industry** | | | | | | | | | |
| IGSAS | Ln. 845-1-2 | 42.0[6/] | 1972/75 | 42.0 | 40.0 | 95 | 42.0 | 42.0 | 100 |
| Erdemir Steel | Ln. 817 | 76.0 | 1972 | 76.0 | 73.5 | 97 | 76.0 | 76.0 | 100 |
| DYB (DFC) | Ln. 1024 | 40.0 | 1974 | 40.0 | 38.3 | 96 | 40.0 | 40.0 | 100 |
| Antalya Forestry | Ln. 957 | 40.0 | 1974 | 40.0 | 36.0 | 90 | 40.0 | 40.0 | 100 |
| Balikesir Newsprint | Ln. 1258 | 70.0 | 1976 | 45.0 | 41.3 | 92 | 65.0 | 60.0 | 92 |
| Sub-Total - Industry | | 268.0 | | 243.0 | 229.1 | 94 | 263.0 | 258.0 | 98 |
| **4. Urban Projects** | | | | | | | | | |
| Istanbul Water Supply | Ln. 844 | 37.0 | 1972 | 37.0 | 30.2 | 82 | 37.0 | 29.0 | 78 |
| Istanbul Studies | Cr. 324 | 2.3 | | 2.3 | 1.7 | 74 | 2.3 | 1.7 | 74 |
| Sub-Total - Urban | | 39.3 | | 39.3 | 31.9 | 81 | 39.3 | 30.7 | 78 |
| **5. Transport** | | | | | | | | | |
| Railways I | Ln. 893 | 46.7[7/] | 1973 | 47.0 | 36.5 | 78 | 46.7 | 39.0 | 83 |
| **6. Education** | | | | | | | | | |
| Vocational | Ln. 748 | 13.5 | 1971 | 13.5 | 7.9 | 58 | 13.5 | 8.8 | 66 |
| **7. Tourism** | | | | | | | | | |
| Antalya Tourism | Ln. 1310 | 26.0[8/] | 1977 | 1.5 | 0.0 | - | 5.0 | 0.4 | 08 |
| Sub-Total - Public Sector | | 895.2 | | 657.1 | 531.2 | 81 | 785.5 | 589.9 | 75 |
| **B. PRIVATE SECTOR** | | | | | | | | | |
| TSKB XI | Ln. 1078 | 65.0 | 1975 | 65.0 | 60.7 | 93 | 65.0 | 64.5 | 99 |
| **C. LOANS SIGNED SINCE JANUARY 31, 1977** | | | | | | | | | |
| DYB (DFC) II | Ln. 1379 | 70.0 | 1977 | | | | 40.6 | 0.0 | - |
| TSKB XII | Ln. 1430 | 74.0 | 1977 | | | | 34.5 | 24.0 | 69 |
| Sub-Total | | 144.0 | | | | | 75.1 | 24.0 | 32 |
| COMBINED TOTAL (A + B + C) | | 1104.2 | | 722.1 | 591.9 | 82 | 925.6 | 678.4 | 73 |

1/ Estimates based on original project schedules unless otherwise indicated.
2/ Based on value of contracts approved by Bank or project components for which specific contracts being handled by Government.
3/ Loan amount reduced from US$63 million to $54.2 million with concellation of fattening and training components.
4/ Based on revised disbursement schedule for smaller project.
5/ Loan signed June 14, 1976, but not yet effective.
6/ Includes supplemental loan of $18.0 for expanded project.
7/ Loan amount reduced to US$46.7 million as result of cancellation of US$300,000 due to award of contract to other than lowest bidder.
8/ Loan made effective March 1, 1978.

EM2DA
March 22, 19

## (v)(c) ANALYSIS OF COMMON PROBLEMS ON ONGOING PROJECT PORTFOLIO

## TURKEY: ANALYSIS OF COMMON PROBLEMS ON ONGOING PROJECT PORTFOLIO

1. The major problems encountered in Bank lending operations are discussed below under the three main headings: (i) coordination, (ii) policies, and (iii) administration. Also discussed are (iv) areas for reconsideration of Bank approaches, and (v) areas of success to build on.

### Coordination

2. Overall coordination of relations with the Bank. This function, carried out effectively under the strong leadership of SPO in the early 1970's, and lodged in a generally ineffectual Treasury since 1972, needs major strengthening despite the changes made in June 1975 as a result of the McNamara-Demirel exchanges in the spring of that year. The Ministerial Coordination Committee (Finance, Energy, Public Works), created by Mr. Demirel to resolve policy issues, never functioned. Despite some increase in staff in a renamed "World Bank Unit" in the Treasury and in the Washington Embassy, Treasury coordination still lacks the essential ingredients of: (i) substantive sectoral expertise, (ii) freedom from other unrelated and competing duties, (iii) bureaucratic clout, and (iv) guaranteed access to policy level officials for quick resolution of major issues. The Treasury has also been weak even in financial expertise, and its ability to find satisfactory domestic and cofinancing sources, despite substantial guidance provided by the Bank, has been poor. SPO still retains the formal responsibility for substantive policy coordination. However between 1971 and 1977, SPO was not allowed to exercise its responsibilities fully and most issues are either slowly resolved by direct compromise between ministries or, more often, remain unresolved. This contributed to the hold up of preparation, or implementation of Bank projects.

3. What is needed is a well-staffed unit headed by an Undersecretary, or Advisor, preferably attached to the Prime Minister's Office, with coordination authority over implementing agencies and possessing the other ingredients mentioned in paragraph 2. It should also be responsible for coordinating relations with other external sources of development financing. It could usefully be supported by an interministerial committee chaired by the new Minister of State for Economic Coordination, with a priority claim on the time of its basic members, and on undersecretaries of other ministries involved in particular issues. Restructuring overall coordination along these lines, should be raised forcefully as a priority with Prime Minister Ecevit, because it represents the essential framework for resolution of the other problems discussed in this paper and because the Finance Minister is already fighting hard to retain the present unsatisfactory coordination arrangements in the Treasury.

4. Multi-Agency Project Coordination. The Government recognizes the need for special coordination arrangements for multi-agency projects (e.g. Elbistan, Corum Cankiri Rural Development, South Antalya Tourism Infrastructure), but their creation has been resisted and their utilization inadequate. Coordination/implementation of Elbistan has improved only slightly, despite two years of cofinanciers' joint pressure on the Government. The coordination committee for the Agricultural Credit and Agro-industries Project (TCZB I) went into abeyance after appraisal, and did nothing to help identify or resolve the issue of competitive interest rates for the livestock component, which dragged on for a year before the Bank finally had to cancel over $10 million allocated for that component.

5. The Turkish coordination unit (para 3 above) should foster project coordinating committees, normally provide the chairman, and make them work to identify and resolve problems through out the project preparation and implementation periods. SPO agreed to fill this role in Corum-Cankiri and TCŻB I, but has been relatively inactive in the former and reneged in the latter. Even in projects involving only two agencies (e.g. Akdeniz, Balikesir, Istanbul Sewerage), a formal coordinating committee often appears necessary to deal with intractable issues. Protocols defining inter-agency relations and objectives should be agreed on in advance of loan negotiations.

6. Effectiveness of Loans. Slowness in meeting effectiveness conditions has been a major factor in implementation delays of nearly all Bank-financed projects in Turkey. Over the past six years, an average of 2 extensions and about 8 months have been required before effectiveness (see attached table). Many projects have required four or more extensions. The varied causes of delay reflect many of the policy and administration problems discussed below; in some cases, lending should have been postponed. However, the basic need is for anticipation, and action by the Government's overall coordination unit, to assure that effectiveness conditions are met as expeditiously as possible. Even after the settlement of substantive issues, the well-known routine procedures required for effectiveness have often caused delay because the Treasury has been reluctant to deal with them early enough.

7. Disbursements. Turkey's disbursement record, which was poor at the time of Mr. McNamara's spring 1975 meeting with Mr. Demirel and the initiation of periodic Government-Bank joint implementation reviews since July 1975, has since improved. Between March 31, 1975 and December 31, 1977, disbursements totalled $354 million. This boosted the ratio of actual disbursements to estimates of disbursement made during appraisal from 51 percent to 69 percent. The key factors in this improvement, include prompter submission to the Bank of documentation on reimbursable project expenditures in agriculture, actions taken permitting Akdeniz and Elbistan to be declared effective, and swifter implementation of industrial and DFC projects generally. Disbursements are however, still slow in some projects, notably Corum Cankiri Rural Development and Elbistan. We should continue to press the Government to accelerate disbursements wherever possible, and this should be a major monitoring responsibility of the Turkish coordination unit. ✓ stress

Policies

8. Most of the topics discussed under policies and under administration (below) are relevant to both categories.

9. Pricing: The problems in pricing of public sector goods and services, such as electricity and railway tariffs, water charges, and interest rates, cut across the whole Turkish portfolio. Flexibility on these issues, is relatively limited on the Bank's side for general policy reasons, and on the Government's side, for political reasons. Nevertheless, unless the Bank is to limit greatly its areas of lending, acceptable accommodations must be sought. However, the Bank should maintain its position that users should in general pay the full cost of goods or services, for reasons of equity, financial soundness of SEEs, national resource mobilization and demand management. Thus, the major accommodation will be needed from the new Government.

10. As a start, there needs to be better coordination of information on the Turkish side regarding pricing policies, and fuller discussion of these policies with the Bank. For example, several Central Bank lines of credit at subsidized interest rates for various agricultural purposes have been initiated in competition with Bank projects, without coordination in Ankara or with the Bank (paragraph 4 above). Increased analysis and Government-Bank discussion of SEE pricing is needed in sectors where the Bank can help support capital and institution-building needs in projects with high economic and social rates of return.

11. Sector-wide Application of Project Covenants. The Government and its agencies have reluctantly accepted and implemented certain reforms under Bank-financed projects. They have resisted extending these reforms more widely in the institutions or sectors involved. Bank-sponsored reforms are often seen as an unavoidable nuisance, like a surcharge-in-kind on the Bank's interest rate, and to be applied only in direct connection with the use of Bank funds. This attitude sometimes reflects a disagreement on the validity of the reform, and many times, an unwillingness to take the difficult steps to implement it.

12. The Government should be urged to accept a two-stage concept of (i) pilot reform efforts under Bank projects, and (ii) subsequent application of reforms more widely. The proposed new Turkish coordination unit should be responsible for monitoring these efforts.

13. Rigidity of Legal System. Turkish laws often include implementing details that in other countries would be covered by the regulations of the implementing authorities (e.g. municipal revenue sources, traffic law fines, authorized capital of Erdemir). The Government should be urged to seek Parliamentary approval, whenever possible, to shift these implementing decisions and the authority to make needed amendments to the Government, municipalities, SEE's and other authorities concerned.

14. Project Preparation: During project preparation, the Government has often not brought into being or even prepared the groundwork for or committed itself to new laws, institutions, policies or other reforms required in a given sub-sector. Bank leverage has been inadequate to induce these actions, after the loans are declared effective. The Government should be urged to exercise this key reform responsibility with the help of the new coordination unit and individual project coordinating committees. Most Bank projects in the last few years have been prepared by outsiders, whether Bank, Cooperative Program, UNDP or others. The Government should mostly take this over and provide adequate resources to build up the pipeline of Bank projects for future years. In projects involving major sectoral or institutional reforms, the Bank should lend later in the cycle, so that the Government can demonstrate its commitment and ensure timely and effective implementation.

Administration

15. Financing Arrangements. Even in the period prior to Turkey's current economic crisis, the meeting of domestic and foreign exchange cost overruns by the Government or the project organizations concerned, has posed major problems. Similar difficulties have been experienced in establishing proper capital

structure or cash flows for industrial SEEs financed by the Bank. Even within Turkey's budgetary and balance of payments constraints, the Treasury and the project organizations have not administered, or coordinated, necessary financing arrangements as well as they might have. The Eregli Steel Company, e.g. continues to be weak in financial analysis, and the Treasury has been penny-wise and pound-foolish in delaying government loans (in the face of rapidly rising costs), which could have hastened Erdemir Steel I project's implementation, thereby augmenting its earning capacity, and foreign exchange import savings. Similarly, the Akdeniz Pulp/Paper project, has also been greatly delayed by lack of foreign exchange. Elbistan is an epic case of mismanaging foreign resource mobilization. Many smaller projects, especially in agriculture, have suffered costly delays because of Treasury reluctance to make contingent budgetary provisions when needed, before loan negotiations or even when the need for financing becomes clearly apparent.

16. SEE and Government Agency Staffing. The problems of feather-bedding, and the frequent changes and appointment of unqualified managers and policy officials are essentially political and little subject to influence by the Bank. Nevertheless they should continue to be raised, and the proposed Turkish coordination unit should become the chief spokesman on the Turkish side for reform in this area. The problem of adequate salaries and emoluments to attract qualified staff is also little subject to Bank influence, but should continue to be pursued as a general public sector issue.

17. However, operating agencies and the coordination unit could do more to anticipate staffing requirements of Bank-financed projects, and take necessary procedural steps within existing regulations to create, fund, and fill positions in timely sequence, and hire Turkish staff on a temporary consultant basis where needed.

18. Consultants and Experts. Hiring of individual experts has improved in several projects, especially in agriculture, but greater effort by the coordinating unit is still needed to foster among Turkish managers and Government officials a more enlightened attitude, to view foreign consultants as a form of project insurance premium, and not as a high-priced insult to the technical and managerial capacity of Turkish nationals. The changed attitude and ability of the Transportation Coordination Agency to make good use of foreign consultant assistance, demonstrates what can be achieved.

19. Training. Planning, coordination, and implementation of training in several agricultural projects has improved considerably, However, many organizations (e.g. the Livestock Directorate and SEKA) give it low priority, despite consequent project weaknesses, and seek reallocation of loan training funds to other purposes. Discipline is still needed to ensure that training, particularly overseas, is not merely a reward for influential bureaucrats.

20. Procurement. Government regulations favor procurement of Turkish products, and the design of Bank projects normally attempts to take this into account. Nevertheless, violations of ICB continually arise. Operating agencies and the Treasury seem to feel ICB procedures are a less than binding covenant

that can be broken readily, to be made good by reallocation, grant of exceptions, or merely stretched interpretations. There is clearly a need to re-educate the coordination unit and operating agencies on ICB, its purpose, the consequences of violations, namely, cancellation of the related loan amounts, and hence the importance of careful preparation of procurement arrangements during appraisal and strict adherence during implementation. Major violations have involved the Turkish Railways and Istanbul Power Distribution (IETT) projects the latter now satisfactorily resolved.

Areas for Reconsideration of Bank Approach

21. Despite their general soundness, certain Bank policies or practices deserve re-examination, to check whether in the Turkish context they can be improved. A few possible areas are discussed here.

22. Covenants Pronounced Unworkable by the Government. The Bank has sometimes pressed for covenants which the Government negotiators insisted could not be lived up to, and which in fact have not been, e.g.:

i) The insistence on ICB being applied to the procurement of politically sensitive Turkish products, such as vehicles and railway sleepers. We should avoid financing such items, when it is clear from experience and repeated official statements that ICB will not work. Vehicles are a more complex problem, since Government domestic procurement is extremely difficult and many agricultural projects are vitally dependent on vehicles. This issue should be taken up as a priority by the proposed Turkish coordinating unit.

ii) The requirement for audits of administrative units of ministries implementing Bank projects, such as the Livestock Directorate. The auditing of ministries is different from the auditing of SEEs and does not provide for a breakdown of accounts to show the financial performance of such administrative units. It might be useful to arrange a technical discussion of this problem to see how legitimate Bank interests could be accommodated within the existing Turkish system.

23. Universal Requirement for Consultants or Experts. Consultants are frequently accepted by the Turkish authorites, but sometimes not, or only after long delay, in some cases blocking effectiveness. In at least one case (Irrigation Rehabilitation), foreign consultants were covenanted but not hired. Despite that, the project progressed reasonably well. While trying to lessen the widespread Turkish opposition to consultants, the Bank should also carefully examine risks and recognize those projects in which Turkish institutions can acceptably handle implementation without the additional risk - protection provided through the engagement of foreign experts or consultants.

24. Institution-Building. Many Bank projects have involved the creation or modification or institutions, entrance into new sectors (rural development, tourism), or proliferation of borrowers. This out-reaching strategy has been the source of some of our implementation difficulties, and the experience suggests the following lessons:

i) We can reasonably hope for continuing advances in what will be long-term relationships, e.g. TCZB II after TCZB I, and should not expect to achieve too much with a first loan, e.g. Railways.

ii) We should hesitate to require the creation of new institutions, or take on new borrowers, where a greater willingness to live within existing arrangements and adapt them to new purposes may achieve more.

Areas of Success to Build on or Emulate

25. An improved Bank lending program in Turkey will derive as much from building on successes as from attempting to correct major difficulties. Following are some examples.

26. The Treasury as coordinating unit, at Bank urging, initiated and expedited the planning and successful implementation of coordinated training programs, previously ignored, under the Irrigation Rehabilitation, Seyhan, and Ceyhan Aslantas projects and affecting four different agencies.

27. Mutual professional esteem and effective close partnership were established between SEKA and the Sandwell Company, and between the General Directorate of Forestry and the Forestal Company, showing that good relationships are possible between Turkish operating agencies and foreign consultants when attitudes are constructive and selection procedures are good. These long continuing relationships under Akdeniz, have led to the effective identification and preparation of several follow-up projects: Balikesir, Forestry Development and SEKA III.

28. The rapid build-up of technical staff and regional offices by the Livestock Directorate in 1976-77 following several years of stagnation shows that qualified staff can be attracted, even to remote field locations, if ministerial backing is obtained, and if existing regulations and incentives are used effectively.

29. The recent integration of the Fruit and Vegetable project unit, as a permanent directorate of the Ministry of Agriculture, shows that new project units can succeed, survive, and pave the way for repeater projects under an interested sponsoring ministry, a good manager, and a Government with some continuity in office.

30. TSKB illustrates how an effective DFC can evolve from a channel of funds to the private industrial sector into a modern development agency that also lends to less developed regions, promotes financing packages for new ventures, encourages labor-intensive enterprises and medium-small scale industries, trains enterprise managers, and conducts research and analysis to open up new sub-sectors and rationalize others.

31. UNDP has been an effective source of project preparation and technical assistance in a number of projects in several sectors including agriculture, forestry, highways, industry, railways, tourism and transport coordination. UNDP and Government welcome this collaboration with the Bank, and UNDP has made available about $1 million in unprogrammed funds over the next several years for support for Bank-financed projects.

## Turkey's Effectiveness Record

| FY | Loan/Credit Name and Number | Number of Extensions of Effectiveness Date | Number of Months From Signing to Effectiveness |
|---|---|---|---|
| FY72 | Steel Plant Expansion, Loan 817-TU | 1 | 5 |
| | Istanbul Water Supply, Loan 844-TU | 1 | 7 |
| | IGSAS I Fertilizer, Loan 845-TU | 0 | 4 |
| | Tenth TSKB, Loan 873-TU | 0 | 3 |
| | Irrigation Rehabilitation, Credit 281-TU | 0 | 3 |
| | Istanbul Urban Development, Credit 324-TU | 1 | 7 |
| | Livestock II, Credit 330-TU | 0 | 4 |
| | Average FY72 | 0.4 times | 4.7 months |
| FY73 | Ceyhan Aslantas Multi-Purpose, Loan 883-TU, Credit 360-TU | 4 | 12 |
| | Istanbul Power Distribution, Loan 892-TU | 2 | 4 |
| | Railways, Loan 893-TU | 0 | 3 |
| | Average FY73 | 2.0 times | 6.3 months |
| FY74 | Akdeniz Forest Utilization, Loan 957-TU | 6 | 27 |
| | Elbistan, Loan 1023-TU | 6 | 24 |
| | DYB, Loan 1024-TU | 0 | 3 |
| | Average FY74 | 4.0 | 18.0 |
| FY75 | Eleventh TSKB, Loan 1078-TU | 0 | 3 |
| | IGSAS I Expansion, Loan 845-TU | 0 | 3 |
| | Corum-Cankiri Rural Development, Loan 1130-TU | 2 | 7 |
| | Average FY75 | 0.7 times | 4.3 months |
| FY76 | TEK II Transmission, Loan 1194-TU | 6/1 | 22/1 |
| | Agri. Credit & Agro-Industries, Loan 1248-TU | 4 | 12 |
| | Balikesir Newsprint, Loan 1258-TU | 0 | 5 |
| | Livestock III, Loan 1265-TU | 3 | 9 |
| | Average FY76 | 3.2 times/1 | 12.0/1 |
| FY77 | South Antalya Tourism, Loan 1310-TU | 5 | 16 |
| | Second DYB, Loan 1379-TU | 1 | 6 |
| | Twelfth TSKB, Loan 1430-TU | 0 | 3 |
| | Average FY77 | 2.0 times | 8.3 months |
| | Overall Average FY72-77 | 1.8 times | 8.3 months |

/1 Assuming TEK II defaults are corrected and the loan is made effective on the present effectiveness deadline of April 28, 1978.

BRIEFS ON POSSIBLE FY78 PROJECTS

POSSIBLE FY78 PROJECT

1. Project: Karakaya Hydro-electric.

2. Project Description: Construction of a concrete arch gravity dam on the Euphrates River about 160 km downstream from the Keban Dam, with a reservoir of 5.6 $km^3$ of useful storage, and 1,800 MW of installed capacity, plus related consulting services through start-up, resettlement of 16,000 villagers, relocation of 33 km of railway line, and construction of related roads and bridges.

3. Estimated Project Cost: Total $1,368 million.

4. Estimated Foreign Exchange Cost and Financing Plan: Foreign exchange cost, excluding interest during construction (about ~~$213 million~~) to be borne by Turkey, is $522 million. With the proposed Bank loan of $100 and the signed Swiss export credit (essentially for electrical equipment) of $240 million, the remaining foreign exchange gap is $182 million.

5. Borrower: Turkey.

6. Project Authority/Implementing Agency: State Hydraulic Works (DSI). Project will be handed over to Turkish Electricity Authority (TEK), upon completion of construction.

7. Problems: (i) Prior effectiveness of TEK II loan, involving sector actions, including further tariff increase.

(ii) manner in which loan documents will cover the riparian arrangements (Rule of 500), to which Turkey has already agreed, to provide adequate water releases for downstream riparians; monitoring of flows; talks on long-term water-sharing.

(iii) Completion of foreign exchange financing. FRG?

8. Anticipated Timing for Processing: Negotiations: April 1978
Board: June 1978 ?

EMENA Region
March 21, 1978

POSSIBLE FY78 PROJECT

1. Project: Fourth Livestock Development

2. Project Description: Supervised credit and extension services for improved feed-stuff and sheep, beef and dairy cattle production on about 5,000 farms in selected counties of 10-11 eastern provinces, extending the Village Development activity of Livestock II and the dairy development of Livestock I and III. Project gives special emphasis to reaching small farmers within the Bank's poverty definition, through eased collateral requirements by a Treasury-TCZB small farmer Risk Fund.

3. Estimated Project Cost: $83 million

4. Estimated Foreign Exchange Cost and Financing Plan: $23.5 million, to be covered by a Bank loan.

5. Borrower: Turkey

6. Project Authority/Implementing Agency: Agriculture Ministry and Agriculture Bank (TCZB).

7. Problems:
   (i) Establishment and operation of small farmer Risk Fund.
   (ii) On-lending rate at a satisfactory level.
   (iii) Policy for cattle imports and disease testing.

8. Anticipated Timing of Processing:
   Negotiations: Mid April 1978 (tentative)
   Board: 7 Early June 1978 (tentative)

EMENA Region
March 21, 1978

POSSIBLE FY78 PROJECT

1. Project: Erdemir Stage II Steel

2. Project Description: (i) Expansion/balancing of the existing plant at Eregli to increase raw steel production capacity from existing 1.5 million to 2.0 million tons per year, or from 1.1 million to 1.5 million tons of flat steel products per year; (ii) related engineering services; (iii) feasibility study of Stage III expansion; and (iv) pollution control equipment.

3. Estimated Project Cost: $307 million

4. Estimated Foreign Exchange Cost and Financing Plan: Foreign exchange cost, excluding interest during construction ($18 million) to be borne by Turkey, is $133 million. Proposed Bank loan of $50 million, plus a $7 million Eurodollar loan for engineering services and $20 million supplier credit from Spain for continuous slab caster, leaves a foreign exchange gap of $56 million. SRG?

5. Borrower: Either Turkey or Erdemir

6. Project Authority/Implementing Agency: Erdemir, assisted by Japanese engineering firm of Nippon Kokan.

7. Problems: (i) Appointment of competent new top management by new Government.

(ii) Passage of enabling legislation followed by conversion of TL 1.2 billion Government loan into equity.

(iii) Maintenance of healthy capital structure of Erdemir.

(iv) Completion of foreign exchange financing plan.

8. Anticipated Timing for Processing: Negotiations: April 24, 1978
Board: June 27, 1978 ?

EMENA Region
March 21, 1978

POSSIBLE FY78 PROJECT

1. Project: Northern Forestry Development.

2. Project Description: Implementation of a 7-year (1979-85) time slice of the Forestry Ministry's long-term program for the development, protection and expansion of forests in 16 conservancies covering the northern 45 percent of Turkey and representing about 60 percent of national forest resources. Project area production will be increased from 6.5 to 10.0 million $m^3$ of industrial wood through construction and improvement of 101,000 km of roads and intensified management of the underutilized forests.

3. Estimated Project Costs: $981 million

4. Estimated Foreign Exchange Costs and Financing Plan: Direct foreign exchange cost $97 million, with about $225 ~~million in~~ indirect foreign exchange cost. With the proposed Bank loan of ~~$30~~ million, the shortfall in direct foreign exchange is $67 million.
72

5. Borrower: Turkey

6. Project Authority/Implementing Agency: Forestry Ministry, assisted by consultants.

7. Problems: Completion of foreign exchange financing plan. FRG's,

8. Anticipated Timing of Processing: Negotiations: Mid April 1978 (tentative)
Board: ? Early June (tentative)

EMENA Region
March 21, 1978

(vii)

BRIEFS ON POSSIBLE FY79/80 PROJECTS

POSSIBLE FY79/80 PROJECT

1. Project: IGSAS II (Anatolian Fertilizer Project)

2. Fiscal Year: 1979

3. Project Description: Installation of a 1,000 tons per day ammonia plant and 1,750 tons per day urea plant at Kirikkale, 90 km east of Ankara and adjacent to a new refinery now being engineered, which will supply the naphtha to be used as feedstock.

4. Estimated Project Cost: $245 million.

5. Estimated Foreign Exchange Cost and Financing Plan: Foreign exchange cost, excluding interest during construction (about $16 million) to be borne by Turkey, is $103 million. Proposed Bank loan $50 million. No co-financing secured so far, but engineers report expressions of interest from United Kingdom, France, and Japan once economic situation clarified.

6. Borrower: Turkey or IGSAS.

7. Project Authority/Implementation Unit: IGSAS

8. Problems: (i) Competent management to be installed by new Government.

(ii) Completion on time of the new refinery and associated pipeline from south coast, both of which have significant foreign exchange financing gaps.

(iii) Completion of project foreign exchange financing plan.

(iv) Fertilizer investment coordination and fertilizer pricing.

9. Anticipated Timing for Processing:

| | |
|---|---|
| Appraisal: | March 6, 1978 |
| Negotiations: | September 5, 1978 |
| Board: | November 14, 1978 |

EMENA Region
March 21, 1978

POSSIBLE FY79/80 PROJECT

1. Project: Import Program Loan

2. Fiscal Year: 1979

3. Project Description: Financing of specific high-priority imports, from among the following, which have the highest multiplier effects for growth export earnings and labor utilization.

(i) In agriculture - ammonia and rock phosphate to produce fertilizers; spare parts for agricultural machinery.

(ii) In industry - import requirements of export-oriented industry; iron and steel; non-ferrous metals; chemicals.

(iii) Project preparation fund.

4. Estimated Project Cost: Not applicable

5. Estimated Foreign Exchange Cost and Financing Plan: Foreign exchange cost of $100-150 million to be provided by proposed Bank loan.

6. Borrower: Turkey

7. Project Authority/Implementing Agency: Ministry of Commerce
Central Bank

8. Problems: (i) Senior Management agreement to principle of import program loan.

(ii) Successful dialogue with Government on macroeconomic policies on

a) resource mobilization
b) investment levels and priorities.

What specific conditions?

9. Anticipated Timing for Processing:

| | |
|---|---|
| Appraisal: | April 1978 |
| Negotiations: | July 1978 |
| Board: | August 1978 |

EMENA Region
March 21, 1978

POSSIBLE FY79/80 PROJECT

1. Project: Ports Rehabilitation Project

2. Fiscal Year: 1979

3. Project Description: (i) Equipment to rehabilitate 8 and equip 2 major newly constructed ports; (ii) technical assistance, including training to improve operations and management of those ports, and (iii) planning studies to determine future port investment needs and priorities, including feasibility and preliminary engineering of a new regional port in Marmara.

4. Estimated Project Cost: $84 million

5. Estimated Foreign Exchange Cost and Fianncing Plan: Foreign exchange cost $70 million, to be covered by a Bank loan of $50 million. Supplier credits likely to be available for remaining equipment.

6. Borrower: Turkey

7. Project Authority/Implementing Agency: Ministry of Communications, coordinating Turkish Railways (TCDD), Maritime Bank and Transport Coordination Agency.

8. Problems: (i) Inclusion of port master planning studies
(ii) Coordination of port investments

9. Anticipated Timing for Processing:

| | |
|---|---|
| Appraisal: | April 6, 1978 |
| Negotiations: | November 10, 1978 |
| Board: | January 16, 1979 |

EMENA Region
March 21, 1978

POSSIBLE FY79/80 PROJECT

1. Project: Erzurum Rural Development

2. Fiscal Year: 1979

3. Project Description: Integrated rural development in the Erzurum area of Eastern Anatolia, comprising:

(i) Farm development based on short and medium-term credit for intensive dairy farming and the irrigation of about 2,000 ha.

(ii) Infrastructure development involving construction of access roads and provision of village facilities and social services (schools, health centers, drinking water, technical staff housing, and input stores).

(iii) Institutional support to build-up, reinforce and if necessary equip existing institutions involved with extension, adaptive research, credit supervision, and handicrafts.

(iv) Feasibility studies and project preparation in one or two selected provinces which would form the focus of the next rural development project.

4. Estimated Project Cost: $50 million.

5. Estimated Foreign Exchange Cost and Financing Plan: Foreign exchange cost $50 million to be covered by a Bank loan.

6. Borrower: Turkey.

7. Project Authority/Implementing Agency: Ministry of Agriculture, TOPRAKSU, YSE (agency for rural infrastructure).

8. Problems:

9. Anticipated Timing for Processing:

| | |
|---|---|
| Appraisal: | September 1978 |
| Negotiations: | N/S |
| Board: | May 1979 |

EMENA Region
March 21, 1978

POSSIBLE FY79/80 PROJECT

1. Project: Sumerbank Textiles Modernization

2. Fiscal Year: 1979

3. Project Description: Rationalization, modernization and expansion of Sumerbank's Cotton Textiles Division, together with action programs for reorganization, improvement in operations, training, modification of planning and control systems of that Division. Sumerbank, a SEE, produces textiles which meet a low and middle income domestic market demand in Turkey, and garments for such a market, with a potential catering.

4. Estimated Project Cost: $120 million (tentative)

5. Estimated Foreign Exchange Cost and Financing Plan: Foreign exchange cost $65 million. Proposed Bank loan $50 million. No co-financing considered so far, as investment requirements will be detailed during preparation, but supplier credit expected to be available for equipment to meet balance of foreign exchange requirement.

6. Borrower: Either Turkey or Sumerbank

7. Project Authority/Implementing Agency: Sumerbank

8. Problems: (i) Sumerbank reviewing its textiles investment program -- may delay start of project preparation by consultants; and (ii) ensuring software component fully accepted and implemented by Sumerbank.

9. Anticipated Timing for Processing:

| | |
|---|---|
| Appraisal: | January 1979 |
| Negotiations: | May 1979 |
| Board: | June 1979 |

EMENA Region
March 21, 1978

POSSIBLE FY79/80 PROJECT

1. Project: Istanbul Urban

2. Fiscal Year: 1979R

3. Project Description: Site and service development in Mahmutbey, on the western perimeter of Istanbul. Components would be:

(i) housing for low-income groups.

(ii) land development with proper layout through public appropriate techniques

(iii) industrial development areas

(iv) commercial development areas

(v) upgrading of existing settlements

(vi) possible establishment of land use development bank.

4. Estimated Project Cost: Around $90 million (highly tentative), since feasibility study to be initiated.

5. Estimated Foreign Exchange Cost and Financing Plan: Not available but could be between $30 to $50 million.

6. Borrower: Turkey

7. Project Authority/Implementing Agency: To be determined

8. Problems: Institutional arrangements

9. Anticipated Timing for Processing: Appraisal: N/S
Negotiations: N/S
Board: June 1979

EMENA Region
March 21, 1978

POSSIBLE FY79/80 PROJECT

1. Project: Telecommunications.

2. Fiscal Year: 1979R.

3. Project Description: Tentative at this stage. Government has proposed only telex/gentex facilities. Bank has proposed more balanced project with components in major items of sector investments, which might be:

(i) Automatic telephone exchange equipment: 150,000 urban and 20,000 rural lines.

(ii) Cables and subscriber apparatus (mostly local production) 170,000 lines.

(iii) Telex exchanges (5,000 lines).

(iv) Teleprinters (5,500 lines).

4. Estimated Project Cost: Telex/gentex only: $70 million.
Wider project: $196 million (very tentative)

5. Estimated Foreign Exchange Cost and Financing Plan: Telex/gentex only: $35 million. Wider project; $61 million (very tentative). Proposed Bank loan: $50 million. Supplier credit should be available for balance foreign exchange requirement.

6. Borrower: Turkey.

7. Project Authority/Implementing Agency: PTT.

8. Problems: (i) Project definition to ensure significant Bank role in financing development of sector.

(ii) Improving financial performance and accounting system.

9. Anticipated Timing of Processing:

| | |
|---|---|
| Appraisal: | N/S |
| Negotiations: | N/S |
| Board: | December 1978 |

EMENA Region
March 21, 1978

POSSIBLE FY79/80 PROJECT

1. Project: Grain Storage.

2. Fiscal Year: 1979R.

3. Project Description: Storage for up to 800,000 tons of cereals in various locations around Turkey.

4. Estimated Project Cost: $100 million (highly tentative)

5. Estimated Foreign Exchange Cost and Financing Plan: Not established since project reconnaissance just completed.

6. Borrower: Turkey.

7. Project Authority/Implementing Agency: Soil Products Office (TMO)

8. Problems: (i) Geographical distribution of silos already partly determined by Government and political commitments made.

(ii) Appropriate timing for expansion of the largest facility at Izmir.

9. Anticipated Timing for Processing: Appraisal: N/S
Negotiations: N/S
Board: N/S

EMENA Region
March 21, 1978

POSSIBLE FY 79/80 PROJECT

1. Project: Highways I.

2. Fiscal Year: 1980.

3. Project Description: Priority sections of the Trans-Turkey Highway, possibly to be included in the Trans-European Motorway. The heavily-trafficked road links Kinali junction - Istanbul and Izmit - Sakarya, in the northwest and Pozanti - Tarsus in the southeast totaling 197 km have been tentatively selected. Possible assistance to construction industry. Technical assistance in elements of freeway design, construction, and operation. General studies of the whole Trans-Turkey Highway will provide the context of the project, optimum phasing, etc., and be used to attract co-financing.

4. Estimated Project Cost: $500 million if all three sections retained; proportional reduction if only one, or perhaps two, ultimately included.

5. Estimated Foreign Exchange Cost and Financing Plan: Foreign exchange cost $150-200 million if all three sections retained. Proposed Bank loan $70 million. Co-financing to be arranged. Importing countries in Middle East as well as exporting countries in Europe to be approached.

6. Borrower: Turkey.

7. Project Authority/Implementing Agency: Highways Department (KGM) with some role for Transport Coordination Agency.

8. Problems: (i) Appropriate phasing of massive investments in Trans-Turkey Highway.

(ii) Use of international competitive bidding.

9. Anticipated Timing for Processing:

| | |
|---|---|
| Appraisal: | December 1978 |
| Negotiations: | N/S |
| Board: | July 1979 |

EMENA Region
March 21, 1978

POSSIBLE FY79/80 PROJECT

1. Project: SEKA III (Karadeniz Pulp and Paper Plant)

2. Fiscal Year: 1980

3. Project Description: Installation of a pulp mill (150-200,000 tons per annum capacity) and paper machines to produce 100-150,000 tons per annum of printing and writing paper, at Terme on the north coast, along with associated sawmills.

4. Estimated Project Cost: $700 million

5. Estimated Foreign Exchange Cost and Financing Plan: Foreign exchange cost $360 million plus escalation, for the lower end of the size range. Proposed Bank loan $70 million. Co-financing to be arranged. Supplier credit should be available for part of foreign exchange requirement.

6. Borrower: Either Turkey or SEKA (State Pulp and Paper Enterprise)

7. Project Authority/Implementing Agency: SEKA

8. Problems: (i) Performance on prior SEKA projects at Akdeniz and Balikesir.

(ii) SEKA's financial position.

(iii) Selection of optimum capacity.

(iv) Adequate wood supply.

9. Anticipated Timing for Processing:

| | |
|---|---|
| Appraisal: | December 4, 1978 |
| Negotiations: | N/S |
| Board: | October 2, 1979 |

EMENA Region
March 21, 1978

# BACKGROUND NOTES ON FAMILY PLANNING AND POVERTY-ORIENTED PROJECTS

# TURKEY

## BACKGROUND NOTE ON FAMILY PLANNING

1. Turkey's current population is 42 million, almost double what it was tentyfive years ago. Average annual population growth is currently estimated at 2.5 percent, with a wide variation from 3.9 percent in the Mediteranean coast areas to only 1.3 percent in the Black Sea coastal area. The figures include a substantial migration from east and south-east Turkey to other regions.

2. About 65 percent of the population lives in the western half of the country, which has the richest agricultural land and practically all the industry. About 42 percent now live in urban areas, since during the last twentyfive years, there has been a fairly rapid migration from rural to urban areas. Turkey is, by and large, a "young" country since the under-14 age group represents about 40 percent of its total population. Literacy is estimated at 62 percent of the total population over 6 years old.

3. Although Turkey is a Muslim country, there is apparently little organized resistance to family planning on religious or social grounds. Nevertheless, since the previous coalition Governments included the extremist National Salvation Party (NSP), which vigorously opposed population planning as being against national interests and religious dogma, family planning was neither encouraged nor officially supported as a national objective. But neither did these governments oppose programs aimed primarily at increasing the health and nutritional standards of the population, so long as they did not actively foster population control. Thus quiet, low-key programs by UNFPA, bilateral donors and the Department of Health have been under way for several years. However, the sensitivity of the issue is demonstrated by the fact that UNFPA was unable to get any formal agreements signed for the financial support it extended, and had to operate merely on the basis of an informal exchange of letters with the health authorities. A more ambitious USAID proposal for family planning met with serious governmental opposition in 1974 and had to be dropped.

5. The new Ecevit Government appears to have a more positive, action-oriented approach to family planning. Because it has now been in office for only 2 months, there is no concrete evidence yet as to what direction its approach might take. It is likely that family planning will continue to be integrated with health services through rural health centers, district health centers, and provincial hospitals. However, the person most likely to play the key role in family planning is the rural mid-wife at the village level.

6. There are currently about 10,000 rural mid-wives operating from a very large number of reasonably well-equipped rural health centers provided by the Government. These mid-wives are grossly under-utilized, because they lack the training to either effectively motivate the villagers to practice family planning, or provide useful services when the villagers come to them at the rural health centers. Thus, there is already in place an abundant input for a national family planning program, which is largely going to waste. Family planning infrastructure such as rural health centers, as well as district and provincial hospitals, is also in place. Again, this is under-utilized through lack of adequate staffing and funding for satisfactory operations. Doctors are unwilling to serve in the more remote areas, and hence, the paramedical staff in these facilities are unsupervised and essentially untrained. Apparently, UNFPA has also provided adequate facilities for the production of Turkish-oriented audio-visual family planning materials.

7. Apart from small bilateral (essentially study) programs from Germany and UK, UNFPA has the only family planning project in execution in Turkey, but under the arrangements described in paragraph 4 above. It has allocated $10 million for the period 1974-1980. However, between 1976 and 1977, only about $3 million has been disbursed, for integrated Rural Health Center-oriented Family Planning activities in Ankara and Yozgat Provinces, and training within the General Directorate of Population Planning of the Ministry of Health. The UNFPA and the Ministry of Health are now discussing, how to effectively use the $7 million remaining in the program.

Possible Bank Project

8. There appears to be an abundance of physical infrastructure (rural health centers, maternity and child care centers, district and provincial health centers and hospitals) already in place, although it is under-utilized. On the other hand, there is clear need for training of health personnel, and apparently also for medical equipment, some audio-visual facilities, and vehicles. Doubtless some of these needs will be met from the balance of the UNFPA allocation and perhaps from bilateral donors. In the absence of any kind of properly formulated family planning approach or program, short or long-term, by the Ministry of Health, it is not possible at this stage to say with any degree of certainty what role the Bank might be able to play in this field, if the new Government were to request assistance. However, because of the latter's positive attitude towards family planning, there might be a scope for a modest population project.

## POVERTY ORIENTATION IN PAST AND PROPOSED BANK OPERATIONS IN TURKEY

1. With the increasing emphasis on providing assistance to help and increase the income of the poor segments of its population, Turkey has, since the early 70s, followed an initial policy of alleviating rural poverty. The extent of the rural and urban poverty is indicated by some rough estimates that have been developed in the Bank recently. For 1976, the latest year for which these data are available, the per capita rural poverty income is estimated at about $218 and urban poverty income is estimated at about $350 (using the 1976 average exchange rate of TL16.05 = US$1.00). Further, about 25 percent of the rural population and about 18 percent of the urban population is estimated to be in the poverty group. Some of the Bank projects developed or planned, have a rural or urban poverty orientation, and in 1977, Turkey was designated as one of EMENA's UPP target countries.

2. In agriculture, probably the most pronounced poverty orientation so far achieved among existing projects, is through the Corum Cankiri rural development project approved in June 1975. All of the 400,000 intended beneficiaries, fall below the established poverty line. Their incomes, on project completion, are expected to increase by about 60 to 70 percent. Earlier, in FY72, the Irrigation Rehabilitation project envisaged that about 60 percent (about 48,000 people) benefitting from it, would be in the poverty target group; incomes of all beneficiaries were expected to nearly double as a result of the project. The three Livestock projects in Turkey have a number of sub-borrowers, but in terms of an overall impact on the Turkish rural poor, the impact is relatively limited as compared with the two said projects.

3. Probably the major thrust in the Bank's work in improving the incomes and quality of life of the rural poor, will come from the Forestry Development project, planned for FY78. We expect that most of the 5.2 million forest villagers residing inside the extensive project area, which includes most of northern Turkey, will benefit from this operation, with considerable income growth. Similarly, 60 percent of the beneficiaries under the proposed FY78 Livestock IV project, will be very small and relatively poor farmers. Under the proposed FY79 project for the Rural Development of the Erzurum Region, nearly all of the 88,000 beneficiaries are rural poor, who should be able to enjoy a significant income growth.

4. In the urban sector, we have so far not had a marked poverty orientation in existing projects. However, we expect the situation to change, as a result of a number of operations foreseen. The FY77 TSKB project included, for the first time in Turkey, a specific component for the development of small-scale industry, which besides income generation would address the problem of employment generation. The important employment generation factor is proposed to be addressed in future through projects channelled through similar intermediary credit institutions. A project now under preparation (FY80), will support the expansion of the labor intensive garment segment of the private sector textile industry, and is expected to generate some 48,000 new jobs in major urban areas. In future fiscal years, we hope to support a small-scale industry/industrial estates project, which still has to be

defined, but in which we would like to direct a substantial portion of the Bank loan towards employment generation projects benefitting urban poor.

5. With the brighter prospects because of the policy orientation of the new government, the development of specific urban projects in Istanbul, will clearly enable an impact to be had on the quality of life, or provision of amenities for the urban poor. The envisaged Mahmutbey Sites and Services project in Istanbul in FY80, into which the idea of a land use development bank might be interwoven, is the first candidate. This might be followed up by a project for establishing a low income housing mortgage bank. Besides this, there will be a definite urban poverty bias, in the sewerage project now tentatively slated for Istanbul in FY81, where about one-half of the project beneficiaries are likely to be the urban poor. Perhaps if we succeed in developing similar projects in other cities, for instance one for pollution control in Ankara, we will add further to the provision of amenities to that segment of Turkey's poor population.

BRIEF ON PROJECT TO BE VISITED

ON FIELD TRIP

# PROJECT TO BE VISITED

1. Project: Irrigation Rehabilitation (Credit 281-TU)

2. Signed: January 25, 1972

3. Credit Amount: $18 million

4. Estimated Project Cost: $58 million

5. Borrower: Turkey

6. Sub-Borrowers: DSI, Topraksu

7. Effective Date: April 27, 1972

8. Closing Date: December 31, 1978

9. Project Description: Rehabilitation and completion of three existing irrigation schemes at Silifke (5000 ha), Koprucay (22,000 ha), and Tokat (22,900 ha), by (a) lining existing main canals and the partly constructed distribution network; (b) completing the distribution network; (c) improving existing and constructing new drains; and (d) leveling and soil reclamation. Equipment for construction and maintenance, and strengthening of existing services, consultants, and training is also included.

10. Rate of Return: 12 to 19%, depending on area. Koprucay area has the highest return.

11. Project Implementation Units: DSI (State Hydraulic Works)
    Topraksu

12. Disbursements to March 17, 1978: $16.4 million

13. Anticipated Disbursements: CY 1978
    ($M) 1.6

14. Present Project Status: The Silifke and Tokat sub-projects are practically completed. At Koprucay sub-project area, to be visited by Mr. McNamara, all works have also been completed, except for land leveling and drainage, because of:

    (i) Delay in completion of land leveling owing to farmers' reluctance to forego lucrative cotton crop during leveling season.

    (ii) Farmers' inability to appreciate benefits of drainage, thereby preventing Topraksu from undertaking this work.

    (iii) Inadequate extension service in Koprucay (manpower and transportation)

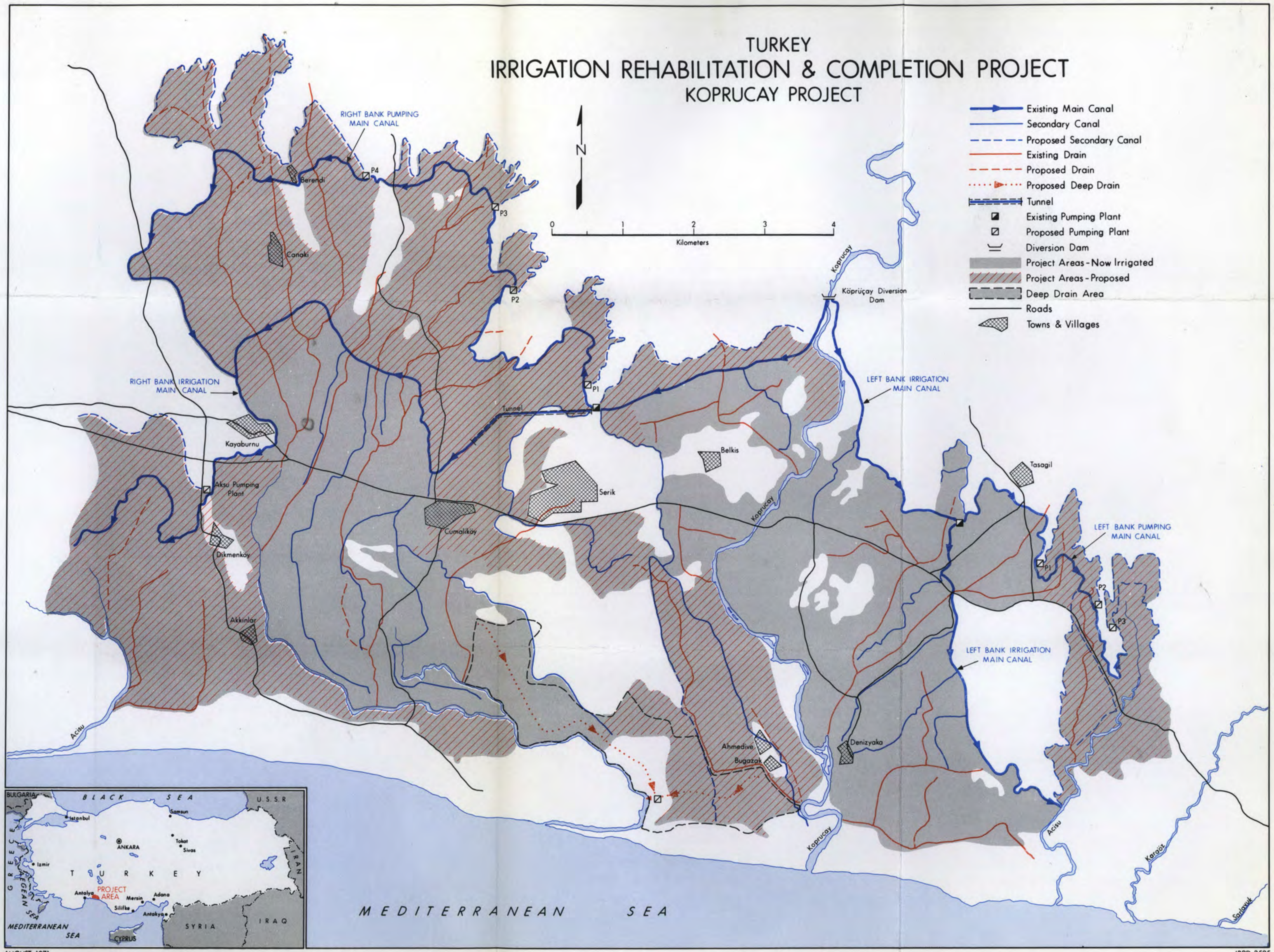
15. Actions Taken/Contemplated: Over the years, a continuous dialogue has been carried on with the Government on the above issues.

    (i), (ii) The Government has undertaken to complete work remaining in Koprucay after loan closing on December 31, 1978.

    (iii) The Ministry of Agriculture in Ankara has undertaken to review the extension situation.

16. Major Project Issue: Although both the DSI and Topraksu laws call for periodic adjustments of water/irrigation charges to cover O&M as well as investment costs over a period of up to 30 years, these laws are not being applied either in respect of this, or other Bank-financed irrigation projects. Charges have remained unchanged since 1972, and are based on the hectarage of land owned and not on water actually used or crops grown. These charges do not even fully cover O&M costs. No recovery of investment costs is made. Discussions with past Governments over the last three years on this issue have evoked little positive response to the application of existing laws, which could eliminate the problem. Consequently, the Bank has taken the position that future irrigation projects would be considered for financing, only after the question of adequate water/irrigation charges is addressed by the Government. However, as a result of the March 1978 Bank mission's policy dialogue with the new Government, it appears that Energy Minister Baykal and Finance Minister Muezzinoglu have taken a decision to increase the water/irrigation recovery charges from the present low level of TL 11 per decare (0.1 ha) to an average of TL 80 per decare.

EMENA Region
March 22, 1978




AUGUST 1971

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# The Euromarket's biggest problem

**Once they talked of great battles and the Ottoman empire. Today they talk of bottlenecks. That's the fashionable way of describing Turkey's desperate financial situation. The new Turkish government has its back to the wall: on one side it has to calm its fighting students, on the other it has to satisfy the IMF. It nearly said that it could not do both. Charles Meynell went to Ankara and Istanbul to research the country that worries the Euromarkets most.**

To the international bankers who gathered, in secret, in Paris last month to discuss a banking solution to Turkey's problems, the country that straddles Europe and Asia looked like a lender's bad dream.

From the eighteenth floor of the Intercontinental hotel in Istanbul, however, Turkey looks a prosperous, bustling country. There seems to be enough of everything, from ships sailing up the Bosphorus past the Golden Horn, to traffic jams in the winding streets of Istanbul. The Turks are still as individual as ever. They cope by improvising what they cannot get. The 1950s Chevrolets are immaculate in looks and function. There is a saying in Turkey which says, "You find your own money." For a Turk that may mean the relatively affluent life of a *gastarbeiter* in West Germany, but whatever happens in Turkey he can take advantage of the hopelessly inefficient tax system by paying ~~almost~~ nothing to the Exchequer in distant Ankara.

In the street very few are aware that in terms of mythical balance sheet accounting, Turkey is practically bankrupt, and that the newly elected Ecevit government in Ankara is struggling to prevent the hub of the old Ottoman empire from becoming international banking's most dangerous asset.

After six years of weak coalition governments and party political confusion, the only novelty is the growing student unrest. Right-wing university factions fight their left-wing colleagues, and sometimes kill each other. Bombs explode frequently about the town and around the university campus. In mid-February international visitors had a taste of the rivalry when the Intercontinental hotel was caught by rifle fire.

But for those who understand the intricacies of economics and politics, feelings are running high and in a different direction. Businessmen and university professors alike are furious at the way their country has been mismanaged. "The politicians have been blind," said an angry and frustrated entrepreneur.

They do not appear to mind how Turkey brings itself back to order, so long as it does, and quickly. Industry in Turkey cannot hold out much longer without its vital flow of imported component parts and raw materials. The prevailing mood among the business community is that drastic action should be taken regardless of whether the IMF has suggested it, or demanded it.

A year ago the Turks could afford their habitual measure of insular patriotism to shrug off foreign influence. There is still a lingering attitude amongst the Istanbul businessmen that says the principle should apply, but only as a luxury.

In the highly charged political atmosphere of Ankara, though, it remains a very sensitive issue. The Turkish government is convinced that it must sort out its own problems without interference from outsiders like the IMF. In an interview at the end of January with "Milliyet", one of the pro-Ecevit daily newspapers, the newly appointed Finance Minister, Ziya Muezzinoglu, said: "The IMF has a certain way of dealing with problems which causes disagreement with the countries with whom it is negotiating. Turkey cannot close its eyes to the IMF, and the IMF cannot close its eyes to Turkey. But it is the job of the Turkish government to control its economy, and we will not share the job with anybody."

Most sympathise with Ziya Muezzinoglu, and the shambles of an economy which he has inherited from the Demirel coalition which finally fell from power at the beginning of January. The only consolation is that the political and economic crunch was inevitable a year ago. It has come as no surprise.

Turkey's plight, and the new government's problem, is reflected in a handful of depressing 1977 results. Turkey's balance of payments dived to a \$2.84 billion deficit, Iraq was owed \$250 million for petroleum, payments on convertible lira accounts were overdue by \$350 to \$400 million. Even tourism was in deficit by \$55 million and, to give a glaring picture of the dismal state of the country's cash flow, the 1977 petroleum import bill of \$1.85 billion exceeded total Turkish export revenue by \$100 million.

To extricate itself, Turkey needs to obtain a further \$4 billion of foreign loans just to service overdue and 1978 debts. However unpalatable it is for the Turkish government, the \$4 billion question hangs upon an agreement with the IMF.

That is the Turkish side of the coin. Now for the anxiety of its creditors. Official arrears amount to \$3.75 billion, the total external debt is around \$15 billion, nearly 50% of GNP, and there is \$350-400 million of overdue payments on convertible lira deposit accounts. Total foreign commercial bank exposure to Turkey is about \$6 billion.

A few weeks ago the banks with most at stake held a meeting behind closed doors in Paris to discuss their ailing country client. Little is known about the proceedings except that it was decided not to take a hard line. It probably means that Turkey has the go-ahead to undertake a vast rescheduling operation of its existing short term debt, providing Turkey reaches an agreement with the IMF.

The government's fight with the IMF has been brewing since the end of November when the IMF's director for Turkey, Charles Woodward, broke off a second round of talks with the Demirel government because it was becoming pointless to make commitments with a government that was powerless to legislate. The IMF cards, however, had already been laid on the table.

It said that Turkey should devalue the lira by at least 20%, halt the deficit finan-

**The banks with most at stake held a meeting behind closed doors**

cing policy, reduce growth, impose tighter import controls, and promote exports and foreign investment. The new government did not agree with either the proposed devaluation or the slower growth. Ecevit thought the measures would concede defeat. "It cannot be accepted that Turkey will have to reduce her growth rate due to the dictates of external powers," he said. These high level shots from the bustling old market and ministry centre of Ulus, in the heart of Ankara, appeared to be the forerunners of a pitched battle with the IMF.

Dominated by the vast temple-like mausoleum of Kemal Ataturk, the Turkish national hero, it is hard to picture Ankara as the capital of such an enfeebled country, prepared to do battle with the only institution that has the power to give an internationally accepted prescription for its problems.

The Turks maintain that the IMF does not understand its problems. The government was frightened by social unrest and rising unemployment, the wave of university killings and, especially, by Alparslan Turkes' growing neo-fascist Nationalist Action Party. If unemployment was to rise, anarchy would advance one step nearer to threaten democracy. Ankara University has closed because of uncontrollable student fighting, and the government is determined to halt the upheaval at the campus gates. Turks are very proud that their democracy has so far lasted throughout the Republic's history. The government believes that to devalue the lira and reduce economic growth would increase unemployment to a level that would jeopardise democracy. That, in a nutshell, is the fear that motivates the Turkish government.

On past experience the loathing of devaluation may be justified. After the first one in 1959 there was a revolution; after the second, in 1970, commanders of the armed forces threatened to take the country into military dictatorship. It was only half cause and effect, and half coincidence, but the Turkish politicians have not forgotten.

Tayyar Sadiklar

It prompted another oblique broadside at the IMF from Ziya Muezzinoglu when he said that exports and balance of payments were no longer immediately associated with exchange rate fixings. He said that provided there were comprehensive economic measures there was no automatic need for devaluation. It was the distribution of consumption, he said, that had been so inflationary, not the volume. He quoted two examples: the amount paid for television advertising in 1977 of chewing gum was $400,000; for detergents it was $1.5 billion.

The government appears to have been frantically trying to find an alternative to the dreaded devaluation. It has increased import stamp duty from 10% to 22-25%, a measure that it construes as being half way to devaluation. Then the question of a reformed exchange rate system was raised in the corridors of the Central Bank. Yavuz Canevi, with the unhappy task of running the foreign exchange book, said that it was suggested the official rate of the lira be adjusted more often to narrow the gap between the official and external rates. The Finance Ministry did not accept the idea.

While speculation continues over how the government will end the running debate on devaluation, one thing is becoming clearer. The government is resigning itself slowly to the main IMF proposals. It has formally introduced a new import regime for 1978 of $4.85 billion, the level suggested by the IMF. A high-ranking official of the Central Bank takes a sanguine view of the debate. "My point," he told me, "is that it had nothing to do with this government. The budget programme introduced by the last government already included a lower growth rate."

Everybody wants to know the answer to one question: if Turkey is rescued by the international community, will it get into trouble again? In Turkey the question is answered in a roundabout way, firstly by telling the sad story of economic catastrophe. "We became an unhealthy consumer-orientated nation without building up our resources. We did not change in time to the rest of the world," explained Hikmet Cetin, the new minister for economic coordination. "Because we did not diversify enough we remained in the classical export circle of tobacco, nuts and other agricultural products. Today we are in a real bottleneck."

The Central Bank was the executor of the single most disastrous policy: an increase in the money supply of 86% in the last two years to the end of last December. Without such an increase the State Economic Enterprises, which produce 40% of Turkish industrial output, would not have embarked on their inflationary spending programmes. It is known today that the Central Bank does not have the foreign exchange to buy the new money printing presses it ordered

Aysel Oymen

from Germany.

I asked the bank how much blame it should accept for letting its independence be eroded by the demands of the Treasury. What did the men who run the Central Bank have to say about its past performance? "The definition of independence is difficult in this case. In terms of the money supply, the Central Bank did not have too much room to manoeuvre or to be independent. We were made to increase our money supply because of the budget deficit financing. We had to give this credit because of the law, because of the regulations. We could not simply say that we would not pay it. Every day the credit which goes to the public sector has a legal reason."

During the last two years, an official agreed, the money supply had not been in the hands of Tayyar Sadiklar, governor of the Central Bank. He added: "If you have deficit financing, how can you control the money supply?" He explained how he viewed the task of the Central Bank. "Its major rôle comes before the budget when we give our point of view and try to convince the government to take the right economic decisions. After the decisions have been made, the Central Bank has to support them. Before, we did our best to get the right decisions. That was the only thing we could do."

To add insult to injury, the Demirel government interfered with the legal statutes of the Central Bank, increasing the amount which it could legally transfer to the Treasury in short-term advances from a maximum equivalent of 15% of the budget, to 30%, on the grounds that it was all part of the deficit financing policy.

On the other side of the Central Bank building Yavuz Canevi fully agreed that the money supply increase was the biggest mistake. "But in any event," he said, "you cannot expect the Central Bank of Turkey to be as independent as the Federal Reserve or the Bundesbank."

An important question now is whether the Ecevit government will restore the Central Bank's independence? The bank was optimistic, for the government has

# Zaire: an object lesson in rescheduling

Zaire offers one object lesson of how banks and their counter-parties arrive at a solution. From the beginning, banks involved with Zaire debt servicing difficulties decided as a matter of principle not to allow the country an easy solution to its problem. As a British banker involved in the Zaire discussions recalled: "We couldn't afford to have Zaire reschedule its way out of trouble and open the door for other LDCs to follow. We had to have them take the medicine and then provide the sugar."

The medicine was submission to an IMF investigation of Zaire's economy and a programme of reforms. The sweetener from the banks took the form of a promised syndicated loan to help the country meet and pay for urgently required import requirements. To ensure that the banks did raise the money, the Zairois refused to release the arrears until the loan had been syndicated. The money was deposited in a blocked account at the Bank for International Settlements pending disbursement of the syndicated loan proceeds.

The banks say the release of the arrears is a condition precedent for the loan proceeds to be disbursed.

"The whole strategy of getting Zaire out of its present cash bind is to have the Mobutu government adhering to the IMF programme," said one banker. "This will provide the climate for the syndicated loan to be put together." Bankers are happy about reports that the Zaire government had agreed to accept the stationing of an IMF team within the country for a three-year period. They appear less keen, however, on reported moves by the government to devalue its currency the zaire, purportedly by 72%. The zaire was devalued by some 42% in 1976 with debatable results.

A breathing space for Zaire was created whrn the government negotiated a rescheduling of the bulk of its official debt in 1976 at a Paris Club meeting. But it gives the republic only a couple of years to tackle its long pending obligations to commercial banks. The syndication effort to raise $200 to $250 million, led by Citicorp, would provide fresh funds to get long stalled development projects back on stream again, and to pay for vital import requirements.

The need is critical. Delays could only reduce the amounts available to be deployed in the development of the country. When negotiations began with commercial banks a year ago, the amount in arrears was estimated at $90 million. The amount is now $130 million (of which the Zairois have only managed to raise and deposit in the BIS account between $84 million and $93 million). If the syndication effort does not come off this year, the amount required to keep Zaire's debt servicing current would total some $200 million.

It appears highly likely that the Zaire loan will be completed this month. When *Euromoney* went to press, firm commitments for two thirds of the amount had been received. By March, therefore, Zaire's credit may have changed. Once the proceeds of the blocked BIS account have been disbursed to Zaire's creditors, "this will provide the climate where we can consider re-opening lines of credit to Zaire again," said a banker involved in the syndication effort.

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not disregarded its advice for the latest budget. "By coincidence it has mainly been taken," an official said. The budget is to have a ceiling of $13 billion, and the bank is confident that with this figure it will be able to keep money supply firmly under control. "We are hoping that some new measures will soon be taken so that the Central Bank will be much better off than it was before. There are many signs that this will happen."

The other calamitous event was the restitution of convertible lira accounts in 1975. The system was set up for the first time in 1967 to attract expatriate worker remittances. It saw the government over its temporary cash shortage and was then stopped. Until 1973, Turkey's balance of payments was in surplus. Decline then set in, reflecting all the structural deficiencies of the economy and the damaging party political manoeuvres, and within two years the balance of payments was in deficit by $1.3 billion. So the government embarked on the simplest way of acquiring finance: convertible lira accounts. They provided the funds, but high interest rates on short term finance was punitive. The excuse was that there was a political crisis at the time, and there was not time enough to consider better alternative sources, like the Euromarkets.

When the Ecevit government took over in January this year it inherited a convertible lira debt of nearly $2 billion, of which $1.05 billion is due this year, exclusive of the overdue $350 to $400 million. The banks and the credit agencies have so far made just one token gesture to alleviate Turkey's debt burden. Via an arrangement with Citibank, Eximbank has consolidated $25 million of due payments and told the Turkish government that it can consider the amount as a three to four year loan.

Despite the crisis which is rocking Turkey from the universities to the echoing vaults of the Cental Bank, there is a hint of optimism in the Finance Ministry that more help will soon be on its way. "We lack dollars and we lack oil," said Mrs. Aysel Oymen, one of Ziya Muezzinoglu's right hand aides. "The world has plenty of both at the moment." She is the lady who will do much of the negotiating with foreign banks, if and when the IMF has given the green light to Turkey, an event which is confidently awaited. Mrs. Oymen is poised for action. She will probably ask the Euromarket for a $1 billion jumbo credit as a forerunner to rescheduling the entire debt. The Finance Ministry is optimistic, too, on lending rates. It would like the $1 billion over seven years at less than $1\frac{1}{2}$ over Libor, with a two year grace period.

The government, determined to show that it will get to grips with its enormous debt problem, has already taken an important step to pave the way for rescheduling. In mid February it abolished the exchange rate guarantee on new convertible lira accounts. With a devaluation of the lira imminent, it meant that the inflow of convertible lira funds would be cut to a trickle. bringing an end in sight to this didastrous borrowing system.

By the end of February the tension in Ankara was mounting in anticipation of the budget. Until then the government had more or less fulfilled expectations. Imports are to be cut to the level suggested by the IMF, acceptance financing will be limited to 50 essential commodities,. the tax system is to be restructured and expatriate remittances will be further encouraged. Only one serious measure was still absent from the governments' public campaign: devaluation.

Nobody, apart from the ousted Justice Party, doubted that the Ecevit government could formulate a policy for survival. Ecevit himself has the charisma to command international respect. Most Turks are also prepared to go along with his measures. He may, however, have to take a very tough line against any member of his government who provokes antagonism within the ranks. So far he has made it clear that the government will not be bound to daily political compromise and he has warned that his ministers must resign from party politics. "He knows that if he fails nobody else will be able to succeed. Then the whole country will go to ruin", warned a former Ecevit adviser. Back in western Europe, Turkey's bankers decided there was nothing to do but wait.

# What Turkey's finance minister thinks about the IMF

**Ziya Muezzinoglu was Finance Minister in the short-lived Ecevit government of 1972, and has just taken on the task again. He is clearly familiar with his ministry. Regarded as conservative by nature, he is widely held to be one of the most forceful members of the Ecevit cabinet. He has roundly criticised mismanagement in Turkey; he has promised wide ranging economic reforms. Determined to prove the adequacy of the government, he has also rebuked the IMF for being too inflexible with Turkey.**
**Euromoney's Charles Meynell went to see the calm, pipe-smoking minister in the enormous panelled offiice which is to be the headquarters for a dramatic operation to revive Turkey's ailing economy. Excerpts from the interview follow.**

**What assurances can the foreign institutions, banks and companies have that an end will be brought to party political mismanagement in Turkey?**
Those who have observed the political changes in Turkey during the last few months should have noticed very well that the assurances you mention are the political improvements themselves. The results of the June 5 elections was that the Republican Peoples' Party could not get an absolute majority, although it came close to it after a one-month minority government. A tripartite coalition then formed a government that was not able to bring stability to the country. The preferences of the people and the representatives in the National Assembly necessitated a change in parliamentary arithmetic, which enabled an internally consistent government to take over.

This improvement demonstrates that, even in a situation where the election results were unfavourable, Turkish democracy can maintain its stability by its own rules. There is no need for reform outside the democracy's own self-correcting rules.

**Can Turkey recover without slowing down its rate of economic growth?**
Turkey does not intend to pick either a growth rate which would menace its economic stability, or a rate that would contract its planning efforts which are under consideration.

**Does the IMF also believe that this is possible?**
We have not yet discussed this subject with the IMF.

**Would you agree that it is politically damaging for a country like Turkey to have to accept the ruling of an international body like the IMF?**
Turkey's policies are determined by those who govern the country. On the other hand, we do not believe that the IMF intends to interfere in the policy making decisions of Turkey.

**What are your criticisms of the IMF?**
As criticisms of the IMF are publicly discussed in some other countries, we feel we can express some of our own ideas because we are a member of this organization. The main question appears to be how the IMF can adjust its policies towards the new economic order which is developing within the world economy. We know that the IMF has already taken a number of measures to this end, but it is debatable whether they are sufficient to cover the needs of the developing countries. At this stage the important point concerning our negotiations with the IMF is the relevance of the proposals it has made for the Turkish economy.

**How soon after the introduction of the budget will you start talks with the IMF?**
We can start talks with the IMF when we have taken the measures which will be in our budget.

**Several banks are willing to lend medium-term Eurodollars to Turkey as soon as the IMF gives the green light. Is this wait-and-see policy of the banks justified, or do you think the banking system should be able to act independently of the IMF?**
If the banks are waiting for the IMF's green light it must be just for practical reasons, since the IMF is an institution that makes country studies which the banks have not the capacity to do themselves. This is very understandable.

**'International bank involvement with the Turkish economy is one of the reasons why we now have a burden of short-term debt'**

But those who can afford such studies to evaluate the potential of the Turkish economy can also take independent action.

**You have said that the new government does not want to carry on the IMF talks where the last government finished. Does this mean that you would like to make substantial changes to what was provisionally agreed with the IMF last year?**
We do not want to begin where the last government left off simply because this is a new government with a different composition, a different programme and a new approach. So there will be different trade-offs between areas of major concern. The Euromarket offers possibilities for large borrowings, and we know the market is very liquid at present. Naturally, we will explore the possibilities.

**Can you reveal what the main points of the budget will be?**
A priority of the government programme is to reduce the rate of inflation. So we have to take a number of measures in this respect. We have tried to keep government expenses below a ceiling and we have fought in the budget to review the Turkish tax system so we can finance the government expenditure through healthy sources. These are the two main points.

**You have stressed the importance of bilateral agreements and foreign contacts, and you said that this was a point which the IMF would have to notice. Do you believe that foreign institutions, the IMF included, have not sufficiently appreciated this?**
You know the IMF has its own approach to the problems of its member countries, and I may say that it is not always the best approach for the countries who are in the process of development. I think these countries have good reasons to find some other solutions. In this framework it is also possible to improve relations by country-to-country contact.

**Do you believe that the US government is putting pressure on the IMF because of Cyprus?**
It is certainly rumoured to be the case, but I have no direct knowledge of it.

**Recently you have criticized some of the Turkish banks for exploiting the weak situation of the economy, in particular by lending at very high margins over deposit rates. You have said that they have made larger profits despite the economic crisis. Do you intend to control domestic banking more firmly?**
Yes, we want to control the Turkish banking system more effectively. We have already said that we will change the structure of interest rates. This will be the first step, and after seeing the developments we may have to review the whole system once more.

# Ziya Muezzinoglu: We do not believe that the IMF intends to interfere in our policy making decisions

**What's your impression of the way in which the major US and European banks view Turkey? Are you satisfied with their approach?**
I know that they have been involved in the past with the Turkish economy. I do not think it was a good effort. It is one of the reasons why we now have such a big burden of short-term indebtedness.

**Are you saying that these banks have taken advantage of the weakness of Turkey's economy and the weakness of Turkey's politics?**
I think it is time they took another approach to evaluate the economy which would give not only the international banks, but also Turkey, a better chance to realize a long-term programme for the future.

**Are you confident that you could handle an inflow of funds?**
In our programme we have aimed to build up a more effective administration, not only in the government but also in the state economic enterprises. So I hope we can avoid these bottlenecks which we have had in the past.

**Are you confident that you will reach an agreement with the IMF?**
I hope so. I really hope so.

**How will you encourage those foreign companies and banks which have not yet made up their minds about the effectiveness of the new government?**
Turkey is a big country and has an economy with great potential. The situation which we have at present is something that we can overcome. In the near future I think we will have a healthier economy. This will allow those companies and banks abroad to have closer relationships with Turkey. □

ANNEX G(x)

LONDON FINANCIAL TIMES, March 2, 1978



TURKEY'S DEVALUATION

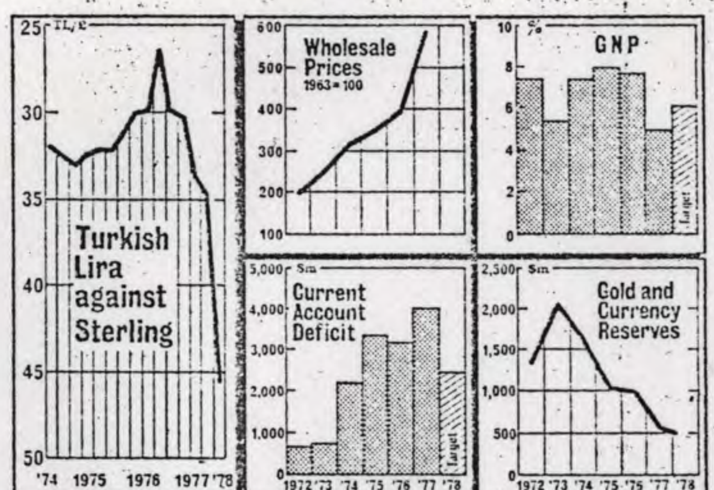
# Putting the house in order

BY METIN MUNIR

ANKARA, March 1.

WITH TO-DAY'S devaluation Turkey has completed the basic elements of its austerity programme and is now ready to resume negotiations with the International Monetary Fund (IMF).

A delegation from Ankara is expected to visit Washington in a few days to sign a letter of intent with the Fund, which will put the long-awaited IMF seal of approval on the austerity package. A major operation to bale Turkey out of its economic crisis is expected to get underway almost immediately, with $1bn. coming through a consortium of international banks alone. Some states which have major stakes in Turkey and the recently-reactivated consortium of aid to Turkey are also expected to rally round.




The announcement of the devaluation almost coincided with the first anniversary of the day Turkey ran out of hard currency and stopped paying for imports outside the strategic and emergency category. Unpaid imports last year probably exceeded $1.5bn. and the country has defaulted on more than $400m. worth of bankers' loans. Another $1bn. of such debts will mature this year. These figures alone demonstrate the depth of the crisis facing the Government. But there are many others: the current account deficit last year was a staggering $4bn. and the rate of inflation an even more staggering 40 per cent.

It will probably take the Turkish Prime Minister, Mr. Bulent Ecevit, at least two years to clear the rubble and put the economy on its feet. His brief term in office has demonstrated that, contrary to the belief prevalent among the business community, the 52-year-old Left-of-centre politician has the courage to do it.

The root of the problem facing Turkey is simple: exports are just about enough to pay for crude imports. What to do about the rest? Cutting down imports is not easy because virtually all Turkey's imports are investment goods or raw materials. Thus, limiting the imports is tantamount to limiting growth.

The most crucial task is to boost exports and raise hard currency revenues from other sources like tourism and expatriate workers' remittances. In January, exports totalled $151m., almost half the figure for 1976. The fact that this figures was so low can be attributed to the expectation of a devaluation. Exports are expected to rise slowly now. It will however be a long time before Turkey ceases to have a balance of payments deficit.

The export target this year is $2.55bn., which is probably too ambitious. At $5bn. the import figure is a little above the level recommended by the IMF.

Although the austerity package is nearly completed, a lot of work remains to be done. The Government must continue to keep a subtle grip on the money supply, and restrain wages and prices paid for agricultural commodities. For the longer term there needs to be tax reform since State revenues could possibly be doubled by preventing tax evasion.

Mr. Ecevit has made a start by adopting the recommendations put forward by the IMF. Dialogue with the IMF has been in progress since last autumn but suspended since the government change. GNP growth has been fixed at 6.1 per cent. Total investments in 1978 will be around $8bn. It is planned to keep the volume of consumption at last year's level of $27bn. Public revenues are expected to $8.6bn., 16 per cent. higher than last year.

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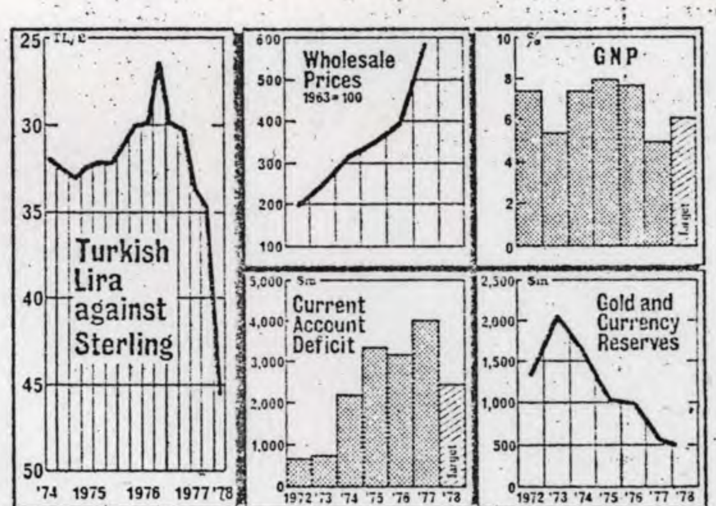
A delegation from Ankara is expected to visit Washington in a few days to sign a letter of intent with the Fund, which will put the long-awaited IMF seal of approval on the austerity package. A major operation to bale Turkey out of its economic crisis is expected to get underway almost immediately, with $1bn. coming through a consortium of international banks alone. Some states which have major stakes in Turkey and the recently-reactivated consortium of aid to Turkey are also expected to rally round.




The announcement of the devaluation almost coincided with the first anniversary of the day Turkey ran out of hard currency and stopped paying for imports outside the strategic and emergency category. Unpaid imports last year probably exceeded $1.5bn. and the country has defaulted on more than $400m. worth of bankers' loans. Another $1bn. of such debts will mature this year. These figures alone demonstrate the depth of the crisis facing the Government. But there are many others: the current account deficit last year was a staggering $4bn. and the rate of inflation an even more staggering 40 per cent.

It will probably take the Turkish Prime Minister, Mr. Bulent Ecevit, at least two years to clear the rubble and put the economy on its feet. His brief term in office has demonstrated that, contrary to the belief prevalent among the business community, the 52-year-old Left-of-centre politician has the courage to do it.

The root of the problem facing Turkey is simple: exports are just about enough to pay for crude imports. What to do about the rest? Cutting down imports is not easy because virtually all Turkey's imports are investment goods or raw materials. Thus, limiting the imports is tantamount to limiting growth.

The most crucial task is to boost exports and raise hard currency revenues from other sources like tourism and expatriate workers' remittances. In January, exports totalled $151m., almost half the figure for 1976. The fact that this figures was so low can be attributed to the expectation of a devaluation. Exports are expected to rise slowly now. It will however be a long time before Turkey ceases to have a balance of payments deficit.

The export target this year is $2.55bn., which is probably too ambitious. At $5bn. the import figure is a little above the level recommended by the IMF.

Although the austerity package is nearly completed, a lot of work remains to be done. The Government must continue to keep a subtle grip on the money supply, and restrain wages and prices paid for agricultural commodities. For the longer term there needs to be tax reform since State revenues could possibly be doubled by preventing tax evasion.

Mr. Ecevit has made a start by adopting the recommendations put forward by the IMF. Dialogue with the IMF has been in progress since last autumn but suspended since the government change. GNP growth has been fixed at 6.1 per cent. Total investments in 1978 will be around $8bn. It is planned to keep the volume of consumption at last year's level of $27bn. Public revenues are expected to $8.6bn., 16 per cent. higher than last year.

Statement made by His Excellency Mr. Ziya Müezzinoğlu
during Meeting with Mr. McNamara
on March 23, 1978

1. May I first express the appreciation of my Government and myself for your impending visit to Turkey. We consider this visit, as I know you do, as an important occasion to discuss, at the highest level, crucial issues affecting the Turkish development efforts, and also how best the World Bank can help Turkey in its endeavors.

We have devised and started to implement what we think a coherent stabilization policy. Despite that, the problems you identified then remain largely on the agenda for the future. We want to discuss with you and seek together the ways and means of resolving all of these issues at greater length during your visit to Turkey.

At this present meeting, first, I would like to summarize to you what we have done so far. Secondly, I would like to share with you my thoughts on a number of areas of concern to you and me.

2. The Turkish Economy we have inherited three months ago was in a mess. There are major difficulties we have to overcome during this year and the next. We realized this before we took office. In fact, one of the major surprises was to find the economic situation as bad as we claimed it was when we were in opposition. We had to act very quickly, and this we did.

3. Before listing them to you briefly, may I stress that some of the measures we have taken are long term in character. Here is what we have already done:

ONE: We have accepted the principle of a no deficit budget for FY78. To this end, the government has put the so-called Special Funds under the full control of the Ministry of Finance. I intend to exercise that control fully.

TWO: We have proposed to the Parliament a bill which requests the granting of wide-ranging powers in all areas pertaining to the efficient use of all resources.

THREE: We have completed a comprehensive Tax Reform package, which will represent the the most important single tax effort that Turkey will have made in the 1970s. The objective is one of fiscal equity as well as domestic resource mobilization.

FOUR: We have significantly revised upwards the Interest Rate Structure, and except those that are maintained for export and small business promotion, abolished the prevailing interest rebate system.

FIVE: We have raised Liquidity Ratios of the Banking system, and we are now considering additional measures, such as a higher Discount Rate, in this area.

SIX: We have adopted a feasible Import target that corresponds with the minimum requirements of the Turkish economy.

SEVEN: We have devalued the Turkish Lira against a number of currencies, ranging from 30 to 40%. This brought the cumulative devaluation to 41 - 68% against the same currencies during a six months period. The costs of imports have been further raised by an increase in the rate of stamp duty from 10 to 25%.

EIGHT: We have excempted agricultural products from the coverage of the export rebate scheme and reduced the rates for other products.

NINE: We have eliminated Foreign Exchange Risk Coverage and thus introduced an effective upper limit to CTL accounts. We have also reduced the coverage of the Acceptance Credit scheme.

TEN: We have introduced significant constraints to Travel Expenditures for touristic purposes.

This is supplemented by a 50% tax for all Foreign Travel Expenditures.

4. Let me now indicate how I see the outlook for 1978, and what we want to achieve during the course of the year.

5. Our thoughts now shift to the longer term issues of resource mobilization and the rationalization of investment programming. 1978 will be a year during which the fourth Five-Year Plan is to be prepared. The development strategy is to be formulated in such a way as to ensure that Turkey is not caught in a similar crisis in the future. We also have to aim for a more outward looking economy, capable of sustaining growth through export promotion. The stabilization policies represent only one step in the right direction. However, this is not enough. We have to improve on the commodity trade deficit. The debt service ratios will also have to be improved significantly if Turkey is to maintain its short-term credit-worthiness which it rightly deserves. My government fully realizes this and more.

6. In fact, as you know, an element on the future agenda is to improve the maturity structure of the Turkish

external debt. We will clear all the arrears and short-term debts in an orderly and timely fashion. The government realizes that transforming the debt structure on a sounder basis is an issue which will contribute to Turkey's credit-worthiness. I know that you would be interested to know our thinking about its modalities. I must confess that, at the present, I cannot go beyond what we would like to achieve. I hope to be able to say more to you on this subject during your visit.

7. These, however, are not the only objectives and perspectives the Ecevit government has for the long-term development strategy. This is a government of social democratic thinking. Translated into socio-economic terms, the government is fully committed to a number of specific goals. First, there is the fundamental issue of income distribution. Turkey is now regarded to be in the medium-income category but the Turkish economy has definite pockets of poverty. While it is true that the successive governments have followed a basic needs approach for decades, the performance has been uneven. The government is determined to address itself to the social inequities existing in the socio-economic structure of Turkey. Secondly, my government has adopted domestic resource mobilization as a fundamental objective where successive efforts seem to be needed.

While this is a path full of difficulties, I believe we can overcome them. And this brings us to the <u>third</u> objective: We have to aim for an economic infrastructure that would be sufficient for the needs of an expanding economy. Investments are needed during the fourth Five-Year Plan period and in 1978 in energy, communications and in basic urban and rural services. When you come to Turkey, you will observe personally the impact of various bottlenecks which we are faced with. The Turkish people are going through a period of severe energy shortage in their homes and in their workshops. There are even factories that are confronted with an immediate danger of being closed down, others are operating in below-capacity conditions. This year, we must export our agricultural surplus, yet the capacities in ports are not sufficient for the task. These are some of the problems begging for an answer. I would also like to mention to you that I have found significant similarities between this government's socio-economic thinking and what the Bank advocates throughout the developing countries as formulated in the World Bank's policy documents and in your own speeches. I hasten to add, in all candor however, that this may or may not mean that modalitites also would be identical. Also, there is always the familiar problem that from program to implementation one is confronted with a lot of constraints. We will discuss this, and all other issues in the immediate future.

8. The third issue which is of serious and immediate concern to us and to you is the deficiencies in the implementation of ongoing projects. I would like to expand on this at some length.

9. First, my government and I personally appreciate very much the fact that you have tried to do everything possible to help Turkey's economic development efforts during the past ten years. Not only do the comparative annual commitment levels, before and after 1968, reflect this, but also the flexible attitude which the Management has displayed during the recent periods when the Bank's Turkish program had been crippled with legal defaults, indicate that you have tried to meet us more than halfway. We are grateful.

10. The fact of the matter is, however, that despite all your efforts and ours, the Bank's contribution to Turkey's economic development efforts has been less than it should be. We are not satisfied with the annual net disbursement levels, and I know that you are not. I fully recognize, that unless we improve our performance in project implementation, there

cannot be much scope in realizing what we both desire. There is no point for Turkey, and even less for the Bank's membership, if the disbursements fall significantly behind the projections while commitments rise substantially. Implementation bottlenecks have been discussed often by both parties merely as a problem. In fact, it is more than that. It is the program itself, and it is what determines the Banks actual contribution to the Turkish development efforts: Project implementation is our responsibility, and we would like to discuss with you, in Ankara, how best we can improve our performance. Let me say now, that we will aim for timely project execution.

11. Therefore, if I may summarize, my government will aim at a significant increase in the net annual disbursements during the coming five years. Such an objective requires, first, a much better performance on our part in project implementation. We feel that it also requires a substantial increase in annual commitments, from a roughly $5 per capita level to one that is over $10. We feel that Turkey, with improved economic management and project implementation, would be justified to ask for more than $10 per capita lending.

12. I hope that I have not given the impression that the government regards the various tasks which are immediately ahead as lightly. During the past three months, we have had the first taste of the immense difficulties involved in introducing improvements in economic management. The agenda for the future is much heavier. I have already mentioned the debt management problems as an issue of importance for the re-establishment of our credit-worthiness. An expansion of World Bank lending represents a crucial phase in realizing that objective. There I have indicated our resolve to do our best in project implementation. This is no easy task. The problems will not disappear overnight. Another issue of immediate and crucial importance is related to the FY78 commitment program. My present thinking is that reducing the number of projects from five to three, and increasing the Bank's contribution in two of them to a level as to cover the external financing requirements entirely, can be the solution. In addition to this, I would appreciate very much if you could give some serious thought, in the days ahead, to a Program Loan to Turkey from the 1978 FY Lending Program. We then could discuss this issue when you come to Ankara.

ANNEX G(x)

FORM NO. 738
(1-74)

| IBRD LANGUAGE SERVICES DIVISION | |
|---|---|
| CONTROL NO. E-1009/78 | DATE: March 6, 1978 |
| ORIGINAL LANGUAGE: Germany (Turkey) | |
| DEPT. EMENA VRP | TRANSLATOR: NMcM:kh |

Translation of clipping from "Die Zeit" of February 24, 1978

THE LIGHTS STILL GO ON IN TURKEY

Bülent Ecevit faces a difficult task as his country teeters on the edge of bankruptcy.

by Andreas Kohlschütter

.......

Economic chaos, the Cyprus dispute, increasing violence - the "sick man on the Bosporus" has become even sicker. Forty million people seeking their way without a compass. Is there a solution? (Photo caption) Turkey needs this man: Bülent Ecevit, politician and poet.

.......

Ankara, February 1978

At last it has happened: Bülent Ecevit has taken over the reins of government. It took him six months, from the time he won the parliamentary elections until he became Prime Minister. Back in June 1977 he promised "to give the people hope, to inspire them." The new hope is there, and the confidence too. This is Ecevit's valuable starting capital. But instead of the better times he promised back then, he now has to announce more difficult times ahead.

It has been a start without fanfare or glory. There is no rejoicing in the Turkey of today, which has been reduced to wrack and ruin and finds itself at an historic low. After Ecevit's first thirty days it is obvious that the "new era" will for a long time to come have to grapple with the problems left behind by the old one. It will have to overcome the "incredible irresponsibility" of which Ecevit accuses (not without reason) his predecessor Demirel, who had clung to power with every means at his disposal. It will have to remove the "Turkish ruins" which litter the landscape and cope with the consequences of the "après nous déluge" policy pursued by the unholy and incompetent alliance between Demirel, Erbakan and Türeks.

What Bülent Ecevit, a thickset, wiry 53 year old, is undertaking is a herculean task of reorganization and reconstruction, what he calls an "era of reparations." It is a new beginning with a look back in anger: totally drained government coffers, government authority severely undermined by uncontrolled political terror, an inwardly blocked and frustrated and outwardly isolated Turkey. And it is a new beginning more to the right than to the left of center, to which populist and social reformer Bülent Ecevit is being pulled by circumstances. He has no option.

This sensitive son of an Istanbul professor knows this and is acting accordingly. For the new Turkish leader, who studied English Literature in Ankara, Sanskrit and Art History in London, and as a Rockefeller fellow studied Social Psychology, Ottoman and Middle Eastern History at Harvard University and later also attended a summer seminar of Professor Kissenger's, is no adventurer. The poet Ecevit with his dark pensive eyes is not a zealot, the progressive politician with the forceful square chin is not a fanatic. He has written emotional "Blut und Boden" (passionately nationalistic) poetry on such subjects, as, of all things, the "secret love" between Turks and Greeks, and yet he took the masterfully calculated risk of conquering Cyprus. He has translated T.S. Eliot, Ezra Pound and even Tagore into Turkish and yet he has gained a reputation as a "man of the people," as a land reformer, as a man who looks after the peasants, as the Labor Minister who early in the sixties introduced the right to strike and made the labor unions one of the powerful factors in Turkish domestic politics. He is characterized by a social conscience, not by ideologically fixed revolutionary zeal.

This is apparent now that the signal to break camp is being given in Turkey, and the new team is getting ready to move. Within his party, Ecevit has neutralized the extreme left wing, which wants to press on the ideological accelerator, and removed all his opponents and potential adversaries from their domestic positions of power. He arranged for the removal of the leadership of the influential DISK trade union, who had been causing trouble with their radical policy of class conflict and with whom the left wing of the party had entered into a flirtation. From the ranks of the dissidents, only the renowned Deniz Baykal has entered the new government, with the trappings and responsibilities of Energy Minister. Ecevit has filled all the key positions, particularly the Ministries of Finance, Interior, Defense and Foreign Affairs, with technically skilled and politically reliable men cast in the same mold as himself.

Moderation is the watchword. This means: no experimentation in domestic or foreign affairs. As the head of the Party and the Government told his followers at the most recent Congress of the Republic People's Party, the ambitious party program will have to be adapted and subordinated to the demands of reality.

For Ecevit this means, for one thing, careful attention "to the composition of the Government." He calls it, plainly and simply, a "partnership," not a coalition - and yet it is a coalition. To win the elections Ecevit needed the leftists, and with the aid of ringing slogans he gained their almost unanimous support. To govern, however, Ecevit now needs the collaboration of the 14 defectors and splinter-party representatives from the rightist liberal-conservative camp.

These defectors did not originally want to joint Ecevit's band-wagon, but were instead in favor of a grand coalition jointly with Demirel, but excluding the Islamic "theocrat" Erbakan and the Turanic "neofascist" Türkes. This would have been a grouping at which the military and the economic magnates were also casting longing eyes. Ecevit must have had to make promises and offer inducements, political and otherwise, to win these rightist backbenchers to his cause. Without their votes - he has 228 and needs 226 - he would not have become head of the Government. But likewise, if it had not been for him, 13 of them would not have attained ministerial rank. You scratch my back and I'll scratch yours.

The need to accept reality also means that Ecevit will have to take account of the "state of the nation." In a word, it is disastrous. A monument in the center of Ankara bears in iron letters the often cited clarion call of Atatürk, the founder of the nation. "Turk - be proud, work, feel secure." Today these words sound hollow and empty. The monument is tottering Turkey as it is now - realing from a wave of murder and mayhem, wracked by economic chaos - is unable to offer its citizens the necessary pride or sufficient work or enough security.

"A shooting range for political rowdies" - In January alone 57 people were killed and 300 were injured in terrorist attacks

The terrorist battle being waged between leftist and rightist bands continues unabated. Turkey, although so desperately in need of peace and quiet and despite its strong sense of social and political order, has become a gangster paradise, a "shooting range for political rowdies," as one observer put it. Hardly a Turkish day or a Turkish night passes without gun battles, bombings or violence between gangs representing rival ideologies. In 1977, 262 people were killed in 1,211 attacks; in January of this year alone, official statistics recorded 57 new deaths due to terrorism and more than 300 injured, some of them seriously. The Anatholia press agency recently issued a special bulletin when, for the first time in many months, Ankara had a whole night without bombings.

Only as a Realpolitiker, not as a committed party politician, can Ecevit curb this destructive violence. Only from a position in the center, where what counts is not ideological conviction but statesmanlike obligation. He must bring an end to the right-wing radical contamination of the machinery of state, justice and the police and of the schools, universities and training colleges, which had been tolerated by Demirel and promoted by his Deputy Türkes. This will take time and require a lot of patience. At the same time, he must restrain his impatient leftists, who are calling for immediate revenge and retribution.

Strict application of existing laws - yes; introduction of special powers and dispensation of summary justice - no. The necessary weeding out of certain individuals and the raids on the universities and student hostels that have already started must not degenerate into a witch hunt. For this reason, once he took office Ecevit immediately called off the leftists' political campaign against a mysterious "counter-guerilla organization" that was discrediting the military and the state security police. During the electoral campaign, however, he had himself stirred up this campaign. But nowadays the signs no longer point to such Sturm and Drang (storm and stress) activities.

The same also applies to the economic chaos he has inherited, which simply cannot be remedied by ingenious ideological solutions. Turkey is bankrupt. Its external debt has risen to the astronomical level of US$13 billion, and its international creditworthiness is zero. Turkey's total expected export and foreign exchange earnings in 1978 will fall far short of what is needed to pay even the outstanding service on its debts and the rising oil import bill. Inflation is surging ahead at a rate of 50%. The wages of workers -- most of whom are employed by the State -- have, however, risen by only 10-15%. The printing presses worked very hard last year, and the amount of money in circulation rose by 52%. And the number of unemployed hit 2.5 million.

<u>In Ankara, people wait in line in front of butchers' shops, bakeries and gas stations</u>

In cold and foggy Ankara, people wait in line in front of butchers' shops, bakeries and gas stations. Butane gas used for cooking has become scarce; sugar and coffee are being hoarded. More and more factories are cutting back production or suspending operations altogether, because their workers are on strike or because the Central Bank cannot provide them with foreign exchange for imported raw materials and spare parts. Power outages are on the increase, because the country is no longer able to pay for its oil imports. If it had not been for Libyan and Iraqi deliveries on credit, all the lights in Turkey would have gone out long ago.

The new Ecevit Administration is slowly beginning to dig itself out from under this avalanche of economic problems. They want to allow themselves some time, and so they are putting off the IMF and its rigorous austerity program. First they want to draw up their own inventory, take stock of the damage and separate what can perhaps be averted from what is unavoidable.

They have already succeeded in turning away from the previous policy of indiscriminate foreign borrowing. The debt problem is due to the fact that Turkey accepted short and medium-term convertible lira deposits at high rates of interest from private foreign banks. The country can not longer afford the luxury of this rapid but extremely expensive way of borrowing money. So back to a policy of carefully planned long-term government borrowing both on the international money markets and in particular through the intermediary of inter-governmental agreements.

Ecevit and his economic planners also show themselves willing to pursue austerity, practice budgetary restraint, attack inflation, make borrowing more expensive, impose discipline on the wages front, apply import restrictions and order consumer cutbacks. They are consciously working toward the creation of common ground with the IMF, since two things depend on the "green light" from the IMF: an IMF standby credit of US$400-500 million, and also a billion dollar loan from an international banking syndicate. Only in this way can the new government hope to reduce the mountain of debt it has inherited and restore its solvency.

On the other hand, Ecevit is less willing to pursue the difficult path of belt-tightening to the bitter end, to make real cuts in the high rates of growth of which Turkey is so proud. This puts him still at daggers drawn with the IMF and he is trying to plod on regardless. Turkey can be industrialized not by foreign money loans but only by direct foreign investment. This would, however, imply a change in course from the inward-looking development strategy that has been pursued so far. Protectionism and artificially high domestic prices have rewarded the "export laziness" of Turkish industry and at the same time virtually excluded foreign investors from what would otherwise be attractive domestic production opportunities. Ecevit argues his social conscience in opposing a cut in the rate of growth, and his national conscience in opposing competitive foreign investment.

International problems occupy only third place in Ecevit's list of things to do. Yet foreign policy is precisely the area where the new government can most quickly and most easily accumulate the points that it needs to secure its position. The key to success lies in Cyprus.

Immediately after he assumed office, the new Prime Minister announced: "We intend to solve the Cyprus problem as quickly as possible and once and for all. This is an imperative." During their recent flying visits to Ankara, U.N. Secretary General Waltheim and U.S. Foreign Secretary Vance received the impression that Ecevit really is serious about this. There is every indication that the shadow boxing on Cyprus that Demirel had engaged in for years is now a thing of the past.

This desire to make Turkey's position more concrete is the first important innovation in Turkey's Cyprus policy under Ecevit. The principles of a peace settlement had been determined long ago. Even Makarios had, very reluctantly, agreed to a partition of the island on an ethnic basis, with two co-equal states under a federal umbrella. And even during the Demirel period it was obvious that this constitutional concession by the Greeks would have to be matched by return of part of the territory occupied in 1974 by the Turkish expeditionary corps. Ecevit is now ready to do business, i.e. make concessions -- something that Demirel was unable to do because of his jingoistic coalition partner Erbakan.

Instead of, as before, presenting a list of constitutional principles, the Ecevit Administration hopes to present the Greek Cypriots by the end of February with a detailed constitution of about 100 articles for the "Federated Turkish-Greek Republic of Cyprus". The new island federation -- as Deputy Prime Minister Turhan Feyzioglu, who is acting as Cyprus coordinator, has explained -- will initially be a "very loose one, with a minimum of central powers." The three basic rights -- freedom of movement, freedom of establishment and freedom to acquire property -- would be recognized in principle, but could be implemented only step by step and in a gradual manner, "in an atmosphere of gradually growing trust and with strict preservation of the bizonal structure of the State, which can never be allowed to become a mere façade". Cyprus will remain divided.

On the delicate territorial issue, Ecevit and his Ministers repeat in chorus: "We can sit down and talk about the final position of the demarcation line," provided that this is done "in a rational manner." By this they also understand the return of Turkish occupied areas, which currently represent roughly 37% of the total territory of the island.

Major population movements are excluded from the outset. The Greeks, who are still demanding the return of all their 120,000 - 150,000 refugees, should harbor no illusions on this score. However, Feyzioglu's remark that "for the Turkish Cypriots, farmland is more important than towns," does open the door for a return by tens of thousands in the Nicosia area and particularly in Famagusta/Varosha, which could possibly become the site of the new federal capital.

Unlike his predecessor, Ecevit is also willing to grasp this nettle. The one-time "conqueror of Cyprus" will have less trouble with accusations from Turkish ultraist circles of "having sold out sacred national rights". In Ankara, it is not only the lawyers who are busy working on a new constitution for Cyprus; geographers, economists and of course the military are also drawing new maps of Cyprus.

"We would have to solve the Cyprus problem even if America had not yet been discovered"

Ecevit's Cyprus policy is different from Demirel's not only in substance but more particularly in method. Demirel made any movement on Cyprus dependent on lifting of the American arms embargo that the U.S. Congress had imposed three years ago in response to Ankara's stubborn attitude on Cyprus. Bülent Ecevit is determined to get rid of his hobble. He is separating the two issues: "Bilateral relations (with the United States) must not be mixed up with the Cyprus question, which is one of our national problems." Ecevit is taking the initiative, without waiting for America, and he explains his action as follows: "We would have to solve the Cyprus problem even if America had not yet been discovered." And he caused his professorial Foreign Minister, Gundez Okcun, to greet Cyrus Vance with the rather brusque statement that Ankara did not attach any value to American mediation efforts in Cyprus and in the Aegean: "These problems can be solved by the interested parties themselves, without interference from an outside great power."

Ecevit is also showing willingness to compromise on Cyprus without waiting for Athens to come around in the Aegean dispute. He is simplifying matters for himself by cutting the already tricky Cyprus issue loose from the additional complications of the arms embargo and the Aegean conflict.

Bülent Ecevit's activism has given Turkey new room for maneuver in foreign policy. The ball which had so long been lying in Turkey's court has been put back into international play. Washington and Athens have been called in from the sidelines and induced to play. The Carter Administration is getting ready for a firm attack on the congressional embargo and Constantine Karamanlis is girding for an inescapable tête-à-tête with Ecevit in March.

The prophets of doom are always conjuring up the image of a neutralist Turkey siding with the Soviets and abandoning NATO. Before Ecevit things were looking black, since Ecevit came to power they have been seeing "red". But their fears are groundless. For Turkey, unlike Greece, is still wholly integrated within NATO, and Ecevit is not going to loosen the tie. Despite its impoverishment, Turkey still spends more on defense than any other NATO member: 9% of its GDP, 29.9% of its budget in 1977. There is still a huge 500,000-man army mobilized in Anatolia, with no reduction in the period of military service or cutback in unit strengths. There is still enormous room fpr reorganization and cutbacks in accordance with NATO standards. And even if only 1/3 of the Turkish airforce is able to take to the air, and thousands of tanks are immobile and the air defense system is rusting away -- what is lacking is not Turkish resolve to defend itself but spare parts, engines, modern weapon systems, money and defense aid from America.

Ecevit's first foreign policy moves are designed to repair the American connection. Even if he doesn't say this out loud. His overtures to Greece, with which he says there is "no basic conflict of interest," are designed both to bring about bilateral reconciliation and an end to conflict and also to stabilize the southern flank of NATO that has been weakened by the Greco-Turkish dispute. Ecevit's apparent "NATO revisionism" is no more than an attempt to take advantage of détente opportunities that other NATO partners have long since seized, in the direction of a diversification of Turkey's international ties, increased cooperation within Turkey's Middle East-Balkan "Lebensraum," a mixture of collective security and national independence, involving ties with the West and contacts with the East. And at all times it is recognized that such new foreign policy moves are possible only "in the narrow range between no steps at all and just small steps", as one of Ecevit's close associates put it.

This is the dilemma facing Bülent Ecevit: he embodies Turkish alternatives, which do not exist in the hard reality of a present devoid of alternatives. He has to hold high the banner of social and economic reform, without really being able to wave it too much. He wants to pursue certain basic tenets of freedom, such as lifting the ban on communists, but at the same time all he can do is put it on the back burner, "put the issue to sleep," to quote his press secretary. In his economic policy he is as unwilling to yield to the dictates of the IMF as he is to bow to U.S. congressional pressure for concessions in his Cyprus policy, yet in the final analysis he has no other choice. He preaches the bold, promising formulas of a "national defense approach" and a "dynamic foreign policy" in search of greater independence, and yet he knows full well that while such formulas can at best have some impact on regional policy, strategic forces and balances remain immutable.

The main who cannot dream, it is said, will go mad. This is true of Bülent Ecevit, who has been called not only to govern but also to lead.

This is also true of Turkey as a nation, which has lost its old identity and not yet found a new one. This state, which the enlightened Atatürk created in violence, is isolated both within and without; torn loose from its Arab-Islamic roots, kicked and pushed -- deprived of both prophets and fez -- into the modern world, alienated from both the East and the West, 40 million people seeking their way without a compass.

Atatürk's Turkey was born in violence. Only a democrat and a reformer can correct the attendant traumas. A man with fantasy, warmth and resolve. Turkey needs its Bülent Ecevit.

# CURRENT MEDIA SITUATION IN TURKEY

Turkey has a longstanding tradition of a broad spectrum and highly political press, which has passed successfully through many trials of military control and repression. The Turkish press is today largely free from government intervention and the fear of military control, for years a threat to Turkish journalists. In the freedom of the early 1970's the Turkish press began to evolve from a large number of partisan journals in Ankara and Istanbul, to a nationwide profit-oriented medium.

While there remain a large number of small dailies (about 30 in Istanbul alone), there are today five major Turkish papers in Istanbul with highly efficient modern printing plants. They are:

| | |
|---|---|
| Hurriyet (mildly pro Justice party) | (circulation 600,000) |
| Gunaydin ( " " " " ) | ( " 600,000) |
| Tercuman (conservative, pro Justice party/ MSP) | ( " 350,000) |
| Milliyet (liberal, pro Ecevit) | ( " 300,000) |
| Cumhuriyet (left wing RPP) | ( " 125,000) |

Of these five, all but Cumhuriyet, publish in four cities; Istanbul, Ankara, Adana, and Izmir. Cumhuriyet prints only in Istanbul and Ankara. Regional breakdown of circulation is as follows:

| | |
|---|---|
| Hurriyet: | 325,000 in Istanbul |
| | 150,000 in Ankara |
| | 75,000 in Adana |
| | 50,000 in Izmir |

The largest newspapers, Hurriyet and Gunaydin are almost apolitical, with only a slightly conservative flair. They are owned by the Simavi family, whose prime interest has been financial, although Hurriyet in particular has not been above exploiting such issues as Cyprus to boost circulation. Tercuman is the largest avowedly conservative newspaper and a frequent spokesman for Sulaiman Demirel and the Justice party. It appeals to Muslim traditionalists and the accompanying and continuing reaction to Ataturk and his successors. Milliyet is probably the most responsible newspaper in Turkey. It is also close to Ecevit and to the progressive elements of the Republican Peoples Party. Abdi Ipecki, the editor of Milliyet, is easily Turkey's best known journalist outside the country and has been a board member of the International Press Institute. Abdi has some understanding of the Bank and is a personal friend of both Munir Benjenk and myself.

Cumhuriyet, once known as the "New York Times of Turkey" has moved to the left and now calls itself revealingly the "Le Monde of Turkey." The "brains" of the paper is probably Ilhan Selcuk, who was imprisoned under the Erim Government for his strongly pro-Marxist, anti-American views, and is somewhat embittered at the "establishment" (n.b. in today's Turkey the "establishment" and NATO are linked). Cumhuriyet is staffed with a number of young Turkish radicals. They sometimes take a perverse attitude towards the Bank in the style of European radicals.

A characeteristic of the Turkish press, possibly more highly developed than in any other developing country, is to bend any "news peg" to domestic political use. The large Turkish papers are much freer of this than the numerous small ones such as Sonhavadis, which follows the Justice party line, or Dunya (RPP). The press has traditionally been an outlet for both free-thinking politicians and intellectuals, but the standards of journalism have never been very high. Only Milliyet has sought to achieve European standards.

"Depoliticization" of the press in Turkey can be seen only in relative terms, and as a trend away from an older mode. The trend comes mainly from a demand for entertainment (chiefly sex and sports). Politics seem to have become either too threatening or too dull, as political attitudes become tougher. Politics has become a dangerous game, and the general public, as elsewhere, probably wants diversion.

The harder political lines are left to small dailies and weeklies on the extreme. Prominent amongst these, and certainly no respectors of truth, are the left-wing dailies and weeklies, such as Politika, now reportedly owned by the left-wing trade union element, and the weekly Bariş, and one or two others. In 1975 and 1976 Politika specialized in attacking World Bank projects as being unsatisfactory or representative of "American imperialism."

The Turks have been quick to pick up "Woodward and Bernstein" style investigative journalism, and, accordingly, the risk of dealing with the extremes of the Turkish press is fairly high.

Istanbul remains the headquarters of the Turkish press. However, a very important contribution comes from Ankara, which in the 1970's increasingly came into its own as the political center. Ankara reporters are the principal source of political information, and needling political comment. The management of the larger papers in Istanbul is generally responsible and friendly. Our experience is that high level approaches, e.g. to editors and owners, meet with good results.

## Television

Turkey is gradually developing a state-run radio and television network spanning the entire country. The TRT is extremely popular, though not free from political control. Under Ecevit's influence it probably will be restored to something like its earlier independence. Newspapers are competing with television. Color is still a long way off but programming from Europe is available. In 1976 there were over one million sets in the country, with common viewing in villages. The practice of common viewing was established under Ataturk with the creation of "peoples houses" which placed a radio in nearly every Turkish village.

## The Bank's Image

The Bank suffers from a number of difficulties in Turkey, particularly in consequence of the demise of the American relationship. The Bank is regarded often as tied to the United States. Very little is known about how it works, or what it has been able to do in Turkey. Many Turks are aware of difficulties with the IMF and the Bank over the years, and the current issues with the IMF have been a leading sotry in the Turkish press for a number of months. Moreover, the question of inflation, which is related to recurrent scarcities of foreign exchange in Turkey, is an important political matter and well understood by all journalists, if not by their readers. Accordingly, the availability of foreign exchange, or the availability of credit, is a major issue.

Lately there has been some difficulty over the Çorum-Çankiri project where Bank-financed village centers buildings have been alleged to be luxurious. This story has played in the major Istanbul papers and may lead a number of Turks to conclude that the Bank's work is not effective.

There is also the issue of whether Turkey should be industrial or agricultural. Most Turks, in the tradition of Ataturk, wish their country to rank with industrialized European nations, and resent any implication that they should somehow become an agricultural nation. (The Bank has, however, not been tarred with this brush, though it might be.)

The "left" takes some of its cues from left-wing parties in Western Europe, but a number of left-wing journalists know and appreciate Mr. McNamara's Nairobi speech. The Bank's attempts to get at rural poverty are appreciated in Istanbul, where migration from Anatola continues to aggravate life for the fixed-income elite, who very often mold public opinion. Generally the "left" is sympathetic to Ecevit and to his ideas about development. To the extent that these views coincide with ours, we shall find a sympathetic response.

Except for ultra-nationalists (the MSP the National "Reconstruction" party), the Bank has on the Turkish right a broad range of powerful friends, particularly in private enterprise (many have used the facilities of TSKB). The Bank is welcome on the Turkish right as a business-oriented organization. Here the American connection, where it exists, is positive. There remains hope among these groups that America "will not abandon Turkey." Moreover, there are a number of progressive businessmen who view the Bank essentially as a centrist organization that can bring balance to Turkey's long-term economic thinking. There is also a connection here with the Turkish press. The owners of the larger papers (the Simavis of Hurriyet and Gunaydin; Kemal Ilicak of Tercuman, and Ercument Karajan of Milliyet) are businessmen who are concerned that Turkey retain at least in part a market economy.

John E. Merriam

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